



# Municipal Finances and Growth Planning in the Greater Golden Horseshoe: Opportunities for Better Integration to Support Smart Growth



Possibility grows here.

Ray Tomalty, PhD, Smart Cities Research

Greenbelt Foundation Occasional Papers  
October 2022



Copyright © 2022 Greenbelt Foundation  
All Rights Reserved

Greenbelt Foundation  
720 Bathurst Street, Suite 404  
Toronto, Ontario  
M5R 2S4  
Canada



Possibility grows here.

Tel (416) 960-0001      Fax (416) 960-0030  
info@greenbelt.ca      www.greenbelt.ca

ISSN 1912-4171 Greenbelt Foundation Occasional Paper Series (Print)  
ISSN 1912-418X Greenbelt Foundation Occasional Paper Series (Online)

The Greenbelt Foundation is committed to promoting awareness and education about Ontario's Greenbelt. To this end we occasionally publish research and general interest papers that explore our three program areas: viable agriculture and viticulture; vibrant rural communities; and, a restored and protected natural environment.

Municipal Finances and Growth Planning in the Greater Golden Horseshoe:  
Opportunities for Better Integration to Support Smart Growth  
Prepared by Ray Tomalty, PhD. Smart Cities Research.  
ISBN 978-1-927075-33-3

The views and opinions expressed in this report are those of the authors only and do not necessarily represent the views of the Greenbelt Foundation, their Officers or Directors. We have done our best to confirm that all facts and figures are accurate. However, we do not retain liability for any errors or misrepresentations.

All photographs are courtesy of the Greenbelt Foundation unless otherwise credited.  
Cover photo: iStock

### **Authors' Acknowledgements**

This report was guided by a panel of experts and practitioners in areas related to urban planning and municipal finances. Members of the panel generously provided feedback at key points during the research that went into writing this report. I am deeply grateful for their patience and commitment to the project over the 15 months it took to carry out. Vital as their input was, it is important to note that no attempt was made to achieve consensus among panel members and panelists were not asked to endorse the contents of the final report. No panel member would agree with everything in the report.

The author would like to acknowledge the critical role played by those who agreed to be interviewed or otherwise provide information throughout the course of the study. Over 60 government officials, academics, consultants, and NGO representatives gave their time to help the author explore the many planning- and finance-related instruments and processes that make up the fabric of this report. Without their generous cooperation, this report would not have been possible. I would also like to thank current and former staff at the Greenbelt Foundation for their guidance and support during the project, including Edward McDonnell, Thomas Bowers, Sara Macdonald, Megan Sipos and Kathy Macpherson (retired).

The contents of the report are entirely the responsibility of the author and should not be imputed to anyone else who provided input into or assistance with this research.

## Land Acknowledgement

The Greenbelt Foundation acknowledges that the land we meet on and strive to protect is the traditional territory of the Anishinaabe, Haudenosaunee, Huron-Wendat, and is now home to many other diverse First Nations, Métis, and Inuit Peoples.

The area we now call the Greenbelt consists of treaty lands. Such Treaties of Canada include the Niagara Purchase, Between the Lakes Purchase and Collins Purchase, Head of the Lake Treaty, Ajetance Treaty, Toronto Purchase, Gunshot Treaty, Treaty Number 20, Saugeen Treaty, Treaty Number 82, Saugeen Peninsula Treaty, and Lake Simcoe Nottawasaga Treaty. It is important that we learn about the history and continued presence of these treaties because we are all treaty people.

The lakes, rivers, and wetlands, as well as forests, ravines, and healthy farmlands in the Greenbelt have been stewarded and protected by the First Peoples since time immemorial. We are grateful to the First Peoples for their care of the land on Turtle Island, which many of us have come to call home. We respect and are inspired by the deep connection of kinship that Indigenous Peoples have with the land.

We acknowledge and condemn events such as Indian Residential Schools, Indian Day Schools, the Sixties Scoop, Missing and Murdered Indigenous Women, and many other violent acts committed since European settlers arrived on this land. The vibrant way of life of Indigenous Peoples and their connection to the land has been suppressed due to attempted genocide, colonialization, and assimilation. We acknowledge the truth of these events, continuing effects, and the enduring rights of Indigenous Peoples.

We recognize that the Greenbelt is based on a land management plan developed by settlers, and we as a Foundation have a responsibility to ensure the work we do reflects the continued efforts and rights of the First Peoples of this land. As a Foundation, we will continue to support projects that prioritize reconciliation, such as projects that increase awareness of the presence of Indigenous Peoples and their territories; projects that build meaningful relations with Indigenous Peoples to conserve and restore nature in the region; projects that we collaborate with Indigenous Peoples and Communities to improve communications with municipalities in land-use planning. We will continue to look for ways to align our mandate with the Calls to Action from the Truth and Reconciliation Commission.

As we continue to work towards our vision of a protected, prosperous Greenbelt for all, we will seek opportunities to listen to and learn from Indigenous leaders and elders. We will support Indigenous-led initiatives that advance education, understanding, and reconciliation. We will further educate ourselves on Indigenous Knowledge Systems that can inform and support our mandate to sustain the air, lands and waterways in the Greenbelt.



## **Titles in the Greenbelt Foundation**

### **Occasional Paper Series**

- 1 - Farmers' Markets: Opportunities for Preserving Greenbelt Agriculture
- 2 - The Holland Marsh: Challenges and Opportunities in the Greenbelt
- 3 - Planting the First Seed: Creating Opportunities for Ethnic Farmers & Young Farmers in the Greenbelt
- 4 - Greenbelt Walks: An Overview of the Opportunities and Challenges of Major Trails in the Greenbelt
- 5 - Ontario's Greenbelt in an International Context: Comparing Ontario's Greenbelt to its Counterparts in Europe and North America
- 6 - Greenbelt Agriculture: A Breakdown of Agricultural Facts and Figures in the Greenbelt
- 7 - Bringing Local Food Home: Legal, Regulatory and Institutional Barriers to Local Food
- 8 - Greening the Economy: Economic Stimuli and the Opportunity for Restructuring for Sustainability in Canada
- 9 - Greenbelt Grown: A Profile of Agriculture in Ontario's Greenbelt
- 10 - Holland Marsh Agricultural Impact Study
- 11 - Ontario's Greenbelt in an International Context
- 12 - Inside and Out: Sustaining Ontario's Greenbelt
- 13 - Climate Change Adaptation: Ontario's Resilient Greenbelt
- 14 - Evaluating the Economic Benefits of Greenbelt Assets
- 15 - Farming in Ontario's Greenbelt: Possibility Grows Here
- 16 - Agriculture by the Numbers: Understanding the Greenbelt's Unique Advantages
- 17 - Local Leadership Matters: Ontario Municipalities Taking Action to Strengthen the Greenbelt
- 18 - Greenbelt Farmers: Sowing the Seeds of Success
- 19 - Plan to Achieve: A Review of the Land Needs Assessment Process and the Implementation of the Growth Plan
- 20 - Ontario's Good Fortune: Appreciating the Greenbelt's Natural Capital
- 21 - Agriculture Trends and Updates: Understanding the Greenbelt's Unique Advantages
- 22 - Greenbelt Farmers: Sustaining Soil Health
- 23 - Investing in the Future: The Economic Case for Natural Infrastructure in Ontario
- 24 - Plant the Seeds: Opportunities to Grow Southern Ontario's Fruit & Vegetable Sector
- 25 - Growing Close to Home: Creating Complete Rural Communities
- 26 - Farmers Expanding Southern Ontario's Fruit and Vegetable Sector
- 27 - Enhancing Municipal Capacity to Support Agriculture in the Greenbelt
- 28 - Greenbelt Farmers: Economic Network Case Studies
- 29 - Understanding How Greenbelt Agriculture Feeds the Regional Economy
- 30 - Towards a Business Case for Soil Health: A Synthesis of Current Knowledge on the Economics of Soil Health Practices in Ontario
- 31 - Greenbelts Around the World Responding to Local and Global Challenges
- 32 - Municipal Finances and Growth Planning in the Greater Golden Horseshoe: Opportunities for Better Integration to Support Smart Growth



# Foreword

Since its establishment, the Greenbelt Foundation has sponsored initiatives that enable communities to thrive within the Greenbelt and beyond through supporting and managing urban growth that makes the best use of existing infrastructure while also protecting natural areas and farmland. The Greenbelt Plan works together with *A Place to Grow: Growth Plan for the Greater Golden Horseshoe* to identify areas that should be permanently protected for this region's continued health and prosperity. The Greenbelt Foundation commissioned this report to contribute to important public policy conversations and to continue to find solutions to champion vital rural economies while strengthening urban centres.

Continued success of the Greenbelt over the long-term is inextricably linked to effective implementation of the Growth Plan and Smart Growth objectives. The need for Smart Growth in the Greater Golden Horseshoe (GGH) region has never been clearer. Rising municipal debt, rapid population growth, climate change, housing affordability, farmland loss, and the biodiversity crisis are all impacted by decisions on how the GGH region grows. As more attention is being paid to these important issues, provincial and municipal governments are beginning to rethink the alignment between growth planning and fiscal instruments and processes.

This report examines the existing municipal planning and financial systems in the GGH, how those systems are currently working together or failing to work together and provides recommendations on how better integration could assist with achieving planning and financial management goals. One issue that lies behind many of the recommendations put forward in this report is public policy feasibility. The report has tried to steer a pragmatic path, balancing some recommendations that have already been extensively discussed in public conversations with others that are currently relatively unfamiliar and less well examined.

The report's recommendations also attempt to balance the various interests involved, including that of the Ontario government, municipal governments in the region, developers and commercial interests, and the public. However, the report's relevance relies on the underlying consensus among all these stakeholders that ways must be found to make urban growth more financially sustainable from a long-term perspective and that everyone has a stake in achieving this.

Ahead of this report being published, staff at the Greenbelt Foundation held meetings with experts in land-use planning and municipal finances, including government officials, academics, and representatives from professional associations and non-governmental organizations. We would like to thank these experts for generously providing their feedback and insights on these critical challenges and issues. We hope that this research will contribute to knowledge within municipal planning, finance, and related domains, and encourage discussion of best practice approaches to achieve a more sustainable growth management framework.

Effective implementation of the Growth Plan is critical to ensure the achievement of complete communities, affordability for Ontarians, and the continued protection of the Greenbelt, so that the GGH region continues to be a great place to live, work and play for future generations.

Sincerely,

A handwritten signature in black ink, appearing to read "Ed McDonnell". The signature is fluid and cursive, with a long horizontal stroke at the end.

**Edward McDonnell**  
Chief Executive Officer, Greenbelt Foundation

## Table of Contents

|   |     |
|---|-----|
| List of Acronyms Used in this Report .....                              | 10  |
| Executive Summary .....   | 11  |
| 1. Introduction.....  | 23  |
| 2. Research Steps and Methods .....                                     | 31  |
| 3. The Study Context.....   | 37  |
| 3.1 The Greater Golden Horseshoe Region .....                           | 37  |
| 3.2 Growth planning and financial management in the GGH.....            | 38  |
| 3.3 How does the shape of growth influence the costs of growth? .....   | 44  |
| 3.4 Can revenue tools influence growth patterns?.....                   | 47  |
| 3.5 Should revenue tools be used to influence growth outcomes? .....    | 52  |
| 4. Linking financial and growth planning processes.....                 | 55  |
| 4.1 Integrated Growth Planning .....                                    | 57  |
| 4.2 Fiscal impacts of growth modelling tool.....                        | 69  |
| 4.3 Fiscal alignment audit .....  | 74  |
| 5. Development Charges .....  | 81  |
| 5.1 Area-specific development charges .....                             | 82  |
| 5.2 Better cost recovery .....  | 89  |
| 5.3 More accurate development charge background study assumptions ..... | 95  |
| 5.4 Smart Growth development charge discounts/exemptions .....          | 103 |
| 6. Property taxes .....   | 111 |
| 6.1 Tax Rates.....  | 112 |
| 6.2 Smart Growth property tax rebates .....                             | 123 |
| 6.3 Tax increment financing .....                                       | 131 |
| 7. User Fees .....  | 139 |
| 7.1 Stormwater user fees.....   | 140 |
| 7.2 Parking, road, and transit charges .....                            | 149 |
| 8. Conclusions.....   | 165 |
| Bibliography .....  | 175 |
| Appendix 1: Reference Panel Members .....                               | 182 |
| Appendix 2: Interviewees.....   | 184 |

## List of Acronyms Used in this Report

|       |   |
|-------|---|
| AMCTO | Association of Municipal Managers, Clerks and Treasurers of Ontario |
| AMO   | Association of Municipalities of Ontario                            |
| AMP   | Asset Management Plans  |
| BFTIP | Brownfields Financial Tax Incentive Program                         |
| CIP   | Community Improvement Plan  |
| CIPA  | Community Improvement Project Area                                  |
| CLIC  | Community Lifecycle Infrastructure Costing                          |
| CMHC  | The Canada Mortgage and Housing Corporation                         |
| CRL   | Community Revitalization Levy                                       |
| GGH   | Greater Golden Horseshoe  |
| GRIDS | Growth-Related Integrated Development Strategy                      |
| MCR   | Municipal Comprehensive Review                                      |
| MFOA  | Municipal Finance Officers Association of Ontario                   |
| MMAH  | Ministry of Municipal Affairs and Housing                           |
| MOF   | Ministry of Finance   |
| MPAC  | Municipal Property Assessment Corporation                           |
| OMEA  | Ontario Municipal Engineers Association                             |
| OPPI  | Ontario Professional Planning Institute                             |
| RPCO  | Regional Planning Commissioners of Ontario                          |
| TIEG  | Tax Increase-based Equivalent Grant                                 |
| TIF   | Tax-increment financing   |
| TTC   | Toronto Transit Commission  |

# Executive Summary

## Introduction

This report is about the link between the management of municipal finances and growth management, especially in Ontario's Greater Golden Horseshoe (GGH) region. The purpose of the report is to show how growth planning and financial management are intimately interrelated and have the potential to be more mutually supportive than is currently the case. Although this potential is increasingly recognized and exploited by municipalities in the GGH, significant untapped opportunities remain. The present study explores this potential by asking the following questions:

- how does the municipal planning and fiscal systems work in the GGH?
- in what ways are the municipal planning and fiscal systems currently working together or failing to work together?
- how could better integration of those systems help achieve both planning and fiscal management goals?
- what steps need to be taken to seize these opportunities?

Better integration between growth planning and financial management could produce significant fiscal benefits in terms of more infrastructure-efficient growth patterns, reduced long-term municipal costs, less pressure on property taxes and user fees, a lower infrastructure deficit, and lower municipal debt. From a provincial government point of view, lower capital spending and infrastructure grants to municipalities are potential benefits. Quite apart from the fiscal benefits, better alignment between growth planning and financial systems could support important societal issues such as housing affordability, climate change, social equity, and increased economic competitiveness through improved community liveability (i.e., by attracting residents, skilled workers, investment, and businesses).

Some of the connections between growth patterns and fiscal costs are still being debated in the academic literature, but the general picture that has emerged is pretty clear: low-density, auto-dependent growth requires more infrastructure to support that is more expensive to operate and maintain over its life cycle. This report focuses on three weaknesses in municipal approaches to growth and fiscal management:

1. **Municipalities tend to perform well when it comes to assessing the immediate costs of planned growth, but not so well when it comes to assessing long-term financial sustainability of that growth.** This is a serious issue because much of the infrastructure needed to support growth have long lifetimes and therefore imply long-term (typically permanent) commitments in both operating and capital dimensions. These so-called life-cycle costs often exceed the original cost of installing the infrastructure, sometimes by several fold. A failure to adequately foresee and budget for long-term commitments could distort decision-making concerning the amount and pattern of growth that is desirable in a community.
2. **Municipalities routinely shape growth to help achieve political, economic, social, and environmental goals, but they pay far less attention to the potential for shaping growth to achieve financial objectives.** Municipalities seldom look at growth parameters such as greenfield density, concentration around transit, and intensification as tools for reducing the long-term financial costs associated with growth. As a result, accommodating population and employment growth may be unnecessarily expensive in the short- and long-term.
3. **Municipalities are very good at shaping their revenue tools to ensure they generate the needed funds to cover upcoming capital and operating costs but not as good at evaluating how those design choices might impact growth patterns.** For example, property taxes that charge more to the owners of high-density residential buildings than those of low-density buildings are effectively subsidizing low-density housing. As this report shows, there are many such subsidies that are operating in our communities. While the impacts of each subsidy may be small, on a cumulative basis, they may be contributing to inefficient growth patterns and higher financial costs for everyone.

The result of these three shortcomings is that municipalities may be inadvertently encouraging inefficient growth patterns, patterns that are costly not only from an environmental and social point of view, but also from a municipal finance perspective. The symptoms include mounting infrastructure deficits, reduced service levels, growing threats to our quality of life, and a loss of economic competitiveness.

Fortunately, more attention is being paid to this important connection and as pressure builds on provincial and municipal policy makers to align financial processes and tools with growth management objectives. Drivers of these developments have included:

- the mounting infrastructure debt is putting pressure on municipal councils to find ways to achieve infrastructure efficiencies,
- housing affordability is putting a spotlight on how municipal revenue tools might be adding to spiralling real estate costs and how they could be reformed to help reduce costs,
- the increasing interest in the use of market-based instruments to effect sustainability outcomes,
- the increasing emphasis on equity issues is raising questions about the fairness of municipal financial practices, especially if some property types or locations are subsidizing others,
- the climate change emergency is forcing municipalities to reconsider established policies and programs to identify ways to reduce greenhouse gas emissions, including from poorly managed growth.

Another key driver has been the rise and mainstreaming of the Smart Growth movement across North America and specifically in Ontario. Smart Growth is an approach to growth management that arose in the 1990s in opposition to the negative impacts of urban sprawl. The Smart Growth vision includes building compact communities that have everyday amenities and services within walking/biking distance,

present realistic alternatives to car use such as frequent transit, limit the spread of the urban footprint onto surrounding farmland and natural areas, and offer a range of housing types that are affordable to a wide range of people.

Smart Growth proponents have raised awareness of the enormous inertia behind urban sprawl, including political pressure from greenfield developers, the availability of cheaper land on the urban fringe, oversizing of infrastructure in expectation of future growth, and the massive subsidies being offered to suburban commuters in the form of cheap oil, “free” roads, and underpriced parking. To counterbalance these forces, Smart Growth advocates have drawn attention to the need to align financial tools with the land use planning framework to promote compact growth. Ontario has been a leader in Smart Growth. The Province pursued Smart Growth initiatives with key stakeholders in the GGH region from 2001-2003 under the Conservative government. This Smart Growth approach was consolidated by the Liberal provincial government elected in 2003 and led to the adoption of the Growth Plan for the GGH in 2006 and the Greenbelt Plan in 2005. This report uses a Smart Growth lens to point to ways to improve linkages between growth planning and financial management that will help achieve the goals of both.

## Research Approach

This project takes a “collective intelligence” approach that relies on the experience of subject matter experts in the GGH to untangle the potential relationships involved, highlight key issues, and point towards the most productive solutions with the potential for greatest impact and least undesirable side effects. Towards this end, a Reference Panel of 13 academics and practitioners involved in municipal finance and/or land use planning matters in the GGH was convened to inform and validate the research undertaken by the consultant.

The panel was consulted at each of the five main research steps involved in the study:

- **Step 1:** Scope the key issues and fiscal instruments to be covered in the project.
- **Step 2:** Generate a conceptual map of the measures a municipality could take to align their fiscal instruments and processes with Smart Growth objectives.
- **Step 3:** Conduct case studies of selected municipalities in the GGH to reveal whether their fiscal instruments and processes in fact implemented these measures.
- **Step 4:** Generate a long list of potential recommendations and select a short-list for further study.
- **Step 5:** Research the short-listed recommendations and develop final recommendations.

## The Study Context

The GGH is Canada’s most populated and fastest-growing region. The region’s population was at 10.2 million in 2021, which represents almost 70% of Ontario’s population and 27% of Canada’s population. The population is projected to reach almost 14.9 million by 2051. Meanwhile, the number of jobs in the GGH is forecast to rise from 4.8 million to 7 million over the same time period. These trends will boost both the regional population and the number of jobs by 46%. Rapid growth will exacerbate existing challenges such as unaffordable housing, traffic congestion, pressure on infrastructure, loss of agricultural land and natural spaces, and a changing climate. However, if carefully planned and smartly managed, growth can present an opportunity to build a more prosperous, healthy, and sustainable region.

## Growth management

Growth management is a form of land use planning that accommodates population and employment growth to ensure it is properly serviced with adequate infrastructure and that it supports other community goals for a healthy environment, high quality of life, and prosperous economy – i.e., building complete communities. In Ontario, municipalities are responsible for land use planning, but they conduct their planning activities within a framework comprised of provincial legislation, regulations, policies, and plans.

## Financial management

Municipal financial management refers to the way municipalities prioritize, forecast and budget for the services needed to maintain or improve the quality of life for its residents, manage their assets to reduce long-term costs, and raise revenues to support municipal infrastructure investment and other services. Financial management involves balancing competing goals, such as keeping tax increases in check, maintaining, or improving the quality of municipal services, maintaining, and replacing existing infrastructure as it ages, and paying for new infrastructure to service growth.

A key financial concept in the context of this project is that of “fiscal sustainability”. This refers to a municipality’s ability to meet financial and service obligations into the future. Achieving fiscal sustainability requires that municipalities think long-term about the levels of expenditures and revenues they are committing themselves to when they make growth management decisions, and whether those commitments can be sustained under a variety of economic and social conditions without unduly burdening future taxpayers. Better integration of growth management and financial planning processes can help ensure fiscal sustainability in the long run.

Municipalities in Ontario rely on a relatively small number of key revenue sources, categorized as either external or internal. External sources refer to grants from senior (i.e., provincial, and federal governments) governments. This report deals primarily with internal sources of revenue (that account for 78% of municipal revenues) as these are the ones that are most directly under municipal control. Internal sources include:

- **Property taxes:** Municipalities use property taxes to pay for general services such as road maintenance, fire and police services, libraries, transit subsidies, and general administration. Property taxes are the main source of municipal revenue in Ontario, accounting for approximately 40% of revenue on average. Property taxes are collected under rules found in the Municipal Act and the Assessment Act.
- **User fees:** The Municipal Act allows municipalities to impose fees on users of municipal services, such as water and wastewater, stormwater, parking, and transit. User fees account for 20% of municipal revenue in Ontario.
- **Development charges:** Development charges help pay for the up-front costs of installing infrastructure to support growth. The charges are a one-time fee applied to developers as a condition of getting planning approval for their residential or non-residential projects. They cover the cost of installing “hard” (e.g., water and wastewater pipes, roads) and “soft” (e.g., libraries, transit, parks) infrastructure. The way development charges are formulated is regulated under the Development Charges Act.

## Key Findings and Recommendations for Decision Makers

The remaining sections of the report explore two basic dimensions of the research questions:

- opportunities for integrating high-level growth planning and fiscal management processes,
- potential reforms with respect to the design of revenue tools that will better support Smart Growth outcomes, including development charges, property taxes, and use fees.

In each section, the report documents progress to date, provides recommendations for further improvement, and works through some of the implementation challenges that might be involved.

### 1. Strategic integration of growth planning and fiscal management processes

This section takes a bird's eye view of the growth planning process and looks for ways to ensure that major land use decisions take the long-term fiscal sustainability of the municipality into account.

Historically, growth planning has often had the added challenge of bearing the weight of political considerations with local councils experiencing pressures from developers and other constituents. Insufficient attention was given to the serious environmental and social externalities that were gradually accumulating in the form of car-dependency, long commute times, and disappearing natural areas. From a financing point of view, the focus was on the short-term: up-front costs would be taken care of through development charges, and it was just assumed that tax revenues from new development or copious infrastructure grants from senior governments would cover whatever costs would materialize in the long run. If poor land use and financial planning resulted in shortfalls, the obvious solution was new growth to help fill the gap, leading to a cycle of greater long-term shortfalls.

Gradually, policy makers at both provincial and municipal levels recognized that if the long-term costs of growth were fully considered in growth planning decisions, the planning and development process would not only be more efficient from a land use perspective, but more financially efficient as well. As a result, more attention is being given to opportunities for "closing the loop" i.e., turning a linear and one-way "plan, then service, then finance" process into more of a circular process where fiscal sustainability issues are more thoroughly considered in the growth planning process.

Based on best practices that are emerging in the GGH, we can outline an ideal "Integrated Growth Planning Program" that brings together:

- **Growth scenario assessment:** In the context of an official plan review, the municipality develops a growth management strategy that describes the anticipated location, structure, density, and housing mix of development needed to accommodate the forecasted growth. The strategy includes an assessment of several possible growth scenarios based on a range of parameters that reflect public priorities, including fiscal long-term sustainability.
- **Master plans:** The growth management strategy is carried out concurrently and iteratively with master plans for the key infrastructure classes, including water, wastewater, stormwater, roads, and transit.

- **Development charges background study:** A development charges background study is prepared concurrently with the above processes, itemizing the prioritized capital projects. The study analyzes the associated long-term, life-cycle costs and revenues associated with the contemplated projects, identifying potential shortfalls and other financial risks. The results of the analysis are fed back into the growth management process to help mitigate any identified financial risks.

Several barriers could prevent further progress towards implementing an Integrated Growth Planning Program, including the fact that many municipalities do not have access to modelling tools that would help them undertake fiscal assessments of growth scenarios. Provincial action is needed to guide municipalities in implementing an Integrated Growth Planning Program and provide the resources and tools needed to support municipal efforts in this direction.

## RECOMMENDATIONS

- The Province creates a handbook to help guide municipalities interested in pursuing an Integrated Growth Planning Program. This “Municipal Finances for Smart Growth” handbook will also provide guidance to municipalities related to other recommendations in subsequent sections of this report.
- The Province creates a “fiscal impact of growth” tool that could be adapted by municipalities in the GGH to model fiscal impacts of growth scenarios and other major growth planning processes.

## 2. Development charges

The literature indicates that if designed properly, development charges can support Smart Growth objectives, but if designed poorly, they could contribute to sprawl. The design issue that has drawn the most attention from academics is whether the charge is formulated such that the amount paid by a developer equals the marginal cost of supplying municipal infrastructure to that site.

In the GGH, the majority of municipalities use an average cost approach that charges a uniform amount (depending on dwelling type) regardless of where the unit is located, which does not reflect the municipality’s true costs. This approach tends to cross-subsidize low-density greenfield growth over higher-density development on infill lots. The current Development Charges Act permits municipalities to use area-specific charges but doesn’t specifically encourage it.

Another issue related to the design of development charges is whether they cover the full cost of services needed to support the development that pays the charges. To be effective in encouraging efficient development patterns, the charge must be formulated to cover all the costs municipalities incur in providing the infrastructure needed to support growth. Due to limitations imposed by the Development Charges Act, however, municipalities are constrained from recovering 100% of the costs.

Development charges can be designed to proactively encourage intensification, higher-density or mixed-use development in targeted areas through lower charges. Some municipalities in the GGH are using this approach by discounting development charges in Smart Growth locations (e.g., in downtowns or on brownfield sites). The main barrier to the wider use of this practice is that municipalities are not permitted the flexibility to design local fee structures that offset incentives in Smart Growth locations by imposing higher development charges in other (such as greenfield) locations. Instead, they have to fill the gap through increased property taxes, which is unpopular with residents and introduces other distortions in growth patterns.

## RECOMMENDATIONS

- The Province amends the provisions of the Development Charge Act to encourage municipalities in the GGH to use area-specific charges for location-sensitive services such as water, wastewater, stormwater, and roads in the calculation of development charges.
- The Development Charges Act should be amended to ensure that all municipal services with a capital component and all costs related to those services are recoverable through development charges. The amendments should also allow municipalities to formulate their development charges based on planned levels of service rather than historic service levels.
- The Province amends the Development Charges Act to allow municipalities to formulate development charges that incentivize development in Smart Growth locations and recover lost revenue from other areas.

### 3. Property taxes

One of the main concerns with respect to the structure of the current property tax system relates to the different tax rates applied to different property types. The tax rates set by municipalities could be sending signals to developers, building managers, and home seekers that could have effects on investment decisions and growth patterns.

One particularly impactful example of this is the common practice across the GGH to apply much higher tax rates on rental apartments than on detached homes. Moreover, vacant commercial units and lands are sometimes given a tax break, sending other signals that undermine Smart Growth objectives. Land that is being held vacant by speculators hoping for greater returns in a rising property market is rewarded by discounted tax rates. Removing such perverse incentives is a first step in making better use of the tax system to achieve land use objectives. It could also help increase the supply of housing by speeding up development on land permitted for development.

The next step is to use the property tax system to proactively encourage Smart Growth objectives, by providing tax rebates for development at suitable densities in appropriate locations. Such rebates are offered by some municipalities in the GGH. However, their application could be expanded for wider effect, especially if the Province reinforced municipal tax grants with a program of its own. Another option would be to make use of a tool called Tax Increment Financing, already proven in the US and elsewhere in Canada. This instrument uses the property tax system to pay off municipal debt incurred to fund infrastructure development that supports Smart Growth objectives. The Province passed the Tax Increment Financing Act in 2006, but it is currently dormant due to the absence of provincial regulations needed to activate it.



## RECOMMENDATIONS

- The Province amend the Municipal Act to require that municipalities apply the same tax rate on multi-residential properties as applied to other residential properties, end incentives given to vacant commercial and industrial units, eliminate the vacant and excess lands property tax subclasses, and require municipalities to phase out discounts to farmland awaiting development.
- The Province introduce a provincial tax-increment grant program to match municipal programs that incentivize private investments that support the province's growth management goals – e.g., residential and employment intensification or affordable housing.
- The Province should prescribe a regulation under the Tax Increment Financing Act to activate the Act and allow municipalities to use this tool for financing redevelopment projects.

### 4. User charges

A user fee promotes land use efficiency when it is set to reflect the marginal cost to the municipality of producing the services consumed in that location. Flat fees calculated on an average cost basis and applied uniformly across a community regardless of the actual costs of servicing different areas act as cross-subsidies and could distort land markets, development patterns, and locational decisions by home seekers and businesses.

Municipalities in the GGH use a wide array of user fees. The ones that are of potential interest in the context of this report are those that relate to the provision of services to property owners/renters, are sensitive to density and locational factors, and involve significant capital expenditures to set up or operate including water supply, wastewater, stormwater, and garbage collection. Of these possibilities, stormwater charges cued to density or location are the most relevant in the context of this report for a few reasons: 1) the feasibility of the marginal cost approach is established because some municipalities in the GGH are already implementing it, 2) charges are a fairer way of apportioning the costs of stormwater management services than being included in property taxes, and 3) charging for stormwater as a user fee opens the door for incentivizing green infrastructure.

Efficient pricing is also important when it comes to transportation services. Parking rates, road-usage charges, and transit fares are of interest due to their potential impact on the amount of travel and choice of transportation mode. Currently, the pricing of these services in GGH municipalities are problematic in several ways. For example, parking is underpriced, transit is overpriced, roads are unpriced and almost nowhere are factors such as distance travelled, or demand levels taken into account in pricing structures. Wider application and improved design of user fees would help reduce private vehicle use, shift demand to non-auto modes, and improve the efficiency and quality of transit services, all of which are consistent with Smart Growth goals. Both the Province and municipalities have important roles to play in this shift.

## RECOMMENDATIONS

- The Province amend the Municipal Act to require that municipalities with stormwater management services impose user charges. The amended Act should specify that the user fee must include a lot area or a pervious surface area (i.e., roofs, paved areas, etc.) parameter in the calculation of the charge.
- The Province (or Metrolinx) study the various options for structuring a road pricing system in the GGH and consider implementing the most promising system when conditions for doing so are more favourable.
- Municipalities in the GGH move towards charging for parking on an hourly, progressive, or demand-responsive basis in municipal facilities, municipally operated parking lots, and on-street parking in high-demand areas such as on main streets and commercial areas.
- Municipalities in the GGH that operate transit systems should:
  - consider reducing transit fares, making up the lost income via wider coverage and more efficient user charges on parking (and eventually roads) or through a new parking levy administered through the commercial property tax bill,
  - introduce zonal fares that reflect distances travelled,
  - introduce peak/off-peak fare pricing.

## Conclusions

As the long-term costs related to inefficient growth patterns become increasingly obvious over time, the conversation on how to stem sprawl and move to more sustainable forms of growth will likely intensify. This report tries to bring attention to one strand of this conversation, namely the use of financial processes and instruments to support Smart Growth outcomes. Some concluding observations that might help advance this conversation:

- Municipalities must be seen as full partners in the movement towards better integration between growth planning and financial management. The advantage of provincial action is the potential it offers for motivating rapid and consistent change across the entire region, but top-down initiatives that are deaf to local nuance can also elicit resistance and push back.
- Many of the recommended actions in this report rely on an enthusiastic response from the Province for their implementation. Where provincial action is not forthcoming, municipalities might be able to take more initiative and move the ball forward until a provincial reaction is triggered, as often happens when the Province detects a patchwork of approaches emerging at the local level.
- Getting the prices right is crucial to avoiding destructive cross-subsidization through revenue instruments and taking advantage of opportunities to incentivize positive choices from a Smart Growth point of view. However, it's important to remember that municipalities have other goals in mind when designing revenue instruments, including the need for a reliable stream of income to the municipality, transparency, administrative simplicity, and equity across income groups.

- Crucial as fiscal sustainability is, it's only one of the desirable outcomes of a successful growth management exercise. It's important to keep in mind, however, that land use decisions usually imply obligations to support infrastructure and services into the far future and are practically irreversible. Under these conditions, the long-term and evidence-based thinking that is inherent to assessing and ensuring financial sustainability provides a ready argument for giving a certain prominence to financial considerations in growth management discussions.
- Fiscal mechanisms can't be relied upon to ensure progress towards Smart Growth objectives in the absence of other mechanisms to stem sprawl and encourage compact growth. A strong regulatory framework that directs development to appropriate locations, encourages a mix of land uses, and sets density standards forms the core of a successful growth management program.
- Equity issues are ever-present in discussions involving the implementation of measures that will change development outcomes and the way funds are raised to pay for municipal services. Some of the equity implications of the actions recommended in this report are widely supported while others can be more controversial.
- The research findings emphasize the importance of ongoing monitoring of any innovation in planning processes or revenue instrument design. Some of the recommended actions could have negative side-effects while others relate to programs whose efficacy may wane over time. Anticipating negative outcomes and monitoring for changes in key metrics can help officials decide on appropriate adjustments to a program or end it when objectives are achieved.
- The report has largely stayed away from suggesting major changes in the way municipalities finance growth and pay for services, including radical reforms to the way property taxes are assessed (such as land-value assessment), alternatives to property taxes (such as municipal sales taxes or income taxes), or moving from development charges to user fees to support "utility-like" infrastructure such as water and wastewater. Future research could investigate the potential of these more expansive measures to help achieve Smart Growth outcomes.

Photo: Shutterstock



# Introduction

This report is about the link between the management of municipal finances and growth management, especially in Ontario’s Greater Golden Horseshoe (GGH). Growth management refers to efforts by municipalities to shape population and employment growth to ensure it meets community priorities, including social, environmental, and economic goals.<sup>1</sup> Financial management refers to the way municipalities prioritize, forecast and budget for the services needed to maintain or improve the quality of life for its residents, manage their assets to reduce long-term costs, and raise revenues to support municipal infrastructure investment and other services. The purpose of the report is to show how growth management and financial management are intimately interrelated and have the potential to be more mutually supportive than is currently the case. Although this potential is increasingly recognized and exploited by municipalities in the GGH in some ways, in other ways, it goes untapped.

---

“ **Better integration between growth planning and financial management could produce significant benefits in terms of more infrastructure-efficient growth patterns, resulting in reduced long-term municipal costs, less pressure on property taxes and user fees, a lower infrastructure deficit, and lower municipal debt than would otherwise be the case.** ”

---

1 In this report, “growth management” and “growth planning” are used interchangeably.

Better integration between growth planning and financial management could produce significant benefits in terms of more infrastructure-efficient growth patterns, resulting in reduced long-term municipal costs, less pressure on property taxes and user fees, a lower infrastructure deficit<sup>2</sup>, and lower municipal debt than would otherwise be the case. From a provincial point of view, lower capital spending and infrastructure grants to municipalities are potential benefits. Quite apart from the fiscal benefits, better alignment between growth planning and financial systems also has the potential to improve performance on important societal issues such as housing affordability, climate change protection, social equity, and increased economic competitiveness through improved community liveability (i.e., by attracting residents, skilled workers, investment, and businesses). The present study explores this potential by asking:

- how does the municipal planning and fiscal systems work in the GGH?
- in what ways are the municipal planning and fiscal systems currently working together or failing to work together?
- how could better integration of those systems help achieve both planning and fiscal management goals?
- what steps need to be taken to seize these opportunities?

Growth has obvious financial implications – infrastructure must be installed to maintain the quality of life in existing and new areas of the community. Municipalities have to build roads and bridges to accommodate increased traffic, put pipes in the ground to convey water, wastewater and stormwater, expand the system of parks, build new libraries and recreation facilities, and so on – all to ensure that the quality of life is maintained or improved as population and employment grows. This infrastructure is expensive, and municipalities must plan carefully to avoid accumulating unsupportable debt or stressing taxpayers beyond their ability (or willingness) to pay for it.

What is less obvious is how the shape of growth affects the financial impacts that growth has on the municipality. Few of us pause to consider that the design of new neighbourhoods can have a major impact on the amount of driving people do, and therefore, how much traffic is generated by growth, the demand for road space, and ultimately the cost associated with keeping traffic congestion within acceptable limits as the municipality grows. The pattern of growth can affect the amount of potable water people use - e.g., for watering large lawns - and therefore the costs associated with the invisible water and wastewater systems under the roads. Building new homes on larger lots further from existing facilities will require more stormwater pipes and boost the costs associated with managing runoff. Growth patterns can also affect how many square metres of park space municipalities need to supply, the cost of garbage collection, the viability of transit systems, and other issues of financial concern to municipalities. Growth that is weighed towards intensification rather than greenfield development may be able to exploit excess capacity in existing infrastructure and therefore reduce costs. Finally, the pattern of growth can help preserve natural assets that can reduce the costs related to flood protection, countering the urban heat island effect, reducing greenhouse gas emissions, and providing high-quality drinking water.

2 Infrastructure deficit refers to the unfunded capital and operating expenditures needed to maintain or improve service levels in the long term.



**Better alignment between growth planning and financial systems also has the potential to improve performance on important societal issues such as housing affordability, climate change protection, social equity, and increased economic competitiveness through improved community liveability (i.e., by attracting residents, skilled workers, investment, and businesses).**

---

These are complex matters and some of the connections between growth patterns and fiscal costs are still being debated in the academic literature, but the general picture that has emerged is pretty clear: low-density, auto-dependent growth requires more infrastructure to support that is more expensive to operate and maintain over its life-cycle. Despite this finding, municipalities in Canada have an uneven record when it comes to integrating the management of growth and financial decisions. There are three key weaknesses that are the focus of this report:

- 1. Municipalities tend to perform well when it comes to assessing the immediate costs of planned growth, but not so well when it comes to assessing long-term financial sustainability of that growth.** In other words, municipalities are geared towards the immediate problem of financing anticipated growth in terms of the up-front capital costs. They tend to pay less attention to assessing the long-term costs of growth in terms of operating, maintaining, refurbishing, and ultimately replacing the infrastructure that growth entails. This is a serious issue because much of the infrastructure needed to support growth have long lifetimes and therefore imply long-term (typically permanent) commitments in both operating and capital dimensions. These so-called life-cycle costs often exceed the original cost of installing the infrastructure, sometimes by several fold. Some municipalities seem to believe that property taxes and user fees arising from growth will cover these long-term costs, but this often turns out not to be the case. A failure to adequately foresee and budget for long-term commitments could distort decision-making concerning the amount and pattern of growth that is desirable in a community.
- 2. Municipalities routinely shape growth to help achieve political, economic, social, and environmental goals, but they pay far less attention to the potential for shaping growth to achieve financial objectives.** Municipalities seldom look at growth parameters such as greenfield density, concentration around transit, and intensification as tools for reducing the long-term financial costs associated with growth. Growth planning decisions often have a political dimension, with greenfield expansion seen as a way of assuaging landowners in a hurry to convert speculative investments in farmland to urban uses. They may also be driven by the desire to attract investment that will create new jobs and attract new residents, provide housing to a growing population, or expand the assessment base. In some cases, growth is managed to preserve agricultural lands and natural heritage features. However, it's less common for municipalities to consider shaping growth as a way of ensuring the optimum use of infrastructure dollars and reducing long-term costs to the municipality. As a result, accommodating population and employment growth may be unnecessarily expensive in the short- and long-term.

3. **Municipalities are very good at shaping their revenue tools to ensure they generate the needed funds to cover upcoming capital and operating costs (minus debt and grants from other governments) but not as good at thinking through how those design choices might impact growth patterns.** The rules that govern the way taxes and user fees are collected from residents and businesses and the way development charges are exacted from developers have the potential to generate a system of subsidies from some property types or locations to others, generating impacts on decisions that affect the shape of growth. For example, property taxes that charge more to the owners of high-density residential buildings than those of low-density buildings are effectively subsidizing low-density housing (unless it can be shown that such housing is cheaper to service than high-density buildings, which it is generally agreed it is not). User fees for stormwater management that are applied on a per unit flat rate basis and ignore the size of lots are effectively serving to subsidize large lots from fees collected by smaller lots. As will be seen later in this report, there are many such subsidies that are operating in our communities. While the impacts of each subsidy may be small, on a cumulative basis, they may be contributing to inefficient growth patterns and higher financial costs for everyone.



The result of these three shortcomings is that municipalities may be inadvertently encouraging inefficient growth patterns, patterns that are costly not only from an environmental and social point of view, but also from a municipal finance perspective. The symptoms of these shortcomings include mounting infrastructure deficits, reduced service levels, growing threats to our quality of life, and a loss of economic competitiveness.<sup>3</sup>

This state of affairs can be partly attributed to the oft-noted silos through which municipal governments organize their work. Typically, the task of managing growth falls to professional planners in the planning department, while infrastructure decisions are made by engineers in the transportation and public works departments, and financial decisions are taken by officials trained in public finance, economics and accounting in the finance department. Bringing together these diverse professionals into a system of integrated decision-making can be a challenge. Another reason is the inertia that is built into growth planning and financial management systems. It is often assumed that the future will look much like the past and old assumptions are carried forward into forecasting exercises. Trying a new approach exposes political decision-makers to the risk of failure, and economic interests that benefit from the existing approach are well organized advocates for keeping things the way they are, while those who would benefit from change (e.g., the general public) are disinterested or disorganized.

Fortunately, more attention is being paid to this important connection and pressure is building on provincial and municipal policy makers to align financial processes and tools with growth management objectives.<sup>4</sup> Drivers of these developments have included:

- the rise and mainstreaming of the Smart Growth movement, which advocates for orderly, compact growth that is transit- and walking-supportive (see Box 1.1). Smart Growth proponents have raised awareness of the enormous inertia behind urban sprawl<sup>5</sup>, including political pressure from greenfield developers, the availability of cheaper land on the urban fringe, oversizing of infrastructure in expectation of future growth, and the massive subsidies being offered to suburban commuters in the form of cheap oil, “free” roads, and underpriced parking. To counterbalance these forces, Smart Growth advocates have drawn attention to the need to align financial tools with the land use planning framework to promote compact growth. They have brought attention to the accumulation of negative externalities and infrastructure deficits through continued sprawl along with the savings that can be achieved through compact growth.<sup>6</sup>
- the increasing interest in the use of market-based instruments, which use price signals to reinforce efforts to achieve sustainability goals, e.g., by applying taxes/fees on undesirable behaviour or tax/fee discounts on desirable behaviour.<sup>7</sup>
- the increasing emphasis on equity issues is raising questions about the fairness of municipal financial instruments<sup>8</sup> especially if some property types or locations are subsidizing others.

3 David Fleischer & Nicole Visschedyk (2011). “Ontario faces \$100B infrastructure gap.” *Era-Banner*, Newmarket. June 22: 1.

4 Kim Fowler (2016). “Integrating Land Use Planning and Development Finance to Improve Local Government Sustainability.” *Plan Canada*, 56(2): 42-46.

5 In this report, “urban sprawl” refers to low-density, automobile-oriented growth at the urban fringe. The expansion of urban areas through the addition of compact, transit-supportive neighbourhoods with a variety of daily destinations within walking distance would not be considered urban sprawl, especially if it took place after opportunities for development and redevelopment within already established areas had been exhausted.

6 Todd Litman (2022). “Understanding Smart Growth Savings: Evaluating Economic Savings and Benefits of Compact Development” (Victoria Transport Institute: Victoria, BC).

7 Ying Zhou, Amelia Clarke & Stephanie Cairns (2020). “Building Sustainable Communities Through Market-Based Instruments,” in *Environmental Policy: An Economic Perspective*, edited by Thomas Walker, Northrop Sprung-Much & Sherif Goubran. (John Wiley & Sons: Hoboken, NJ).

8 In this report, the terms “financial instruments” and “revenue instruments” are used interchangeably to refer to the tools that municipalities in Ontario use to raise money to fund their operations, including property taxes, development charges, and user fees.

- housing affordability is putting a spotlight on how municipal revenue tools might be adding to spiralling real estate costs and how they could be reformed to help reduce costs.
- the mounting infrastructure debt is putting pressure on municipal councils to find ways to achieve infrastructure efficiencies. As the Canadian Infrastructure Report Card notes, about a third of existing municipal infrastructure in Canada is aging and needs to be replaced;<sup>9</sup> meanwhile settlements continue to grow in a way that requires excessive amounts of virgin infrastructure.
- the growing scrutiny that taxpayers are affording municipal finances and the long-term financial sustainability of their municipalities.
- the climate change emergency is forcing municipalities to reconsider established policies and programs to identify ways to reduce greenhouse gas emissions, including from poorly managed growth.

**BOX 1.1****A SMART GROWTH LENS**

This report uses a Smart Growth lens to point to ways to improve linkages between growth planning and financial management that will help achieve the goals of both. Smart Growth is an approach to growth management that arose in the 1990s in opposition to the negative impacts of urban sprawl. The Smart Growth vision includes building compact communities that have everyday amenities and services within walking and biking distance, present realistic alternatives to car use such as frequent transit, limit the spread of the urban fabric onto surrounding farmland and natural areas, and offer a range of housing types that are affordable to a wide range of people. Smart Growth means building more equitable, livable communities that are also more efficient in terms of land and infrastructure needs and therefore less costly to build and more affordable from a housing, transportation and taxation point of view.<sup>10</sup> The concept has been endorsed by a wide range of groups, including:

- the federal government wanting to ensure that its massive investment in transit is being well-spent by having communities dense enough to generate adequate ridership,
- provincial governments trying to ensure that municipalities achieve and maintain financial stability over the long term (and become less dependent on provincial infrastructure grants),
- municipalities trying to control infrastructure costs and build more complete communities,
- farmer organizations wanting to preserve agricultural lands,
- environmental groups advocating for more walk, bike, and transit-friendly communities that reduce energy consumption and greenhouse gas emissions,
- those developers who see themselves as being involved in creating healthy, high-quality living and working environments less dependent on cars.

9 canadainfrastructure.ca (2019). "Canadian Infrastructure Report Card." <http://canadainfrastructure.ca/downloads/canadian-infrastructure-report-card-2019.pdf>

10 Environmental Defence (undated). "Benefits of Smart Growth." (Environmental Defence: Toronto). <https://environmentaldefence.ca/benefits-of-smart-growth/>.

Given these pressures, it's not surprising that provincial and municipal governments have taken steps to begin realigning their growth planning and financial instruments and processes. In many ways, Ontario has been a leader in Canada in this respect, including the mandatory introduction of municipal asset management planning, changes to the Development Charges Act to require that municipalities exempt some forms of residential intensification, updated taxation rules to authorize municipalities to reduce cross-subsidization between different land uses, and revisions to the provincial planning framework to encourage municipalities to put more emphasis on the fiscal sustainability of their growth management decisions.

Notwithstanding this progress, however, challenges remain. The report that follows explores how we can complete the transition to a system of municipal revenue tools and financial planning processes that are more supportive of growth management goals. After presenting some background information on the planning and finance systems in the GGH, the report moves into the actual processes and tools that need to be reformed to make further progress on this important front. First to be examined are the high-level growth planning and fiscal management processes along with some opportunities for better integration between them. Then the report moves on to problems and potential reforms with respect to the design of specific revenue tools, including development charges, property taxes, and use fees. In each section, the report acknowledges progress to date and pinpoints remaining issues, provides tangible ideas for improvement and works through some of the challenges that might be involved. The report closes with some final thoughts and conclusions.



**Ontario has been a leader in Canada in realigning their growth planning and financial processes. Examples include the mandatory introduction of municipal asset management planning, changes to the Development Charges Act to require that municipalities exempt some forms of residential intensification, updated taxation rules to authorize municipalities to reduce cross-subsidization between different land uses, and revisions to the provincial planning framework to encourage municipalities to put more emphasis on the fiscal sustainability of their growth management decisions.**

---



# Research Steps and Methods

As described in the Introduction, this study investigates the relationship between municipal finances and growth planning in the GGH, especially the potential for using municipal financial instruments and processes to reinforce growth management goals. This is a difficult topic to investigate due to a variety of reasons:

- the idiosyncratic nature of the growth management and financial management frameworks in the GGH, including a complex land use planning set up (e.g., the Growth Plan, Greenbelt Plan, and Provincial Policy Statement), governance structures (e.g., single-, upper-, and lower-tier municipal governments), population concentration (almost 70% of the Ontario population on about 3% of the land surface), and economic conditions (e.g., the strong rate of growth),
- the sparsity of relevant research at the intersection of growth management and financial management directly applicable to the GGH,
- the number of growth management and fiscal processes and instruments involved, including assessing growth management scenarios from a fiscal point of view, costing infrastructure projects during the master planning process, formulating development charges, conducting asset management planning, designing property taxes, and setting user fees,
- the array of avenues through which financial processes and tools may impact growth outcomes (e.g., through the decision making of developers, home seekers, councillors, farmers, commuters, etc.),
- the wide variety of factors that affect growth outcomes not directly related to municipal financial management (e.g., land availability in specific locations, land costs, receptiveness of municipalities to development, history of developer involvement in the area, access to jobs, short-term election cycles) that may overshadow the impacts of financial processes and instruments.

In recognition of this complexity, this project takes a “collective intelligence” approach that relies on the experience of engaged observers in the GGH to untangle the potential relationships involved, highlight key issues, and point towards the most productive solutions with the potential for greatest impact and least undesirable side effects. Towards this end, a Reference Panel of 13 academics and practitioners involved in municipal finance and/or planning matters in the GGH was convened to inform and validate the research undertaken by the consultant using a modified Delphi approach.



This project takes a “collective intelligence” approach that relies on the experience of engaged observers in the GGH to untangle the potential relationships involved, highlight key issues, and point towards the most productive solutions with the potential for greatest impact and least undesirable side effects.

The Delphi method was developed in the 1950s to explore military scenarios during the ramping up of the Cold War. It was designed to exploit the expert knowledge that existed in the USA on topics that were considered highly complex with outcomes contingent on many conditioning factors. Since then, it has entered the academic mainstream and is now used in a wide variety of fields, including urban planning.<sup>11</sup> It has been characterized as “a method for structuring a group communication process so that the process is effective in allowing a group of individuals, as a whole, to deal with a complex problem”.<sup>12</sup>

Typically, the method begins with the researcher setting up a panel of academic experts or engaged practitioners, who typically remain anonymous to each other (in order to avoid panelists being influenced by reputational or status factors). The researcher formulates statements or questions and submits them in the form of a survey to the panelists, who respond in an agree/disagree format and provide commentary to explain their responses. The researcher tabulates the “votes” and synthesizes the comments, and generates a new set of statement/questions for another round of voting and comments. The aim is to inform the panelists of each other’s’ thinking in the hope that clear directions will emerge to help guide the researcher as the study unfolds.<sup>13</sup>

The panel was consulted at each of the five main research steps involved in the study:

- **Step 1:** Scope the key issues to be covered in the project.
- **Step 2:** Generate a conceptual map of the measures a municipality could take to align their fiscal instruments and processes with Smart Growth objectives.
- **Step 3:** Conduct case studies of selected municipalities in the GGH to reveal whether the measures were being implemented in their fiscal instruments and processes.
- **Step 4:** Generate high-level recommendations and select a short-list for further study.
- **Step 5:** Research the short-listed recommendations and develop final recommendations.

11 N. Novakowski & B. Wellar (2008). “Using the Delphi Technique in Normative Planning Research: Methodological Design Considerations.” *Environment and Planning A: Economy and Space*, 40(6), 1485-1500.

12 H. Linstone & M. Turoff (1975). “Introduction”, in *The Delphi Method: Techniques and Applications*. Edited by H. Linstone & M. Turoff (Addison-Wesley: Don Mills, ON), 3-12 on p. 3.

13 A. Loukaitou-Sideris (2000). “Transit-oriented development in the inner city: A Delphi survey.” *Journal of Public Transportation*, 3(2): 5.



**Step 1: Scope the key issues and fiscal instruments to be covered in the project.**

The project began with a scoping exercise that identified the key links between fiscal instruments and growth planning in the GGH. In the first round of this step, 37 statements were provided to the panelists under five headings, one heading on the general relationship between municipal finance and growth planning in the GGH and the other four on specific types of financial instruments (development charges, property taxes, senior government funding, and other). The statements were developed based on findings gathered from books, academic articles and reports, government and consulting reports, newspaper articles, and the consultant's own knowledge base. The panelists were asked to vote on each statement in two dimensions - its validity and its importance or relevance to the project. A typical Likert scale was provided for both dimensions. Results from the survey were synthesized and resubmitted to the panel in a second survey. For each of the statement, the consultant presented high-level conclusions and asked panelists to indicate whether they mostly agreed or disagreed with the conclusions. A relatively high level of consensus was achieved on the issues that should be included in the project and this provided a basis for the next step.

**Step 2: Map out the measures a municipality could take to align their financial instruments and processes with Smart Growth objectives.**

In this step, the consultant developed a framework that mapped out the range of measures municipalities hypothetically could take to ensure its fiscal instruments are contributing to (or at least not undermining) Smart Growth outcomes. The measures included were based on the issues identified as being within scope in Step 1 but now fleshed out and translated into tangible practices that municipalities could implement in order to reinforce growth management goals. The measures were divided into four categories: links between financial and growth planning processes, development charges and parkland dedication requirements, property taxes, and user fees. For each potential measure, the framework included information on why the measure might have an impact on growth patterns, e.g., by reducing charges, fees, or taxes on development consistent with Smart Growth principles and increasing them on less efficient growth patterns. Finally, the framework spelled out whose decisions might be impacted by the measure and how their decisions might support Smart Growth outcomes, e.g., municipal decision-makers, developers, home seekers (buyers and/or renters), commuters, or the general public. The framework was refined over two rounds of surveys with the Reference Panel.

**Step 3: Conduct case studies of selected municipalities in the GGH to reveal whether the measures were being implemented in their fiscal instruments and processes.**

In this step, case studies were conducted to determine the extent to which the measures identified in the previous step were being implemented in the GGH. To ensure a variety of municipalities facing a range of different growth conditions was included in the selection, several growth planning scenarios were identified, and a municipality was chosen to represent each one. The Reference Panel was consulted to help choose the municipalities in the GGH that would best represent the five growth scenarios. After two rounds of consultation, a final selection of nine case study municipalities was made, including four lower-tier municipalities, their corresponding upper-tiers, and one single-tier municipality (see Table 2.1).

**Table 2.1** Growth conditions and representative municipalities selected as case studies

| Growth conditions  | Representative municipalities (2021 populations)         |
|--|--|
| Smaller municipality with slow-growth strategy based on conservation of greenfield lands                 | Town of Halton Hills (62,951) in Halton Region (596,637) |
| Smaller municipality with rapid-growth strategy largely based on greenfield development                  | Town of Caledon (76,581) in Peel Region (1,451,022)      |
| Mid-sized municipality that is largely built out and can only grow through intensification               | City of Waterloo (121,436) in Waterloo Region (587,165)  |
| Mid-sized municipality that has greenfield land and is struggling to achieve its intensification targets | City of Markham (338,503) in York Region (1,173,334)     |
| Larger municipality with greenfield lands but that chooses to grow through intensification               | City of Hamilton (569,353)                               |

Information for the case studies was collected via a wide range of documentation, including full-text newspaper articles going back to 1995 (using ProQuest), official plans, asset management plans, master plans, development charge background studies and bylaws, parkland dedication bylaws, property tax rates, community improvement plans, and user fee rates. In addition, several officials were interviewed or consulted in each of the nine municipalities, including those involved in land use planning, financial management, development charges, property taxes, user fees, parking, transportation, water and wastewater, and other municipal services. The relevant information was organized using the framework of measures developed in Step 2, creating a data base of over 200 pages.

**Step 4: Generate a long list of high-level recommendations and select a short-list for further study.**

The case studies were made available to the Reference Panel and summarized in a survey that also proposed high-level recommendations for closing gaps or overcoming barriers to implementing 35 measures in the GGH. Most of the recommendations were directed at the Province<sup>14</sup>, as this was judged the best way to achieve consistent improvement across the whole GGH. The panelists were asked to comment on and rate the recommendations in terms of their political plausibility, their potential impact on achieving Smart Growth objectives, and the level of negative side effects that might accompany implementation of the measure. The results of this survey were then used to select a short-list of 16 recommended measures that would be further investigated by the consultant. The short list was presented in a second survey round along with some questions that arose from comments provided on the first round.

**Step 5: Research the short-listed recommendations and develop more detailed recommendations.**

Panel responses to the Step 4 surveys guided intensive research into the 16 recommended measures, including 54 in-depth interviews with academics, municipal officials, provincial officials, NGO representatives, and consultants, along with the analysis of municipal documentation and the wider literature. That research resulted in the development of more detailed recommendations on the 16 measures. The panel was asked to respond to a final survey that presented the more detailed recommendations and specific questions where more guidance was needed. The responses were used to direct the final research effort, arriving at a final set of recommendations on 12 measures for inclusion in this report.

14 Throughout the report, “the Province” refers to the Province of Ontario.



# The Study Context

This section of the report presents background information on growth planning and municipal finances as context for the subsequent sections.

## 3.1 The Greater Golden Horseshoe Region

The Greater Golden Horseshoe is Canada's most populated and fastest-growing region. The dynamic economy and high quality of life offered in the region attracts new residents from across Canada. One in three new immigrants to the country chooses to settle in the GGH. The region's population was at 10.2 million in 2021, which represents almost 70% of Ontario's population and 27% of Canada's. The population is projected to reach almost 14.9 million by 2051. Meanwhile, the number of jobs in the GGH is forecast to rise from 4.8 million to 7 million over the same time period.<sup>15</sup> These trends will boost both the regional population and the number of jobs by 46%. Rapid growth will exacerbate existing challenges such as unaffordable housing, traffic congestion, pressure on infrastructure, loss of agricultural land and natural spaces, and a changing climate. However, if carefully planned and smartly managed, growth can present an opportunity to build a more prosperous, healthy, and sustainable region.



**If carefully planned and smartly managed, growth can present an opportunity to build a more prosperous, healthy, and sustainable region.**

---

15 Hemson Consulting (2020). "Greater Golden Horseshoe: Growth Forecasts to 2051." (Ministry of Municipal Affairs and Housing: Toronto).

**Figure 3.1** The Greater Golden Horseshoe Region



Source: Ministry of Municipal Affairs and Housing, 2020.

## 3.2 Growth planning and financial management in the GGH

As this project explores the intersection between growth management and financial management, it's important to describe how these systems work in Ontario and in the GGH specifically. While we can't go into detail, an outline of these two systems is presented here.

### 3.2.1 Growth management

Growth management is a form of land use planning that accommodates population and employment growth to ensure it is properly serviced with adequate infrastructure and that it supports other community goals for a healthy environment, high quality of life, and prosperous economy – i.e., building complete communities. In Ontario, municipalities are responsible for land use planning, but they conduct their planning activities within a framework comprised of provincial legislation, regulations, policies, and plans.

At the core of this framework is the Planning Act, which describes the tools and procedures available to municipal governments in executing their planning duties, including official plans, zoning bylaws, and subdivision of land. The Planning Act does not contain any specific policy prescriptions, but it provides the legislative authority for the provincial government to adopt a policy statement that addresses matters of provincial interest. The Provincial Policy Statement encourages efficient development patterns that optimize the use of land, resources and public investment in infrastructure and public service facilities. It promotes intensification and redevelopment that exploits existing infrastructure capacity, building stock, and vacant land (including brownfields) to promote cost-effective development patterns and minimize land consumption and servicing costs.<sup>16</sup> Municipalities implement the Provincial Policy Statement through their official plans, zoning by-laws and decisions on planning applications.

Because of the highly concentrated population and employment along with intense growth pressures in the GGH, the Province has put in place a series of land use plans to provide further guidance to municipalities in the region, a planning framework that has made Ontario a leader in the Smart Growth movement. The Province pursued Smart Growth initiatives with key stakeholders in the GGH region from 2001 to 2003 under the Conservative government. This Smart Growth approach was consolidated by the Liberal provincial government elected in 2003 and led to the adoption of the Greenbelt Plan in 2005 and the Growth Plan for the GGH in 2006, which won a prestigious award from the American Planning Association in 2007. The plan has since been revised several times, with the current version released in 2020.<sup>17</sup>

This Growth Plan expresses the Province's long-term vision for how growth should be managed in the region, including encouraging more compact, mixed-use development with a range of housing types (i.e., "complete communities") and the intensification of already urbanized areas, especially in designated growth centres and around major transit stations. The current Growth Plan projects (currently up to 2051) and allocates a certain amount of that growth to each of the upper-tier and single-tier municipalities in the GGH. Municipalities are divided by the Growth Plan into the inner and outer rings, with the former being the continuously urbanized core along Lake Ontario and most of the Greenbelt, and the latter being comprised of pockets of urbanization surrounded by mostly rural areas. The inner ring, which currently accounts for 76% of the regional population, is projected to accommodate 74% of the anticipated population growth to 2051 through urban expansion and intensification within already built-up areas.

The Growth Plan also provides directions on how municipalities should manage the forecasted growth. In particular, all upper- and single-tier municipalities in the inner ring and the urbanized areas of the outer ring are required to plan for 50% of the population growth to be absorbed within each municipality's existing built-up area through intensification.<sup>18</sup> The remaining 50% of growth can be directed to land beyond the existing built-up area but must be managed to create an average density of at least 50 residents and jobs per hectare, or 40 in less urbanized areas in the outer ring. Around major transit stations and in designated growth centres planned densities must be considerably higher.

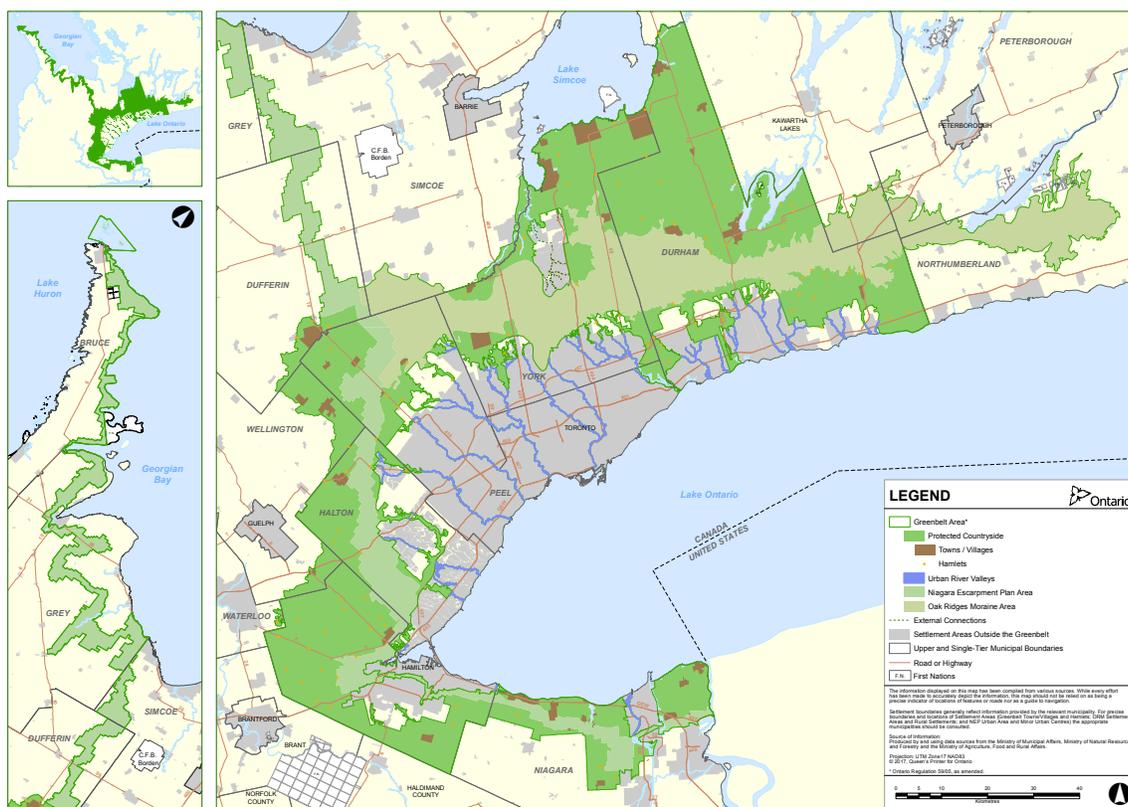
16 This new Provincial Policy Statement was issued under section 3 of the Planning Act and came into effect May 1, 2020. It replaces the Provincial Policy Statement issued April 30, 2014.

17 The original Growth Plan of 2006 was strongly influenced by Smart Growth principles, as was the 2017 version. More recent iterations of the plan (along with other changes to the planning framework in Ontario) have somewhat weakened the Smart Growth orientation of the planning framework.

18 The intensification rates for the remaining more rural municipalities will be determined through their municipal comprehensive review processes.

About one fifth of the land in the GGH is further subject to the Greenbelt Plan and its two sister plans, the Niagara Escarpment Plan and the Oak Ridges Moraine Conservation Plan, with which the Greenbelt Plan shares a conservation-oriented vision. The Greenbelt Plan (created in 2005, and most recently updated 2017) establishes the region’s “protected countryside”, which supports agriculture as its predominant land use, helps prevent the loss and fragmentation of agricultural land, and provides long-term protection for natural heritage and water resource systems. The Oak Ridges Moraine Conservation Plan (created 2002, and most recently updated 2017) protects this unique landform, and helps to preserve important surfacewater, groundwater resources, natural features, and biodiversity. The Niagara Escarpment Plan (created 1985, and most recently updated 2017) ensures a continuous natural environment along the Escarpment and only permits development compatible with the natural environment. Together with the Growth Plan, these land use plans are supposed to ensure urban growth happens in the right places and in the most efficient way, while protecting and enhancing valuable environmentally sensitive areas and agricultural lands.

Figure 3.2 The Greenbelt, Oak Ridges Moraine and Niagara Escarpment.



Source: Ministry of Municipal Affairs and Housing, 2017.

Municipalities are required to revise their official plans (to a 2051 horizon) to make them consistent with the policies, forecasts, and targets found in the suite of provincial land use plans. The Growth Plan requires that the official plans ensure conformity with the Growth Plan through a process called the Municipal Comprehensive Review (MCR). One of the most important growth management decisions to be made during the MCR is whether to expand the settlement area boundary so as to designate new lands to accommodate the remaining growth, and if so, by how much. To guide and justify this decision, the Province has issued a guidance document called the Land Needs Assessment Methodology for the GGH.<sup>19</sup>

In two-tier municipalities, the upper and lower-tiers cooperate during the MCR process and produce compatible growth management plans. The Province established July 1, 2022, as the date by which municipalities within the GGH must have submitted their MCRs for provincial approval.

### 3.2.2 Financial management

Municipal financial management is concerned with maintaining and potentially expanding services and facilities in a way that is fiscally sustainable. Financial management involves balancing competing goals, such as keeping tax increases in check, maintaining, or improving the quality of municipal services, maintaining, and replacing existing infrastructure as it ages, and paying for new infrastructure to service growth.

One of the most powerful financial management tools is the annual budget, in which the municipality defines how it will raise revenues to fund planned expenses. Budgeting involves prioritizing projects, programs and service levels in light of the available and potential financial resources. Operating budgets are normally used to plan for the municipality's day-to-day spending, such as salaries, wages, benefits, heat, hydro, maintenance of buildings and infrastructure. Revenues to support the operating budget come from property taxes, user fees, grants from senior governments, and other sources. Unlike federal and provincial budgets, municipal operating budgets must be balanced at the end of the year.

The capital budget typically includes expenditures to maintain or replace existing infrastructure and to build new infrastructure to meet growth needs. It usually sets out the specific capital projects for the budgetary period and identifies a source of financing for each. Because infrastructure is typically paid for over many years, the capital budget sets out a plan for future expenditures, debt repayment and potential reserve fund needs to manage the financial position of the municipality over a specific period of time. Sources of capital funding include funding from reserve funds (supported mostly by property taxes, user fees, and development charges), the operating budget, or grants from senior governments.

#### BOX 3.1

#### MUNICIPAL REVENUE SOURCES<sup>20</sup>

Municipalities in Ontario rely on a relatively small number of key revenue sources,<sup>21</sup> categorized as either internal or external. This report deals primarily with internal sources of revenue as these are the ones that are most directly under municipal control.

19 The guidance document was revised in 2020 to shift the emphasis from a policy-based methodology to a market-based one, especially in the projection of the housing mix, which in turn affects the land need calculation. The new methodology tends to boost the projected amount of land needed to accommodate growth.

20 Statistics in the box drawn from: Financial Accountability Office of Ontario (2022). "Ontario's Municipal Finances." (FAO: Toronto). <https://www.fao-on.org/en/Blog/Publications/municipal-finances-2020>

21 Municipalities in most other OECD countries enjoy access to a wider range of revenue sources, e.g., income taxes, sales taxes, vehicle registration fees, fuel taxes, taxes on hotel stays, and commuter taxes. See: Harry Kitchen & Enid Slack (2016). "More Tax Sources for Canada's Largest Cities: Why, What, and How?" (Institute on Municipal Finance and Governance: Toronto).

**Internal sources include:<sup>22</sup>**

- *Property taxes:* Property taxes are the main source of municipal revenue in Ontario, accounting for approximately 40% of revenue on average. Municipalities use property taxes to pay for general services such as road maintenance, fire and police services, libraries, transit subsidies, and general administration. Property owners pay property taxes based on the market value of their homes or businesses, with the tax paid equal to the assessed property value times a percentage tax rate. Municipalities set the tax rates on different property classes (residential, commercial, etc.) to raise the funds they need to provide municipal services at the level desired by local citizens and businesses. About 72% of total property taxes in the province are paid by residents, while businesses pay about 25%. Property taxes are collected under rules found in the Municipal Act<sup>23</sup> and the Assessment Act.
- *User fees:* The Municipal Act allows municipalities to impose fees on users of municipal services, such as water and wastewater, stormwater, parking, and transit. The fees are set at the discretion of the municipality, but jurisprudence requires that they be reasonably related to the cost of providing the service. User fees account for 20% of municipal revenue in Ontario.
- *Development charges:* Development charges help pay for the up-front costs of installing infrastructure to support growth. The charges are a one-time fee applied to developers as a condition of getting planning approval for their residential or non-residential projects. They cover the cost of installing “hard” (e.g., water and wastewater pipes, roads) and “soft” (e.g., libraries, transit, parks) infrastructure. They apply to “off-site” infrastructure only, meaning the infrastructure that is shared by several development projects (“on-site” infrastructure within the boundaries of a project is paid for directly by the developer concerned). The way development charges are formulated is regulated under the Development Charges Act.

**External sources:**

- This largely refers to grants from senior (i.e., provincial and federal governments) governments, which may be conditional (i.e., must be spent on a specific service) or unconditional (i.e., can be spend on any service) in nature. Most grants are conditional and are used by municipalities to support social, transportation, and health services. Grants account for 22% of municipal revenues in Ontario.

22 Other sources of revenue include planning approval fees and parkland dedication fees. These were considered for inclusion in the course of the research for this report but were ultimately excluded on the grounds that their impact on growth planning was limited (the former) or the side effects of reforming them were too great (the latter). Density bonusing fees and community benefit contributions were excluded because they are in transition with the former being phased out and the latter being phased in.

23 The Municipal Act, 2001 sets out rules related to municipal governance for 443 of 444 Ontario municipalities, while the City of Toronto Act, 2006, sets out the rules for the City of Toronto. The latter act reflects the city’s status as Ontario’s largest municipality and provides for some special considerations, e.g., expanded taxation powers. Many of the provisions of the Municipal Act are mirrored in the City of Toronto Act while other relevant provincial statutes, such as the Planning Act, Development Charges Act, and the Assessment Act continue to apply to the City of Toronto (unless modified by the City of Toronto Act). Unless otherwise stated, the report assumes that references to Ontario legislation also apply to the City of Toronto.

Municipalities are permitted to borrow money on a short-term basis to fund current operating expenses while waiting to receive taxes and other revenues for the year. However, annual operating budgets must plan to balance revenues and expenditures by the end of the year. For the capital budget, municipalities are permitted to borrow money on a long-term basis from external sources. Borrowing allows municipalities to spread the cost of infrastructure projects over several years. Borrowing money to support capital spending is not considered a revenue source as it eventually has to be repaid using one or more of the revenue sources mentioned above.

A key financial concept in the context of this project is that of “fiscal sustainability”. This refers to a municipality's ability to meet financial and service obligations into the future. Achieving fiscal sustainability requires that municipalities think long-term about the levels of expenditures and revenues they are committing themselves to when they make growth management decisions, and whether those commitments can be sustained under a variety of economic and social conditions without unduly burdening future taxpayers – including seeking ongoing funding from senior levels of government. Many municipalities in the GGH are now formalizing this type of thinking in the form of long-term financial plans.

One important tool that can contribute to robust long-term financial planning is asset management planning, by which municipalities inventory their capital assets (infrastructure, buildings, vehicles, land and equipment), assess their condition, and forecast the financial requirements for maintaining them over their life cycles and eventually replacing them. Asset management planning is quite advanced in Ontario compared to most other provinces. Starting in 2012 the Province encouraged municipalities to prepare asset management plans (AMPs) in order to be eligible for certain grants. In 2017, regulations under the Infrastructure for Jobs and Prosperity Act made asset management planning mandatory.<sup>24</sup> AMPs are supposed to include an analysis of the life-cycle costs of maintaining existing and growth-related assets into the future. Without good quality AMPs to track the long-term obligations of existing infrastructure, the availability of excess capacity, and the life-cycle implications of projected infrastructure, it's difficult to imagine how a municipality could successfully balance its many competing financial priorities in the long-term.



**Asset management planning is quite advanced in Ontario compared to most other provinces. Starting in 2012 the Province encouraged municipalities to prepare asset management plans (AMPs) in order to be eligible for certain grants. In 2017, regulations under the Infrastructure for Jobs and Prosperity Act made asset management planning mandatory.**

---

<sup>24</sup> Municipalities were required to prepare an asset management plan in respect of their core municipal infrastructure (including water, wastewater, and roads) by 2021, and in respect of all of their other municipal infrastructure assets by 2023.

### 3.3 How does the shape of growth influence the costs of growth?

The key assumption behind this report is that the shape of growth influences the cost of growth, and more specifically, that compact Smart Growth will be more financially sustainable over the long run than low-density, auto-oriented development. In other words, efficient land use makes for efficient financial management and long-term fiscal sustainability. While it's beyond the scope of this study to review the evidence for and against this assumption in any detail, an overview is provided here.<sup>25</sup>

There are two key features of the compact growth model that reduce costs to municipal governments and increase revenues, making it more fiscally efficient – the location and density of development.<sup>26</sup> From a location point of view, it is often more efficient and thus less costly to exploit existing infrastructure capacity to accommodate growth through intensification than it is to build new capacity in greenfield areas. In many urban areas, infrastructure capacity has become available as the number of people per household has declined dramatically, high efficiency water and wastewater technologies have been implemented, and industry has moved out of urban cores and older neighbourhoods. For many people, it seems counterproductive and unnecessarily costly to be building new infrastructure in outlying locations while a massive investment made by previous generations sits underused.

Others, however, suggest that this picture is too simple, that infrastructure in urban cores may be at the end of its useful life and needs to be replaced, in which case, whatever excess capacity exists is of little value. They also claim that even if less infrastructure work is needed in core areas, that which remains to be done is more expensive due to higher land costs, complex underground networks, tight working conditions, and other factors. This may be the case in some areas and whether the “free” excess capacity makes redevelopment fiscally wiser than new development will have to be judged on a case-by-case basis. However, it's also important to keep in mind that redevelopment to higher densities tends to produce revenues per hectare far in excess of those obtained through low-density sprawl and therefore whatever public investment is required to upgrade infrastructure (if any) will be repaid at a faster rate than low-density development.<sup>27</sup> Redevelopment also attracts new populations who then make other municipal services more financially sustainable, such as transit provision. Finally, although not normally included in municipal financial calculations, redevelopment has the benefit of mitigating the external costs of development, such as prime farmland loss and greenhouse gas emissions.



**There are two key features of the compact growth model that reduce costs to municipal governments and increase revenues, making it more fiscally efficient – the location and density of development.**

<sup>25</sup> Because of the differences in municipal finance systems between the US and Canada, the focus here is on Canadian evidence.

<sup>26</sup> Other dimensions of the model also have fiscal implications. For example, a mix of residential and commercial land uses can reduce municipal costs if it contributes to the use of facilities at different times of the day. For simplicity's sake, however, the discussion focuses on the location and density dimensions.

<sup>27</sup> This is just another way of saying that denser development is more financially efficient for municipalities. See: Todd Litman (2021). “Selling Smart Growth: Communicating the Direct Benefits of More Accessible, Multi-Modal Locations to Households, Businesses and Governments.” (Victoria Transport Policy Institute: Victoria, BC).

Redevelopment of established areas versus greenfield development is one dimension of the locational advantages of Smart Growth practices, advantages that can translate into better long-term financial health. Even when planning greenfield development, however, locational considerations can have a significant impact on construction and operation and maintenance costs. For example, it's less costly to:

- develop adjacent to existing services than to leapfrog over rural areas and extend services for many kilometres,
- develop in an area where infrastructure systems have excess capacity (e.g., where infrastructure like a trunk sewer or water treatment station was intentionally oversized to accept future greenfield growth),
- develop an area that can rely on gravity for water-based infrastructure rather than an area that requires water pumping and storage,
- develop in areas that are not expected to be affected by climate change or other environmental risks that would increase long-term costs from flooding, rising sea levels, etc.,
- avoid developing areas that would compromise “natural assets”, i.e., ecological features that provide “free” services related to flood protection, countering the urban heat island effect, reducing greenhouse gas emissions, and providing high-quality drinking water.<sup>28</sup>

The second argument in favour of the enhanced fiscal sustainability of Smart Growth practices relates to the density of development. Intuitively, it seems reasonable to assume that more intense development on smaller parcels of land would be cheaper to service per resident and per area because residents are grouped closer together and generate more revenues per area. However, critics argue this effect is largely limited to “hard” infrastructure, especially the networked services such as water, wastewater, storm sewers, roads, and transit, and that costs for “soft” services such as policing, fire suppression, social services could be greater in higher density settings. If true, this could challenge the premise that higher density development is more financially sustainable in the long run.

Overall, the research supports the density argument. For example, a study done for the City of Ottawa in 2021 compared cost-revenue differentials for three types of housing - high density urban, low-density greenfield, and low-density rural village. The study found that the high-density development outperformed the other two forms of growth by a considerable margin, delivering a net surplus of \$606.46 per capita. In contrast, the low-density options saw a net drain on municipal treasuries of \$465.40 for the greenfield locations and \$154.56 for the rural village.<sup>29</sup> A similar study done for the City of Greater Sudbury in 2017 reached similar conclusions, i.e., that the City should encourage high-density development as it is generally the most cost-efficient.<sup>30</sup>

28 List adapted from: Asset Management British Columbia (2019). “Land Use Planning and Asset Management.” <https://www.assetmanagementbc.ca/wp-content/uploads/Land-Use-Planning-and-Asset-Management.pdf>

29 Hemson Consulting (2021). “Summary Update of Comparative Municipal Fiscal Impact Analysis.” (City of Ottawa: Ottawa).

30 City of Greater Sudbury (2017). “Comparative Fiscal Impact Analysis of Growth Study.” (City of Greater Sudbury). <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=7127>

The Canada Mortgage and Housing Corporation (CMHC) has also studied the impact of density on municipal finances.<sup>31</sup> In one study, researchers compared the cost of infrastructure services for a traditionally built postwar development and that of a Smart Growth development. The researchers concluded that the initial costs to provide infrastructure and services to the Smart Growth development would be \$5,301 less per housing unit and each unit would save the municipality \$10,977 over the infrastructure's life-cycle.<sup>32</sup> CMHC also studied a project in the East Clayton neighbourhood of Surrey, BC, which was designed with increased density, mixed uses, and an integrated road system. The study concluded that when compared to development in a traditional postwar neighbourhood, even with similarly sized housing units, the East Clayton project's total land, building, and infrastructure costs would be 20 percent lower.<sup>33</sup>

Another source of evidence that Smart Growth is more efficient from a municipal finance point of view comes from large-scale modelling of different growth scenarios, which typically consider both location and density dimensions. These types of assessments are used extensively in Europe to help direct large scale planning efforts where there are many moving parts and a methodical approach is needed to say how alternative land use scenarios would impact fiscal outcomes as well as other public objectives (such as greenhouse gas emissions reduction, affordable housing provision, and transportation options).<sup>34</sup>

In Canada, one of the first studies of this type was done in 2009, when the City of Calgary used a growth scenario analysis to clarify trade-offs during its "Plan It" municipal development plan review. The study explored the cost implications associated with two different land use scenarios – a dispersed pattern based on current trends and a compact scenario based on intensification around nodes and a high-quality transit system. The study considered both capital and operating costs related to each of three scenarios for transport (roads and public transit), water and sewer services, emergency services, recreation centres, parks, and schools. The findings showed that a more compact scenario would be 33% less expensive to build and 14% less costly to operate out to the "horizon year", 60 years in the future.<sup>35</sup> The compact scenario was chosen as a basis for the plan.

More recently, the Halifax Regional Municipality (HRM) commissioned a study of growth scenarios as an input to the 2014 review of its regional plan. The study considered four regional growth scenarios for the HRM. The first scenario was to reflect the goals of the 2006 regional plan, the second was to reflect continuation of recent trends that have fallen short of the 2006 goals. The third and fourth were to reflect stronger regional goals emphasizing greater concentration of growth in the core of the region. Results of the analysis clearly showed the benefits of concentrating new residential development. For nearly all services assessed, the best distribution scenario was the one that saw the maximum proportion (50%) of new development located in the regional centre.<sup>36</sup> The report had a significant impact on the 2014 regional plan and is still being used in discussions among planners of desirable growth options.

31 These studies typically focus on municipal costs that are most sensitive to location and density parameters, such as hard infrastructure. They pay less attention to soft infrastructure that is less sensitive to urban form, such as policing, fire, social services, and parks.

32 Canada Mortgage and Housing Corporation (undated). "Research Highlights: Infrastructure Costs Associated with Conventional and Alternative Development Patterns." *Socio-Economic Series*, Issue 26.

33 Canada Mortgage and Housing Corporation (2001). "Research Highlights: The Headwaters Project—East Clayton Neighbourhood Concept Plan." *Socio-Economic Series*, Issue 78.

34 Eda Ustaoglu et al. (2017). "Developing and Assessing Alternative Land-Use Scenarios from the MOLAND Model: A Scenario-Based Impact Analysis Approach for the Evaluation of Rapid Rail Provisions and Urban Development in the Greater Dublin Region." *Sustainability*, 10(1): 1-34. <https://ideas.repec.org/a/gam/jsusta/v10y2017i1p61-d124697.html>

35 IBI Group (2009). "The Implications of Alternative Growth Patterns on Infrastructure Costs." (City of Calgary: Calgary). <http://www.reconnectingamerica.org/assets/Uploads/planitcalgarycoststudyanalysisaprilthird.pdf>

36 Stantec Consulting (2013). "Quantifying the Costs and Benefits of Alternative Growth Scenarios." (Halifax Regional Municipality, NS). <https://www.halifax.ca/sites/default/files/documents/about-the-city/regional-community-planning/HRMGrowthScenariosFinalReportJuly82013.pdf>

As part of its recent City Plan exercise, Edmonton commissioned a “Growth Scenarios Relative Assessment,” which examined the infrastructure needs, life-cycle costs, and greenhouse gas emissions related to different growth scenarios. In phase 1, a high-level cost-benefit fiscal analysis on three scenarios showed the “central” scenario was the most net cost effective. The City balanced that with other factors to generate the preferred scenario. In phase 2, a more detailed study was done of the business-as-usual scenario vs the preferred growth scenario, which has far more multifamily housing and a smaller land footprint. The study found that the preferred scenario (i.e., the City Plan scenario) would produce 8% savings in taxes over the long-term. The study had a major impact on council and the public by showing the savings (especially in transport infrastructure) that were possible by varying land use objectives and demonstrating how these savings could be invested in improving the quality of life in denser settings.<sup>37</sup>

The conclusions that can be drawn from this evidence are clear: low-density development in greenfield locations is a net draw on municipal finances over its life cycle, while higher-density development in urban infill locations produces a net surplus. However, also worth noting is that much of the evidence on these issues in Canada is spatially specific. It is derived from studies in particular regions and the amplitude of the impacts of growth patterns on municipal finances varies considerably among them. This suggests that although the premise of this study is on a solid foundation, researchers in the GGH are not off the hook - studies in real-life settings within the GGH are still needed to verify and quantify the effect. This is a theme that will surface again as the report unfolds.



**Evidence shows that low-density development in greenfield locations is a net draw on municipal finances over its life-cycle, while higher-density development in urban infill locations produces a net surplus.**

---

### 3.4 Can revenue tools influence growth patterns?

In the last section, we explored whether the shape of development affects municipal finances. In this section we move on to another major premise of the report, i.e., the question as to whether municipal financial instruments can affect the shape of development. If the answer is in the affirmative, then this provides a foundation for reviewing the design of financial instruments for their potential impact on growth patterns and revising them to align with the municipality’s growth management objectives.

We typically think of land use patterns as being determined by planning decisions on development applications and by major infrastructure investments in highways, transit, “big pipes”, and hospitals. A range of other policies that have an indirect bearing on growth patterns also come to mind, such as agricultural subsidies, environmental regulations, immigration rates, and building codes. However, we don’t normally think of municipal financial instruments when considering factors that determine land use patterns.

37 Hemson Consulting (2020). “City Plan Growth Scenarios Relative Financial Assessment.” (City of Edmonton: Edmonton).



**If designed properly, development charges can play a role in supporting more efficient development, but if designed poorly, could contribute to urban sprawl. Given that development charges in the GGH can rise to over \$125,000 per detached unit, the impact of a badly designed development charge could be significant.**

In fact, there is good reason to believe that these instruments may have a significant impact on land use patterns. Smart Growth proponents are increasingly calling for reforms to ensure that municipal revenue-raising instruments are aligned with (or at least not aligned against) Smart Growth goals.<sup>38</sup> The “mispricing” of these instruments is only one of the many causes for sprawl, but without getting them right, progress towards sustainable, efficient communities will be hampered.<sup>39</sup> We’ll briefly discuss here how this might apply to the three main revenue instruments: development charges, property taxes, and user fees.

### 3.4.1 Development charges

Development charges are collected from developers to pay for the costs of off-site services. The impacts of development charges on growth outcomes in a given municipalities will rely in large part on whether the charges are shaped to match the value of the municipal infrastructure needed to support each development to the charges paid by the developer. The literature indicates that if designed properly, development charges can play a role in supporting more efficient development, but if designed poorly, could contribute to sprawl.<sup>40</sup> Given that development charges in the GGH can rise to over \$125,000 per detached unit, the impact of a badly designed development charge could be significant.<sup>41</sup>

In Ontario, the Development Charges Act regulates how municipalities can design their charges and collect revenues. The Act was first passed in 1989 and has been updated multiple times since then. The Act specifies that before adopting a development charge bylaw, the municipality must prepare a background study following a prescribed methodology in order to calculate and justify the charges. Municipalities must add up the costs of all the capital projects needed to support growth over the planning period and then allocate those costs to residential units and commercial and industrial floor space based on population and employment forecasts. The methodology imposes some constraints in terms of the services that can be charged for, mandatory exemptions for certain property types, and payment points, but otherwise allows for fairly wide latitude in the design of the charges.

38 David Thompson (2013). “Suburban Sprawl: Exposing Hidden Costs, Identifying Innovations.” (Sustainable Prosperity: Ottawa).

39 Pamela Blais (2011). “Urban Sprawl: The Price is Wrong.” *Plan Canada*, 51(2): 14-19.

40 Ray Tomalty (2000). “The Effects of Development Charges on Urban Form.” (Canada Mortgage and Housing Corporation: Ottawa). Enid Slack (2002). “Municipal Finance and the Pattern of Urban Growth.” (C.D. Howe Institute: Toronto).

41 Building Industry and Land Development Association (2020). “Summary of Development Charges in the GTA.” (BILD: Toronto). <https://bildgta.ca/Assets/FINAL%20GTA%20-%20Development%20Charges%20-%2009%202020.pdf>



**Servicing higher-density sites on infill lots is generally cheaper than lower density sites in greenfield areas. Therefore, the charges should be designed to reflect this. If they are not – for example if all sites are charged the same average cost based on the number of units serviced – the low-cost sites will be subsidizing the high-cost sites, encouraging low-density fringe development and inhibiting more dense developments in central areas.**

---

The design issue that has drawn the most attention from academics is whether the charge is formulated such that the amount paid by a developer equals the marginal cost of supplying municipal infrastructure to that site.<sup>42</sup> As discussed above, servicing higher-density sites on infill lots is generally cheaper than lower-density sites in greenfield areas. Therefore, the charges should be designed to reflect this. If they are not – for example if all sites are charged the same average cost based on the number of units serviced - the low-cost sites will be subsidizing the high-cost sites, encouraging low-density fringe development and inhibiting more dense developments in central areas. Unfortunately, in the GGH the majority of municipalities use an average cost approach that charges a uniform amount (depending on dwelling type) regardless of where the unit is located, failing to reflect the municipality's true costs.

Other sprawl-inducing distortions in how development charges are formulated are also common, including the fact that lot size and unit size are often ignored in the design of residential charges. Nor do the charges applied in the GGH routinely reflect many differences in property types that are likely to generate a demand for more services, such as the tendency for shopping centres to generate more vehicular traffic than do offices. To the extent that these design attributes are reflected in the charges applied to developers and to which these charges affect the market price of real estate, they are sending the wrong signals from a Smart Growth point of view, creating what planning consultant Pamela Blais calls “perverse cities.”<sup>43</sup>

Another issue related to the design of development charges is whether they cover the full cost of services needed to support the development that pays the charges. To be effective in encouraging efficient development patterns, the charge must be formulated to cover all the costs municipalities incur in providing the infrastructure needed to support growth. Due to limitations imposed by the Development Charges Act, however, municipalities are constrained from recovering 100% of the costs. If the unrecoverable part of the charge is transferred to property taxes, as often it is, this acts as a subsidy to developers and distorts development decisions. Under these conditions, developers will consider only their own costs and benefits, not the impact on the municipality's costs of providing services. This can amplify the sprawl-inducing effect of an average cost approach.

42 Andrejs Skaburskis (1991). “The design of development cost charge schedules.” *Journal of Property Research*, 8 (1): 83–98.

43 Pamela Blais (2010). *Perverse cities: Hidden subsidies, wonky policy, and urban sprawl*. (UBC Press: Vancouver). The book has a good discussion of whether development charges get capitalized into the value of land or passed forward to buyers and concludes that they almost always are reflected in real estate prices.

### 3.4.2 Property taxes

The relationship between property taxes and urban development patterns is a controversial subject.<sup>44</sup> Some observers argue that market-value property taxes by their very nature contribute to urban sprawl. As the argument goes, because improvements to a property - such as building renovation or expansion - will add to the assessed value and cause property taxes to increase, the tax acts as a disincentive to intensify the use of land. For example, a developer may opt to provide a smaller apartment or office building on a given lot than they otherwise would have, leading to an inefficient use of the land base. To obviate this effect, some academics advocate a "land value tax" that would see higher tax rates on land and remove taxes on buildings.<sup>45</sup>

Another argument against the current market value system is that real estate values and therefore property taxes tend to be higher near the centre of cities, raising the cost of running a home or business exactly where Smart Growth advocates think development should be channelled. Some economists loosely consider the property tax as a benefits tax, meaning taxes should be roughly proportional to the benefits of the municipal services received.<sup>46</sup> If the cost of providing municipal services to core areas is actually lower than in outlying areas - e.g., because lots are smaller, densities are higher and municipal services can be more efficiently delivered - then the uniform rate across a municipality could be subsidizing fringe growth.<sup>47</sup> This could dampen demand for real estate in core areas and contribute to sprawl.<sup>48</sup> However, others argue that the alternatives to market-value taxes - such as the municipal sales taxes US cities rely on - would incentivize sprawl even more than the market value system does.<sup>49</sup>

Other concerns with the current property tax system relates to the differential tax rates applied to different property types. In Canada, the provinces set up the property classes (residential, industrial, commercial, etc.) and municipalities choose rates to apply to each class, often differentiating substantially from class to class. This means that two properties of the same value will get different tax bills if they fall into two different classes with different tax rates. These differences increase operating costs on some properties and reduce them on others. This could be sending subtle signals to developers, building managers, and home seekers that could have effects on investment decisions and growth patterns. One particularly egregious example of this is the common practice across Canada to apply much higher tax rates on rental apartments than on detached homes, even though apartment buildings often receive fewer services (e.g., they often manage their own waste).<sup>50</sup> Moreover, vacant lands and parking lots are often given a tax break, sending other signals that undermine Smart Growth objectives. Removing such perverse incentives should thus be a first step in making better use of the tax system to achieve land use objectives.

44 Enid Slack (2002). "Municipal Finance and the Pattern of Urban Growth." (C.D. Howe Institute: Toronto).

45 J.M. Duke & T. Gao (2021). "Land Value Taxation: A Spatially Explicit Economic Experiment with Endogenous Institutions." *Journal of Real Estate Finance and Economics*, November 8.

46 Municipalities themselves often reject this view of property taxes, preferring to see them as paying for general services of collective benefit. Under this light, property taxes are linked to the ability of each property owner to contribute. Thus, higher valued properties should be paying more in taxes because the owners have a higher ability to pay, not because they receive superior benefits.

47 Harry Kitchen (2004). "Financing City Services: A Prescription for the Future." (Atlantic Institute of Marketing Studies: Halifax).

48 This argument applies better within individual municipalities where the same tax rates apply across the municipality than in larger regions made up of many municipalities where each jurisdiction sets its own tax rates. In the GGH, the City of Toronto actually has lower residential tax rates than surrounding suburban municipalities as residential ratepayers are cross subsidized by high tax rates on commercial properties.

49 Arben Buzuku (2021). "Municipal Property Taxation in Law and Practice: A descriptive comparative study between Alberta and Ontario." (Western University: London, ON).

50 Harry Kitchen (2000). "Municipal Finance in a New Fiscal Environment." (C.D. Howe Institute: Toronto).

### 3.4.3 User fees

User fees are used to fund a range of municipal services in Canada, including water supply, sewers, solid waste collection and disposal, public recreation, public parking, public transit, and parking, as well as some social services. Economists strongly favour user fees for services for which specific beneficiaries can be identified, non-users can be excluded, and the quantity of service consumed can be measured. They are not suitable for services where it would be costly or inappropriate to exclude someone from using the service (e.g., a public park) or where the service is intended to be redistributive in nature (e.g., social housing). For these services, property taxes (or grants from senior governments) are more appropriate.

The main benefit of user fees is that they promote efficiency in the production and consumption of goods and services. However, this effect only holds if the price of the service equals the marginal cost of providing the service. If there is a mismatch, too much or too little of the service will be produced. For some services, costs vary with factors related to urban form. Water services are perhaps the best example.<sup>51</sup> Generally, the per unit cost of constructing and maintaining water and sewer infrastructure falls as density increases. Lot size is a good indicator of the density function as large lots require longer distribution and collector mains, a significant cost component of water systems. Moreover, homeowners on larger lots tend to use considerably more water for watering lawns and washing cars. Location factors also come into play, as the distance from main treatment facilities increase capital and operating costs. If growth occurs in the already built-up area through intensification, the use of existing capacity may avoid triggering the need for new facilities.<sup>52</sup>

Unfortunately, water and sewer pricing in the GGH typically does not reflect density or location factors. Although the initial cost of installing water infrastructure is covered by development charges in most jurisdictions in the GGH, other revenue sources must be used to operate and maintain the infrastructure and to replace it when necessary. In many cases, the needed revenue is generated through user fees based on volume or a combination of a monthly fixed fee plus a volume-related variable component. With these charge structures, consumers on large lots or distant locations pay the same rates as do those on smaller lots or apartment buildings in central areas, even though servicing costs in the latter cases are likely lower.



51 Enid Slack (2016). "Sustainable Development and Municipalities: Getting the Prices Right." (Institute on Municipal Finance and Governance, University of Toronto: Toronto).

52 Mark Muro & Robert Puentes (2004). "Investing in a Better Future: A Review of the Fiscal and Competitive Advantages of Smarter Growth Development Patterns." (The Brookings Institution Center on Urban and Metropolitan Policy: Washington, DC). <https://www.brookings.edu/research/investing-in-a-better-future-a-review-of-the-fiscal-and-competitive-advantages-of-smarter-growth-development-patterns/>

The same analysis can be applied to other user fees, including storm water management, waste collection and disposal, and municipal electrical utilities, the outlays for which also vary with density and location.<sup>53</sup> Average-cost pricing of these services has set up a system of cross-subsidization with dense, close-in properties underwriting low-density, further out locations. Where services are only partially funded through fees, with the remaining costs paid through property taxes, this effect is amplified. These price signals may encourage residents and businesses to seek or invest in cross-subsidized locations, leading to inefficient development patterns.

Historically, awareness of this issue has not been high in Ontario, but indications are that this might be changing, for example in relation to stormwater management.<sup>54</sup> As interest in the user fee approach rises – especially in the wake of the fiscal disruption caused by the COVID-19 pandemic – other opportunities may present themselves for addressing the Smart Growth dimension. However, if more services shift to a user fee basis, equity concerns may become more salient as lower-income people are disqualified from using publicly provided services. This is also an issue that must be addressed.<sup>55</sup>

### 3.5 Should revenue tools be used to influence growth outcomes?

The final question to be considered briefly here is whether revenue tools should be used to achieve planning goals, a question that often sees planners and environmentalists part company with economists. This argument goes a step beyond the consensus that revenue instruments should be designed to minimize cross-subsidies and brings us into the normative realm of introducing policy goals into the design of financial instruments as a way to achieve policy goals.

The debate over whether revenue tools should be strictly used for raising revenue or whether they have a legitimate role as a policy tool touches all the revenue tools we've discussed so far. However, it is more intense around development charges, perhaps because of their nature as a one-time charge of significant size in many GGH municipalities rather than on-going fees and taxes of more modest proportions. The controversy around using development charge as a policy lever is focused on the question of offering discounts or complete exemptions to some classes of properties to incite developer interest, for example in delivering affordable housing or investing on brownfield sites or sagging downtowns.<sup>56</sup> Opponents of such discounts and exemptions point out that development charges were not designed to work as policy tools, and that other tools – such as official plans and zoning – are more adept at achieving desired behaviour changes.



**If a municipality is not using development charges as a policy instrument it is missing out on an opportunity to have development charges work in concert with its planning instruments and consequently its chances of achieving its growth management goals.**

53 R.W. Burchell et al. (2002). "Costs of Sprawl." (Transportation Research Board, Washington, DC). Cameron Speir & Kurt Stevenson (2002). "Does Sprawl Cost us All? Isolating the Effects of Housing Patterns on Public Water and Sewer Costs." *Journal of the American Planning Association*, 1(68): 56–70.

54 Environmental Commissioner of Ontario (2016). "Urban Stormwater Fees: How to Pay for What We Need." (ECO: Toronto). <https://www.auditor.on.ca/en/content/reporttopics/envreports/env16/Urban-Stormwater-Fees.pdf>

55 Almos Tassonyi & Harry Kitchen (2021). "Addressing the Fairness of Municipal User Fee Policy." (Institute on Municipal Finance and Governance, University of Toronto: Toronto).

56 Mia Baumeister (2012). "Development Charges across Canada: An Underutilized Growth Management Tool?" (Institute on Municipal Finance and Governance, University of Toronto: Toronto).

However, regulatory tools cannot force developers to take an interest in target locations or types of development that meet policy objectives – sometimes a combination of sticks and carrots is needed. Furthermore, Smart Growth discounts are often targeted to properties that have lower servicing needs. For example, they are offered to developers in built-up areas with excess infrastructure capacity, they put less pressure on local services (e.g., water, roads, parking), and are overall more efficient from an infrastructure point of view.

Moreover, discounts are often directed at temporarily depressed areas that could rebound if developers were offered the right incentives. In those cases, development charge discounts would eventually pay for themselves through future property tax assessment and user fee increments. Another consideration is that market prices may be working against Smart Growth development, e.g., the high prices charged for family-sized units within walking distance of transit. Given that such development is often cheaper to service in the long run from the municipality's financial point of view, incentives to encourage it may be defensible on an efficiency basis. Finally, discounts may be justified if they are designed to encourage growth with lower unpriced externalities, including less pressure on foodlands and natural areas, less traffic congestion, lower public health costs, and lower greenhouse gas emissions.<sup>57</sup>

From this point of view, policy-based discounts may count as subsidies in a strict sense, but in a broader perspective, they improve the efficiency of the charges rather than undermine it. If a municipality is not using development charges as a policy instrument it is missing out on an opportunity to have development charges work in concert with its planning instruments and consequently reducing its chances of achieving its growth management goals.<sup>58</sup> This disconnect – where it exists – is just one symptom of the lack of integration between land use planning and financial management within many municipal governments. On closer inspection, the divide between these two administrative functions becomes visible in a myriad of ways. The revenue tools that municipalities use are primarily designed to raise money to pay for existing municipal services, support further growth, and put some funds away for future needs. Municipalities want these revenue tools to be as simple to administer as possible and based on a clear logic that is easy to justify if ever appealed. The impacts of the tools on the shape of growth have been seen – if it has been seen at all – as a complication that is not worth the administrative effort to address. Part of the purpose of this report is to help overcome the disconnect between land use and financial planning by raising awareness of the unintentional impacts that financial tools and processes are having on growth planning, to suggest ways to mitigate them and to explore opportunities to proactively align them to achieve growth outcomes that are more financially, environmentally, and socially sustainable.

The next section of this report explores these issues as they relate to overall growth planning and financial management processes in the GGH, with a focus on the developing a growth management strategy that better integrates considerations of long-term financial impacts. Each of the three subsequent sections then looks in some detail at one revenue instrument and explores ways in which it could be reshaped to better align with Smart Growth principles.

57 Andrejs Skaburskis (2003). "Planning city form: Development cost charges and simulated markets." *Planning Practice and Research* 18 (2): 197–211.

58 Ray Tomalty (2003). "Development charges and city planning objectives: The Ontario disconnect." *Canadian Journal of Urban Research*, 12(1): 142–61.



# Linking financial and growth planning processes

“Growth pays for growth.” This is the basic mindset that rules the way many people think about growth planning and finance in the GGH. This mantra has the attractive quality of sounding fair - developers and incoming residents are “causing” the growth and should pay for it – and it rings true as it’s almost a tautology. However, the reality on the ground could be a far cry from that portrayed by the slogan. It’s perhaps most accurate when thinking about the short-term or up-front costs of development. These costs are largely covered by development charges, the fees paid for developers to compensate municipalities for the “off-site” infrastructure needed to support the growth developers bring. However, the operative word here is “largely” – in fact the provincial rules governing how development charges are formulated prevent municipalities from charging the full cost of growth to developers, with estimates of the shortfall ranging up to 20%.<sup>59</sup>

Once we get past the immediate costs of growth, the slogan starts looking even shakier. The infrastructure partially paid for through development charges is built by and remains a municipal responsibility for its entire life cycle, meaning that local authorities must pay for its on-going operation and maintenance, periodic refurbishment, and ultimate replacement. These costs can be several fold what the facilities originally cost to put in place. Moreover, this logic also applies to the “on-site” infrastructure – which refers to the local roads, streetlamps, and drainage facilities that developers build within their subdivisions and then turn over to the municipality once the project is complete. Municipalities not only pay to operate, maintain and repair these facilities for the rest of their life cycles, but they also must pay to replace them when they eventually wear out – and start the circle anew.

59 Adam Found (2019). “Development Charges in Ontario: Is Growth Paying for Growth?” (Institute on Municipal Finance and Governance, University of Toronto: Toronto)

Of course, growth brings not only costs but also benefits, including additional revenues in the form of new property tax and user fee payers. The problem is that if we believe *a priori* that growth pays for growth, we are not likely to pay much attention to the question as to whether these revenues will leave the municipal treasury in a surplus or deficit position at the end of the day – which could be up to 100 years from now. It may turn out that what looked like a great deal when the developer walked into the planning office asking for planning approval and offering to pay for new infrastructure, could end up having significant negative cost implications if the local government is then responsible for expensive new infrastructure without having a plan in place for paying for its operation, maintenance and replacement.

If growth really did pay for growth on a permanent basis, we wouldn't need to worry much about the fiscal implication of our planning decisions. As we saw in the Section 3, however, some types of growth are more likely to pay off in the long run than others. Which types of growth will put a municipality in a long-term surplus or deficit position depends partially on local conditions related to issues such as topography, existing infrastructure capacity, and expected levels of service. However, financial outcomes are also strongly influenced by choices about the shape of growth, including its scale, location, and density. Once these land use decisions are made, they essentially lock the municipality into long-term financial obligations that may not be sustainable and that may put future generations at risk. This means that if long-term financial sustainability and inter-generational equity are priorities for municipal governments, they should be paying close attention to how growth is planned and thinking through the long-term financial implications. Sustainable land use planning decisions must consider not only the capital costs of the infrastructure needed for new development, but also the ongoing operations and maintenance, and eventual renewal costs.<sup>60</sup>



**Sustainable land use planning decisions must consider not only the capital costs of the infrastructure needed for new development, but also the ongoing operations and maintenance, and eventual renewal costs.**

This section takes a bird's eye view of the growth planning process and looks for ways to ensure that major land use decisions take fiscal considerations into account. Of course, fiscal impacts are only one aspect of choosing a growth option that meets community aspirations and it goes without saying that financial considerations should not automatically outweigh other important community values. The fact is, however, that the compact land use patterns that are considered by many to be the most efficient from a fiscal point of view turn out to be the same ones that can help achieve a wide array of other community objectives related to stemming sprawl, such as preserving farmland, conserving natural heritage features, reducing commute times, shifting modal share more to active transport and transit, limiting greenhouse gas emissions, enhancing climate resilience, improving public health. For fiscal considerations to have the weight they deserve in choosing growth options, robust methods need to be used that are meaningful to municipal councils, stakeholders, and residents.

60 Asset Management British Columbia (2019). "Land Use Planning and Asset Management." (AMBC: Victoria, BC) <https://www.assetmanagementbc.ca/wp-content/uploads/Land-Use-Planning-and-Asset-Management.pdf>

## 4.1 Integrated Growth Planning

### 4.1.1 Introduction

Historically, growth planning was often understood as a largely political exercise with local councils deciding on the location and shape of growth based on growth pressures from developers and other constituents. Growth was assumed to follow established development patterns, with routine expansions into greenfield areas going unquestioned. The focus of planning departments was the geometric extension of the already built-up area and not enough thought was given to the serious environmental and social externalities that were gradually accumulating in the form of car-dependency, long commute times, and disappearing natural areas. Up-front costs would be taken care of through development charges, and it was just assumed that tax revenues from new development (especially if commercial or industrial development could be attracted to the area) or copious infrastructure grants from senior governments would cover whatever costs would materialize in the long run. If poor land use and financial planning resulted in shortfalls, the obvious solution was new growth to help fill the gap, leading to a cycle of greater long-term shortfalls. In general, planners, engineers, and financial managers worked in silos and rarely sought synergies that would allow them to achieve their missions more efficiently.<sup>61</sup>

In Ontario, this situation has evolved considerably as sensitivity to the fiscal implication of growth has gradually grown. This has been due in part to the search for financial efficiencies occasioned by the rise of municipal asset management planning (which revealed the true extent of the municipal infrastructure deficit), a decline in transfers to municipalities from senior levels of government<sup>62</sup> and a growing infrastructure deficit that was attributed in part to poor growth planning. Gradually, the realization has dawned on policy makers at both provincial and municipal levels that if the long-term costs of growth were fully considered in growth planning decisions, the planning and development process would not only be more efficient from a land use perspective, but more financially efficient as well.<sup>63</sup> As a result, more attention is being given to opportunities for “closing the loop” i.e., turning a linear and one-way “plan, then service, then finance” process into more of a circular process where fiscal issues are more thoroughly considered in the growth planning process.



**More attention is being given to opportunities for “closing the loop” i.e., turning a linear and one-way “plan, then service, then finance” process into more of a circular process where fiscal issues are more thoroughly considered in the growth planning process.**

---

61 Ray Tomalty (2003). “Development charges and city planning objectives: The Ontario disconnect.” *Canadian Journal of Urban Research* 12 (1): 142–61.

62 Enid Slack (2009). “Provincial-Local Fiscal Transfers in Canada: Provincial Control Trumps Local Accountability.” (Institute on Municipal Finance and Governance, University of Toronto: Toronto).

63 Greater financial sustainability could serve both provincial and municipal strategic agendas, as both orders of government would like to see municipalities become more fiscally independent of the Province.

**BOX 4.1****A CHANGE OF APPROACH IN YORK REGION**

York Region is a good example of this shift in thinking. In an earlier growth management cycle the region assigned ambitious population and employment growth targets to its nine component municipalities and assumed the infrastructure needed to support growth aspirations would essentially pay for itself through development charges and assessment base growth. The region borrowed heavily to pay for the infrastructure needed to support the anticipated growth. When growth failed to materialize in the assigned locations, the development charge revenues thinned out and the Region accumulated a large infrastructure debt, which put pressure on tax rates. The region developed a new fiscal strategy at the start of the current growth management cycle in 2014. It is now forecasting growth to occur where there is existing infrastructure capacity to support it and phasing growth in such a way to minimize fiscal impacts.<sup>64</sup>

Photo: Shutterstock



64 The Regional Municipality of York (June 13, 2019). "Growth and Infrastructure Alignment." (Report of the Commissioner of Corporate Services and Chief Planner).

Based on best practices that are already emerging in the GGH, we can outline what an ideal “Integrated Growth Planning Program” would look like:

- **Growth scenario assessment:** In the context of an official plan review, the municipality develops a growth management strategy that describes the anticipated location, structure, density, and housing mix of development needed to accommodate the forecasted growth. The strategy includes an assessment of several possible growth scenarios based on a range of parameters that reflect public priorities, including fiscal long-term sustainability. In two-tiered regions, the process is led by staff from the upper-tier, but local municipalities are fully involved throughout the process. The growth management strategy includes a phasing plan that concentrates growth in a limited number of areas at any one time and coordinates major infrastructure projects to take advantage of potential economies.
- **Master plans:** The growth management strategy is carried out concurrently and iteratively with master plans for the key infrastructure classes, including water, wastewater, stormwater, roads, and transit. Staff responsible for preparing the master plans feed high-level (“order of magnitude”) cost, revenue, and fiscal impact data related to the infrastructure needed to support the different scenarios into the scenario assessment process. Master plans identify spare capacity in the system and ensure it is filled before taking on new liabilities. Once the preferred growth scenario is selected, the master planning process moves on to detailed costing and revenue projections for the preferred scenario.
- **Development charges background study:** A development charges background study is prepared concurrently with the above processes, itemizing the prioritized capital projects and showing how the up-front costs of the infrastructure projects proposed in the various master plans will be funded (primarily through development charges). The study analyzes the associated long-term, life-cycle costs and revenues associated with the contemplated projects, identifying potential shortfalls and other financial risks. The results of the analysis are fed back into the growth management process to help mitigate any identified financial risks.<sup>65</sup>
- **Asset management plans and long-term financial planning:** The results of the development charge background studies are also fed forward into Asset Management Plans and Long-Term Financial Plans, which are designed to flag any serious financial risk to the municipality. Risks that can be mitigated through better growth planning are taken into account in the next growth planning cycle.

<sup>65</sup> An alternative approach would be to rely on asset management plans instead of development charge background studies to analyze the financial sustainability of growth-related infrastructure assets. The advantage of this approach is that according to provincial rules under the Jobs and Prosperity Act, asset management planning is expected to incorporate a financial sustainability analysis of existing and growth-related assets by 2025. The disadvantage is that asset management plans are primarily designed to assess existing rather than planned infrastructure and are updated on a cycle that is independent of growth management processes. This contrasts with development charge background studies, which are directly linked in content and often in terms of process to growth management exercises.

Of these steps, perhaps the most crucial is the first, i.e., growth scenario assessment (see Section 3.2 for details on several such assessments outside Ontario). This is the point at which the municipality is setting the basic parameters of the growth management exercise and where the integration of fiscal considerations can have the greatest impact. This is an information-rich initiative undertaken as part of a growth management exercise in which a municipality tries to project the impact of different growth scenarios on key outcomes of interest to the municipality, local residents and stakeholders. The scenarios typically include macro-scale variations, such as a base case reflecting current trends along with other scenarios reflecting varying locations that could accommodate growth, degrees of intensification, greenfield densities, housing mix, and land needs. The impact outcomes include items such as commute times, greenhouse gas emissions, natural heritage preservation, housing types and affordability, agricultural land protection, and – most importantly for our purposes – fiscal sustainability. A weighing of these impact estimates is then used to help recommend which scenario would set the municipality on the best path for future development, with the ultimate decision left up to councils.

In the GGH, conducting a scenarios assessment in the context of growth planning has been required under the Growth Plan since 2017. The Growth Plan doesn't specify what should be involved in such an assessment. It seems some municipalities have interpreted it to mean that they need to consider different *locations* to accommodate the anticipated growth, but others have taken the opportunity to explore not only different locations, but also alternative land use patterns, including densities, intensification rates, housing mixes, and land consumption needs. This type of assessment has the potential to “close the loop” by bringing financial considerations into growth management decisions. Some shortcomings with the approaches taken in the GGH and ways to help remedy them are explored below.

#### 4.1.2 Legislative and policy context

- **Integrated Growth Planning:** The 2020 Growth Plan requires that infrastructure planning, land use planning, and infrastructure investment be integrated to assure efficient growth outcomes.<sup>66</sup> Upper- and single-tier municipalities are required to accommodate forecasted growth to 2051 in the most cost-effective way, plan for infrastructure that considers the full life-cycle costs of the assets, and develop options to pay for these costs over the long-term. Where a settlement boundary expansion is needed to accommodate growth, the Growth Plan requires that the infrastructure needed will be financially viable over the full life cycle of the assets.
- **Growth Scenario Assessment:** The Growth Plan specifically requires that planning for new or expanded infrastructure will include an evaluation of long-range scenarios, incorporating land use, environmental, and financial components and supported by relevant studies.
- **Master planning:** The master plans related to the services that are especially sensitive to growth patterns (roads, transit, water, wastewater, and stormwater) are conducted under the auspices of the Environmental Assessment Act, which requires that alternative methods of meeting growth needs be assessed for environmental, social, and financial impacts.

<sup>66</sup> The Growth Plan estimates that through integrated planning and a more compact built form, over 30% of infrastructure capital costs and 15% of operating costs could be saved.

- **Development charge bylaws:** The Development Charges Act requires that a development charge bylaw be updated every five years and that a background study be conducted to justify the charges applied. The study must set out the infrastructure projects that will be needed to support the forecasted growth in the municipality and cost out the amount that can be recovered through development charges according to the rules found in the Act and the associated regulations. Among the study components must be an asset management plan demonstrating that all the infrastructure included in the study is financially sustainable over its full life cycle. More detailed financial assessment requirements that currently apply only to transit infrastructure are set out in the regulations under the Act.

### 4.1.3 Case study findings<sup>67</sup>

As described in the Section 2, a series of detailed case studies were conducted of four two-tier municipalities and one single-tier municipality in the GGH in order to assess the extent to which their financial processes and instruments were consistent with Smart Growth objectives. The nine case study municipalities serve as a sample for evaluating how municipalities in the GGH are performing relative to the Integrated Growth Planning model laid out above.

#### BOX 4.2

#### PEEL REGION'S INTEGRATED APPROACH TO GROWTH PLANNING

In the past, Peel's approach to growth management was more or less linear in nature: the growth forecast and land use component was worked out in conjunction with lower-tier municipalities and in consultation with stakeholders, the infrastructure needed to service the growth was decided upon, and the financing was arranged without significant emphasis on the long-term financial sustainability of the plan. The limitations of this approach were becoming clear as the gap between costs and revenues grew. In 2014, the Region adopted a new approach to growth planning that put greater emphasis on the fiscal implications of their growth management decisions. A range of alternative growth management scenarios were assessed for their infrastructural implications and financial impacts. High-level cost estimates were developed for the water, wastewater, and regional transportation infrastructure necessary to support each scenario to determine which approaches would result in cost savings for the regional infrastructure program. These cost estimates, along with feedback from local municipalities, the development industry and other stakeholders, informed the determination of a consensus growth scenario to 2051. The scenario was then used for more detailed planning of infrastructure and the initiation of an update to the development charges bylaw. Since 2019, the coordination of the new approach has been assigned to a team of four planning and project management staff. The Region estimates that by the end of 2020 better integration of growth planning had contributed to a \$584 million reduction in the infrastructure debt compared to what was projected in the 2015 development charges by-law background study.<sup>68</sup>

67 Note that the case studies are phrased in the past tense as the research on which they are based was carried out in the Fall of 2021 and refer to practices current at that time.

68 Regional Municipality of Peel (2021). "Peel's Growth Management Program and Development Charge Performance – 2020 Overview and Progress Report." (Report of Commissioner of Public Works, Interim Commissioner of Finance, and Chief Financial Officer, April 29).



**In 2014, Peel Region adopted a new approach to growth planning that put greater emphasis on the fiscal implications of their growth management decisions. The Region estimates that by the end of 2020 better integration of growth planning had contributed to a \$584 million reduction in the infrastructure debt compared to what was projected in the 2015 development charges by-law background study.**

### **Growth scenario assessment:**

- All five single- and upper-tier municipalities (which are the ones assigned responsibility for growth management in the Growth Plan) conducted a scenario-based assessment of growth options – including a fiscal impact assessment - but approaches varied widely in their methods, assumptions, comprehensiveness, and quality.
- From two to ten scenarios were included in the assessments. The scenarios were based on variations in key input parameters such as location, intensification levels, greenfield densities, housing mix, and land needs, but the ranges considered were relatively minor. Only Hamilton considered more sweeping alternatives such as a “no boundary expansion” option.<sup>69</sup>
- The impact parameters used to evaluate scenarios varied widely across assessments. Financial impact parameters included items such as lowest capital cost for water/wastewater and transportation infrastructure required, lowest operating and maintenance costs, least negative (most positive) net financial impact, best long-term financial viability, and others.
- For two-tiered municipalities, the inclusion of lower-tier infrastructure in the analysis was uneven, with some assessments simply ignoring this aspect of the analysis. This is an important shortcoming because upper-tier municipalities build the large-scale trunk infrastructure that are less sensitive to the shape of growth, while lower tier municipalities build the local networks whose costs are more influenced by growth patterns (densities, intensification, concentration around facilities, etc.).
- Not all the assessments recognized the lower infrastructure costs typically associated with more compact options, either by ignoring the capacity of existing infrastructure to accommodate growth or by assuming that intensification can be more complex and expensive from an infrastructure point of view than greenfield expansion.
- None of the assessments ended up recommending the most compact scenario as the preferred option after weighing all the other impact parameters together with the financial ones.<sup>70</sup> In most cases, the choice of the preferred growth option was heavily influenced by assumed path dependencies such as compatibility with market housing-mix trends, servicing commitments under existing master plans, and the assumptions underlying their existing development charge bylaws.
- The quantitative rigour of the assessments varied widely, with some using modelling (e.g., for the transportation infrastructure needed to support the various growth scenario options), while others relied on subjective methods such as professional judgement based on past experience.

<sup>69</sup> Halton Region had already completed its analysis of growth scenarios before council directed staff to also consider a no-growth concept.

<sup>70</sup> This refers to the outcome of the growth scenario assessments as reported by staff. In the case of Hamilton and Halton, their councils adopted no-boundary expansion options.

**BOX 4.3**

**THE REGION OF WATERLOO’S GROWTH SCENARIO ANALYSIS**

For its Regional Official Plan (ROP) update and MCR, the Region retained a consulting firm to conduct an analysis of future growth scenario. The scenarios are shown in the table.

| Scenario Component   | Scenario 1 | Scenario 2 | Scenario 3 |
|--|------------|------------|------------|
| Intensification Target                                       | 55%        | 60%        | 60%        |
| Designated Greenfield Density Target (people + jobs/hectare) | 60         | 60         | 65         |
| Built Urban Area Population Growth, 2019 to 2051             | 162,000    | 178,000    | 181,000    |
| Designated Greenfield Areas Population Growth, 2019-2051     | 161,000    | 145,000    | 142,000    |
| Total Urban Population Growth, 2019-2051                     | 323,000    | 323,000    | 323,000    |
| Total Employment, 2019-2051                                  | 177,700    | 177,700    | 177,700    |
| Total Land Need (hectares)                                   | 1,320      | 1,028      | 801        |

One of the criteria for assessing the scenarios was: “Ensure cost effective/ financially viability: How well does the scenario ensure that growth is financially viable over the long term through optimization of existing regional and area municipal infrastructure and public service facilities, and minimization of long-term operations and maintenance costs?” The analysis concludes that Scenario 3 would require the fewest expansion areas to accommodate planned growth, which would help minimize long-term operations and maintenance costs. Scenario 3 also did best on the climate change criteria, active transportation, and protecting farmland. However, the analysis concluded that the higher levels of intensification in Scenario 3 could create practical challenges to the constructing of new energy, water, and green infrastructure within intensification areas, as retrofits are complex and expensive. Scenario 2 scored better on livability, economic growth (as it offered slightly more low-density housing to attract talent), and a housing mix in line with market trends. The analysis concluded that Scenario 2 was preferred. The analysis was done on a qualitative basis, using subjective judgements and weighting of the various assessment criteria. Only upper-tier costs were included – the assessment ignored lower-tier capital costs.



**In terms of integrating master planning into the growth management process, Hamilton has been a leader since 2006 when it adopted its Growth-Related Integrated Development Strategy (GRIDS). This exercise integrated land use, transportation, water, wastewater and stormwater planning into one project with the integrated preparation of the three infrastructure master plans.**

### **Master plans:**

- In terms of integrating master planning into the growth management process, Hamilton has been a leader since 2006 when it adopted its Growth-Related Integrated Development Strategy (GRIDS). The purpose of GRIDS was to identify the location of boundary extensions and the desired form of growth over a 30-year planning horizon. This exercise integrated land use, transportation, water, wastewater and stormwater planning into one project with the simultaneous and integrated preparation of the three infrastructure master plans. The infrastructure teams provided input to the evaluation of growth options so that the infrastructure requirements, costs and impacts associated with growth could be fully considered in the GRIDS process. This approach has since spread to other larger municipalities in the region (including Waterloo, York, and Peel) but is not universally used beyond that.
- The detailed master planning process used by the case study municipalities typically included the estimation of up-front cost related to the preferred growth concept but didn't include an estimate of life cycle operating and maintenance costs or revenues from development charges, the increased assessment base and user fees.

### **Development charge background studies:**

- Except for the treatment of transit infrastructure, the asset management and life-cycle fiscal sustainability components of development charge background studies tended to be cursory in nature

Photo: Shutterstock



#### 4.1.4 Issues and recommendations

Provincial leadership is needed to guide municipalities in implementing an Integrated Growth Planning Program and provide the resources and tools needed to support municipal efforts in this direction. One of the key recommendations put forward here is that the Province create a detailed handbook to help guide municipalities interested in pursuing an Integrated Growth Planning Program. This “Municipal Finances for Smart Growth” handbook will also provide guidance to municipalities related to other recommendations in subsequent sections of this report.

##### ISSUE

Progress towards a more integrated growth and financial planning system among municipalities in the GGH has been uneven.

##### DISCUSSION

- Some jurisdictions in the GGH have made considerable progress towards integrating growth and fiscal planning, but progress is uneven, and approaches vary widely in comprehensiveness and quality. Other municipalities – especially the medium- and small-sized ones – have been slow to recognize the importance of integrated planning. The Province could help address this situation in the form of a detailed guide or handbook that lays out procedures for an Integrated Growth Planning Program, including conducting a growth scenario assessment concurrently with the preparation of master plans and the development charge background studies along with linkages to asset management planning and long-term financial plans.<sup>71</sup> The handbook would show how growth planning decisions can affect financial outcomes and how integrating financial considerations into the growth management process can contribute to both sustainable growth patterns and long-term financial sustainability. One of the main benefits of the handbook would be the transparency it would bring to the whole growth and financial planning process and help focus attention on improving those practices that are currently leading to negative outcomes.
- For the most part, an Integrated Growth Planning Program could be implemented within the confines of current provincial legislation. The only change required would be to strengthen the provisions of the Development Charges Act with respect to the rules governing long-term financial sustainability analysis. At present, the Act provides little guidance on how the development charge background studies should conduct a life-cycle financial sustainability analysis for the growth-related infrastructure covered in the study. Regulations associated with the Act lay out detailed long-term financial sustainability analysis guidelines for transit services only. This level of analysis should be extended across the other services.

<sup>71</sup> The handbook could replace the now obsolete Building Together Guide, released in 2012 when the Province first started encouraging municipalities to prepare asset management plans. See: <https://www.ontario.ca/page/building-together-guide-municipal-asset-management-plans>

## RECOMMENDATIONS

1. The Province should produce a “Municipal Finances for Smart Growth” handbook for municipal officials, consultants, and other practitioners in the relevant fields (i.e., planning, engineering, and finance). The handbook should include a section on how growth scenario assessments, infrastructure master plans, and development charge background studies can fit together into an Integrated Growth Planning Program whose purpose is to ensure that growth management decisions are informed by long-term, life-cycle fiscal considerations. The section of the handbook should include:

### **Growth-scenario assessment:**

- guidance on how to identify growth scenarios, including a “no expansion of the settlement boundary” option where this is reasonably feasible,
- the range of impact parameters that could be used to assess the various scenarios with some being of primary importance (including financial impacts) and others being secondary.

### **Master plans:**

- guidance on the concurrent preparation of master plans for the core infrastructure types,
- recommended procedures for a high-level analysis of life-cycle cost/revenues associated with various growth scenarios and their potential impacts on municipal financial sustainability in the long term,
- examples of best practices from around the GGH and further afield.

### **Development charge background studies:**

- direction on conducting a life-cycle financial sustainability analysis for all growth-related infrastructure covered in the development charge background study.

In general, the handbook section should:

- focus on core infrastructure whose costs are more sensitive to growth patterns, including roads, transit, water supply, wastewater, and stormwater management,
- be developed in collaboration with municipal planners, finance officials, and engineers, with the assistance of consulting firms with expertise in this field,
- recognize that municipalities across the GGH have very different growth rates, sizes, and levels of administrative sophistication and provide information targeted to a variety of settings,
- in two-tier regions, emphasize the importance of upper- and lower-tiers working together seamlessly at all stages of the Integrated Growth Planning Program.

2. Regulations under the Development Charges Act should be amended to require a detailed long-term financial sustainability analysis for all services covered under a municipality’s development charge bylaw, modelled on the requirements that currently apply to transit.

## ISSUE

There is a need for provincial support to assist municipalities as they move towards implementation of an Integrated Growth Planning Program.

## DISCUSSION

Although some municipalities in the GGH are already moving towards an Integrated Growth Planning framework, provincial support is needed to facilitate further progress. The support should be aimed at reinforcing the change in mindset that is already occurring in the region as much as at enhancing the professional and technical skills involved. Funding is also needed to overcome roadblocks and reward progress. In particular, infrastructure granting programs should be targeted to municipalities that have attained Integrated Growth Planning Program milestones as this is a way to ensure that provincial infrastructure money is well used; the better municipalities plan, the further each infrastructure grant dollar goes.

## RECOMMENDATIONS

3. The Province should fund the development and delivery of a training module for municipal officials on Integrated Growth Planning through partners such as: the Municipal Finance Officers Association of Ontario (MFOA); the Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO); the Ontario Professional Planning Institute (OPPI); and/or the Association of Municipalities of Ontario (AMO).
4. The Province should provide grants to municipalities that demonstrate financial need to help fund any studies or expanded staffing resources related to implementing the integrated system.
5. The Province should encourage municipalities to implement an Integrated Growth Planning Program by including it as a condition in provincial infrastructure grants that support growth (e.g., the Ontario Community Infrastructure Fund).
6. A community of practice network should be set up to facilitate exchange among municipal officials interested in implementing an Integrated Growth Planning Program. This could be done as a partnership between the Province and professional organizations, such as the Regional Planning Commissioners of Ontario (RPCO), the Municipal Finance Officers Association of Ontario (MFOA), and the Ontario Municipal Engineers Association (OMEA).
7. The Province should train staff in its own regional offices to build their capacity to support municipalities as they develop Integrated Growth Planning Programs.
8. Individual municipalities should set up integrated planning team including planners, engineers, and financial officials to coordinate implementation of an Integrated Growth Planning Program.

**ISSUE**

The Growth Plan provides no guidance related to the requirement that municipalities carry out scenario-based assessments.

**DISCUSSION**

- Although the Growth Plan requires that single- and upper-tier municipalities engage in “evaluations of long-range scenario-based land use planning, environmental planning and financial planning... supported by relevant studies”, it provides no further guidance on what this means. Not surprisingly then, growth scenario assessments in the GGH don’t follow a standard template and this leads to results that are highly variable in quality.
- Because the growth scenario assessment is integral to the determination of the amount of land needed to meet growth forecasts, the best way for the Province to lead improvements in this area would be to incorporate growth scenario assessment procedures into the existing Land Needs Assessment Methodology.

**RECOMMENDATION**

9. The Province should incorporate essential aspects of the Integrated Growth Planning Program into the Land Needs Assessment Methodology guidance document issued under the Growth Plan. The guidance provisions should be developed by a working group that includes municipal planning, finance, and engineering staff, with assistance as needed from consultants who specialize in this field. The guidance should include:
  - a minimum set of procedures for conducting a growth scenario assessment that apply to all municipalities, drawn from those found in the Municipal Finances for Smart Growth handbook,
  - a required “no expansion of the settlement boundary” option as one of the growth scenarios to be assessed, where this is a reasonably feasible option,
  - a requirement for a high-level assessment of available infrastructure capacity in potential intensification areas to feed into the assessment of the various scenarios,
  - a list of the primary impact assessment parameters (including the financial ones) that must be included in the assessment.

## 4.2 Fiscal impacts of growth modelling tool

### 4.2.1 Introduction

Better integration between growth and financial planning – such as outlined in the previous sub-section – should drive short- and long-term cost savings and promote more efficient land use patterns. Central to the “integration agenda” is the need to assess the impact of major planning decisions on fiscal outcomes, which can be a daunting task.<sup>72</sup> To seriously consider the long-term fiscal sustainability of major land use decisions, data related to land use, property taxes, user fees, development charge and other revenues have to be brought together with capital, operating and maintenance costs. A series of assumptions have to be built into the analysis such as population and employment growth and interest rates. This is a formidable task and requires considerable expertise to do properly. Not surprisingly, municipalities often commission consulting firms to undertake fiscal impact analyses on their behalf but the high costs serve as a barrier to medium- and small-sized communities. For the municipalities that can afford it, outsourcing the work means they have little opportunity to develop an understanding of the models used or exercise control over the quality of the process.

One way to help build in-house municipal capacity in this respect would be to develop a software-based model that could automate fiscal analysis to some degree. In-house expertise with a semi-automated fiscal impact model could make this type of analysis a routine part of major planning decisions, not only in growth scenario assessment, but also in evaluating secondary plans<sup>73</sup> and even large-scale development applications. Fortunately, a couple of precedents have been developed in BC (see Box 4.4). While these particular models may not directly be applicable to fiscal impact analysis in the GGH, they suggest that useful models can be developed with modest resources that will generate meaningful insights into the fiscal implications of growth management options and planning decisions. Ontario has already begun development of a home-grown fiscal implications of development tool and piloted it in six municipalities, but its development has been put on hold (see Box 4.5). Restarting this aborted initiative is an obvious way to proceed.



**Central to the “integration agenda” is the need to assess the impact of major planning decisions on fiscal outcomes. To seriously consider the long-term fiscal sustainability of major land use decisions, data related to land use, property taxes, user fees, development charge and other revenues have to be brought together with capital, operating and maintenance costs. A series of assumptions have to be built into the analysis such as population and employment growth and interest rates.**

---

72 Zenia Kotval & John Mullin (2006). “Fiscal Impact Analysis: Methods, Cases, and Intellectual Debate.” (Lincoln Institute of Land Policy: Cambridge, MA).

73 Secondary plans are sections of an official plan that apply to a particular area of the municipality where development is expected to occur, usually with detailed policies and design criteria to guide planning decisions. They are often prepared separate from official plans through an amendment process but must be consistent with the more general policies found in the official plan itself.

## BOX 4.4

## FISCAL IMPACT OF GROWTH TOOLS IN BC

1. The Community Lifecycle Infrastructure Costing (CLIC) Tool was developed by the BC Ministry of Municipal Affairs and Housing to model the long-term financial implications of land development decisions. The CLIC Tool estimates the infrastructure lifecycle costs and revenues (development, maintenance, servicing and replacement) entailed by different development patterns, projected out 100-years. Populating the tool requires data from a variety of municipal departments, including planning, engineering, and finance. It can be used to inform decisions at any planning scale – from assessing growth scenarios during the official plan review to evaluating subdivision or neighbourhood plans. The model also shows the long-term impact on residential heating/cooling costs and greenhouse gas emissions.<sup>74</sup> The City of Prince George was one of six communities in BC that piloted the tool. The model showed that the more compact neighbourhood designs had much lower up-front capital costs, lower annual operating costs, and lower life-cycle costs. The city’s planning department intends to use the tool to assess rezoning applications.<sup>75</sup>
2. The Model City Tool was developed by municipal staff in Kelowna, BC. The tool is a municipal “digital twin” that draws in parcel-level data from existing sources such as the zoning bylaw, the assessment roll, property tax and user fee bills, building permits, and employment and census data, along with maintenance, operating, refurbishment, and replacement costs gathered from utility providers. The model can apportion the costs and benefits of infrastructure to existing and growing areas and estimate the net impact on City finances in the long term. The model has already proven itself useful in helping Kelowna’s city council understand the fiscal impacts of new development proposals and it is being further developed for integration into the Official Community Plan review process.



**The Model City Tool was developed by municipal staff in Kelowna, BC. The model can apportion the costs and benefits of infrastructure to existing and growing areas and estimate the net impact on City finances in the long term. The model has proven useful in helping Kelowna’s city council understand the fiscal impacts of new development proposals and it is being further developed for integration into the Official Community Plan review process.**

74 BC Ministry of Municipal Affairs and Housing (2018). “Community Lifecycle Infrastructure Costing (CLIC) Tool and User Guide.” (BCMMAH: Victoria, BC) [https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/local-governments/planning-land-use/clic\\_decision\\_support\\_tool\\_user\\_guide.pdf](https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/local-governments/planning-land-use/clic_decision_support_tool_user_guide.pdf)

75 Lourette Swanepoel & Tina Schaeffer (2017). “CLIC For Better Decision-Making In Prince George.” *Planning West*, Winter: 10-16.

## 4.2.2 Legislative and policy context

There are no regulatory/policy requirements or constraints affecting this measure.

## 4.2.3 Case study findings

- In the context of growth scenario analysis, municipalities usually commission consulting firms to undertake fiscal impact analyses on their behalf. The firms that do this work have software to estimate costs related to a set of infrastructure projects (e.g., to support a growth scenario) and the revenues that flow from the increased tax and user fee base.
- Fiscal impact analysis of secondary plans was rare among the case study municipalities, with a few scattered exceptions. The fiscal impact analyses that were carried out did not tend to consider the long-term fiscal sustainability of the proposed growth or explore the fiscal implications of alternative growth patterns.
- None of the case study municipalities conducted fiscal impact analyses of specific development applications.
- Peel and York Regions (see Box 4.5) were two of the municipalities that piloted the Province's fiscal impact of development tool.

### BOX 4.5

### THE PROVINCIAL FISCAL IMPACTS OF GROWTH TOOL

In 2014, the Province commissioned a consulting firm to develop a tool that could model the fiscal impacts of different development scenarios. The Excel-based tool was meant to be used by municipal officials to model the long-term impacts of development on fiscal parameters such as property tax and user fee rates. The model can also project capital needs based on service level and population growth inputs, or the user can override these calculations with actual inputs from the capital plan. The model can project development charge revenues and apply that against capital costs to determine any shortfall or surplus. The user inputs most of the data, but each sheet in the model furnishes detailed guidance on what to input and where to find the information (e.g., data on life-cycle expenses for growth-related infrastructure can be found in the municipality's asset management plan). It came with a manual that explained the scenarios and data sheets. Basic data for the GTA and Ontario were also provided but the user can input more specific local data if available. The model lends itself to a high-level analysis suitable for assessing the fiscal impacts of growth scenarios or secondary plans. It is especially suitable for medium- and small-sized communities with limited budgets for outsourced expertise. Once the model is set up, updating and further customizing it is relatively easy. York and Peel Regions (who each partnered with a lower-tier municipality) piloted the model along with several other jurisdictions in Ontario. After the pilot phase, the initiative was discontinued by the Province for unknown reasons.

## 4.2.4 Issues and recommendations

Provincial action is required to complete the development and testing of a fiscal impact of growth tool, along with a program to support the adoption and proper use of the tool by municipalities in the GGH.

### ISSUE

Many municipalities do not have access to modelling tools that would help them undertake fiscal assessments of growth scenarios, nor do they have the expertise needed to make use of such a tool.

### DISCUSSION

As mentioned above, most municipalities in the GGH hire consultants to carry out their growth scenario assessments, in whole or in part. This means that they don't have direct control over the process and staff learning opportunities are diminished. Moreover, the quantitative rigour of the assessments varies widely, with some using quantitative inputs and modelling, while others rely on professional judgement based on past experience.

### RECOMMENDATIONS

10. The Province should resume its aborted work on a “fiscal impact of growth” tool that could be adapted by municipalities in the GGH to model fiscal impacts of growth scenarios and other major growth planning processes. The tool should allow municipalities to customize it to their specific situations and be able to link with readily accessible data sources. It should be piloted in selected municipalities and the results used to further improve the model.
11. The Province should fund the development and delivery of a training module on the use of the tool for municipal officials through professional associations such as OPPI, MFOA, and the Ontario Municipal Engineers Association.
12. The Province should support the on-going use of the tool through data provision, program updates, and revisions to the manual that comes with the tool.
13. Information about the tool, its capabilities, basic operation, etc. should be included in the Municipal Finances for Smart Growth handbook.
14. The Province should train staff in its own regional offices to build their capacity to support municipalities interested in using the tool.
15. Exchange among municipal officials concerning their experiences with the tool should be facilitated by including it into the community of practice proposed in Section 4.1.

## ISSUE

Some municipal officials are not convinced that variations in growth patterns have a significant impact on municipal financial sustainability or other municipal priorities.

## DISCUSSION

Municipal interest in using a fiscal impact of growth tool depends in part on whether municipal decision-makers accept the premise that growth patterns can affect fiscal health and other municipal priorities (e.g., greenhouse gas emission reduction or shifting transportation demand to transit and active modes). At present, not every municipal official in the GGH is convinced of the veracity of this premise. If Smart Growth development patterns don't have a positive impact on the financial, environmental or social health of the municipality, then the rationale for investing the resources needed to adopt, adapt, and become adept at using a complex impact analysis tool is diminished.

## RECOMMENDATION

16. The Province should commission a robust study to determine whether Smart Growth development patterns have the impacts on fiscal (including costs and revenues) and other important public priorities that its advocates allege in the GGH context. The results of the research should be disseminated through the community of practice proposed in Section 4.1.



## 4.3 Fiscal alignment audit

### 4.3.1 Introduction

The previous sections have been focused on the fiscal impacts of planning and development decisions. This section takes the opposite approach and looks at the development impact of fiscal tools, i.e., how the design of fiscal tools might affect growth outcomes. This is not something that is top of mind among provincial or municipal officials, but important nonetheless in the context of a study looking at the interaction between growth and fiscal planning.

As pointed out in Section 2 of this report, the choices we make about the design of our fiscal tools can have a significant impact on land use outcomes. The way that development charges, property taxes, and user fees are structured sends price signals to developers, home seekers, commuters, and councillors that can affect how a community grows. If a municipality sets a higher property tax rate on apartments than on detached homes, that tends to increase the cost of operating higher density units, reduces demand for that type of unit and may lead to underproduction of new apartments. Likewise, if a user fee for waste pick-up is applied as a flat rate to all households no matter their location in the community, then those people who live in dense housing where pick-up costs are low will be subsidizing people in outlying areas where pick-up costs are high and that could lead to an incremental drop in demand for higher density housing. If that municipality has adopted an official plan that favours intensification and higher density housing, then its fiscal tools are undermining its growth management objectives – price and policy signals are not aligned.

Subsequent sections of this report go into some detail about the most important revenue instrument design issues, but this section looks at these questions from a bird's eye view, asking whether the municipality's whole box of fiscal tools is helping or hindering with the achievement of its growth management objectives. This could be called a "Fiscal Alignment Audit", an exercise in which municipal staff work through the potential land use impacts of their revenue tools and compare those impacts to their growth management objectives.

The idea of a fiscal alignment audit was put forward by the Toronto consultant Pamela Blais in her landmark book on the mismatches between urban planning and fiscal instruments, published in 2010.<sup>76</sup> An audit such as the one suggested by Blais has the potential to help address a subtle but important problem (alluded to earlier in the report), which is that planning, engineering, and financial staff have tended (especially in the past) to stay in their own professional silos.<sup>77</sup> A fiscal alignment audit has to be done with all three types of professionals in the room as they figure out the answer to a basic question: "Is the way we are raising revenue to pay for municipal services having an impact on land use patterns that inadvertently may be making it more difficult for us to achieve our growth management objectives?"



**The way that development charges, property taxes, and user fees are structured sends price signals to developers, home seekers, commuters, and councillors that can affect how a community grows.**

<sup>76</sup> Pamela Blais (2010). *Perverse cities: Hidden subsidies, wonky policy, and urban sprawl*. (UBC Press: Vancouver).

<sup>77</sup> Ray Tomalty (2003). "Development charges and city planning objectives: The Ontario disconnect." *Canadian Journal of Urban Research* 12 (1): 142–61.

Some of the other benefits of a fiscal alignment audit are:

- it could raise awareness among municipal staff of the “perverse” signals inadvertently being sent by fiscal instruments that are poorly designed from a growth management point of view,
- it could identify measures that were adopted in the past to reinforce growth management goals (such as providing tax breaks to business that revitalize their properties in the downtown area) but are no longer serving their purpose,
- it could interest the public and raise political pressures to better align fiscal instruments with officially adopted growth management objectives.

Occasionally, municipalities review individual revenue tools to assess whether they are achieving the goals that are set for them or if they are having negative effects on some public priority issue. For example, a higher property tax rate on commercial or industrial buildings compared to residential buildings may be reviewed to see if it’s inadvertently chasing away new business investment. A fiscal alignment audit does that for all the fiscal instruments that the municipality uses but takes a growth management lens instead of an economic development one. Following is a list of items that could be considered for inclusion in an audit, phrased as measures that could improve alignment with Smart Growth objectives:

**Development charges:**

- differentiate charges by area instead of using municipality-wide charges,
- differentiate charges applied to larger vs. smaller dwelling units (e.g., by floor area or number of bedrooms) within the various dwelling-type categories,
- differentiate residential charges applied to larger vs. smaller lots,
- differentiate among non-residential uses to avoid favouring uses that generate more vehicular traffic,
- discount/exempt development above a target density in targeted locations,
- discount/exempt intensification or redevelopment to a higher density of a residential or non-residential parcel in targeted locations,
- discount/exempt charges on agricultural land,
- discount/exempt charges on higher-density affordable housing,
- use accurate assumptions (e.g., for population, housing mix, intensification rates, greenfield densities) as inputs into development charge background studies.

**Property taxes:**

- avoid applying a higher tax rate on multi-residential properties than on other residential properties,
- avoid taxing parking lots and commercial properties that generate car traffic, such as shopping centres, at a lower rate than other properties in that class,
- avoid taxing vacant non-residential (commercial and industrial) properties at a lower rate than other properties in that class,
- discount/rebate property taxes in specific areas (e.g., along frequent bus routes) or on specific types of sites (e.g., brownfields) to encourage development that is consistent with Smart Growth principles.

**User fees:**

- charge for parking on residential streets, in municipal parking lots, in commercial areas (e.g., metres), and at municipal facilities,
- incorporate lot size and/or location into the calculation of water and sanitary sewer charges,
- charge a stormwater user fee based on lot (or non-pervious surface) size and/or location,
- discount planning fees for development that supports Smart Growth objectives in targeted locations,
- set transit fares at a level low enough to achieve the modal share targets in the municipality's official plan or transportation master plan.

If an audit reveals that a fiscal tool may be lending itself to growth outcomes that are inconsistent with the municipality's growth management goals, it does not necessarily mean that the tool has to be redesigned. The fact is that a fiscal tool has many other objectives, the most important being that it has to be able to raise revenue to contribute to the overall costs of providing municipal services. It also has to be administratively simple, not requiring a massive amount of information or bother to put into operation, and it has to be seen as fair to the people that pay it. Finally, some degree of cross-subsidization is inevitable; the question in each case is whether it is significant enough to warrant redesigning a long-established revenue instrument. Thus, a fiscal alignment audit can reveal disconnects between fiscal and planning worlds, but it's not necessarily an agenda for action. It remains up to municipal officials to decide whether to act on the misalignments that are revealed in light of other municipal objectives.

An alignment audit could be carried out in at least two ways. It could be a qualitative check-list type approach that identifies any inadvertent subsidies or incentives that go against the municipality's growth management objectives or it could be a more quantitative approach that identifies the scale of the problem (the size of inadvertent subsidies being offered due to the way a fiscal tool is designed), what impact it might be having on growth management objectives (e.g., affordability, density or intensification levels), and what benefit could be achieved by removing it. In two-tier municipalities, upper- and lower-tiers may wish to work together to conduct the audit, given that they have same tax rates and often have mirroring development charge policies.

### 4.3.2 Legislative and policy context

There are no regulatory or policy requirements or constraints affecting this measure.

### 4.3.3 Case study findings

Municipalities in the GGH are becoming more aware of the impacts that the design of fiscal tools can have on growth management issues. For example, Peel has studied how the design of its development charge program may or may not be contributing to urban sprawl.<sup>78</sup> However, no municipality among the case studies has conducted a comprehensive audit of its revenue tools from a Smart Growth point of view.

<sup>78</sup> Regional Municipality of Peel (October 10, 2017). "Financial Policy & Technical Inputs for 2041 Growth Based Development Charges By-Law Update." (Report of Commissioner of Finance and Chief Financial Officer).

### 4.3.3 Issues and recommendations

The lack of municipal experience in conducting a comprehensive review of fiscal tools from a Smart Growth point of view suggests the Province will need to take the initiative to disseminate this practice.

#### ISSUE

Municipalities will need guidance on how to conduct a fiscal alignment audit.

#### DISCUSSION

The research showed that municipalities in the GGH may be interested in this type of analysis but there are institutional barriers to proceeding, namely the limited interaction between the finance officials who design revenue instruments and planning staff who have an interest in achieving growth management objectives. The simplest way to address this issue would be to make a fiscal alignment audit a requirement under the Growth Plan.

#### RECOMMENDATION

17. The provisions of the Growth Plan should be amended to require that municipalities in the GGH conduct a fiscal alignment audit to assess whether their fiscal instruments are likely to be reinforcing or undermining their growth management goals. The resulting report would need to be approved by municipal councils, submitted to the Province to show compliance with the directive, and made available to the public. The requirement should apply to the larger upper- and single-tier municipalities first before being generalized to all municipalities in the GGH. Whether or not to conduct a qualitative or a quantitative audit should be left up to the municipality.

**ISSUE**

The Province will need to provide support in building municipal capacity for carrying out a fiscal alignment audit.

**DISCUSSION**

Given that there is little current experience with this measure in the GGH, the usual informal mechanisms of mutual exchange and learning among municipal officials won't be available to help implement this measure. More formal capacity building mechanisms will be needed, led by the Province.

**RECOMMENDATIONS**

18. The Province should include guidance on fiscal alignment audits in the Municipal Finances for Smart Growth handbook. This section of the handbook should:
  - identify the relevant revenue tools, the design options that could have impacts on growth outcomes, and the “smart” design choices that promote Smart Growth objectives,
  - provide templates on how a municipality can carry out either a qualitative or quantitative audit,
  - be developed with input from planners, finance officials and engineers, with assistance as needed from consultants who specialize in this field.
19. The Province should fund the development and delivery of a training module for municipal officials on fiscal alignment audits through professional associations such as OPPI, MFOA and AMO.
20. The Province should train staff in its own regional offices to build their capacity to support municipalities interested in conducting a fiscal alignment audit.
21. The Province should provide incentives for municipalities to conduct a quantitative alignment audit, e.g., by offering study grants and making growth-supporting capital grants available for municipalities who choose this approach.
22. Exchange among municipal officials concerning their experiences with alignment audits should be facilitated by including it into the community of practice proposed in Section 4.1.

## ISSUE

Not all municipal decision-makers in the GGH are convinced that the redesign of their revenue tools would improve growth planning outcomes or achieve other municipal priorities.

## DISCUSSION

To spur interest in undertaking an audit and convincing municipal decision-makers to commit the necessary resources to the task, it would be useful to have access to empirical evidence that shows the potential benefits of redesigning revenue tools. The study would identify the impact of various design options for revenue instruments on urban development patterns and the impact of shifting from current practices to “smarter” design choices on different segments of the development industry and tax/user fee payers. The analysis could also include an exploration of different design options on other public priorities such as protection of agricultural land, affordable housing, transportation choices, etc.

## RECOMMENDATION

23. The Province should commission a study to examine the (often inadvertent) impacts of revenue tools as they often are designed and the potential benefits of “smart” design choices in terms of achieving Smart Growth outcomes and other important public priorities in the GGH. The study should include the development of some case studies where municipalities have studied and implemented “smart” design choices on specific measures. The results of the research should be disseminated through the community of practice proposed in Section 4.1.



# Development Charges

The report now moves from a bird’s eye examination of the interaction between growth planning and finance to a detailed analysis of the design of revenue tools and how design choices may be affecting growth outcomes, starting with development charges in this section, followed by property taxes in the next section, and finishing up with user fees.

When designed properly, development charges can help foster achievement of Smart Growth objectives in two ways. First, the charges can be designed so that they reflect the true costs of development and avoid unintentional cross-subsidization of land use patterns that are inefficient from an infrastructure point of view.<sup>79</sup> Secondly, they can be designed to proactively encourage intensification, higher-density or mixed-use development in targeted areas by intentionally subsidizing that type of development through lower charges than would otherwise be applied.<sup>80</sup> There is general agreement that the “true cost” approach is the right way to go wherever feasible, but views diverge on the “proactive” approach, with planners often supporting the principle while economists tend to disagree.

---

**“ When designed properly, development charges can help foster achievement of Smart Growth objectives. The charges can be designed so that they reflect the true costs of development and avoid unintentional cross-subsidization of inefficient land use patterns. Also, they can be designed to encourage intensification, higher-density or mixed-use development in targeted areas by intentionally subsidizing that type of development through lower charges than would otherwise be applied. ”**

---

79 Andrejs Skaburskis has argued that if a development charge is properly designed, it could theoretically obviate the need for urban planning altogether as the price-corrected market would automatically produce the optimal amount of intensification and greenfield density levels. See: Andrejs Skaburskis (2003). “Planning city form: Development cost charges and simulated markets.” *Planning Practice and Research* 18 (2): 197–211.

80 As discussed in Section 3, policy-driven subsidies may be justified on efficiency grounds, i.e., if a discount encourages development that has lower long-term financial costs to the municipality or to account for negative externalities.

This project considered a wide array of development charge design options that could in principle promote Smart Growth in both the senses just described. Four measures were ultimately chosen for inclusion in the report: three derived from the “true cost” approach and one from the “proactive” approach. Under the “true cost” rubric are included: 1) the area-specific approach to calculating the charges (rather than the municipal-wide approach that is more often used in the GGH), 2) the removal of restrictions on the ability of municipalities to recover the full cost of growth-related infrastructure from development charges, and 3) getting the assumptions right about population and employment growth that go into formulating development charges. All of these measures get us closer to the economic ideal of formulating charges that reflect the actual cost of supplying infrastructure to the development that is paying the cost, an approach that produces efficient land use outcomes as well. Under the “proactive” label, the option of discounting or exempting charges on development that meets Smart Growth criteria is considered. Each of the measures are addressed in turn in the sections that follow.

## 5.1 Area-specific development charges

### 5.1.1 Introduction

One of the key design decisions when it comes to formulating development charges is whether they should be calculated on a municipal-wide or an area-specific basis. With the municipal-wide approach, the overall cost of infrastructure to service growth in the municipality is pooled and the cost is recovered by applying a uniform charge rate on development anywhere in the municipality. With the area-specific approach, the capital costs of some services are attributed to different planning areas and developers in those areas are charged to recover those costs. The services involved are usually those that are most likely to vary by location, namely water, wastewater, storm sewers, and roads (which make up the majority of the charge in most municipalities). This means that developers operating in different areas of the municipality will pay a different rate depending on where they develop. To support this approach, the municipality sets up separate reserve funds for the specific areas and development charge rates are calculated to correspond to the relative cost of providing infrastructure to service that area.

The overall amount that the municipality can collect from developers isn’t affected by the choice between municipal-wide versus area-specific charges – the difference is how the charges are allocated across the municipality. With municipal-wide development charges, all areas are charged the same rate, so areas with high servicing costs are subsidized through charges collected from areas with low-servicing costs. With area-specific charges, each defined area is charged to reflect differences in the cost of servicing those areas. Servicing costs can differ due to the distance from major facilities (e.g., water treatment plants), the availability of excess capacity in existing infrastructure (e.g., in already built-up areas), density (with higher density projects being cheaper to service per dwelling unit than lower density ones), or differences in service standards because of consumption levels associated with different types of development (e.g., low density suburban homes likely consume more water per dwelling unit due to lawn watering and car washing).

Economists such as Enid Slack at the University of Toronto-based Institute on Municipal Finance and Governance have long argued that the area-specific approach gives a more accurate representation of the cost of providing services to defined areas and minimizes cross-area subsidies.<sup>81</sup> Thus, it not only encourages more efficient land development patterns and more efficient infrastructure servicing but is more equitable. Under an area-specific approach, low-density greenfield areas typically pay more than denser intensification areas because growth in the latter makes use of excess capacity of existing infrastructure and is usually inherently more efficient from an infrastructure point of view.<sup>82</sup> These price signals can affect developer and home seeker decisions, reducing sprawl and encouraging the revitalization of core areas.

Despite the economic and planning reasons in favour of this approach, only a fraction of municipalities in the GGH have adopted area-specific development charges, including Richmond Hill, Markham, Vaughan, Newmarket, East Gwillimbury, and Peterborough. The main barriers to adopting an area-specific approach appear to be administrative in nature. Opponents claim this approach is an administrative nightmare due to the multiple bylaws, development charge reserve accounts (which much be kept for each specific area in order to segregate funds), and the effort in defining boundaries between areas when most of the affected services are provided through an integrated network (e.g., water network). They also point out that municipalities have a great deal of experience dealing with challenges to the municipality-wide system raised at the Ontario Land Tribunal and they don't have the experience or technical studies to defend area-specific rates.

Research shows, however, that officials from municipalities who have adopted the area-specific approach acknowledge the extra administrative effort, but do not see it as a major burden and don't report heightened conflict with developers or appeals to provincial land tribunals.<sup>83</sup> Some municipalities in Ontario have considerable positive experience with using differentiated development charges for different parts of the city, with developer concurrence. In fact, developer organizations appear to be neutral on the issue of average-cost vs area-specific approaches as they have members who will win and some who will lose on a switch from the former to the latter approach.

It seems then that the main attraction of the average cost pricing is that it's the "tried and true" method that municipalities have been using since development charges were introduced in the 1980s and it's the system they know best. It may also be that the small number of consulting firms that carry out most of the development charge background studies in the GGH are more comfortable with the municipality-wide approach. These path dependencies create a certain inertia in the system. Encouraging municipalities to consider another method would require a robust effort.



**An area specific approach to calculating development charges could give a more accurate representation of the costs of providing services to defined areas and minimize cross-area subsidies. It encourages more efficient land development patterns, more efficient infrastructure servicing and can encourage revitalization of core areas.**

---

81 Enid Slack & Richard Bird (1991). "Financing urban growth through development charges." *Canadian Tax Journal* 39 (5): 1288–1304.

82 Opponents of the area-specific approach point out that intensification can sometimes be more expensive than greenfield growth because of the complexity of installing infrastructure in a dense urban context. This highlights the need to study local conditions before adopting an area-specific approach – see recommendations later in this section.

83 Ray Tomalty & Andrejs Skaburskis (1997). "Negotiating development charges in Ontario: Average cost versus marginal cost pricing of services." *Urban Studies*, 34 (12): 1987– 2002.

The criticisms that have been levelled against the area-specific approach seem to assume a large number of separate charge areas and of course, theoretically, the larger number of separate charge areas, the closer the development charge system approaches the ideal of marginal cost. However, some municipalities have experimented with an area-specific system of just two or three separate charge areas, e.g., one for greenfield development and the other for intensification of already built-up areas. This approach is relatively simple to administer, has fewer boundaries to define, and is easier to defend against appeals than an area-specific system involving multiple clusters of charge areas. The approach is appropriate for municipalities expecting to grow both through suburban development and intensification and has been used in Kitchener (see Box 5.1), Ottawa, and Windsor.

**BOX 5.1****KITCHENER'S TWO-ZONE DEVELOPMENT CHARGE**

The City of Kitchener uses a two-zone system, with differentiated charges between the suburban periphery and an intensification zone that makes up the established parts of the city. General services (e.g., library, fire, recreation, parking, etc.) are calculated on a city-wide basis, while network infrastructure (e.g., water, sanitary sewers, storm sewers, roads, and engineering studies) are charged only to the Suburban area and the Central Neighbourhood area is charged only for infrastructure upgrades (mostly sanitary sewers and transit). The charge differences between the two zones are considerable – a single detached or semi-detached dwelling is charged \$14,033 in the intensification area versus \$20,945 in the suburban area. For non-residential development, the charge is \$23.24 per square metre of gross floor area of building in the intensification area versus \$64.45 per square metre in the suburban area. The system works on the basis of a single bylaw, although incoming funds are segregated into two reserves. Appeals of the development charge bylaw are rare. The extra administrative burden flows from the need to manage the two reserve funds and oversee a more complex development charge background study. However, the system is generally supported by staff and the development industry because it is seen as more equitable than a municipality-wide approach.



Photo: Shutterstock

Area-specific charges is one way that municipal officials can formulate development charges to approximate the marginal cost of supplying services to a particular location. They should be seriously considered wherever the average cost approach would result in a serious disconnect between the cost of developing a given area versus the development charges collected. However, they will not be appropriate in all situations, for example, in municipalities where infrastructure costs are not highly differentiated by area or those that are fully built out and can only grow through intensification. In those cases, other approaches to approximating marginal cost pricing should be considered, such as charging on the basis of lot size, lot frontage, density,<sup>84</sup> or distance to main facilities.<sup>85</sup> Another approach would be for municipalities to create more classes of property types instead of restricting charge classes to the few now commonly used (e.g., detached/semi-detached, town/row, apartment). For example, there could be a charge for detached homes on smaller versus larger lots, apartment buildings of different heights, and more charge categories depending on lot sizes and infrastructure demand for commercial and industrial buildings than we currently see in the GGH.

These alternative approaches – as for area-specific charges - are especially applicable to network services such as water, wastewater, stormwater and roads. They are commonly used in other parts of Canada, especially British Columbia<sup>86</sup>, and there is no regulatory barrier to using them in Ontario.

### 5.1.2 Legislative and policy context

The Development Charges Act historically has provided the opportunity for a municipality to impose municipal-wide charges or area-specific charges. The Act provides that a development charges by-law may apply to the entire municipality or only part of it and more than one development charge by-law may apply to the same area (i.e., a municipality-wide one for some services and an area-specific one for other services). In 2015, amendments to the Act required municipalities to consider the application of area-specific development charge. Section 10(2) says: “The development charge background study shall include consideration of the use of more than one development charge by-law to reflect different needs for services in different areas.” Those amendments also allowed the Province to pass regulations requiring a municipality to use area-specific charges for specific services, but no regulations like this have yet been passed.

### 5.1.3 Case study results

- Most municipalities use municipality-wide charges that apply charges to the same type of development uniformly across the municipality, regardless of location. Most of their development charge background studies (used to set rules and calculate the charges that will be applied to different forms of development) contain only a brief justification for not adopting area-specific charges, apparently to satisfy the provincial requirement that they consider this approach.

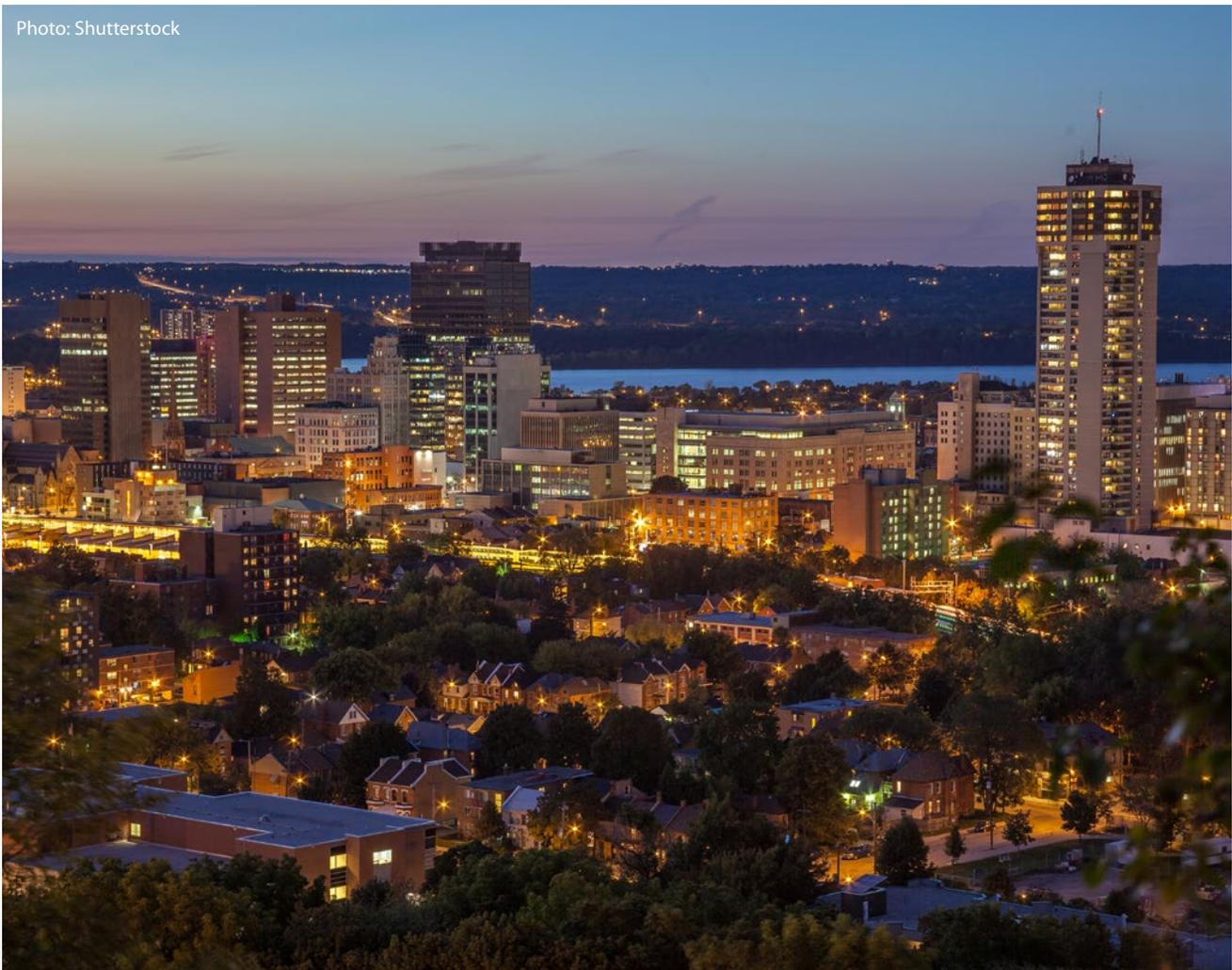
84 Although the current approach to formulating development charges in Ontario appears to take density into account because charges are differentiated by unit type, with lower charges on apartments than on detached homes, this is misleading. The charges on different housing types are calculated by estimating the average number of people per unit (PPU) in different housing types and then multiplying that by a constant that represents the per person costs of all the growth-related capital costs associated with growth across the whole municipality. There is no allowance for the fact that a person living in a studio apartment will consume fewer infrastructure services than a person living in a detached home. See: David Amborski (2011). “Alternatives to Development Charges for Growth-Related Capital Costs.” (Residential and Civil Construction Alliance of Ontario).

85 Pamela Blais (2010). *Perverse cities: Hidden subsidies, wonky policy, and urban sprawl*. (UBC Press: Vancouver).

86 Energy Pathways Inc. (1997). “Levying Development Cost Charges on a Square-Foot Basis.” (Urban Development Institute Pacific Region: Vancouver).

- Three municipalities partially implemented this measure:
  - Halton Region differentiates between development within the built boundary versus greenfield, for both residential and non-residential categories. However, the differentiation applies only to water and wastewater services. The greenfield charges are considerably higher than the within built boundary changes (e.g., \$6.34 versus \$2.82 per square foot for non-residential buildings).
  - In Markham, all areas of the City are covered by municipality-wide charges for hard and soft services. In addition, area-specific development charges for water/wastewater and roads are applied in 19 areas where benefits are more localized and can be identified. The area-specific charge varies from area to area.
  - Hamilton uses municipality-wide charges for most services covered in the bylaw but in 2019 started differentiating between properties in the combined sewer areas and those in the separated sewer areas of the municipality (higher charges for separated areas).
- In all the case studies, rural areas that don't benefit from specific services (such as network water and wastewater) are exempt from paying those components of the charge.

Photo: Shutterstock



## 5.1.4 Issues and recommendations

Provincial leadership is needed to ensure the wider dissemination of the area-specific approach to other municipalities in the GGH, where appropriate. Where not appropriate, municipalities should consider other marginal-cost approaches that may achieve some of the benefits of the area-specific approach without the disruption of moving to a new system.

### ISSUE

The requirement in the Development Charges Act that municipalities give consideration to area-specific development rates has not prompted many municipalities to adopt this method of formulating their charges.

### DISCUSSION

- The main barriers to using area-specific charges appear to be municipal reluctance to shift from the tried-and-true practices associated with the average-cost approach. To increase municipal uptake of area-specific charges, the Province could impose regulations requiring all municipalities in the GGH (and beyond) use area-specific charges for specific services. Besides being a significant intrusion on municipal autonomy, this approach ignores the fact that an area-specific approach may not be feasible or justified in some circumstances.
- A more reasonable approach would be for the Province to better articulate in the Development Charges Act what “shall include consideration of” means. Municipalities should be required to undertake a study following specific guidelines with the purpose of identifying those situations in which the benefits of moving to an area-specific approach are worth the effort and risks of switching to the less tried system. The study guidelines should be well-thought out and robust enough to lessen the chance of challenges at the Ontario Land Tribunal (from developers who will see charges rise on their properties under the new system). The Act already provides for the inclusion of any study costs in the calculation of development charges.

### RECOMMENDATION

24. The Province should amend the provisions of the Development Charge Act to further encourage municipalities in the GGH to use area-specific charges for location-sensitive services such as water, wastewater, stormwater, and roads in the calculation of development charges. The amended Act should require development charge background studies to follow a specific procedure to assess the potential benefit of using an area-specific approach in specific locations where development is forecasted and provide a rationale for not using area-specific charges if it is found that significant benefits are available.

**ISSUE**

There is little information and support available to municipal officials interested in exploring the area-specific approach.

**DISCUSSION**

- There is some experience with the area-specific approach in the GGH, but it is largely confined to the consulting firms that are retained by municipalities to do background studies. To increase comfort levels with this approach among municipal officials, the Province should provide municipalities with information that addresses the key concerns with the approach and presents case studies on municipalities operating under a variety of conditions where the approach is working well. Training is also needed on how to implement the approach.
- In some situations, area-specific rates may prove to be unsuitable while other methods of approximating marginal costs may be more appropriate and less disruptive to the existing municipality-wide method of formulating the charges. Nothing in the Development Charges Act prevents a municipality from adopting such approaches but reluctance to trying will persist in the absence of proven examples and supportive information.
- One barrier to using the area-specific and other marginal-cost approaches is the lack of evidence in the GGH that such approaches result in efficiency gains significant enough to justify any incremental administrative burden and the disruption involved in changing approaches to formulating development charges. An authoritative study specific to the GGH would help overcome this barrier.

**RECOMMENDATIONS**

25. The Province should add a section to the Municipal Finances for Smart Growth handbook that explains the advantages of the area-specific approach and addresses the issues that may discourage some municipalities from using this approach. The handbook section should cover areas-specific charges and other approaches to the design of development charges that favour marginal-cost pricing, with relevant case studies.
26. The Province should fund the development and delivery of a training module for municipal officials on area-specific and other margin-cost approaches to development charges through professional associations such as the Municipal Finance Officers Association of Ontario (MFOA).
27. The Province should fund a study on the impact of the area-specific and other marginal-cost approaches compared to current approaches in terms of their impact on the efficiency of development patterns and overall life-cycle infrastructure costs.

## 5.2 Better cost recovery

### 5.2.1 Introduction

The issue of what should be considered “development charge recoverable” and what should not has been the subject of debate since the inception of the Development Charges Act in 1989. At the heart of the debate are conflicting interests, with municipalities pushing for greater coverage and developers fighting to exclude as much as possible so that the burden of paying for infrastructure is transferred to others, namely taxpayers. Provincial governments are stuck in the middle of this debate, sometimes moving in one direction and then the other.

The basic principle of applying development charges to new development is that “growth should pay for growth.” This is similar to the “polluter pays” principle, i.e., that businesses creating externalities through their economic activities should pay for measures to maintain a healthy environment and incorporate the cost into the price of their product, which then moderates demand for the product. In the case of development, there are many externalities, including increased sewage flows, traffic, water consumption, park usage, and so on that need to be mitigated through the construction of new facilities or the expansion of existing ones. Development charges work as a kind of “Pigouvian tax”, which economists generally applaud as it ensures that development is economically efficient.<sup>87</sup> In fact, there is no economic justification for transferring the burden of mitigating these externalities to the general public.<sup>88</sup>

Removing “coverage constraints” is important from a Smart Growth perspective for several reasons:

- by increasing the potential reach of development charges, municipal revenues from the charges will increase and make “room” for discounts that are justified on policy grounds (see Section 5.4),
- some currently excluded services such as cultural facilities (e.g., museums, theatres convention centres) could act as “anchors” to encourage revitalization or redevelopment of downtown areas if included in the development charge formulation and slow growth in outlying areas,
- recovering the full costs of growth through development charges raises the charges and makes measures to differentiate charges to support Smart Growth more effective,
- anything that prevents municipalities from recovering all growth-related costs from developers will transfer costs to other sources, forcing existing tax and ratepayers to subsidize new growth.

87 A Pigouvian tax is a tax assessed against private individuals or businesses for engaging in activities that create adverse side effects (or “externalities”) for society. Adverse side effects are those costs that are not included as a part of the product’s market price. This can include strains on existing infrastructure or the need for additional infrastructure to prevent undesirable outcomes such as traffic congestion, flooding, water shortages, etc.

88 Some critics of development charges have argued that the charges make housing less affordable and therefore we should eliminate them pay for infrastructure through user fees and property taxes. Adam Found argues that properly formulated development charges actually improve housing affordability. See: Adam Found (2021). “Development Charges and Housing Affordability: A False Dichotomy?” (Institute for Municipal Finance and Governance: Toronto).

## 5.2.2 Legislative and policy context

The provincial rules related to the coverage of the development charge bylaw are found in the Development Charges Act and its associated regulations. Some recent changes to the Act have helped increase the range of costs recoverable from development charges. The most important change in this respect was the removal of a long-standing irritant to municipalities called the “10% discount for soft services”. This feature of the Development Charges Act required that municipalities reduce the total cost of expenditures on soft services such as libraries and police stations by 10% before calculating the amount to be charged to developers. This 10% deduction was based on the argument that growth-related capital works benefit both new and existing ratepayers. This rationale was ultimately unconvincing since the Act already required that the value of the benefits to existing ratepayers be deducted from the capital costs entering development charge calculations. The rule was finally removed in 2020, resolving this problem. However, other coverage constraints remain in the Act including:<sup>89</sup>

- **Eligible services:** some municipal services with a capital component are currently excluded from development charge coverage,
- **Eligible costs:** spending on some specific items is not recoverable through development charges, even if the costs were incurred by an otherwise eligible service,
- **Levels of service:** except for transit, expenditures that increase the level (i.e., quality) of service can’t be recovered through development charges.



Photo: Shutterstock

<sup>89</sup> Another type of coverage constraint – the so-called “benefit to existing” - is not addressed in this report. This constraint relates to the provincial rule that if a portion of new infrastructure brings benefits to existing development (not just new development), then that proportion of expenditures has to be removed from the total amount charged to developers. The argument is that new developments also impose costs on existing developments and their occupants, which offsets the benefits it brings and thereby removes the rationale for the reduction. If there is to be any reduction due to benefits to existing development, the argument goes, then that reduction should be limited to cases where the infrastructure would have been constructed to service the existing development regardless of the advent of the new development. The counterargument is that new development also brings benefits to existing development, e.g., in the form of increased employment and economic activity and an increase to the assessment and utility bases. Trying to adjudicate between these nebulous arguments is beyond the scope of this project.



**The case studies showed that no municipality was able to recover 100% of its capital expenditures due to growth through the development charge system.**

---

### 5.2.3 Case study results

Unsurprisingly, the case studies showed that no municipality was able to recover 100% of its capital expenditures due to growth through the development charge system. Municipalities almost always included costs up to the limit imposed by the Development Charges Act but were constrained in many ways, for example:

- No case study municipality was able to charge for all the services they offered that included a capital component. The range of services that are not eligible varied from case to case based on the provisions of the Development Charges Act that applied at the time the development charge bylaw was formulated. Hamilton's bylaw was an example of one that was passed since the most recent update of the Act. Ten of the services it provided, all with capital components, were not eligible for inclusion in the formulation of development charges.
- Most municipalities that operate transit or para-transit<sup>90</sup> systems did increase anticipated levels of service, as permitted under the Development Charges Act since 2016. For example, Waterloo Region operates a transit service that included regular bus service, rapid bus, and light rapid transit. The development charge background study assumed an increasing level of service due to modal shift from cars to transit. The Region also operated a paratransit service and the development charge background study allowed that the level of service for this service would increase as a result of the aging of the population.
- Other than for transit services, no case-study municipality recovered anticipated costs due to an increase in service level from their development charges, reflecting the constraints of the Development Charges Act.

### 5.2.4 Issues and recommendations

The principle behind the Development Charges Act is that growth should pay for the initial capital costs of infrastructure needed to support that growth. However, this principle can't be realized in practice due to several important constraints imposed by the Act.<sup>91</sup> As the custodian of the Act, the recommendations below are directed at the Province.

<sup>90</sup> This refers to transit systems for elderly and other-abled persons.

<sup>91</sup> Adam Found (2019). "Development Charges in Ontario: Is Growth Paying for Growth?" (Institute on Municipal Finance and Governance, University of Toronto: Toronto)

## ISSUE

Some municipal services with a capital component are currently excluded from development charge coverage.

## DISCUSSION

In the past, the Development Charges Act took the approach of listing the ineligible services and otherwise allowing municipalities to decide which services they wanted to include. In 2019, the approach reversed to listing the permitted services and disallowing all others. Under the current Act, only the following services are eligible:

- water, wastewater, and stormwater,
- parks and recreation (but not the acquisition of land for parks),
- roads and transit,
- public health (e.g., offices, vehicles),
- municipal electric power utilities,
- childcare and early years programs,
- waste diversion (e.g., recycling or composting),
- municipally owned housing,
- police, fire and ambulance,
- municipal courts,
- libraries,
- emergency preparedness,
- municipal long-term care facilities.

This list excludes many municipal services with a capital component – seemingly on an arbitrary basis – and should be remedied with a broader list of items that can be included in development charge regimes.

## RECOMMENDATION

28. The Province should amend the Development Charges Act to include a wider array of services to the list of services that are recoverable through development charges. The following are some suggestions for inclusion:

- municipal parking,
- municipally owned airports,
- general administration (e.g., city halls),
- waste collection and disposal (e.g., landfill sites),
- cultural facilities (e.g., museums),
- Conservation Authorities (e.g., offices, vehicles),
- regional parkland<sup>92</sup>,
- municipally supported hospitals.

## ISSUE

Spending on some specific items is not recoverable through development charges, even if the costs were incurred by an otherwise eligible service.

## DISCUSSION

The Development Charges Act prohibits municipalities from including some items in its formulation of development charges, no matter which service it applies to (i.e., roads, waste, water, etc.). Items currently excluded include:

- vehicles that have a life span of less than seven years (such as ambulances, which wear out quickly),
- computer equipment,
- so-called “uncommitted excess capacity”.

Of these issues, the third one is often the most serious for a municipality trying to recover the full costs of growth from developers. According to the Act, municipalities must reduce growth-related capital cost estimates by the value of any uncommitted excess capacity in any of the eligible services. For example, if a municipality wants to construct a new library they must examine if the current municipal library system is at capacity. If the system is not at capacity, a deduction to growth-related capital costs for the new library must be made. The only exception is if a municipal council indicates at the time the excess capacity was created that it is to be paid for by new development.<sup>93</sup> There are many situations which would make this type of foreknowledge impractical, such as when excess capacity in a water system is created through the imposition of conservation measures or new technology installed long after the original plant was constructed. This hitch in the Development Charges Act undermines municipal efforts to grow through intensification because infill development is often enabled by existing excess capacity in municipal assets, such as roads, situated in built-up areas.<sup>94</sup>

## RECOMMENDATION

29. The Province should amend the Development Charges Act to allow for the inclusion of ambulances and other vehicles with short lifespans, computer equipment, and uncommitted excess capacity in municipal development charge regimes.

92 Local parkland is covered via the parkland dedication requirements imposed on developers.

93 Government of Ontario (2013). “Development Charges in Ontario Consultation Document.” [https://www.mfoa.on.ca/MFOA/WebDocs/Development\\_Charge\\_Consultation.pdf](https://www.mfoa.on.ca/MFOA/WebDocs/Development_Charge_Consultation.pdf)

94 Adam Found (2019). “Development Charges in Ontario: Is Growth Paying for Growth?” (Institute on Municipal Finance and Governance, University of Toronto: Toronto)

**ISSUE**

Expenditures that increase the level of service can't be recovered through development charges.

**DISCUSSION**

- The purpose of development charges is to recover municipal expenditures related to increasing services attendant on growth. Services increase either due to the need to provide more services to more people or the need to improve the service level (i.e., quality) as the municipality matures. However, the Development Charges Act forbids municipalities from charging developers for increasing service levels; they must assume the same service levels as those provided on average over the 10-year period preceding the development charges bylaw.<sup>95</sup> A 2015 amendment to the Act lifted this restriction for transit services, allowing planned service levels to be used in that case. Otherwise, municipalities can only charge developers to maintain the historic quality of service. Thus, a municipality that is committed to upgrading its pedestrian facilities or bicycle network as part of a Smart Growth program would not be able to recoup the costs incurred through the development charge system. This constraint is especially burdensome when growth triggers the need for a new municipal service. Because there was no historic level of service, the entire cost of the new service is transferred to existing taxpayers. A more reasonable approach would be to permit development charge formulation to be based on planned rather than historic service levels.
- This is not the first time such a policy shift has been proposed – in fact the level of service issue has been debated from the beginning of the development charge system in Ontario. One reason that this type of recommendation is controversial with the development industry is the fear that municipalities would use it to “gold plate” their services at the industry’s expense, i.e., raise service levels to unreasonable heights. To obviate this concern, municipalities should have to demonstrate the need for a service level increase. The Development Charges Act currently requires this for transit (as it's the one service for which service level increases are permitted) and this requirement should be extended to the other services.

**RECOMMENDATION**

30. The Province should amend the Development Charges Act to:
- allow municipalities to formulate their development charges based on planned levels of service rather than historic service levels,
  - require municipalities to justify any service levels increases in their development charge background studies by extending to other services the relevant provisions related to transit currently found in the Act.

<sup>95</sup> Exceptions are allowed when legislation requires future service levels to exceed the historic average.

## 5.3 More accurate development charge background study assumptions

### 5.3.1 Introduction

One of the biggest issues dogging the formulation of development charges in the GGH is the accuracy of the assumptions that feed into the development charge background study. Unrealistic assumptions can lead to serious distortions in the way the development charge system plays out. As discussed in Section 3, development charges are designed to recover costs incurred by municipalities on the off-site infrastructure needed to support forecasted growth. The off-site infrastructure is comprised of those large capital projects that serve several developments, such as arterial roads, trunk sewers, arterial roads, water treatment stations, stormwater drainage system etc. Most of this infrastructure is planned far in advance and some (especially water and wastewater facilities) has to be built *before* development happens, which is when the development charges to pay for this infrastructure are collected from developers.

This system can be quite fragile because of the time delay between the planning and building of the infrastructure on the one hand and the recovery of costs through development charges on the other hand, a delay that often stretches into many years. If the municipality plans and builds infrastructure to support forecasted growth that doesn't materialize within the planning horizon, it can be left holding the proverbial bag – the municipality has put out large sums of money expecting to pay for it with growth-related revenues that will not be realized on schedule or at all. In such cases, not only has the municipality designated more land than it actually needed to accommodate growth, but public funds have been spent on infrastructure that may not be needed. In addition, taxpayers may be on the hook for costs that should have been covered within the development charge system. In a bid to recover some of the revenue shortfall, some municipalities may be tempted to approve greenfield growth at densities or in places that don't fit with the original plan, which can exacerbate urban sprawl.

The growth forecasts used by municipalities in formulating their development charges are drawn from the official plan current at the time the development charge background study is prepared. When revising their official plans, municipalities in the GGH are required to use the growth forecasts found in the latest version of the Growth Plan, which are developed by Hemson Consulting for the Ministry of Municipal Affairs and Housing (MMAH). These forecasts are integral to the Province's growth management vision for the GGH, reflected in how the anticipated population and employment growth is distributed to single- and upper-tier municipalities in the region. They are updated when the Growth Plan is updated, which has been on average about once every seven years. This review schedule adds to the long-time delay between the formulation of the forecasts for the Province, their incorporation into the development charge background study and bylaw, and the actual growth that takes shape on the ground.



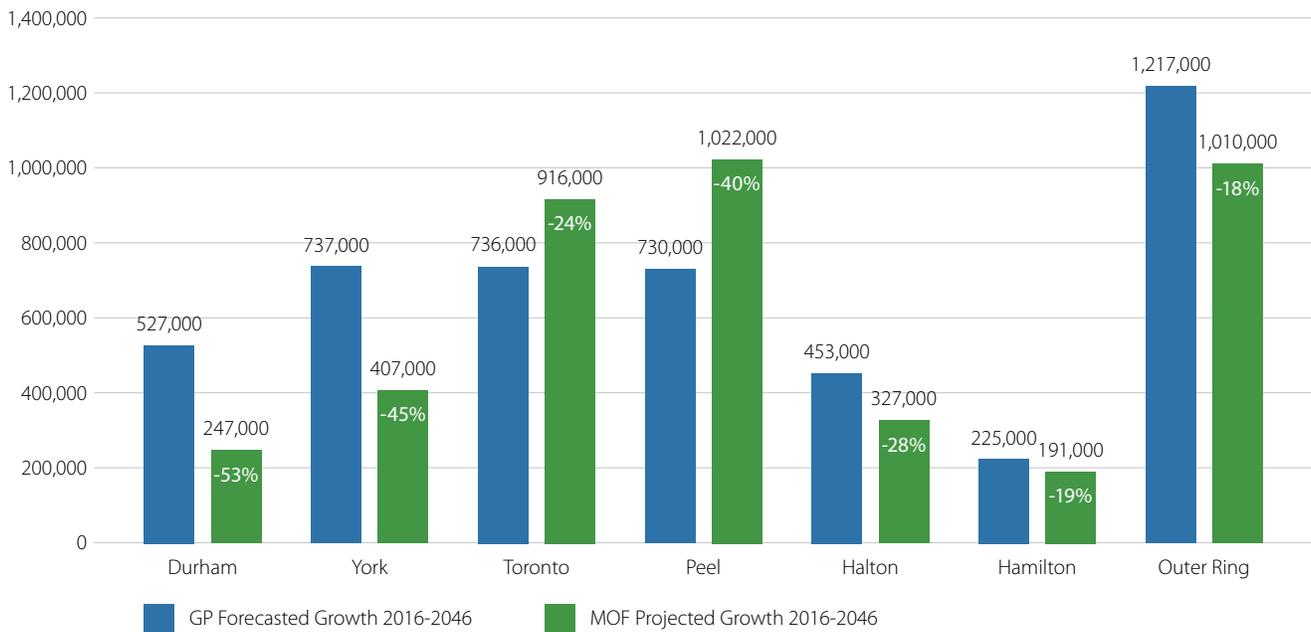
**One of the biggest issues challenging the formulation of development charges in the GGH is the accuracy of the assumptions that feed into the development charge background study. Unrealistic assumptions can lead to serious distortions in the way the development charge system plays out.**

---

As no one can see the future, we'd expect there to be a modest gap between forecasted growth and the actual growth that materializes a decade or two later. However, the growth forecasts in the Growth Plan have been very far of the mark. As revealed by figures in the most recent Hemson forecast done for the 2020 Growth Plan update, population growth for the period of 2011 to 2021 in Durham was estimated to be 48% less than forecasted in the 2006 Growth Plan, York was down 25%, Halton by 38%, Peel by 26%, and the City of Hamilton by 37%.<sup>96</sup> These shortfalls are accompanied by corresponding shortfalls in anticipated development-related revenue, which we've seen can have serious consequences for the financing of infrastructure and on the pattern of growth.

Kevin Eby, the former Director of Community Planning for Waterloo Region, has pointed out that alternate population projections prepared by the provincial government - the Ministry of Finance (MOF) – have tended to track actual growth better than those developed for MMAH. The MOF projections are trends-based forecasts that are updated annually and used to inform the delivery of many provincially mandated programs such as those dealing with health and social services. The Growth Plan population forecasts from MMAH reflect the same basic demographic, immigration, and migration assumptions as the MOF projections. However, the forecasts in the Growth Plan are also supposed to reflect the policy objectives of the plan. The differences between the sets of forecasts as of 2020, when the Growth Plan forecast was updated, are shown in Figure 5.1.

**Figure 5.1** 2020 Growth Plan Population Forecast vs 2020 Ministry of Finance Projections



Source: Kevin Eby, personal communication.

<sup>96</sup> The forecast was prepared in 2020, so figures for 2021 were estimates. See: Hemson Consulting (2020). "Greater Golden Horseshoe: Growth Forecasts to 2051." (Ministry of Municipal Affairs and Housing: Toronto). Hemson Consulting (2013). "Greater Golden Horseshoe: Growth Forecasts to 2041." (Ministry of Municipal Affairs and Housing: Toronto).

The figure shows that the Growth Plan proposed to redirect growth away from the more urbanized core, comprised of the City of Toronto and Peel Region, to the more suburban and rural municipalities of the GGH. This was seemingly based more on the growth aspirations of suburban municipalities than Growth Plan policies designed to boost intensification, settle people near areas with access to high-quality transit, and reduce automobile use. This evidence suggests that a thorough review of the way population forecasts are generated for MMAH is in order.

The methodology for forecasting employment growth distribution in the GGH may also need to be revisited.<sup>97</sup> The forecasts in the 2006 Growth Plan were highly inaccurate, with growth in the outer ring overestimated by 36% from 2001-2021 and in the inner ring by 24%.<sup>98</sup> In fact, only the City of Toronto came close to reaching the projected job growth, while Peel Region was not far behind. Research undertaken by Metropole Consultants for the Neptis Foundation has demonstrated that the trend towards centralization of employment growth in the core of the region may be partially responsible for the greater centralization of population growth in those core areas. The on-going review of the Growth Plan forecasts needs to ensure that any proposed distribution of population growth throughout the GGH reflect the changing trends in the types and locations of employment growth.<sup>99</sup>

Another contributor to the distorted Growth Plan population projections may be the questionable housing mix assumptions that go into generating the forecast. Hemson's distribution of forecasted GGH population growth among upper-tier and single-tier municipalities is partially based on projections of housing needs by type of dwelling. If a strong demand for low-density housing is forecasted, meeting this demand will require directing population to those municipalities that have a copious supply of greenfield lands available for development. Hemson's housing-mix forecasts are historically based, meaning great weight is put on past market trends. Less weight in these forecasts is given to emerging and recent factors that are significantly changing future housing demand from past trends. This approach has led Hemson to project that the market from 2021 to 2051 will be one heavily focused on the construction of single-detached dwellings, despite evidence showing recent housing trends moving dramatically away from these types of dwelling in the GGH (see Figure 5.2). Strong projected demand for low-density housing means growth must be directed towards the more suburban and rural municipalities, away from already urbanized areas where growth is more likely to occur through higher-density intensification.



**The on-going review of the Growth Plan forecasts needs to ensure that any proposed distribution of population growth throughout the GGH reflect the changing trends in the types and locations of employment growth.**

---

97 Pamela Blais (2018). "Planning the Next GGH." (The Neptis Foundation: Toronto).

[https://neptis.org/sites/default/files/planning\\_the\\_next\\_ggh/neptis\\_planningthenextggh\\_report\\_dec4\\_2018.pdf](https://neptis.org/sites/default/files/planning_the_next_ggh/neptis_planningthenextggh_report_dec4_2018.pdf)

98 Key factors in these employment growth over-estimates are technological changes, which reduce the need for workers in industrial and some commercial settings, and the increase in work-from-home and no-fixed-place-of-work employment. Because development charges are calculated based on floor space per worker, the drastic over-estimation of employment growth has resulted in significantly lower development charge revenues than expected for many municipalities in the GGH.

99 Kevin Eby (2020). "Population Forecasting in the GGH: A Comparison of the Growth Plan Population Forecasts and the Ministry of Finance Population Projections." (Greenbelt Foundation: Toronto).

**Figure 5.2** 2013 Growth Plan forecasts vs actual trends

|            | 2013 Growth Plan forecasted percent of low-density housing 2011-2021 | Actual percent of low-density housing 2011-2021* | 2020 Growth Plan forecasted percent of low-density housing 2021-2051 |
|------------|--|--|--|
| Inner ring | 39.5   | 27.7   | 39.5   |
| Outer ring | 66.0   | 50.6   | 58.0   |
| GGH        | 46.6   | 33.4   | 44.9   |

Source: Kevin Eby (2022). "The future is not the past: Challenging the use of historical propensities to determine future housing mix." Y Magazine, Winter: 24-26.

\* These figures are drawn from the most recent Hemson report mentioned above. As the report was written in 2020, the figures for 2021 were estimates made by the consultant.

Kevin Eby has criticized the assumptions behind the Hemson housing mix forecast, pointing out that there are many emerging and foreseeable factors that will likely redirect future demand away from past trends. Changing lifestyles, the availability of more transportation and housing options, flexible employment location options, climate change mitigation requirements, the need to take care of aging seniors, extended retirements, and the increased awareness of the need to protect farmland will all factor into future housing choices in ways very different than in the past. Of particular relevance are the escalation in housing prices that will boost demand for higher-density housing and the massive reservoir of low-density housing that will be adding to supply in coming years as the baby boom generation moves on.<sup>100</sup> Together, these factors suggest a housing mix forecast moving towards an escalating demand for higher density housing.

In their reports, Hemson is careful to state that individual municipalities need not necessarily adopt its housing mix forecasts and there is nothing in the Growth Plan that requires them to do so. However, it seems clear that municipalities would be influenced by Hemson's work given that the Province is likely to review municipal MCR submissions with an eye on Hemson's figures.<sup>101</sup> This outcome is reinforced by the current Land Needs Assessment Methodology for the GGH (discussed in Section 3), which requires municipalities to justify their settlement expansion request through an analysis that includes housing mix forecasts. Essentially, the municipalities are required to take the population forecast from the Growth Plan, compute population age groups, then apply household formation propensities and propensities to occupy dwelling types. The result is a forecast of growth in households by type of dwelling occupied over the planning horizon. Given that the propensities mentioned are typically assessed on an historical basis, this approach is liable to produce a housing mix forecast that is weighted towards low-density forms for the same reasons given above.

100 Kevin Eby & Susan Lloyd Swail (2022). "Planning Presentation." (Ontario Greenbelt Alliance webinar). <https://www.youtube.com/watch?v=dbeRR65KreQ>

101 Frank Clayton (2021). "Forecasting Housing Needs to 2051: York Region is Credible Hamilton is Not." (Centre for Urban Research and Land Development, Ryerson University: Toronto).

If these projections are fed into development charge background studies, the distortions arising from this backwards-looking approach will propagate through the system and could result in serious mismatches. Development charges in the GGH typically differentiate among singles, semis, townhomes, and apartments, applying a charge to each that is proportional to the estimated people per unit (PPU). Given that the charge on lower-density housing types is greater than that applied to high-density forms, a housing mix forecast that is unrealistically biased towards lower density housing types could result in lower-than-expected development charge revenues over time. If infrastructure has been built to support lower-density housing that doesn't materialize, revenues will not match the amounts expended, debt will accumulate, and councils may be incented to refuse higher-density development applications for the site in the hope that lower-density applications are around the corner.

### 5.3.2 Legislative and policy context

- Municipalities in the GGH must incorporate the Growth Plan population and employment forecasts into their official plans and master plans.<sup>102</sup> The Growth Plan forecasts are also routinely used in asset management plans, background studies for development charge by-laws, capital budgets, and long-term financial plans, although there is no legal requirement for these to respect the Growth Plan forecasts.
- The Growth Plan contains a schedule with the population and employment forecasts for the GGH broken down by upper-tier and single-tier municipality. In two-tier regions, the lower-tier municipalities are assigned population and employment growth forecasts by upper-tier municipalities.
- The Growth Plan requires that the growth forecasts be reviewed in consultation with municipalities at least every five years and revised where appropriate.
- The Growth Plan doesn't impose any requirements related to housing mix assumptions, but the Land Needs Assessment Methodology associated with the plan requires a market-based analysis in the context of the MCR process.
- The Development Charges Act does not provide any guidance on the housing mix assumptions used in municipal background studies. Thus, municipalities can choose their own housing mix assumptions. Upper-tier and single-tier municipalities are in part guided by the housing-mix projections assumed in the Hemson background studies prepared for the three iterations of the Growth Plan while lower-tiers are in part guided by the assumptions of upper-tier municipalities.



**There are many emerging and foreseeable factors that will likely redirect future demand away from past trends. Changing lifestyles, the availability of more transportation and housing options, flexible employment location options, climate change mitigation requirements, the need to take care of aging seniors, extended retirements, and the increased awareness of the need to protect farmland will all factor into future housing choices in ways very different than in the past.**

---

102 The most recent Growth Plan allows municipalities to develop and use an alternate growth forecast in consultation with the Province, although as of the time of writing, this provision had not been used.

### 5.3.3 Case study results

The case studies examined the forecasted population and employment growth assumptions found in the development charge background studies and assessed whether they were realistic based on comparisons with local monitoring reports, MOF forecasts, and those presented in the 2020 version of the Growth Plan.

- The development charge background studies prepared for upper-tier municipalities adopted the population and employment forecast assumptions of their current regional official plans. In several cases, these were likely not very realistic. For example, York Region's development charges background study used numbers close to the 2006 Growth Plan in its forecast even though the Region has grown much more slowly than anticipated. The updated forecast prepared for the 2020 Growth Plan showed that by 2031, population and employment would be far below that used in the development charge background study.
- Most lower-tier municipalities adopted the population and employment forecast assumptions assigned to them in the regional official plan and therefore suffered from the optimistic bias found at the upper-tier. However, there were some exceptions to this rule. For example, the City of Waterloo's development charges background study delayed achieving the population and employment targets assigned to it in the regional official plan by ten years due to slower than anticipated growth - these were probably more realistic than the Region's forecasts.
- Many of assumptions going into the development charge background studies were significantly out of date. The studies adopted the population and employment forecast assumptions of their current regional official plans, which in turn reflected the Growth Plan version that was current at the time the regional official plans were prepared, with some stretching back to documents prepared in the 2000s.
- Housing mix projections found in the development charge background studies were uneven. Several municipalities (e.g., Markham, City of Waterloo) projected stable demand for low-density forms to 2031 or 2041, while others projected major reductions in low-density production (e.g., Hamilton forecasted a drop from 64% of total growth from 2006-2011 to 37% in 2029-31). Others forecasted a declining share of low-density forms, but still far above what is likely given recent and emerging trends (e.g., Waterloo Region projected that low-density units would decline from 49% in 2006-2016 to 31% in 2016-2029 while the actual number for 2016-21 was 25.3%).
- In some cases, municipalities reported having to carry through with the installation of infrastructure that would not be needed for many years because their hands were tied by obsolete forecasts.<sup>103</sup>



**Provincial action is needed to ensure more accurate, timely, and effective population employment, and housing mix forecasting is available to guide municipal land use, capital planning, and development charge formulation in the region.**

<sup>103</sup> Other municipalities found creative ways to address this issue, e.g., by adjusting capital plans to reflect actual instead of forecasted growth. Capital plans and budgets do not have to conform to the Growth Plan. However, this approach produces a temporal disconnect between master plans and capital plans.

### 5.3.4 Issues and recommendations

Provincial action is needed to ensure more accurate, timely, and effective population employment, and housing mix forecasting is available to guide municipal land use, capital planning, and development charge formulation in the region.

#### ISSUE

The Growth Plan forecasts should reflect the policy directions of the Growth Plan and be less driven by municipal growth aspirations.

#### DISCUSSION

- As discussed above, unrealistic population and employment projections may be contributing to problems the Growth Plan was meant to address. It should go without saying that forecasts based on the policy objectives of the Growth Plan are essential if its objectives are to be achieved. To accomplish this, however, these forecasts need to both properly reflect the policy objectives – as opposed to municipal aspirations for growth – and be adjusted as required to reflect key more recent and emerging trends.
- The Growth Plan forecasts are being updated at an average rate of every seven years. The rapid pace of change in the GGH – highlighted by the massive dislocations during the COVID-19 pandemic – ensures that forecasts updated at this rate are likely to be obsolete before they are next reviewed and revised. The Growth Plan requires a review at least every five years, but even that is likely too infrequent. A better approach would be to review the forecasts on an annual basis and revise them when an analysis shows that trends appear to be changing.
- Even with more frequent updates and better forecasting to reflect emerging trends, projections are inherently uncertain. Municipalities should be allowed to work within a range of forecasted values in order to maintain the flexibility they need to match capital spending to actual growth trends on the ground. As growth planning becomes more integrated with fiscal planning, pressures to automatically choose the maximum value should diminish in the region and help ensure municipalities set responsible growth targets within the official forecast range.

#### RECOMMENDATIONS

31. The methodology for the GGH population and employment forecasts prepared for MMAH should be revised to emphasize the policy goals of the plan and the housing mix forecasting method should put more emphasis on emerging and expected future trends rather than historical market-based trends.

32. The Province should review population and employment forecasts for upper- and single-tier municipalities in the GGH annually. If the annual review suggests that long-term trends appear to be changing, the official forecast figures should be updated. The updated forecasts should be expressed as a range of values within which municipalities have room to adjust as they develop their land use and capital planning documents.
33. The Province should amend the Growth Plan to require that municipalities use the most recently updated forecast when they begin their official plan updates.
34. Municipalities should time their development charge updates to align with the official plan update and benefit from the most recent forecast update.

## ISSUE

The Province issues two sets of population and employment forecasts which are difficult to reconcile.

## DISCUSSION

The two sets of population and employment growth forecasts maintained by the Province – one by MMAH and the other by MOF – sows confusion among municipal officials and leads to negative outcomes. The MOF trend-based forecasts are used by provincial agencies overseeing transportation, health, and social services to plan capital improvements in the GGH, making decisions that may conflict with the needs of a population distributed according to MMAH’s policy-based forecasts. MOF will undoubtedly continue with trend-based forecasts outside the GGH, but within the region, the two ministries should work together to devise a single set of forecasts.

## RECOMMENDATION

35. The population and employment forecasts from the Ministries of Finance and Municipal Affairs and Housing should be reconciled to produce a single set of consistent forecasts. The Province should carry out this reconciliation process with officials/staff from the Ministries of Finance, Municipal Affairs and Housing, Environment, and Transportation. The reconciled forecasts should be binding on all provincial ministries in their decision-making with respect to growth-related matters.

## ISSUE

The methodology used by municipalities to forecast housing mix is flawed.

## DISCUSSION

As discussed above, in forecasting housing mix trends in the context of an MCR, municipalities are required to use the methodology found in the Land Needs Assessment Methodology guidance document. Although the document does not specifically mandate a historical trends approach, this is the method that municipalities have used, mirroring the approach used by Hemson in preparing their forecasts for Growth Plan updates. Given that this analysis eventually makes its way into development charge background studies, which may cause sprawl-inducing distortions, it is important that this be corrected.

## RECOMMENDATION

36. The Province should amend the Land Needs Assessment Methodology guidance document to direct municipalities in the use of more forward-looking methods for forecasting housing-mix trends.

## 5.4 Smart Growth development charge discounts/exemptions

### 5.4.1 Introduction

Development charges can represent a significant cost to developers and have the potential to affect their decisions concerning the location and form of development.<sup>104</sup> Exemptions or discounts offered by municipalities can attract private investment to targeted locations and favour Smart Growth outcomes.<sup>105</sup> Basically, development charge discounts reduce the “soft costs” of development (i.e., costs related to planning, permitting, and design rather than construction and land costs) and – in some circumstances – can make the difference between a profitable and unprofitable investment and therefore play a role in land use outcomes.



**Over the years, the provincial rules governing the application of development charges have evolved to require that municipalities provide exemptions and discounts to some types of development that are supportive of Smart Growth objectives, such as intensification and affordable housing.**

104 Andrejs Skaburskis & Ray Tomalty (2000). “The effects of property taxes and development cost charges on urban development: Perspectives of planners, developers and finance officers in Toronto and Ottawa.” *Canadian Journal of Regional Science*, 23 (2): 303–25.

105 Mia Baumeister (2012). “Development Charges across Canada: An Underutilized Growth Management Tool?” (Institute on Municipal Finance and Governance, University of Toronto: Toronto).

Over the years, the provincial rules governing the application of development charges have evolved to require that municipalities provide exemptions and discounts to some types of development that are supportive of Smart Growth objectives, such as intensification and affordable housing. Owners of industrial properties have long had their development charges discounted for floor space added to an existing building. In 2019, the Development Charges Act was amended to permit owners of existing or new residential properties to add one or two (depending on the type of property) accessory units without incurring any development charges. More recently, the Development Charges Act was amended to require municipalities to defer development charge payments for certain types of development, including private and public rental housing. Some municipalities are willing to go beyond these mandatory measures by adopting discretionary development charge discounts that further encourage Smart Growth development.

Municipalities in Ontario began adopting development charge discounts in the 1990s, often in an effort to trigger revitalization of downtown districts or brownfield redevelopment. London's downtown program dating from that time combined tax-increment and development charge grant program where the amount of the tax and development charge grants do not exceed 100% of the tax increment realized from the development (see Section 6.2). Windsor's program discounted (and still does) development charges payable by up to 60% to compensate for brownfield environmental assessment, remediation, and risk assessment costs. Other uses for the exemptions have since become more common, especially to incentivize the creation of more affordable housing. For example, Ottawa exempts non-profit housing throughout the city. Variations on the exemption theme include the freezing of development charge rates at past levels, such as in Vaughan's effort to attract office development to targeted areas, or long-term payment deferrals with no interest charged, used in Kitchener to support affordable housing development in the downtown core and along transit corridors.

**BOX 5.2****CITY OF CAMBRIDGE DEVELOPMENT CHARGE EXEMPTIONS**

The City of Cambridge introduced development charge exemptions for all development within three mixed-use core areas: Downtown Cambridge, Preston Town Centre, and Hespeler Village. The exemptions were triggered by a concern for the decline in these areas as retail investment migrated to outlying commercial strips. Other revitalization incentive programs were introduced at about the same time as part of a Community Improvement Planning initiative (see Section 6.2). The incentives package was successful at kick-starting investment in these areas, with developers reporting to planning staff that without the inducements, they would likely have gone elsewhere. Monitoring of the program and the impact on municipal revenues was poor as finance officials were not directly involved in managing the program. With the impending extension of the ION light rapid transit line through the municipality, investment in the core areas (two out of the three will have ION stations) has boomed and with it, the cost of the exemption program in terms of foregone revenue. This prompted an assessment of the financial impact of the program, which revealed that the municipal revenue loss would balloon from an annual average of \$1.5 million to about \$55 million over 5-10 years. A 1% surcharge was added to the property tax rate in 2021 to compensate for the outstanding waivers and the program was shut down through a development charge bylaw amendment in 2022. Given that the Region of Waterloo matches lower-tier incentive programs, it will also end its development charge exemptions for these core areas. The CIP-based incentive programs (which the Region doesn't participate in) will continue.

### 5.4.2 Legislative and policy context

- The Development Charges Act permits municipalities to include discretionary exemptions and discounts in their development charges bylaws as they see fit. These exemptions and discounts can be based on types of development, areas of development, or can be provided to all development.
- The Act specifies that exemptions – either those mandated by the Province or those offered at the discretion of the municipality - cannot be recouped by raising charges on other properties.

### 5.4.3 Case study results

- Five of nine municipalities (including some upper- and lower-tier municipalities) discounted development charges in ways that would support Smart Growth outcomes.
- Most commonly, such discount programs related to office and commercial development in targeted areas such as downtowns or community nodes. For example, Caledon provided grants of up to 50% of the applicable development charges for commercial redevelopment in the Bolton Community Improvement Plan area, which was focused on the historic core area.
- Two municipalities discounted development on brownfield sites. Halton Hills discounted up to 60% of development charges payable on approved brownfield sites in the GO station and South-Acton brownfield Community Improvement Plan sub-areas (see Section 6.2). Waterloo Region discounted charges on brownfield sites region wide.
- While some of the discount programs were located within designated Community Improvement Plan areas, such co-location is not necessary as municipalities are authorized by provincial law to discount development charges as they wish without a Community Improvement Plan.

### 5.4.4 Issues and recommendations

With some leadership from the Province, development charge discounts could serve as a more powerful tool to shape development in the region. Municipalities need to monitor the use of the tool and when necessary, take corrective action to ensure it continues to meet their needs.



**With some leadership from the Province, development charge discounts could serve as a more powerful tool to shape development in the region. Municipalities need to monitor the use of the tool and when necessary, take corrective action to ensure it continues to meet their needs.**

---

## ISSUE

Municipalities are reluctant to adopt development charge discounts because the lost revenue must be made up through hikes in property taxes or user fee rates.

## DISCUSSION

- The revenue lost through Smart Growth discounts can be significant and must be made up through some means in order to meet capital budget requirements. One way to recover the lost revenue would be for the municipality to exclude the exempted growth from the growth forecast. Because of the way development charges are formulated (the total capital costs are divided by the total anticipated growth), this would have the effect of raising development charge rates across the board. The Development Charges Act, however, prohibits municipalities from taking this course of action, requiring municipalities to instead make up for the shortfalls outside the development charge system, e.g., by increasing user fees and property taxes paid by existing taxpayers. This may be unpopular for obvious reasons and could discourage municipal councils from adopting what could be a powerful instrument to promote Smart Growth objectives.
- A better solution would be to amend the Development Charges Act to allow municipalities to increase the charges applied to other development to recover the lost revenue from the targeted development. Each municipality could then decide whether this is the right way to proceed given its own circumstances and if so, how best to achieve revenue neutrality within the development charge system. For example, a municipality may decide to recover the lost revenue due to development charge discounts in targeted intensification areas by raising charges in greenfield areas.<sup>106</sup>

## RECOMMENDATIONS

37. The Province should amend the Development Charges Act to allow municipalities to recover lost revenues associated with discretionary discounts by applying higher charges to other properties.
38. Municipalities should consider recovering the revenue lost to Smart Growth discounts from greenfield areas.

106 This idea was put forward during the 2008 Provincial-Municipal Fiscal and Service Delivery Review.  
<https://www.amo.on.ca/sites/default/files/assets/DOCUMENTS/PMFSDR/PMFSDRDevelopmentChargesSubgroupReportAugust2007.pdf>

## ISSUE

There is little support for municipal officials who are interested in exploring the use of development charge discounts to promote Smart Growth objectives.

## DISCUSSION

Developing a successful development charge discount program requires a variety of professional skills, including conducting market analyses, creating the program guidelines, working with developers to process program applications, program budgeting and financial management, arranging for legal agreements between the municipality and developers, and monitoring program outcomes and costs. These skills can be learned on the job, but the large sums of public funds involved in these programs can lead to costly mistakes.

## RECOMMENDATIONS

39. The Province should include a section in the proposed Municipal Finances for Smart Growth handbook regarding the use of development charge discounts and exemptions as a way to incentivize Smart Growth objectives and help achieve other municipal priorities. The handbook section should be developed in collaboration with municipal finance officers, planners and other experts as needed and should include:
  - information about the conditions under which discounts/exemptions are desirable,
  - the purpose to which they are best suited,
  - the type of Smart Growth criteria that could be used as a basis for applying the discounts and exemptions,
  - procedures for monitoring and evaluating impacts on development,
  - case studies of successful development charge discount/exemption programs in Ontario.
40. The Province should fund the development and delivery of a training module for municipal officials on the use of development charge discounts and exemptions through professional associations such as MFOA, OPPI, and AMO.

**ISSUE**

Development charge discount programs can have unwanted side effects.

**DISCUSSION**

If successful, development charge discount programs that are targeted at depressed areas can trigger escalating home prices and rents. To mitigate this issue, municipalities should consider taking steps to monitor and react to gentrification.

**RECOMMENDATIONS**

41. Municipalities should monitor development trends and housing prices within discounted zones to ensure program goals are being met without triggering gentrification.
42. Municipalities should consider combining discount programs with inclusionary housing policies or direct investment in non-profit housing to ensure that affected areas remain affordable to existing residents.

**ISSUE**

Incentives based on development charge discounts may not be appropriate or effective in all situations.

**DISCUSSION**

- Development charge discounts can help tip the balance on developer pro formas in some situations, e.g., where there is a lack of development interest in certain types of development (e.g., below-market housing) or specific locations (e.g., in depressed core areas) that are key to achieving Smart Growth objectives. The tool should not be used in locations where land values are already rising as a result of major infrastructure investments (e.g., transit). If offered in these situations, development charge discounts mainly enhance developer profits without affecting the form of development. Discounts are a reasonable option if a market study concludes the discount will serve to influence the choice of where to develop.

- In some municipalities using this tool, program costs spiralled upwards and little monitoring was done to ensure the program was still relevant and producing desired growth outcomes. Where this occurred, it was at least in part due to a lack of communication between planners and financial officials. In some cases, discount programs were cut abruptly to control costs, which can be disruptive for the development industry.
- Development charge discounts and exemptions are more likely to achieve significant results in municipalities with high development charges and where discounts are combined with other incentives (such as a Tax Increase-based Equivalent Grant – see Section 6.2) and supporting regulations (e.g., parking policies, urban growth boundaries).
- Municipalities could consider a grants program to incent desired development in targeted locations as an alternative to development charge discounts.
- In older areas with suitable excess infrastructure capacity, municipalities could consider using area-specific development charges, which don't require discounts as the charges would reflect differential marginal infrastructure costs.

## RECOMMENDATIONS

43. Municipalities should limit the use of development charge discounts to specific conditions where they are likely to be effective in attracting development that would otherwise not materialize.
44. Municipalities should establish clear objectives for the program and build in a sunset provision for when objectives of the program are achieved.
45. Municipalities should carefully monitor and review the use of this tool and ensure costs are justified by the results gained.
46. Municipalities should ensure close cooperation of planning and finance staff to ensure that planning objectives are realized at a reasonable financial cost to the municipality.
47. Municipalities should consider this tool in the context of a wider growth management program including other incentives and regulatory requirements for Smart Growth objectives.
48. Municipalities should consider alternatives to this tool where appropriate, such as area-specific development charges, which are more complicated to implement and administer, but reduce cross-subsidization of property types.



# Property Taxes

Municipalities in Canada rely on the property tax as a revenue source more than do those in other OECD countries, where local governments may have access to income, sales, and other taxes generally not permitted in Canada.<sup>107</sup> In fact, the property tax is the main revenue source for most municipalities in Canada, usually outstripping other sources such as grants from senior governments, user fees and development charges by a wide margin.<sup>108</sup> The revenues raised are used to pay for or subsidize a wide variety of municipal programs and services that would be inefficient or inequitable if charged to beneficiaries, including road repair and replacement, public libraries, urban transit, snow removal, garbage pickup, and police and ambulance services, among others.

As we saw in Section 3, the impact of property taxes on urban development patterns is a controversial subject. Some observers argue that market-value property taxes by their very nature contribute to urban sprawl and that we'd be better off with a tax system based on the land portion of land value tax.<sup>109</sup> Others argue that assessment increases should be pooled across the urban region in order to undermine the temptation for individual municipalities to accept sprawling development as a way to maintain property tax revenues.<sup>110</sup> These debates are too complex to address within the scope of the current study and the report avoids weighing in on one side or the other. While this report isn't going to recommend a major overhaul of the property tax system, it does examine some specific features of the system as it has evolved in Ontario and that are now commonly found in the GGH. The following sections look at how to discontinue those practices that tend to encourage inefficient development patterns and urban sprawl and to take advantage of positive opportunities for using the tax system to further Smart Growth practices.

107 Harry Kitchen, Melville McMillan & Anwar Shah (2019). *Local Public Finance and Economics: An International Perspective*. (Palgrave McMillan: Cham, Switzerland).

108 Jean-Philippe Meloche & François Vaillancourt (2021). "Municipal Financing Opportunities in Canada: How Do Cities Use Their Fiscal Space?" (Intergovernmental Institute on Finance and Governance: Toronto).

109 Ray Tomalty (2007). "Innovative Infrastructure Financing Mechanisms for Smart Growth." (Smart Growth BC: Vancouver). <https://www.como.gov/Council/Commissions/downloadfile.php?id=12949> David Thompson (2013). "Suburban Sprawl: Exposing Hidden Costs, Identifying Innovations." (Sustainable Prosperity: Ottawa). [https://institute.smartprosperity.ca/sites/default/files/publications/files/Summary%20for%20Government%20Officials\\_0.pdf](https://institute.smartprosperity.ca/sites/default/files/publications/files/Summary%20for%20Government%20Officials_0.pdf)

110 Institute for Local Self-Reliance (undated website). "Tax Base Sharing." <https://ilsr.org/rule/tax-base-sharing/>

## 6.1 Tax Rates

### 6.1.1 Introduction

As in other Canadian provinces, Ontario's property tax system is based on market-value assessment. The Municipal Property Assessment Corporation (MPAC) is a provincial crown corporation that administers property assessments throughout Ontario. Once a year, MPAC delivers the "assessment roll" of all properties in the municipality and local officials then calculate the property tax payable for each individual property in its jurisdiction. The tax amount paid on each property is the multiple of the assessed value and the tax rate for the tax class into which the property falls. The tax classes (such as residential, commercial, industrial) are established by the Province, but the tax rates are set annually by municipalities.<sup>111</sup> In the GGH, upper-tier municipalities set the tax class ratios for itself and its component lower-tier municipalities, (except in Peel Region, where the upper-tier has delegated this power to its component lower-tier municipalities) and the lower-tier municipalities set the actual tax rates while respecting those ratios.

The tax class rates are often compared to each other to show which class of properties are favoured or disfavoured by the local tax system. A "tax ratio" is how the tax rate of a given class compares with the residential class rate – e.g., if a property class has a ratio of 2.0, then it is taxed at twice the rate of a property in the residential class. Because the municipality must raise a set amount of revenue through the property tax system to meet its budgetary requirements, changing ratios basically shifts the burden of property taxes between property classes.

Although municipalities may set different tax rates for different property categories, the ratios are influenced by provincial rules that limit local flexibility. For example, farm properties have a maximum tax ratio of 0.25, but a municipality can choose a lower ratio if it wants, all the way to zero. The Province also has established "ranges of fairness", which help protect property classes that are taxed at higher rates.<sup>112</sup> If the ratio for a property class is outside the "range of fairness", a municipality can either maintain the current ratio or move towards the range of fairness, but it may not move further from the fairness range.

There are several features related to property tax classes and rates that concern us in this section as they could have implications for urban form and development patterns. Each of these features is discussed in turn below.



**Many municipalities in Ontario charge about twice the rate on apartment buildings as they do on detached homes. This overcharging increases the operating costs of such buildings, renders them more vulnerable to demolition, makes them less attractive as investment options, and may reduce the density of the urban fabric.**

111 Property owners in Ontario also pay property taxes to the Province (often called the Education Tax), but this tax rate is set by the Province and applies throughout Ontario.

112 For example, the range of fairness for commercial and industrial properties is 0.6-1.10, although actual tax ratios average 1.98 and 2.63 respectively across the province.

## MULTI-RESIDENTIAL UNITS RATES

Many municipalities in Ontario charge about twice the rate on apartment buildings as they do on detached homes.<sup>113</sup> This overcharging increases the operating costs of such buildings, renders them more vulnerable to demolition, makes them less attractive as investment options, and may reduce the density of the urban fabric.<sup>114</sup> In 2017, the Province mandated that all municipalities would have to adopt a tax ratio of 1.0-1.1 (meaning 100-110% of the levy on other residential units) on new multi-residential units. This has partially resolved the overcharging issue for new apartment buildings. However, some municipalities are adopting the maximum 1.1 ratio, meaning that new high-density rental housing is being charged 10% more than other forms of housing, and this still leaves older apartment buildings burdened with very high tax rates in many municipalities.

Even if all multi-residential units in the GGH were taxed at the same rate as detached homes, it would still leave room for progress. A single residential rate would mean that all dwelling units would be taxed according to their market value, which may not be a good reflection of their draw on municipal services. For example, a small condo unit in a central location can have a higher market value and tax bill than a detached house on a large lot in a suburban area or on the urban fringe.<sup>115</sup> To counteract this tendency to favour outlying areas, Edmonton (see Box 6.1) is considering a move towards a density-based tax system whereby lower-density housing forms would be taxed at a higher rate than higher-density dwelling types. This may be something worth considering in Ontario.

### BOX 6.1

### EDMONTON DENSITY-BASED TAX PROPOSAL

Apartment buildings currently are taxed at a 15% premium compared to lower-density housing forms in Edmonton. At the time of writing, City Council was considering a motion to eliminate the “other residential” class that is responsible for the higher rates charged to apartments, but some councillors want to go further to remove barriers to higher-density housing. Interest in this measure was prompted by a consulting report (done in the context of a growth scenarios analysis for the new City Plan) showing that more compact development patterns were financially more efficient.<sup>116</sup> As a result, staff are now studying the implications of moving to a density-based tax system for residential taxation, whereby single- and semi-detached forms would be taxed at a higher rate than townhomes, while apartments and condos would be taxed at the lowest rate. One question staff are exploring is whether tax reductions on higher-density units would actually be passed on to tenants or simply pocketed by landlords.<sup>117</sup>

113 This is done on the basis of the argument that apartment buildings are operated like a business and therefore the tax rate should be similar to the commercial rate, which is almost always higher than the regular residential rate.

114 Enid Slack (2002). “Municipal Finance and the Pattern of Urban Growth.” (C.D. Howe Institute: Toronto).

115 This refers to conditions within a single municipality where the same tax rate applies to all properties in the same class. If central and outlying areas are in different municipalities, the effect is complicated by the fact that they are likely to have different tax rates. The City of Toronto has relatively low residential tax rates so dwellings there tend to pay less than in surrounding suburban municipalities.

116 Hemson (2020). “City Plan Growth Scenarios Relative Financial Assessment.” (City of Edmonton: Edmonton).

117 Oliver Moore (2022). “Edmonton mulls tough-sell property tax shakeup to encourage density.” *Globe and Mail*, April 8.

## VACANT COMMERCIAL/INDUSTRIAL UNITS REBATES

---

The Municipal Act allows municipalities to provide for property tax rebates for vacant units in commercial and industrial buildings. As this program disincentivizes owners to fill units, it could increase demand for new commercial and industrial development and contribute to urban sprawl. As of 2017, provincial regulations have allowed municipalities to phase out or immediately stop their rebate programs with a council resolution and notification to the Province. Many municipalities in the GGH have since done so, but some municipalities continue the rebate program, such as Wellington County.

## VACANT COMMERCIAL/INDUSTRIAL LANDS DISCOUNTS

---

Vacant or excess industrial and commercial lands are also eligible for tax reductions according to the Municipal Act. These discounts apply to vacant non-residential properties, whether the whole or part of the parcel. One can understand the desire to provide tax relief to commercial and industrial lands that are not occupied and are therefore not generating income. However, in the long run, this can also remove an incentive to the use and development of these lands, with adverse effects on patterns of urban development.<sup>118</sup> This practice is gradually being phased out after a legislative change in 2017, but some municipalities in the GGH still maintain the discounts, for example Kawartha Lakes.

## VACANT RESIDENTIAL LAND

---

The soaring cost of housing in the GGH has triggered a search for causes and solutions. Many observers have come to the conclusion that residential land that is approved for development is intentionally being held vacant by developers for speculative purposes, i.e., to reduce the supply of land and drive-up prices.<sup>119</sup> The property tax could be inadvertently contributing to this practice through discounts that are applied to land during the planning approvals process. One way to discourage this practice would be to eliminate these discounts. Another way would be to put a time limit on the discounts, such that if the land remains vacant beyond that the discounts would be removed.

Going a step further is also possible, i.e., by raising the tax rate above the regular residential rate on residential land that remains vacant long after it was approved for development. This idea was floated in 2017 in the context of Ontario's Fair Housing Plan, when the provincial government committed to discouraging speculation-driven withholding of lands approved for new housing by providing municipalities with the option to levy a higher property tax rate on such lands. However, no regulatory changes were made to implement this promise. Elsewhere in the country there are examples of such an approach (see Box 6.2).

118 Pamela Blais (2010). *Perverse cities: Hidden subsidies, wonky policy, and urban sprawl*. (UBC Press: Vancouver).

119 Cherise Burda (2013). "Priced Out: Understanding the factors affecting home prices in the GTA." (Royal Bank of Canada and the Pembina Institute: Toronto).

**BOX 6.2**

**TAX ON VACANT LANDS APPROVED FOR DEVELOPMENT, ST. ALBERT, ALBERTA**

St. Albert is the second-largest city in the Edmonton Capital Region, with a population of 70,000. The St. Albert Municipal Development Plan states that new infill development will be encouraged to meet Edmonton Metropolitan Region Board growth plan density targets. The new regional growth plan outlines a minimum of 30 residential dwelling units per net residential hectare and a minimum of 30% medium or high-density housing forms. To promote the development of vacant lands within the municipal boundaries (and draw tax income from underused properties), the City has imposed a higher rate of municipal property taxation on land which has remained vacant for a defined duration of time. The Vacant Land Tax affects residential lands that have been vacant for seven years since being subdivided or having had existing structures demolished for redevelopment. Lands meeting those criteria are subject to a tax rate which is 1.25 times higher than the normal residential rate. The tax rate applies to lands zoned for low-density, medium-density, high-density, and downtown residential that are deemed fully serviced and developable, at the discretion of the Assessor.<sup>120</sup>

**VACANT RESIDENTIAL UNITS TAXES**

Also, part of the 2017 Fair Housing Plan for Ontario was a commitment – and one that was implemented – to provide interested municipalities with the option to introduce a tax on vacant residential units. This tax is intended to encourage property owners to occupy, sell or rent unoccupied units to address concerns about residential units being left vacant by speculators and affecting the availability of affordable housing. This tax also has the potential to reduce pressures to grow outwards by helping to ensure the existing built environment is fully occupied. Vancouver was the first municipality in Canada to implement a vacant home tax program and at the time of writing is the only municipality to be actually collecting the tax (see Box 6.3). However, municipalities in Ontario are now making moves to replicate Vancouver's program. For example, the City of Toronto adopted a bylaw to implement a vacant home tax beginning in 2022 and will begin collecting the tax in 2023, as will Ottawa.



**As part of the 2017 Fair Housing Plan for Ontario, there was a commitment – and one that was implemented – to provide interested municipalities with the option to introduce a tax on vacant residential units. This tax is intended to encourage property owners to occupy, sell or rent unoccupied units to address concerns about residential units being left vacant by speculators and affecting the availability of affordable housing. This tax also has the potential to reduce pressures to grow outwards by helping to ensure the existing built environment is fully occupied.**

120 GSA Consulting Inc. (2018). "Edmonton Municipal Tools Review: Evolving Infill." (City of Edmonton: Edmonton).

**BOX 6.3****VANCOUVER'S EMPTY HOMES TAX**

Vancouver's Empty Homes Tax has been in place since 2017. The first of its kind in North America, the purpose of the tax is to encourage residential property owners to return empty and under-used properties to the market as long-term rental homes. In order to determine which properties are subject to the tax, all Vancouver homeowners are required to make a declaration for the previous year confirming the status of their property as occupied, exempt or vacant. Properties determined to be vacant are subject to a tax on the property's assessed taxable value. From 2017 to 2019, the tax rate was 1%, in 2020 it increased to 1.25%, and for 2021 the rate was 3%. Most residential properties are not subject to the tax, including principal residences, homes that are rented out for at least six months of the year, or homes that meet other exemption criteria. From 2017 to 2020, the number of vacant properties in the city decreased by 26%. Since the tax launched, more than \$86.6 million of net revenues (i.e., after administrative costs) from the tax have been allocated to support affordable housing initiatives in Vancouver.

### 6.1.2 Legislation and policy context

Property taxation is covered largely in two provincial statutes: the Assessment Act sets out the tax classes and the rules governing assessment procedures, while the Municipal Act details the rules for setting tax rates.

#### MULTI-RESIDENTIAL UNITS RATES

A multi-residential building is defined in the Assessment Act as a building – other than condos - with seven or more units. Historically, municipalities in Ontario have taxed properties in the Multi-residential class at a rate higher than the Residential rate. When the taxation system was reformed in 1998, municipalities were given the option to create a separate class for New Multi-residential properties with a tax ratio of 1.0. This means that any building issued a building permit after the bylaw to create the class was passed could qualify for a lower tax rate. In 2017, a new regulation under the Municipal Act made this a mandatory class with a range of fairness between 1.0 and 1.1. A unit in the new multi-residential class passes into the multi-residential class after 35 years and sees its tax rate increase.

#### VACANT COMMERCIAL/INDUSTRIAL UNITS REBATES

The Vacant Unit Rebate Program was introduced under the Municipal Act in 1998 to allow owners of vacant commercial or industrial units to apply to their municipality for a temporary reduction in property tax owed, lasting for as long as the property remains unoccupied. This mandatory program was developed when provincial tax reform shifted business taxation from tenants to property owners. The program was intended to assist property owners in times of economic downturn who now assumed tax liability whether or not their property was tenanted. The program provides relief through a rebate of property taxes to owners of vacant commercial and industrial properties, such as a vacant store in a commercial mall. Owners of commercial properties may apply for a 30% rebate, while industrial properties may apply for a 35% rebate of the property taxes attributable to the vacant space. If property owners meet basic conditions – such as showing that the property has been vacant for more than 90 days - their applications are automatically approved by the municipality. Since 2017, the Municipal Act has allowed municipalities in the GGH to remove these discounts with authorization from the Province.

## VACANT COMMERCIAL/INDUSTRIAL LANDS DISCOUNTS

---

The Assessment Act sets out two mandatory subclasses for Vacant Commercial Land and Vacant Industrial Land. According to the Municipal Act, land falling within the vacant commercial or industrial subclasses are discounted up to 30 per cent of the full commercial rate and 35 per cent of the full industrial rate, or, if municipalities choose, they can apply a single percentage between 30-35% to both classes. Through amendments to the Act in 2017, municipalities can now request authorization from the Province to remove these discounts. Once granted by provincial regulation, the tax rates for these subclasses are set at 100 per cent of the applicable property class tax rate.

## VACANT LAND IN DEVELOPMENT DISCOUNTS

---

The Assessment Act sets out two mandatory subclasses that apply to residential, multi-residential, commercial, or industrial land that are in different stages of the development approval process. The special treatment of farmland undergoing development was put in place in order to offset potentially very large tax increases that would otherwise apply as properties worked their way through the planning process and after farmland tax rules ceased to apply. The Farm Land Awaiting Development Phase I subclass applies to actively farmed lands once a plan of subdivision has been registered; at this point the Municipal Act requires municipalities to set tax rates between 25 and 75 percent of the residential property tax rate, even though the properties may be in other property classes. The Farm Land Awaiting Development Phase II subclass applies to properties once a building permit has been issued for that property. Phase II subclass tax rates are to be set between 25 and 100 percent of the applicable class rate (i.e., commercial, industrial, multi-residential, or residential).

## VACANT RESIDENTIAL UNITS TAXES

---

In 2017, the Province made changes to the Municipal Act to provide municipalities with the option of introducing a tax on vacant residential units as a discouragement to speculative holding of such units. For a municipality to implement a vacant residential unit tax, the Province must first prescribe a regulation authorizing the municipality to do so under the Act. There are no regulations prescribing how municipalities should define “vacant” for purposes of the tax nor the tax rate range they can set.

### 6.1.3 Case study results

#### MULTI-RESIDENTIAL UNITS RATES

---

In seven of the nine case study municipalities, newer multi-residential buildings were taxed at the regular residential rate. However, older multi-residential buildings were taxed at a far higher rate than the regular residential rate. The ratio of the rates between older multi-residential buildings and the standard residential rate varied from a low of 1.72 in Caledon/Peel Region to a high of 2.26 in Hamilton. The exceptions were Markham and York Region, where both older and newer multi-residential buildings were taxed at the regular residential rate.<sup>121</sup> This policy was adopted in 2001, decreasing multi-residential ratios gradually from 2.0875 to 1.0 in 2003.

<sup>121</sup> Because the upper-tier municipalities set tax ratios, the York Region ratio applies to all nine lower-tier municipalities in the region, not just the case study municipality of Markham.

## VACANT COMMERCIAL/INDUSTRIAL UNITS REBATES

---

None of the case study municipalities had a vacant unit rebate program for commercial or industrial properties. Rebates had been either immediately stopped or phased out after the provincial regulatory change in 2017.

## VACANT COMMERCIAL/INDUSTRIAL LANDS DISCOUNTS

---

In seven of nine municipalities, vacant and excess lands were taxed at the same rate as regular commercial and industrial land. The exceptions were Markham and York Region, where commercial vacant land was taxed at 0.70 the rate of other commercial properties and industrial vacant land was taxed at 0.65 the regular industrial rate.

## FARMLAND AWAITING DEVELOPMENT DISCOUNTS

---

The nine case study municipalities applied discounts to farmland awaiting development. For land that had been the subject of a subdivision plan (Farmland Awaiting Development – Phase 1), ratios (compared with the regular residential rate) varied from a low of 0.25 in Markham/York, to 0.30 in Caledon/Peel and 0.75 in Waterloo/Waterloo Region, Halton Hills/Halton Region, and Hamilton. Ratios for lands that had received a building permit (Farmland Awaiting Development – Phase 2) all had ratios of 1.0.

## VACANT RESIDENTIAL UNITS TAXES

---

No case study municipalities had a Vacant Unit Tax bylaw in place. Hamilton announced that it intends to proceed with a bylaw in 2022, while Peel and Halton Regions were undertaking feasibility studies and are likely to draft bylaws in 2023.



**The Province has made significant progress towards revising property tax legislation over recent years to eliminate some barriers to Smart Growth and the supply of affordable housing. However, there is still some changes to complete this transition to a more Smart Growth-supportive property tax framework.**

### 6.1.4 Issues and recommendations

The Province has made significant progress towards revising property tax legislation over recent years to eliminate some barriers to Smart Growth and the supply of affordable housing. However, there is still some changes needed to complete this transition to a more Smart Growth-supportive property tax framework.

## ISSUE

Many multi-residential units – especially older units – continue to pay very high tax rates compared to lower-density units.

## DISCUSSION

- As discussed above, apartment units that were built before municipalities adopted the now mandatory New Multi-Residential class are being charged at the Multi-Residential rate which is on average about twice the rate applied to condos and lower density housing forms. Moreover, some municipalities are setting tax rates on new multi-residential units above those of other residential units. These higher rates cannot be justified based on services used by higher density units and should be eliminated through legislative changes.
- Depending on the number of apartment units involved, the elimination of the Multi-Residential and New Multi-Residential tax classes could have a noticeable impact on other taxpayers, especially owners of lower-density housing types. In such cases, one can expect to encounter political resistance to the proposed changes and mitigation measures may be in order. The proposed legislative changes could provide a phase-in period to be used at the municipality's discretion. Another option would be to prohibit municipalities from adopting tax rate increases (e.g., due to inflation or reassessment) on the New Multi-residential and Multi-residential classes until the difference between those classes and the regular residential class is eliminated, likely to take several years.
- While levelling the playing field among all forms of residential development will help remove barriers to higher density rental housing, other municipalities may want the option of taking the additional step of adopting different tax rates for different density levels. This may be justified as a policy measure to support planning goals but would be especially applicable in jurisdictions where it can be shown (e.g., through a fiscal alignment audit – see Section 4.3) that higher density residential units impose a lower burden on municipal services than lower-density dwelling types.

## RECOMMENDATIONS

49. The Province should amend the Municipal Act to require that municipalities apply the same tax rate on multi-residential properties (including old and new) as applied to other residential properties. The amendment should allow a transition period during which property tax rates on multi-residential properties gradually reach parity with those applied to other residential properties or adopt other provisions that would allow a gradual transition to rate parity for all residential types.
50. The Province should explore the possibility of changing the Assessment Act and Municipal Act to allow municipalities to adopt density-based tax rates on residential properties. The decision to amend statutes in this way should only be taken after consultation with municipalities and key stakeholders.

**ISSUE**

Some municipalities in the GGH continue to offer vacant unit rebates and vacant land discounts to commercial and industrial properties.

**DISCUSSION**

- Vacant unit rebate and vacant land discount programs are a resource drain to MPAC, which must monitor vacancy status, and municipalities, which must administer the programs. Moreover, MPAC's evaluation procedures have gradually evolved to incorporate an average unit vacancy assumption in commercial and industrial land evaluations. To the extent that vacancy assumptions are already build into assessed values and therefore taxes paid, a vacant unit rebate could be considered as "double dipping". Finally, the programs represent an added burden to residential property owners who largely subsidize the rebates and discounts.
- At present, municipalities are required to follow a procedure set down in provincial regulation to eliminate the vacancy rebates or discounts, including holding consultations with the business community and submitting a formal request to the Province, which then needs to prescribe a regulation under the Municipal Act to effect the changes. In some cases, these requirements have delayed municipal action to remove the subsidies. Political pressure from benefiting businesses can also delay elimination of the programs. To obviate these delays, the best way forward is for the Province to eliminate the programs for all municipalities in the GGH and beyond.

**RECOMMENDATION**

51. The Province should amend the Municipal Act to abolish the vacant commercial and industrial unit rebate program and amend the Assessment Act to eliminate the vacant and excess lands property tax subclasses. A phase out period should be permitted to allow local businesses benefiting from the programs to adjust.

**ISSUE**

Discounts required by the Municipal Act may be contributing to land speculation and rising real estate prices.

## DISCUSSION

- As mentioned above, all municipalities in Ontario are required to create subclasses for farmland progressing through the planning approval process and to apply tax rate discounts within a prescribed range of tax ratios. The approval of a subdivision plan triggers MPAC to reassess the land. Therefore, taxes paid will increase even if the land stays at the 0.25 tax ratio that most farmland is taxed at in the GGH. Building permit issuance prompts another reassessment and a higher valuation. As the assessment and tax rate increases, these lands can see very significant hikes in tax bills. This would likely apply some pressure to the landowner to proceed with the planned development in order to secure a revenue stream with which to pay property taxes and other carrying costs of the land. In some cases, however, developers may choose to hold the land vacant, e.g., due to changing market conditions such as a drop in demand, or because the land is rising in value at such a pace that delayed development will bring better returns. Under the latter conditions, there is no justification for property tax discounts funded by other taxpayers. One way of discouraging this type of speculation would be to remove discounts after a threshold number of years when land values are appreciating above a threshold rate.
- If the owner continues to hold the land vacant, a further tax increase above the class rate may help prompt development of the land. However, adjusting tax rates above the class rate is harder to justify than eliminating subsidies and this should be carefully thought through by the Province before a decision to implement such a measure is taken. If implemented, this measure should be presented as municipal option, in other words, each municipality will decide what is best given local conditions. For example, provisions could be made for exemptions from the rate increase where properties are subject to phasing decisions by the municipality or facing other conditions beyond the owner's control.
- Given the higher tax rates generally applied to commercial and industrial land and the volatility in demand for non-residential land in the GGH, the recommended provisions should be applied only to residential land. This is the main source of concern when it comes to speculative withholding and price escalation.

## RECOMMENDATIONS

52. The Province should amend the Municipal Act to require municipalities to eliminate discounts to farmland awaiting development after a threshold number of years when assessment values are increasing on average over those years by a threshold amount.
53. The Province should amend the Municipal Act to provide municipalities with the option of raising tax rates above class rates on land that continues to be held vacant beyond a threshold number of years. The decision to amend the Act in this way should only be taken after consultation with municipalities and key stakeholders.

## ISSUE

Establishing and administering a Vacant Unit Tax is complicated and expensive and may be discouraging municipalities from considering this opportunity.

## DISCUSSION

- Although it's been five years since amendments to the Municipal Act made it possible for municipalities to establish a Vacant Unit Tax, so far only one jurisdiction in the GGH – Toronto – has proceeded to the point of creating a program. The decentralized nature of the program – the Act allows municipalities to design the program as they see fit and set any tax rate – is attractive from the point of view of municipal flexibility and autonomy. However, it also may be discouraging municipal uptake. The costs of establishing (e.g., studying the feasibility and need for a local program, setting up a home-owner declaration process, obtaining provincial permission to proceed) and operating (processing the declarations and auditing properties to ensure compliance) a program can be daunting. Such costs would only be justified in the largest jurisdictions with the greatest numbers of vacant homes.
- One way of making this program more accessible to other municipalities would be for the Province to simplify procedures and carry out some of the key tasks. For example, the Province could give better direction in the Act as to the range of rates to consider and remove the need to obtain regulatory permission to proceed. The Province could also explore ways to simplify the vacancy declaration process, e.g., by including a declaration of vacancy status for owners of residential property on provincial income tax forms.<sup>122</sup> MPAC could be directed to inspect a random selection of properties within the municipality to ensure accurate reporting.<sup>123</sup>

## RECOMMENDATIONS

54. The Province should study ways to simplify and standardize the procedure for establishing a vacant unit tax program while maintaining municipal control over and revenues from the program.
55. Municipalities should consider dedicating the revenues flowing from the implementation of a vacant unit tax program to housing affordability or Community Improvement Plan (see Section 6.2) programs.

122 The taxpayer would have to agree on their return to share this information with their municipality.

123 MPAC already has inspection functions to fulfill and an established system of field operations in municipalities across the GGH.

## 6.2 Smart Growth property tax rebates

### 6.2.1 Introduction

A Community Improvement Plan (CIP) is a tool that allows a municipality to provide incentives to landowners or businesses to invest in development, redevelopment, or other property improvements that help meet municipal goals. The incentives can apply to industrial, commercial or residential properties within a defined Community Improvement Project Area (CIPA), which may be the whole municipality or a selected area within it. These incentives can be an effective tool to promote the environmental cleanup and rehabilitation of vacant or underused lands, usually referred to as brownfields, which may be contaminated from their former use. Incentives may also serve as a catalyst for community revitalization, development or redevelopment, stimulating private sector investment, increasing property values and supporting industry and jobs.

Through a CIP, municipalities are empowered to offer grants, waive planning fees, and provide other incentives to private businesses, something normally prohibited by the Municipal Act in Ontario. The type of incentive of most interest in the context of this report is the Tax Increase-based Equivalent Grant (TIEG). This type of program offers grants to property owners whose tax assessment has increased after they invested in improvements to their properties. The grants are based on the difference between property taxes collected on a property before development and the estimated taxes that will be collected after development. In other words, the municipality rebates or refunds the growth in property tax revenue that results from development to the property owner as an incentive for making the investment that led to the growth. The rebate typically starts at 100% of the tax increment and then tapers off over time – usually five to ten years – until the full amount of the increased tax is going to the municipality instead of the property owner.

Community improvement planning is considered a flexible yet powerful tool to encourage property rehabilitation and redevelopment. The tool was popular in the 1970s and 1980s to support and encourage neighbourhood renewal and commercial area improvement. In the 1990s, growth pressures generated interest in the tool as a way to incentivize the redevelopment of brownfield sites and revive sagging downtowns. Municipalities are now using CIPs in more innovative ways, promoting growth management goals such as intensification in designated growth centres, development along transit corridors, mixed-use and transit/bicycle-oriented development, and affordable housing.<sup>124</sup> Some municipalities are using CIPs as an incentive for encouraging development that meets recognized environmental standards, such as LEED.<sup>125</sup>



**Municipalities are now using Community Improvement Plans in more innovative ways, promoting growth management goals such as intensification in designated growth centres, development along transit corridors, mixed-use and transit/bicycle-oriented development, and affordable housing. Some municipalities are using CIPs as an incentive for encouraging development that meets recognized environmental standards, such as LEED.**

---

124 Phillip Caldwell (2020). "Municipal Best Practices Review." (City of Hamilton: Hamilton).

125 Ministry of Municipal Affairs and Housing (2010). "Business Improvement Area Handbook." (Government of Ontario: Toronto).  
<https://www.ontario.ca/document/business-improvement-area-handbook>

**BOX 6.4****LONDON'S COMBINED REHABILITATION AND REDEVELOPMENT TAX GRANT AND RESIDENTIAL DEVELOPMENT CHARGES GRANT PROGRAM**

London has a unique CIP program that combines tax-increment and development charge grants. The Downtown CIP was established in 1995 to stimulate investment and increase the supply of residential units and ensure a viable downtown population. The tax-increment grant program offers tax grants for intensification or redevelopment of properties in the target area using a declining scale over ten years. The development charge discounts are offered in the form of grants to rebate developers for the amounts invested. The program is structured such that the combined amount of the tax and development charge grants add up to the tax increment realized from the development – as the tax grant declines, the development charge grant increases until it's completely repaid to the property owner over a ten-year period. The City has continuously monitored the programs but only recently adopted indicators of success (assessment increases) and targets (population) for the incentive programs. The addition of these measures in 2021 was intended to help determine if the loan and grant programs were fulfilling the objectives of the CIP program and to formulate recommendations to council on funding levels, program amendments, and whether to discontinue the program.<sup>126</sup>

### 6.2.2 Legislative and policy context

The Planning Act sets the rules on how municipalities prepare community improvement plans and programs, including the financial incentives offered. Under the Act, municipalities with enabling policies in their official plans may adopt a CIP for the purpose of providing grants and loans within a Community Improvement Project Area (CIPA), which would otherwise be prohibited under the Municipal Act.<sup>127</sup> These grants and/or loans may be provided to the owner or tenant of lands within a CIPA to pay for all or part of the eligible costs of the improvements made. Eligible costs are defined as “costs related to environmental site assessment, environmental remediation, development, redevelopment, construction and reconstruction of lands and buildings for rehabilitation purposes or for the provision of energy efficient uses, buildings, structures, works, improvements or facilities.” The adoption of a CIP by a municipality must be conducted in accordance with the applicable policies under Sections 17 and 28 of the Planning Act.

All single-tier and lower-tier municipalities and those upper-tier municipalities prescribed under the Planning Act are authorized to create CIPs in order to help achieve policies of their official plans. Upper-tier municipalities are also authorized under the Planning Act to participate in lower-tier CIPs and make grants or loans in support of these local CIPs without creating CIPs of their own.

126 City of London (March 29, 2021). “Downtown Community Improvement Plan – Performance Measures and Indicators of Success.” (Report of Planning and City Planner).

127 Section 106(1) of the Municipal Act states: “a municipality shall not assist directly or indirectly any manufacturing business or other industrial or commercial enterprise through the granting of bonuses for that purpose.” Providing financial or other assistance, often referred to as ‘bonusing’, is normally prohibited in Ontario.

### 6.2.3 Case study findings

Five of the nine case study municipalities took advantage of their authority under the Planning Act to establish CIPAs and offer grants that rebate tax increments arising from private investment in targeted areas. The grants were offered over a specified number of years, often on a declining scale. There were two types of incentive programs:

- **Remediation/redevelopment of brownfields:** For example, Hamilton's Environmental Remediation and Site Enhancement (ERASE) program rebated 80% of the tax increment for up to ten years on brownfield sites anywhere within the designated urban area. Halton's program cancelled tax increases from redevelopment for up to five years in the GO station CIPA and other CIP-targeted brownfield sub-areas.
- **Revitalization/intensification:** For example, Waterloo's Uptown CIP program aimed to promote green redevelopment and affordable housing in the commercial core of the city. One program targeted large re-urbanization projects that create over 5,000 sq. ft. of new floor space in the form of affordable housing and/or office development, with tax increment grants for up to 10 years.

### 6.2.4 Issues and recommendations

CIPs are currently used in many municipalities in the GGH to stimulate development or redevelopment that supports the municipality's growth management goals. However, the tool is not used as widely or as effectively as it could be. The recommendations below focus on improving provincial support for and municipal administration of the tool.



**Community Improvement Plans are currently used in many municipalities in the GGH to stimulate development or redevelopment that supports the municipality's growth management goals. However, the tool is not used as widely or as effectively as it could be.**

---

**ISSUE**

There is no provision for provincial participation in CIP-based TIEG programs.

**DISCUSSION**

- Section 365.1 of the Municipal Act allows municipalities to waive property taxes on brownfield properties undergoing remediation. Since 2004, the Province has offered matching property tax assistance to landowners under the Brownfields Financial Tax Incentive Program (BFTIP). The BFTIP allows municipalities offering property tax waivers in the context of a CIP to apply to the Province for a matching education property tax waiver to increase the amount of assistance available to property owners undertaking site remediation.<sup>128</sup> To access the program, municipalities must submit, on behalf of a property owner, a site-specific BFTIP application for provincial approval. This program applies only to remediation projects and the tax waivers are capped by the site-specific remediation costs. Unfortunately, there is no such matching program for municipal Tax Increase-based Equivalent Grant programs, which apply only to the tax increment but can be used to incent a much wider array of private investment that support Smart Growth outcomes beyond site remediation. The introduction of such a matching program would help strengthen municipal tax grant programs and amplify results on the ground.
- The BFTIP is notorious among municipal officials and those in the development industry for its cumbersome application requirements and procedure. For example, the municipality must pass a bylaw to support each site-specific application. Once applications have been submitted, processing times are very long. In many cases, municipal staff are simply ignoring the provincial program as the administrative costs are too high compared to the potential benefit. Moreover, the provincial assistance is only available for three years, even when the matching municipal program is longer than that. In 2021, the government promised to extend the timeline for assistance and streamline procedures, and these changes are currently being implemented.<sup>129</sup> A new provincial program to assist with a wider array of tax grants should avoid these shortcomings.

**RECOMMENDATION**

56. The Province should introduce a tax-increment grant program to match municipal programs that incentivize private investment in ways that meet provincial priorities related to managing growth, such as residential and employment intensification or affordable housing. The new provincial program should match municipal programs for the duration of the tax grants and use application procedures that are as streamlined as possible.

128 Ministry of Municipal Affairs and Housing (2022). "Brownfields financial tax incentive program." (Government of Ontario: Toronto). <https://www.ontario.ca/page/brownfields-financial-tax-incentive-program>

129 Ministry of Finance (2021). "2021 Ontario Economic Outlook and Fiscal Review. Build Ontario." (Government of Ontario: Toronto). <https://budget.ontario.ca/2021/fallstatement/pdf/2021-fall-statement-en.pdf>

## ISSUE

The existing support for municipal officials on the use of CIP-based tax grants is obsolete.

## DISCUSSION

- The provincial handbook on preparing CIPs was published in 2008.<sup>130</sup> The handbook was considered useful when it first came out, but market conditions have changed radically since then, provincial and municipal policy priorities have evolved, and the legislative/regulatory context has also been modified. An updated version of the document could be included as a section in the Municipal Finances for Smart Growth handbook. The section could include information about the conditions under which tax increment grants are desirable, marketing of the grants to property owners, and procedures for monitoring and evaluating impacts on development. Case studies would enhance the value of the handbook section.
- Creating, administering, monitoring, and promoting CIP-based incentive programs do not involve skills that are particularly difficult to learn or use. However, there is considerable legal, monitoring, marketing procedures that must be mastered to ensure a successful CIP-based incentives program. At present most of the learning is occurring on an ad hoc basis. A professional training module would help address this situation.

## RECOMMENDATIONS

57. The Province should replace the now obsolete CIP handbook by adding an updated section to the Municipal Finances for Smart Growth handbook that will guide municipal officials setting up and operating CIPs. The section should include information on procedures for applying for a matching provincial tax-increment grants, if such a program is introduced as recommended above.
58. The Province should fund the development and delivery of a training module for municipal officials on the use of CIP-based tax increment grants through professional associations such as MFOA, OPPI, and AMO.

130 Ministry of Municipal Affairs and Housing (2008). "Community Improvement Planning Handbook." (Ministry of Municipal Affairs and Housing: Toronto). <https://www.midland.ca/Shared%20Documents/Community%20Improvement%20Planning%20Handbook%202008%20MMAH.pdf>

## ISSUE

Some CIP incentive programs remain on the books despite having lost their relevance or effectiveness over time while emerging issues that could benefit from CIP-based incentives go unaddressed.

## DISCUSSION

- Many currently active CIPs were created in the 1990s or early 2000s when downtowns were struggling. In many municipalities, this is no longer a pressing issue, while other issues that could be addressed by CIP-based incentives have become more urgent than ever, e.g., the housing affordability crunch.
- Market conditions change over time such that incentives may lose their rationale or ability to affect positive change. For example, a CIP-based program along a planned high-quality transit corridor may be essential to kick-starting private investment along the corridor, but once land values start to take off, there is no justification for further public subsidies.
- CIP programs are not always closely monitored, and this may result in programs being maintained that are no longer needed to spur development or achieve other municipal policy goals.

## RECOMMENDATIONS

59. Municipalities should establish clear objectives for CIP programs, periodically review and revise objectives, and adjust programs as needed.
60. Municipalities should carefully monitor the use of CIP-based incentives to track usage, costs, and benefits (e.g., increase in assessment base) to the municipality.



**Municipalities should establish clear objectives for CIP programs, periodically review and revise objectives, and adjust programs as needed. Municipalities should also carefully monitor the use of CIP-based incentives to track usage, costs, and benefits (e.g., increase in assessment base) to the municipality.**

## ISSUE

Private investment in areas with depressed land values can lead to gentrification.

## DISCUSSION

If successful, CIP-based grant programs that are targeted at depressed areas can trigger increases in home prices and rents. To mitigate this issue, municipalities should consider taking steps to monitor and react to gentrification.

## RECOMMENDATIONS

61. Municipalities should monitor development trends and housing prices within CIP zones to ensure program goals are being met without triggering gentrification.
62. Municipalities should consider program design measures to avoid contributing to gentrification, e.g., require that residential properties be vacant for a minimum period before becoming eligible for grants.
63. Municipalities should consider combining CIP-based grant programs with inclusionary housing policies or direct investment in non-profit housing to ensure that affected areas remain affordable to existing residents.



**ISSUE**

Tax-based incentives may not be significant enough in themselves to achieve growth management objectives but can contribute to a wider program designed to manage growth.

**DISCUSSION**

Tax incentives play a relatively minor role in decision-making by developers or property owners as to whether to invest in the target areas.<sup>131</sup> By themselves they may tip the balance in some cases, but their impact is usually better felt when combined with other instruments. This may include:

- the waiving or discounting of development charges in target areas (usually a bigger incentive than tax-based ones),
- waiving of planning and building fees,
- a review of the municipality's zoning by-law to ensure it is supportive of the desired type of growth in the target areas,
- the creation of the community urban design guidelines to provide further direction for implementing design, land use policies, and zoning,
- the preparation of a long-term capital budget plan that establishes priorities for infrastructure investment and public space/buildings improvements in the target areas.

**RECOMMENDATION**

64. Municipalities should consider this tool in the context of a wider growth management program including other incentives, regulatory requirements, and guidelines supporting Smart Growth objectives.

131 For example, some brownfield sites require very expensive remediation beyond the capacity of tax-based incentives to incent clean-up. In these cases, external (i.e., senior government) sources may be required.

## 6.3 Tax increment financing

### 6.3.1 Introduction

Tax-increment financing (TIF) is a tool used by municipal governments to fund infrastructure investment through the property tax system.<sup>132</sup> When a TIF is applied to a defined district, property tax revenue growth generated within the district is earmarked over a period of years to pay for physical infrastructure or other improvements designed to spur economic growth within that district. By generating new growth, those expenditures produce increased property tax revenues that are used to pay for the infrastructure program which sparked the growth in the first place. Because TIFs capture tax increases resulting from public infrastructure investment, they are considered a type of land value capture.<sup>133</sup>

To use TIF to pay for infrastructure or other improvements, the municipality first creates a geographic district – for example where it is planning to install infrastructure to support a major redevelopment project or along a projected transit corridor – and assesses the value of property within the district, known as the base value. The municipality then raises the money it needs to pay for the infrastructure, e.g., through a municipal bond. Property taxes continue to be levied at the normal rate, and the revenues generated by applying the tax rate to the base value continue to go into the municipality’s general-revenue fund. However, if the infrastructure investment triggers a rise in land values and development within the district (as it should) then revenues generated from applying the property tax rate to the increased assessment are, for the life of the TIF, set aside by the municipality to be used for paying off the debt. Once the debt is retired, the district’s entire assessed valuation—base value and increment—becomes subject to taxation for general purposes and now goes into the general-revenue fund.



**Tax-increment financing (TIFs) can serve as a powerful tool to fund infrastructure and revitalize communities in specific situations. For example, a TIF approach might be considered in areas where development has been exempted from development charges in order to promote Smart Growth objectives.**

---

132 TIFs are often confused with TELGs (tax-equivalent increment grants), which were discussed in the last section. The difference is that TIFs capture the increased property taxes resulting from public infrastructure investment and use it to pay off the debt associated with that investment, whereas TELGs capture increased property taxes from private investment in property improvements and return it to the property owners to help incentivize their investment decisions.

133 Other mechanisms include development charges, density bonusing, special tax levies in benefitting zones, public land leases, and inclusionary zoning. See: David Amborski (2016). “Using Land Value Capture Tools in Canadian Municipalities,” *Plan Canada*, 56(2): 25-28.

TIFs can serve as a powerful tool to fund infrastructure and revitalize communities in specific situations:

- TIFs may be called for when there are constraints on paying for major infrastructure investments through the usual means. For example, major investment in high-quality transit may be partially funded by senior governments but still require a large municipal contribution. If that contribution can only be partially recovered through development charges because the new transit system will benefit mostly existing residents,<sup>134</sup> then a TIF may be an attractive option, especially if there are political constraints to raising property taxes.
- TIFs are also appropriate for application in areas where baseline property tax revenues are very low compared to other areas in the municipality and therefore have the potential for a significant rise with public investment. This would apply to revitalizing old waterfronts, former manufacturing and commercial lands, run-down main streets, and underused warehousing districts.
- A TIF approach might be considered in areas where development has been exempted from development charges in order to promote Smart Growth objectives (see Section 5.4). Adopting a TIF approach in this situation would allow the municipality to raise the necessary funds from the gradual lift in property values after development has started to occur.
- TIF might be attractive to municipalities with poor access to debt markets. TIF can lower borrowing costs and widen the pool of potential bond purchasers

TIF has been widely used in the US – almost every state has authorized municipalities to use the tool and it’s one of the most popular financing mechanisms used by US cities – but less so in Canada. At present, only three provinces allow TIF as a municipal revenue tool – Alberta (see Box 6.5), Manitoba, and Ontario. As we’ll see, however, the TIF exists in Ontario in principle only, not in practice. After the Province authorized municipalities to use TIFs with the passage of the TIF Act, several municipalities in the GGH explored the use of the mechanism to help fund major projects. For example, the City of Toronto explored the use of this mechanism to help fund the Toronto-York Subway Extension and the redevelopment of the West Don Lands on Toronto’s waterfront. Ultimately, however, these TIFs did not materialize as the Province failed to activate the TIF Act. This has left the TIF Act unimplemented anywhere in Ontario.<sup>135</sup>

## BOX 6.5

## TIF’S IN ALBERTA

In Alberta, TIFs - known as Community Revitalization Levies (CRLs) - are attractive to municipalities since the provincial government contributes the increment in its education taxes to paying off the infrastructure debt incurred by the municipality. Calgary was the first Canadian city to use a CRL when it developed its Rivers District plan in 2007. The project has seen the successful redevelopment of a blighted and contaminated area (it was previously used as a dump) where private sector investment would likely not have materialized without a public sector trigger. After the success of this initiative, the City considered setting up another CRL district for its West Village area, but a consultant study recommended that the City wait for better economic conditions (i.e., in the oil patch) before proceeding. Edmonton has three CRL districts, including one in the downtown area where the City is using the tool to finance an arena, sewer upgrades, and park development.

134 Remember that development charges are designed to pay for infrastructure that benefits new residents, not existing residents.

135 Adam Found (2016). “Tapping the Land/ Tax Increment Financing of Infrastructure.” (CD Howe Institute: Toronto).

Although TIF schemes can indeed help promote Smart Growth objectives, they are not a silver bullet and can be controversial. For example, although they appear to raise revenue through taxation without raising tax rates, this may not in fact be the case. TIF redirects tax revenue that would otherwise go into general funds towards paying off infrastructure loans, but the TIF district still needs services funded through the general-revenue fund. This amounts to a subsidy that may put upward pressure on tax rates as the revenue shortfall has to be made up through taxes from other areas. Some observers claim that TIF programs work by concentrating tax revenue, development and political will within a given area, potentially diverting resources from other areas of the city.<sup>136</sup>

### 6.3.2 Legislative and policy context

The Ontario Tax Increment Financing Act of 2006 permits municipalities to create TIF districts to encourage redevelopment in a designated area located anywhere in the municipality or new development in an urban growth centre designated by the Growth Plan. Projects eligible under the Act include the construction of municipal infrastructure or amenities, the environmental remediation of brownfield sites, or the construction of a municipal public transit facility.

The TIF Act provides for provincial participation in municipal TIFs by adding the provincial component of the property tax (commonly called the Education Tax) to the project. There is nothing stopping a municipality from setting up its own TIF district without provincial participation. However, the attraction of using TIF under the Act is the prospect of accessing that portion of the property tax that would normally go to the Province – a new revenue source. To obtain provincial approval for a TIF-funded project, the Act requires that a municipality submit a feasibility study to the Province that identifies the TIF district, describes the proposed public investment project, forecasts the private development likely to occur as a result of the project, and estimates the tax increment due to the project. If the Province decides to support the TIF project, it signs a funding agreement with the municipality specifying how many years the Province is willing to donate its portion of the property tax increment to the project. Provincial support is arranged through the signing of a funding agreement with the municipality.

The Act requires a regulation to activate all its provisions and as such a regulation has not been prescribed, the Act remains dormant.

### 6.3.3 Case study findings

As the Province has not yet activated the Act, obviously no case study municipality was using this funding mechanism.

### 6.3.4 Issues and recommendations

Unblocking the provincial impasse around TIF Act regulations is the first step towards realizing the potential of this tool, but improvements to the Act itself are also needed, as are supporting services from the Province.

136 Richard F. Dye & David Merriman (2000). "The Effects of Tax Increment Financing on Economic Development." *Journal of Urban Economics*, 47(2): 306-328.

**ISSUE**

The Tax Increment Financing Act is currently dormant due to the absence of provincial regulations needed to activate it.

**DISCUSSION**

Although the government has never explicitly provided a reason for not proceeding with regulations under the TIF Act, most observers agree that the main issue is the Province's reluctance to give up its portion of the property tax increments over what may amount to an extended period of time. Ironically, provincial inaction may have reduced overall property tax revenues to both municipalities and the Province due to lost opportunities to support smarter development.

**RECOMMENDATION**

65. The Province should prescribe a regulation under the TIF Act to activate the Act.

**ISSUE**

The size of infrastructure projects that can be funded through TIF is artificially limited by the statute.

**DISCUSSION**

The TIF Act limits the size of TIFs by capping the annual increment expected from a TIF-funded project to 1% of the municipality's total tax revenue expected for that year. This effectively restricts the size of infrastructure projects that can be funded through a TIF.

**RECOMMENDATION**

66. The Province should consider raising this cap on the size of TIFs such that larger infrastructure projects could be funded with this tool.

## ISSUE

TIFs would be more effective if applied to the land value increment only.

## DISCUSSION

Some experts say TIF would work better if it were applied only to the land value of the properties being taxed rather than the land plus building value.<sup>137</sup> The rationale is: 1) the municipality would see a larger immediate rise in assessment upon investment in the infrastructure rather than waiting for property owners to increase assessment through development, and 2) the increase in taxes paid on rising land values would incentivize the owner to build on the land in order to generate an income stream to pay the tax increment.<sup>138</sup>

## RECOMMENDATION

67. The Province should amend the Tax Increment Financing Act to allow municipalities the choice of capturing the tax increment on the total property value (land plus building) using the standard tax rates or the land component only at higher tax rates.

## ISSUE

There is currently no authoritative source of information that could guide municipal officials in the GGH on how to set up, administer, monitor, and discharge TIF districts.

## DISCUSSION

Creating and administering TIF districts can be tricky as they require forecasting development trends and land value uplift in a localized area. They also require the negotiation of agreements with the Province, monitoring of market conditions as the TIF district undergoes development, managing TIF funds, reporting to council, etc. Poorly done initiatives may fail to realize the expected development gains and expose the municipality to financial risk. Given that currently there are no TIF districts recognized in Ontario, the option of municipal officials informally learning from each other is not available.

137 Adam Found (2016). "Tapping the Land: Tax Increment Financing of Infrastructure." (CD Howe Institute: Toronto).

138 To generate the same annual increment in tax revenue, of course the tax rate on the land would need to be higher than if applied to the land plus buildings.

**RECOMMENDATIONS**

68. The Province should add a section to the Municipal Finances for Smart Growth handbook on how to identify suitable locations for TIFs, undertake a feasibility study, design a program, manage TIF funds, and monitor outcomes.
69. The Province should fund the development of workshops on the use of TIFs for municipal officials, to be offered through appropriate professional associations such as MFOA and OPPI.

**ISSUE**

Using TIF in depressed areas of the municipality can lead to gentrification.

**DISCUSSION**

A TIF targeted at an area with low property values may have the most potential for generating a tax increment following public investment in infrastructure, but this can cause knock-on problems in terms of housing affordability if home prices, and rents rise as a result. To mitigate this issue, municipalities should consider taking steps to monitor and react to gentrification.

**RECOMMENDATIONS**

70. Municipalities should monitor development trends and housing prices within TIF zones to ensure program goals are being met without triggering gentrification.
71. Municipalities should consider combining TIF programs with inclusionary housing policies or direct investment in non-profit housing (which could be included in a TIF program as an eligible infrastructure) to ensure that affected areas remain affordable to existing residents.



**The TIF approach can promote Smart Growth objectives by helping to fund major transit and revitalization projects. It provides a financing tool to buttress government-led planning initiatives especially in areas where public investment can be expected to cause a major lift in land values and attract major private investment dollars.**

## ISSUE

TIF can be a helpful addition to the municipal financing toolbox but is applicable in a limited number of situations.

## DISCUSSION

- The TIF approach can promote Smart Growth objectives by helping to fund major transit and revitalization projects. It provides a financing tool to buttress government-led planning initiatives especially in areas where public investment can be expected to cause a major lift in land values and attract major private investment dollars. As discussed above, however, the tool does have some drawbacks and risks. In some cases, other financing mechanisms could be more appropriate for capturing land value lift for public purposes, e.g.:
  - Under section 326 of the Municipal Act, a municipality may establish special property tax levies to pay for services that are not provided uniformly in its jurisdiction, e.g., transit services. So-called “special services area rates” can provide a long-term revenue flow and are transparently a property tax increase (unlike TIF).
  - “Public land leases” can be used by municipalities to lease publicly owned land near transit facilities or other public investments to developers in return for a set rent or rent linked to income from the property. This is permitted under section 28 of the Planning Act, whereby a municipality is authorized to lease publicly owned land, while section 25 describes how the official plan can be used to outline rules on acquiring and disposing of land. This mechanism can generate a long-term income stream, retains the land asset in municipal ownership, and gives the municipality a measure of control over what the land is used for, e.g., mixed-use development or affordable housing.<sup>139</sup>

## RECOMMENDATION

72. Municipalities should consider other land value capture approaches to fund transit and other Smart Growth-supportive infrastructure, such as special services area rates in benefitting zones or public land leases.

139 Martim O. Smolka & David Amborski (2000). “Value capture for Urban Development: An Inter-American Comparison.” (Lincoln Institute: Washington, DC). [https://www.lincolninst.edu/sites/default/files/pubfiles/1279\\_Smolka%20Final.pdf](https://www.lincolninst.edu/sites/default/files/pubfiles/1279_Smolka%20Final.pdf)

Photo: Shutterstock



# User Fees

As discussed in Section 3, user fees are appropriate when the beneficiaries of a service are clearly identifiable, non-users can be excluded, and the quantity of service consumed can be measured. They are more transparent than property taxes because the revenue from a user fee is segregated and deployed to support a particular service as opposed to going into a general fund as for property taxes. A user fee promotes land use efficiency when it is set to reflect the marginal cost to the municipality of producing the services consumed in that location. Flat fees calculated on an average cost basis and applied uniformly across a community regardless of the actual costs of servicing different areas act as cross-subsidies and could distort land markets, development patterns, and locational decisions by home seekers and businesses. Given that higher density and close-in locations are often associated with lower servicing costs (see Section 3), this is a concern from a Smart Growth point of view. Flat fees are generally easier to calculate and administer and as a result most service fees are set using the average-cost approach. However, shifting to a marginal-cost approach may be justified where locational or density factors are significant determinants of costs.<sup>140</sup>

Calculating the marginal cost of providing a service to an additional user is usually impractical. However, alternative approaches are available that could make it more feasible for municipal managers to estimate marginal costs. The average-incremental-cost pricing approach divides all the additional costs associated with providing an increased level of service to an area or density category by the anticipated number of additional users. Each user is charged the average of the incremental total cost. This approach does not amount to marginal-cost pricing in the strict sense but represent a good trade-off between the economic/land use efficiency and administrative efficiency of the charge.<sup>141</sup>

Municipalities in the GGH use a wide array of user fees, for services as diverse as indoor banner hanging in community facilities to lawn bowling in parks. The ones that are of potential interest in the context of this report are those that relate to the provision of services to property owners/renters, are sensitive to density and locational factors, and involve significant capital expenditures to set up or operate – for example, water supply, wastewater, stormwater, and garbage collection.

140 Pamela Blais (2010). *Perverse cities: Hidden subsidies, wonky policy, and urban sprawl*. (UBC Press: Vancouver).

141 Almos Tassonyi & Harry Kitchen (2021). "Addressing the Fairness of Municipal User Fee Policy." (Institute on Municipal Finance and Governance, University of Toronto, University of Toronto: Toronto).

Of the above possibilities, stormwater charges tied to density or location are the most relevant in the context of this report for a few reasons: 1) the feasibility of the approach is established because some municipalities in the GGH are already implementing it (at least in part), 2) they are attractive to municipal councils because they represent a potential new revenue source, 3) many people agree they are a fairer way of apportioning the costs of stormwater management services than being included in property taxes, and 4) charging for stormwater as a user fee opens the door for incenting green infrastructure, as discussed below.

Efficient pricing is also important when it comes to transportation services. Parking rates, road-usage charges, and transit fares are of interest due to their potential impact on the amount of travel and choice of transportation mode, two Smart Growth preoccupations. Currently, the pricing of these services in GGH municipalities are problematic in several ways: for example, parking is underpriced, transit is probably overpriced, roads are unpriced and almost nowhere are factors like distance travelled or demand levels taken into account in pricing structures. To address these issues, we'll explore some options for aligning transportation user fees with Smart Growth goals.

## 7.1 Stormwater user fees

### 7.1.1 Introduction

Stormwater management is a municipal responsibility that is seeing important changes in how it is planned and funded. Major flooding events in several Canadian cities (e.g., Peterborough, Toronto, Montreal, and Calgary) over the last few years have shone the spotlight on the need for more attention to stormwater management and loosened the purse strings of senior governments when it comes to exploring new stormwater management techniques. The push for climate resilience has encouraged municipalities to explore the use of green infrastructure such as bio-swales, rain gardens, green roofs and vegetated areas as ways to control run-off and reduce the need for “grey” infrastructure – e.g., pipes in the ground.<sup>142</sup>

Municipalities in Ontario are also exploring better ways to fund stormwater management facilities. The instalment of stormwater facilities typically has been funded through development charges while the on-going operational and maintenance costs have been paid for through general-fund expenditures supported mostly by property taxes.<sup>143</sup> However, many municipalities are finding that stormwater revenue drawn from these sources to be problematic. Development charges can't be used to replace aging systems, a problem that is especially acute in built-out, older municipalities. Stormwater managers relying on property taxes find they must compete with many other municipal services and the amounts raised are often inadequate to provide the level of service demanded by federal and provincial regulatory agencies. The need to replace aging infrastructure and invest in facilities that help adapt to a changing climate are putting additional stresses on the current funding arrangements. Finally, funding stormwater management out of taxes gives no incentive to property owners to invest in facilities that limit runoff or to protect the natural areas and green infrastructure that absorb stormwater. The result is that municipalities are sinking more money into stormwater infrastructure than would otherwise be necessary.

142 F.J. Warren & N. Lulham, eds. (2021). “Canada in a changing climate: national issues report.” (Government of Canada: Ottawa).

143 In some municipalities with combined sanitary and stormwater sewers, stormwater management costs may be partially covered by fees paid by property owners on water and wastewater use.

The need to find a more sustainable, stable, and dedicated funding model was acknowledged by the Environmental Commissioner of Ontario in her 2016 report on urban stormwater fees.<sup>144</sup> The report highlighted the inadequate funding that has plagued the municipal stormwater sector creating a \$6.8 billion stormwater infrastructure debt in the province. The Commissioner noted that it is not only the lack of funding, but also the effects of climate change, population growth, and poor land use decisions that are among the factors contributing to this unsustainable financial situation.

The wider use of stormwater user fees could help address some of these issues. A stormwater user fee generates a reliable and predictable stream of revenue to pay for stormwater services. A variety of different approaches to structuring the fee are available. Of the few municipalities in Ontario that have adopted dedicated stormwater fees, some use a simple flat rate per property that ignores any factors that affect the cost to the municipality of servicing the property. Others use more sophisticated designs that are linked to property characteristics that influence the cost of providing the service, such as location and property size or pervious area.<sup>145</sup> Location is important because distance affects the length of sewer collection mains, which are the most significant cost component of the stormwater management system.<sup>146</sup> Lot size or pervious area (the area taken up by rooftops, driveways, and parking lots) is important since runoff is a function of the size and surface features of the properties. In municipalities using an average-incremental-cost approach properties are grouped by size/pervious area categories in a way that approximates a marginal-cost approach. This approach is not only an equitable way to allocate stormwater management costs, but it also has the potential to incentivize Smart Growth outcomes if it increases the demand for smaller lots.<sup>147</sup> It can also help achieve municipal sustainability objectives because it incentivizes the adoption of on-site controls to reduce stormwater and pollutant loads to the municipal stormwater management system, e.g., through the adoption of a credit policy (see Box 7.1).



**The need to find a more sustainable, stable, and dedicated funding model was acknowledged by the Environmental Commissioner of Ontario in her 2016 report on urban stormwater fees. The report highlighted the inadequate funding that has plagued the municipal stormwater sector creating a \$6.8 billion stormwater infrastructure deficit in the province.**

---

144 Environmental Commissioner of Ontario (2016). "Urban Stormwater Fees: How to Pay for What We Need." (ECO: Toronto). <https://www.auditor.on.ca/en/content/reporttopics/envreports/env16/Urban-Stormwater-Fees.pdf>

145 Sara Jane O'Neill & Stephanie Cairns (2016). "New Solutions for Sustainable Stormwater Management in Canada." (Smart Prosperity Institute: Ottawa). <https://institute.smartprosperity.ca/sites/default/files/stormwaterreport.pdf>

146 Cameron Speir & Kurt Stevenson (2002). "Does Sprawl Cost us All? Isolating the Effects of Housing Patterns on Public Water and Sewer Costs." *Journal of the American Planning Association* 1 (68): 56–70.

147 Enid Slack (2006). "The Impact of Municipal Finance and Governance on Urban Sprawl." (A paper sponsored by the Science Advisory Board of the International Joint Commission and presented to the International Symposium on Urban Impacts: Global Lessons for the Great Lakes Basin, Chicago, Illinois September 25-26.)

**BOX 7.1****MISSISSAUGA'S STORMWATER CHARGE**

In 2016, the City of Mississauga implemented a 'user-pay' stormwater charge. This funding is earmarked for long-term planning and new capital construction and improvement, such as replacing aging stormwater infrastructure, as well as to maintain stormwater infrastructure through day-to-day operations and repairs. The charge for residential properties is based on total roof area as an indicator of the total hard surface on a property. The City uses aerial imagery to measure the actual roof area of each of 134,000 properties and then assigns each one to one of five tiers with different charges, ranging from \$56 to \$192 in the year of 2022. In general, smaller residential properties pay less than larger ones and higher density housing pays less per unit than lower-density housing. Low-income residents and those with disabilities receive subsidies to offset their charges. Multi-residential and non-residential charges are based on the total hard surface area, including roofs and parking. Up to 50% of the charge on non-residential and multi-residential properties can be discounted through credits for on-site stormwater management practices that reduce peak flows, runoff volumes, or pollution levels. The charge covers the full cost of operating and maintaining the stormwater management system; the original costs of installing the infrastructure are paid through property taxes and development charges.

### 7.1.2 Legislative and policy context

- The Municipal Act permits municipalities to charge residents and businesses for stormwater management services and to structure fees for services based on the location, physical characteristics, or zoning of the property.
- The 2020 Growth Plan has a section on stormwater management that requires municipalities to develop stormwater master plans for serviced settlement areas that (among other provisions):
  - examine the cumulative environmental impacts of stormwater from existing and planned development
  - incorporate appropriate low impact development and green infrastructure
  - identify the need for stormwater retrofits, where appropriate
  - identify the full life cycle costs of the stormwater infrastructure, including maintenance costs, and develop options to pay for these costs over the long-term.

### 7.1.3 Case study findings

- This measure was not applicable to the upper-tier municipalities in the case study sample as the stormwater system is managed at the lower-tier.
- Among the five lower- and single-tier municipalities, Halton Hills and Caledon did not charge for stormwater services, while Markham and Hamilton charged stormwater fees, but the charges didn't vary with location, lot size, or amount of permeable area.

- The City of Waterloo was the only municipality that varied its charge by property size (not pervious area) and type, with six residential and six non-residential size categories. Across these categories, the charge varied from \$9.10 to \$1,335.31 per month. Property owners can receive credits of up to 45% of the regular charges by implementing stormwater reduction measures such as trees, rain barrels and rooftop storage.
- No case study municipality varied its stormwater charge by location of the property.

## 7.1.4 Issues and recommendations

Municipalities in the GGH are gradually moving in the direction of greater reliance on user charges, but provincial action could accelerate progress and ensure that user charges are designed to reflect Smart Growth objectives. Both legislative and policy action is needed. Municipalities have a major role to play in designing, marketing, administering, and monitoring successful charge regimes.

“Municipalities in the GGH are gradually moving in the direction of greater reliance on user charges, but provincial action could accelerate progress and ensure that user charges are designed to reflect Smart Growth objectives. Both legislative and policy action is needed. Municipalities have a major role to play in designing, marketing, administering, and monitoring successful charge regimes.”

### ISSUE

At present, many municipalities fund stormwater management services in part through property taxes.

### DISCUSSION

- The costs of new stormwater infrastructure in most GGH municipalities are typically paid for through development charges, but the remaining life-cycle costs (operation, maintenance, repair, refurbishment, and replacement) are often funded through property taxes. This approach fails to match costs to the use of the service, makes the costs of the system invisible to the average user, and deprives stormwater management services of a dedicated and predictable revenue stream. It also precludes any kind of area-based approach that would incentivize smaller lots or credit system to reward green stormwater practices.

- The simplest way to move forward would be for the Province to require municipalities to adopt user fees as a principal funding source for their stormwater systems, specifying that the fee must be based on a size and/or impervious surface parameter. The regulations should specify some threshold percentage of the total cost of operating and maintaining the system that municipalities must recover through user fees.<sup>148</sup> The initial threshold percentage may differ among different classes of municipalities (e.g., categorized by population size or percent of land that is urbanized) but could be increased over time until it amounts to 100% of total costs. This is the goal of the recommendations made by the Environmental Commissioner of Ontario in her report on stormwater management released in 2016.<sup>149</sup>
- The regulations should recognize that many municipalities in the GGH have extensive rural and natural areas where stormwater is managed without specialized facilities, i.e., through direct infiltration into the soil, ditches, and culverts. These areas should be exempt from stormwater user fees.
- To avoid the need for an elaborate system of reporting and overview, the reporting system could rely on the existing six-year financial plan that all municipalities are required to submit to the Province under the Safe Drinking Water Act (2002). The Act would have to be amended to include stormwater facilities as it currently only applies to potable water supply. This would be a good opportunity to extend the Act to wastewater as well.

## RECOMMENDATIONS

73. The Province should amend the Municipal Act (or regulations under the Act) to require municipalities with stormwater management services in settlement areas to impose user charges as a dedicated and sustainable revenue source with which to fund those services. The amended Act should specify that:
- the user fee must include a lot area or a pervious surface area (i.e., roofs, paved areas, etc.) parameter in the calculation of the charge,
  - the user charge must be set to fund at least a threshold percentage of the total cost of the stormwater management system,
  - the threshold percentage will increase over time such that municipalities are recovering the full life-cycle costs of stormwater management (minus that which is recoverable via development charges) through the user fee,
  - the amount recovered through the user charge and the total cost of the stormwater system must be reported in the municipality's financial plan submitted pursuant to the Safe Drinking Water Act,
  - rural municipalities and municipalities with populations below a certain threshold are exempted from the requirement to move to a user fee basis.
74. The Safe Drinking Water Act should be amended to apply to stormwater and wastewater.

148 Information on the total cost of the system and proportion recovered through user fees should be readily available to municipal officials as it is the type of data gathered for the mandatory municipal asset management plan (see Section 3).

149 Environmental Commissioner of Ontario (2016). "Urban Stormwater Fees: How to Pay for What We Need." (ECO: Toronto). <https://www.auditor.on.ca/en/content/reporttopics/envreports/env16/Urban-Stormwater-Fees.pdf>

## ISSUE

There is little guidance from the Province on planning or financing stormwater management systems.

## DISCUSSION

Shifting to a stormwater funding system based on user fees involves some complexities, such as preparing a feasibility study that estimates revenue potential, exploring various charge design options, and considering technical issues related to information gathering and processing. Administering, monitoring, and updating the system after implementation also requires some expertise. Municipalities in Ontario interested in exploring a user charge approach to stormwater funding have few resources to turn to – there are presently no provincial guides to stormwater financing available. The situation is not much better on the planning and design side. Under the authority of the Ontario Water Resources Act there is an obsolete “Stormwater Management Planning and Design Manual” that was produced in 2003 and a “Low Impact Development Stormwater Management Guidance Manual” that was being prepared by the Ministry of the Environment, Conservation and Parks at the time of writing. The manual had been in preparation since at least 2017 and was still not ready for publication five years later.<sup>150</sup>

## RECOMMENDATIONS

75. The Province should add a section to the Municipal Finances for Smart Growth handbook including information on setting up, administering, and monitoring user-fee funded stormwater systems, including best practices from the GGH, Ontario and beyond.
76. The Province should move forward with the publication of its “Low Impact Development Stormwater Management Guidance Manual”.
77. The Province should fund the development and delivery of a training module on user-fee based stormwater financing systems through partners such as Conservation Ontario or the Ontario Municipal Water Association.

150 Ministry of the Environment & Climate Change (2017). “Draft Low Impact Development Stormwater Management Guidance Manual.” (MECC: Toronto). [https://municipalclass.ca/files/7\\_DRAFT\\_MOECC\\_LID%20SWM%20Manual.pdf](https://municipalclass.ca/files/7_DRAFT_MOECC_LID%20SWM%20Manual.pdf)

**ISSUE**

Each municipality using impervious area as a parameter in the calculation of stormwater user charges is independently setting up its own GIS and data gathering system.

**DISCUSSION**

Considerable knowledge is needed concerning surface conditions (area of rooftops, parking, etc.) to calculate a stormwater rate based on impervious area. Given that site conditions change as owners invest in their properties, this method of calculation requires regular updating to keep the database current. At present, each municipality using this approach to establishing stormwater fees must collect aerial imagery themselves, process it and marry it to a GIS database of parcel information. A provincially led program would exploit economies of scale and reduce municipal costs to comply with the new requirements.

**RECOMMENDATION**

78. The Province should launch an aerial imagery program using machine learning to measure impervious surface areas and provide regularly updated data to municipalities for use in their stormwater user fee programs.

**ISSUE**

Shifting to a user-fee financing system may be unpopular with some ratepayers.

**DISCUSSION**

The introduction of a new municipal charge is bound to be resisted by some residents and businesses. The shift from a tax-based to a user-fee funded system based on lot size/impervious area can result in much higher bills to lower-density residential and non-residential property owners (e.g., those with larger lots and lower assessed values in outlying areas compared to smaller lots and higher assessed values in core areas). Municipalities often address this issue by phasing in the user fee over a period of time to allow affected property owners to adjust. A user fee can also raise equity concerns related to the ability of low-income households to pay the charge, an issue that is often addressed with subsidies.<sup>151</sup>

151 Almos Tassonyi & Harry Kitchen (2021). "Addressing the Fairness of Municipal User Fee Policy." (Institute on Municipal Finance and Governance, University of Toronto: Toronto).

## RECOMMENDATIONS

79. Municipalities should plan to roll out a public awareness campaign to explain the user-fee and reduce resistance to its adoption.
80. Municipalities should phase in the fee over a couple of years to allow properties owners to adapt to the new system.
81. Municipalities should provide subsidies to low-income residents and those with disabilities to help pay their charges.

## ISSUE

Stormwater management charges are more likely to have a positive impact on Smart Growth objectives when implemented in the context of a larger program to sustainably manage stormwater.

## DISCUSSION

Stormwater changes and discounts for on-site treatments may nudge up demand for smaller lots and create incentives that help address environmental problems, but they alone will not make a major difference to either Smart Growth outcomes or run-off volumes. A user charge program should be introduced in the context of planning, regulatory and education/outreach programs to amplify its impact.

## RECOMMENDATION

82. Municipalities should undertake a user fee system in conjunction with other programs and measures to establish a more sustainable stormwater management system, including watershed planning, stormwater master planning, growth planning, climate change planning, low-impact development and green infrastructure policies, and sustainable development standards.



## 7.2 Parking, road, and transit charges

### 7.2.1 Introduction

Up this point, the report has been largely concerned with land use issues, which is understandable given their central importance to the Smart Growth concept. In this chapter, we shift to looking at transportation issues, namely roads, parking, and transit. While this might seem to be an abrupt shift in focus, in fact transportation issues are key to the Growth Plan and the Smart Growth concept. It is the location, type, and density of development that generates demand for different types of transportation services and that largely determines the efficiency of the transportation system. For example, if people are settled in a scattered fashion and live far from work and other daily destinations, they will likely gravitate towards private vehicles as transit service cannot be provided in a reliable or efficient manner under such conditions.

For this reason, it is important to think of transport and land use as two-sides of the same coin, a single integrated system. This understanding is integral to the Growth Plan for the GGH, which calls for compact, complete communities that have a mix of land uses and daily destinations, lending themselves to sustainable travel modes including public transit and active transportation. At a larger scale, a balance of employment and residential land uses in communities across the GGH will reduce the need for long distance commuting. Compact communities also support climate change mitigation by increasing the modal share for transit and active transportation. As the plan says, “Compact built form and intensification efforts go together with more effective transit and active transportation networks and are fundamental to where and how we grow.”



**Transportation issues are key to the Growth Plan and the Smart Growth concept. It is the location, type, and density of development that generates demand for different types of transportation services and that largely determines the efficiency of the transportation system. It is important to think of transport and land use as two-sides of the same coin, a single integrated system.**

---

The close connection between land use and transportation systems has been amply demonstrated by empirical studies.<sup>152</sup> Residents of walkable and transit-friendly neighbourhoods own far fewer cars and drive less than half as much as they would living in an automobile-dependent area. The availability of frequent transit makes higher-density development along transit corridors or around transit stations more economically feasible. These transport- and land-efficient settings also have a range of other advantages: people who live or work there spend less money on transportation, are more likely to be physically active, produce far less greenhouse gas emissions and air pollution, and tend to be less burdened with infrastructure costs.<sup>153</sup>

152 D. van Lierop, G. Boisjoly, E. Grisé & A. El-Geneidy (2017). “Evolution in land use and transport research.” In T. Sanchez (ed), *Planning Knowledge and Research*. (Routledge, New York, NY).

153 Michael W. Mahaffy (2022). “Re-Thinking the Transport and Land Use Connection.” In Michael W. Mahaffy and Jorge Rogat (eds.) *The Road Forward: Cost-Effective Policy Measures to Decrease Emissions from Passenger Land Transport*. (Centre For The Future Of Places, Kth Royal Institute Of Technology: Copenhagen).

Since WWII, public policy in Canada has been oriented towards making automobile travel cheap and convenient – for example, through deeply subsidized highway and road infrastructure, low gas taxes (compared to Europe), generous road standards that promote speed, and zoning policies that favour separated uses. This has resulted in high levels of vehicle travel along with the associated costs, including increasing congestion, pollution, GHG emissions, public health impacts, and infrastructure expenditures.

Many jurisdictions are starting to shift away from this auto-oriented perspective to increase transportation efficiency and affordability. Part of this rethinking involves the efficient pricing of publicly supplied transportation services. In the absence of correct prices for parking, roads and public transit, users can't make efficient decisions about the best mode of travel, how often to use each mode, travel distances, or live and work locations. Incorrect prices are also likely to cause over-investment where the service is underpriced and under-investment where it is overpriced. Correct pricing would provide the information that consumers and providers need to make more efficient decisions regarding travel, infrastructure investment, and levels of service.<sup>154</sup>

## ROAD PRICING

In Ontario, the capital cost of new municipal roads associated with growth are funded largely through development charges, while replacement and operating costs for existing roads are funded largely from property taxes. Although road users pay a variety of fees and taxes for the privilege of owning and operating a vehicle, most of this revenue goes to senior governments; users pay little or nothing to local governments. The Province collects a per-litre tax on vehicle fuels and remits a fraction of that to municipalities in the form of annual grants to support local transit systems. However, there is no per-trip charge on any municipal road in the GGH. The lack of road pricing has contributed to a massive \$34.7 billion municipal road infrastructure debt in Ontario<sup>155</sup> and economic losses due to congestion in the GTHA were estimated to be up to \$11 billion annually in 2013.<sup>156</sup>

Road pricing could be an effective demand management tool to cover the operating and replacement costs of roads as well as to internalize congestion, pollution, and other external costs of driving. If efficiently set, prices could influence all dimensions of travel choice: trip frequency, destination, travel mode, time of day or week, route. To the extent that traffic demand is managed, traffic-related costs should be reduced, and infrastructure demands lowered. Ironically, road pricing can actually reduce net costs to drivers due to less idling, fuel use, and wear and tear on their vehicles.<sup>157</sup> Furthermore, if revenues are dedicated to enhancing the quality of public transit and roads (e.g., by redesigning them to accommodate a variety of travel modes), they are more likely to gain public acceptance.<sup>158</sup>

154 Harry Kitchen & Robin Lindsey (2013). "Financing Roads and Public Transit in the Greater Toronto and Hamilton Area." (Residential and Civil Construction Alliance of Ontario: Toronto). [https://rccao.com/research/files/RCCAO\\_JAN2013\\_REPORT\\_LOWRES.pdf](https://rccao.com/research/files/RCCAO_JAN2013_REPORT_LOWRES.pdf)

155 Ontario Good Roads Association (2021). "Ontario's Municipal Road Infrastructure Deficit." (Toronto: OGRA).

156 Benjamin Dachis (2013) "Cars, Congestion and Costs: A New Approach to Evaluating Government Infrastructure Investment." (CD Howe Institute: Toronto). [https://www.cdhowe.org/sites/default/files/attachments/research\\_papers/mixed/Commentary\\_385\\_0.pdf](https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_385_0.pdf)

157 Lorie Srivastava & Cherise Burda (2015). "Fare Driving: Exploring the benefits of traffic pricing in Toronto and the GTA." (Pembina Institute: Toronto).

158 Critics of road pricing claim it would constitute a hardship for lower-income drivers. However, persons with lower incomes are less likely to own automobiles and drive less on average, which suggests that road user charges may be mildly progressive compared to the alternative funding source, namely property taxes. Moreover, if funds from road pricing are used in part to improve transit services, then these drivers could be offered a realistic transit alternative. See David G. Duff (2005). "Road Pricing in Theory and Practice: A Canadian Perspective." (University of British Columbia: Vancouver). [https://commons.allard.ubc.ca/cgi/viewcontent.cgi?article=1105&context=fac\\_pubs](https://commons.allard.ubc.ca/cgi/viewcontent.cgi?article=1105&context=fac_pubs)

Pricing can take a variety of forms, including the tolling of municipally operated highways, arterials, or pinch-points such as bridges and tunnels, area charges applied to commercial centres, or a comprehensive system that applies to all roads in a given region. On-board GPS devices now make road pricing technologically seamless, although privacy concerns persist with the use of this data-gathering technology.<sup>159</sup> The City of Toronto attempted to implement a highway toll system in 2016 (see Box 7.2), but the effort was derailed. Vancouver is currently the only municipality in Canada that is seriously considering a road pricing scheme – council will decide on whether to toll cars entering the downtown by 2023.<sup>160</sup>

## BOX 7.2

### ROAD PRICING IN THE CITY OF TORONTO

Although road pricing is likely the most efficient way to fund the costs associated with operating and replacing municipal roads, it can also be highly controversial (especially in the run-up to implementation). In 2016, Toronto city council voted to back Mayor John Tory's bid to impose a \$2 per vehicle, per trip charge on users of the Don Valley Parkway and the Gardner Expressway. The tolls would have brought in \$166 million annually to help pay for the operating and maintenance costs associated with these regionally significant but municipally managed facilities. The initiative was permitted under the City of Toronto Act, but required provincial regulatory approval, which it declined to do. The initiative pitted the core city, which would benefit from a major new revenue source, against commuters from surrounding suburbs, who would pay 40% of the tolls. Given the acrimony of the debate, the consensus among most observers is that this episode seriously dimmed the prospects for road pricing in the GGH, at least in the short-term.

## PARKING PRICING

Parking pricing is often inefficient in the sense that it does not adhere closely to marginal-cost pricing principles. This forces people who drive less than average to subsidize the costly parking facilities of those who drive more than average. The more efficient structuring of parking charges has some of the benefits of road pricing in that they can also help fund road costs and reduce congestion and traffic. The advantages of using parking charges over road pricing is that they are much cheaper to implement, require no or few regulatory changes, are politically more acceptable, and can be implemented much more quickly.<sup>161</sup>

159 See: Victoria Transport Policy Institute (undated). "Online TDM Encyclopedia, Road Pricing," <http://www.vtpi.org/tdm/tdm35.htm>. See also: F. Nix (2001), "Alternative Road Financing Arrangements: Research conducted for the Canada Transportation Act Review" (Transport Canada: Ottawa): 18–35.

160 Kenneth Chan (2022). "Vancouver City Council to decide on road tolls after October election." Daily Hive, January 7. <https://dailyhive.com/vancouver/vancouver-transport-pricing-road-tolls-timeline>

161 Robin Lindsey (2007). "Congestion relief: Assessing the case for road tolls in Canada." (CD Howe Institute: Toronto).

According to Todd Litman at the Victoria Transportation Institute in BC, parking pricing is a particularly effective way to manage vehicle usage; shifting from unpriced to efficient parking pricing typically reduces affected vehicle trips by 10-30%.<sup>162</sup> Efficient parking charges and levies could help reduce the volume of traffic leading to less congestion, faster trips, fewer policing and traffic enforcement costs, and reduced demand for new and expanded roads and highways. Because pricing reduces the number of spaces needed to meet demand, it reduces total parking costs, and allows more compact development. It could also generate much needed revenue for improving and expanding public transit. The pressure to price curbside parking is growing as more municipalities eliminate minimum on-site parking standards on new development, increasing the demand for street parking.



**According to Todd Litman at the Victoria Transportation Institute in BC, parking pricing is a particularly effective way to manage vehicle usage; shifting from unpriced to efficient parking pricing typically reduces affected vehicle trips by 10–30%. Efficient parking charges and levies could help reduce the volume of traffic leading to less congestion, faster trips, fewer policing and traffic enforcement costs, and reduced demand for new and expanded roads and highways.**

Efficient parking pricing can apply to both private and public parking. As we are focusing on municipal finances in this report, our attention here will mostly be on public parking, i.e., all parking spaces provided and maintained by municipalities. This includes parking both on-street (e.g., curb parking in commercial and residential areas) and off-street (surface lots and in-door garages).

Off-street public parking is often inefficiently priced. It's not uncommon for municipalities to not charge for parking at their facilities and most that operate parking lots and garages offer discounted prices for longer stays, such as daily rates or monthly passes. This practice encourages people to drive because the incremental parking cost declines as usage increases. The application of parking fees to a wider array of settings, the use of higher fees, and designing fees structures that avoid incentives to overstay are ways to address these issues.

On-street parking is problematic in that many municipalities fail to price curb parking even in high-demand areas, such as on main streets in core areas. Donald Shoup is an engineer and planning professor at the University of California and is known for his work on innovative parking policies. According to Shoup, parking is almost always inefficiently priced. For example, on-street parking in high-demand areas is usually priced well below its scarcity value, as reflected in the price of parking in private parking lots or garages in the area. Consequently, drivers overstay in the available spots while others waste fuel and time cruising for a vacant spot, causing further traffic congestion.<sup>163</sup>

162 Todd Litman (2021). "Parking Pricing Implementation Guidelines: How More Efficient Parking Pricing Can Help Solve Parking and Traffic Problems, Increase Revenue, and Achieve Other Planning Objectives." (Victoria Transport Policy Institute: Victoria, BC). <https://www.vtppi.org/parkpricing.pdf>

163 Donald Shoup (2005). *The High Cost of Free Parking*. (APA Planners Press: Chicago, IL and Washington, DC)

Efficient parking pricing means that motorists pay directly for using public parking facilities (on- or off-street), with fees structured to encourage efficient use of parking resources. The most basic approach is setting an hourly rate in targeted areas, which is easy to implement and for drivers to understand but is not very effective in managing parking demand. A more effective approach is to set parking rates such that the hourly amount escalates the longer the car is parked, so-called “progressive hourly rates”. A more sophisticated approach is to set higher fees at peak demand times and locations, called “time of day” or “demand-responsive pricing”. This approach mimics a market pricing system by adjusting prices based on demand.<sup>164</sup>

Shoup is a strong proponent of demand-responsive pricing. He proposes that municipalities set parking meter prices in commercial areas such that 85% of spots are occupied.<sup>165</sup> Municipalities can use trial and error to reveal the right price, raising them at times when occupancy typically rises above this value and dropping them when it tends to fall below. The needed adjustments are calculated based on usage data from parking metres and happen occasionally, such as every few months or once per year. The strategy has been successfully implemented in several US cities (e.g., San Francisco and Seattle), dramatically reducing cruising for parking and boosting sales by businesses in the affected areas.<sup>166</sup> In Canada, Vancouver (see Box 7.3) and Calgary are using demand-responsive parking pricing. Typically, municipalities that introduce this type of user fee see a flurry of public controversy at first, but this quickly dies down to be accepted as the new normal.<sup>167</sup>

### BOX 7.3

### CITY OF VANCOUVER PARKING PRICING

The City of Vancouver is one of the only Canadian municipalities that uses a “demand-responsive” pricing approach to on-street parking. For the last few years, the City has been replacing coin-operated meters for 11,000 parking spaces with new smart and connected meter equipment that can accept a wide variety of payment methods and be adjusted easily to apply demand-responsive rates. The new smart equipment collects accurate parking data on usage and trends. This allows the City to make better predictions about parking demand for different areas and times of the day and set appropriate rates based on demand. The City adjusts its parking prices annually to achieve a target curbside occupancy of 85% - or about one or two free spaces per block. Where the peak curbside occupancy exceeds 85%, the parking meter rate is raised by \$1/hour and where occupancy is lower than 60%, it’s reduced by \$1/hour. Although pay parking is designed to work as a transportation demand management tool, it has also grown into a significant source of revenue for the municipal government. Annual pay parking revenues went from \$40 million in 2011 to approximately \$75 million in 2019. Meter-based curbside paid parking is found mostly in commercial districts and selected residential areas.<sup>168</sup>

164 Mark Stout (2021). “Underpriced and Undervalued: Exploring curbside pricing policies in Toronto.”(Pembina Institute: Toronto).

165 Donald Shoup (2007). “Cruising for Parking.” Access, 30: 16-20.  
<https://www.accessmagazine.org/wp-content/uploads/sites/7/2016/02/Access-30-04-Crusing-for-Parking.pdf>

166 Ben Jose (2017). “San Francisco Adopts Demand-Responsive Pricing Program to Make Parking Easier.” *San Francisco Metropolitan Transport Agency*, December 5. <https://www.sfmata.com/blog/san-francisco-adopts-demand-responsive-pricing-program-make-parking-easier>

167 Paul Barter (June 11, 2018). “Every city with ‘Goldilocks’ parking fees”.  
Web blog. <https://www.reinventingparking.org/2018/06/every-city-with-goldilocks-parking-fees.html>

168 Kenneth Chan (2021). “All coin parking meters to be replaced with pay stations in Vancouver for \$14 million.” *Daily Hive*, Feb 19.  
<https://dailyhive.com/vancouver/vancouver-parking-meter-station-replacement>

## TRANSIT PRICING

It is usually assumed that for a user charge to be most effective and efficient, it should be designed to recover the full cost of the service in question. However, when it comes to transit, economists such as Harry Kitchen of Trent University point out that full-cost pricing would only make sense if vehicle drivers were being charged to recover the full-costs of their road usage – what he calls the “first best” solution.<sup>169</sup> As long as road pricing is not in place, “second best” solutions that improve transit competitiveness would increase the overall efficiency of the transportation system.

In other words, as long as roads are being subsidized for drivers, it makes sense for transit to be subsidized for riders. Another argument in favour of transit subsidies is that they can shift travel from cars and therefore reduce congestion costs for motorists themselves. Air pollution and greenhouse gas emissions are also lower per transit rider kilometre than for motorists. Another reason for subsidizing transit is the equity argument, as many lower-income people use transit heavily and may not be able to afford to operate a private vehicle. Finally, transit services become more efficient as ridership grows so an additional rider doesn’t appreciably add to overall costs. In economics jargon, these economies of scale justify setting fares below the average cost of providing the service.<sup>170</sup>

Given these considerations, it’s not surprising that almost all transit systems in the world are publicly subsidized (as are roads).<sup>171</sup> In the GGH, transit systems are subsidized through senior government grants<sup>172</sup> and property taxes, with fare revenues typically covering 40-66% of operating costs.<sup>173</sup> The question that concerns us is whether transit systems are being subsidized at a level that optimizes the efficiency of the transportation system. This is a difficult question to answer. However, research in the US and the UK has shown that reducing transit fares would improve the efficiency of the transportation system, even when fares account for only a fraction of operating costs, especially during off-peak periods.<sup>174</sup> Given that fares account for a relatively high proportion of operating costs in the GGH, this research suggests that fares in the region could be reduced. Lower fares should, in turn, translate to increased ridership.<sup>175</sup>

Another question for discussion relates to the structure of the fare system. Fares on municipally operated transit systems in the GGH are not designed to reflect the fact that costs escalate with distances travelled. In other words, fares are set a flat rate, which we’ve seen in other contexts involves cross-subsidization – in this case those going short distances are subsidizing those going longer distances. This creates an incentive for urban sprawl that works against Smart Growth objectives. Zone-based fares that vary charges by distance would address this concern. Zonal fares are used in some regional transit systems, including in Vancouver, Montreal and Toronto but are not commonly used within municipalities in Canada.

169 Harry Kitchen & Robin Lindsey (2013). “Financing Roads and Public Transit in the Greater Toronto and Hamilton Area.” (Residential and Civil Construction Alliance of Ontario: Toronto).

170 Almos Tassonyi & Harry Kitchen (2021). “Addressing the Fairness of Municipal User Fee Policy.” (Institute on Municipal Finance and Governance, University of Toronto, University of Toronto: Toronto).

171 Municipally operated transit systems in the GGH include the Toronto Transit Commission, Durham Region Transit, Milton Transit, Grand River Transit, Guelph Transit, Oakville Transit, MiWay (Mississauga), Brampton Transit, Hamilton Street Railway, Burlington Transit, Bradford West Gwillimbury Transit, York Region Transit, and Barrie Transit.

172 The Ontario gas tax grants to municipalities with transit systems can be used to fund both capital and operating costs. The federal gas tax grants (now called Canada Community-Building Fund) can only be used for capital costs.

173 Róisín West (March 2, 2022). “All’s fare? Public transit budgets deserve better than farebox recovery revenue.” *The Monitor*. <https://monitormag.ca/articles/all-s-fare>

174 Ian Parry & Kenneth Small (2009). “Should urban transit subsidies be reduced?” *American Economic Review* 99(3), 700-724.

175 According to Todd Litman, the elasticity of transit ridership with respect to fares is -0.4, meaning that each 1.0% fare decrease will increase ridership by 0.4%. See: Todd Litman (2022). “Evaluating Public Transit Benefits and Costs.” (Victoria Transport Policy Institute: Victoria, BC). An alternative to lowering fares would be to use subsidies to improve service frequency, which can also attract new riders.

Fares on municipal transit systems in the GGH are also flat in terms of time: they don't vary by time of day or day of the week, even though transit ridership and crowding vary predictably over the weekly cycle. This means that the system must be larger than optimal in order to accommodate peak-hour loads. Peak-time pricing would encourage those who have a choice to ride at other times of the day or week when transit vehicles are travelling with low loads, make for more efficient transit expenditures, and ultimately improve service – all in line with Smart Growth goals. Many transit systems in Canada have evening and weekend discounted fares and passes (e.g., in Vancouver's Translink, GO Transit, and Montreal's STM), which serve to differentiate busier from less busy periods.

---

“**Peak-time pricing would encourage those who have a choice to ride at other times of the day or week when transit vehicles are travelling with low loads, make for more efficient transit expenditures, and ultimately improve service – all in line with Smart Growth goals. Many transit systems in Canada have evening and weekend discounted fares and passes (e.g., in Vancouver's Translink, GO Transit, and Montreal's STM), which serve to differentiate busier from less busy periods.**

---

The various policy innovations suggested above are either revenue-neutral or positive, except for fare reductions. Reductions could be partially funded using revenues flowing from road pricing initiatives if ever implemented in the GGH. Another approach to funding fare reductions would be to eliminate unjustified fare subsidies, e.g., remove senior discounts on the grounds that the incidence of poverty is lower among senior citizens than the other age groups that are forced to subsidize the discounted fares.<sup>176</sup> The recouped revenue could be earmarked to address equity concerns related to higher zonal and peak time fares by subsidizing lower-income riders. Another potential source of revenue could include a per-spot or per area levy on non-residential parking (e.g., commercial parking operations, around shopping centres, office buildings, etc.) as is done in Montreal (see Box 7.4). Such a charge is relatively easy to implement and could raise significant funds for transit.<sup>177</sup>

176 Harry Kitchen (2021). "Age Based Service Demands in Canada: Municipal Responsibility and Financing." *Local Government Studies*, 47(3).

177 The Ontario government imposed such a levy in 1990. The Commercial Concentration Tax Act applied a levy on commercial parking spots across the GTA. It was opposed by business interests partially on the grounds that the revenues were used to support road and transit projects across Ontario. It was removed in 1993.

**BOX 7.4****MONTREAL'S COMMERCIAL PARKING LEVY**

Montreal imposed a special levy on off-street exterior and interior non-residential parking in 2010. The charges in the central areas of the city, ranging from \$45.70 per square metre for an exterior lot in the central business district to \$11.40 per square metre for an indoor lot farther out. This translates into a charge of about \$1 to \$3 per day per parking stall. The revenue generated from the levy - about \$23 million annually - is earmarked for improving public transit. As a mayoralty candidate in the 2021 municipal elections, former mayor Denis Coderre promised to extend the levy to the entire City of Montreal but lost the election to incumbent Valerie Plante.<sup>178</sup>

## 7.2.2 Legislative and policy context

### ROAD PRICING

- The Municipal Act allows municipalities to designate and operate a road as a toll road, but only subsequent to a provincial regulation under the Act specifically permitting the municipality to do so.

### PARKING PRICING

- There are no legislative or policy constraints on public parking rates in the GGH.
- There is nothing in the Municipal Act that would prevent municipalities in the GGH from levying a per parking spot or area charge.

### TRANSIT PRICING

- There are no legislative or policy constraints on transit fares in the GGH.

## 7.2.3 Case study results

### ROAD PRICING

- None of the case study municipalities had requested authority from the Province to establish a road pricing system.

### PARKING PRICING

- In two-tiered case study municipalities, the upper-tier municipality did not charge for parking at most or any of its facilities and didn't operate municipal parking lots. Waterloo Region was a partial exception in that it charged for structured parking at some of its facilities (e.g., regional headquarters and the regionally operated airport).

178 Devin Alfaro (2010). "The Parking Lot Tax." *Spacing*, January 17. <http://spacing.ca/montreal/2010/01/17/the-parking-lot-tax/>

- Lower-tier case study municipalities typically didn't charge for street parking in residential areas (except for overnight parking permits), had no metered parking even on commercial streets, and didn't charge for parking at most municipal facilities (e.g., recreation centres, libraries) or municipal parking lots. A partial exception was Waterloo, where the City operated paid parking lots.
- Hamilton was the only municipality that had a full array of parking charges, although prices were generally low. Some examples include:
  - A permit is available for residents to park on residential streets for up to 12 hours a time at a cost of \$92.04 per year.
  - The City of Hamilton has 63 municipal car parks and two parking structures for a total of 4,681 off-street parking spaces. All spaces are priced, with charges varying from \$.25 to \$3.00 per hour with most at the \$.50 per hour rate. Daily rates range from \$4 to \$12, with an average of \$5.58.
  - Monthly parking passes are available for select municipal car parks. Passes range from \$55 to \$150 but most are \$65.
  - Most main streets in the City have metered parking, all at \$2 per hour.
  - Some civic facilities have paid parking, e.g., such as City Hall.

## TRANSIT PRICING

---

- York Region (York Region Transit), Waterloo Region (Grand River Transit), and Hamilton (Hamilton Street Railway) operated transit systems.<sup>179</sup>
- The proportion of operating costs covered by fares varied from 40% for York Region to 45% for Waterloo Region and 50% for Hamilton.
- None of the transit systems used zonal or peak/off-peak fares.
- The Waterloo system provided discounted fares to qualifying low-income individuals and free passes to children under five and senior veterans. York Region provided discounts to seniors, teenagers, and children (free for kids under six). Hamilton provided discounts to teenagers and seniors, with no fare for children under 13 and seniors over 80.



**Wider application and improved design of transportation-related user fees would help reduce private vehicle use, shift demand to non-auto modes, and improve the efficiency and quality of transit services, all of which are consistent with Smart Growth goals. Both the Province and municipalities have important roles to play in this shift.**

---

<sup>179</sup> Some case study municipalities offered para-transit services to low-mobility people through the main transit agencies or as independent operations. They were not included in this analysis.

## 7.2.4 Issues and recommendations

Wider application and improved design of transportation-related user fees would help reduce private vehicle use, shift demand to non-auto modes, and improve the efficiency and quality of transit services, all of which are consistent with Smart Growth goals. Both the Province and municipalities have important roles to play in this shift.

### ISSUE

Current conditions are not suitable for introducing a road pricing system in the GGH.

### DISCUSSION

- Municipal roads in the GGH are unpriced, leading to inefficient transportation outcomes, including traffic congestion, sprawl, infrastructure deficits, and emissions. Road pricing is the most efficient way of paying for the operating and replacement costs of roads and could be a powerful incentive for tempering the demand for auto-based sprawl development. However, the introduction of a comprehensive system in the GGH is very unlikely in the short term. While individual municipalities could pilot road pricing systems to gauge impacts on driving behaviour, the most efficient approach (due to the integrated nature of the road network and travel patterns) would be a system spanning the entire GGH.<sup>180</sup>
- Technologies (e.g., GPS plugged into the vehicle's electronic diagnostic port) are now available to cheaply and conveniently implement road usage charge programs that are dynamically cued to distance travelled. Pilot testing in the US indicates that data privacy issues can be managed adequately.<sup>181</sup> As congestion worsens due to the growth of the regional vehicle fleet and as gas taxes become less functional as a result of vehicle efficiency gains and electrification, prospects for road pricing in the GGH will likely brighten in the medium-term.
- Prior to implementation of a regional road pricing system, studies would have to be conducted to assess issues such as the parts of the road network to be included (highways, arterials, all roads); technological options; pricing structure (e.g., time and place variations); the basis for allocation of revenues to municipalities (time or distance travelled on provincial vs municipal roads); and options to ensure the privacy of drivers is protected.

180 Harry Kitchen (2019). "Ontario's Downward Trend for Fuel Tax Revenue: Will Road Pricing Fill the Gap?" (Residential and Civil Construction Alliance of Ontario: Toronto).

181 In a road pricing pilot program with passenger vehicles in Delaware, New Jersey, North Carolina and Pennsylvania, polling showed the percentage of passenger vehicle participants who were concerned about privacy dropped from 52% to 7% over the course of the program. See: AJOT (2022). "Mileage-based user fee pilot program addresses concerns about privacy, rural drivers, and trucks." *American Journal of Transportation*, February 28. <https://ajot.com/news/mileage-based-user-fee-pilot-program-addresses-concerns-about-privacy-rural-drivers-and-trucks>

## RECOMMENDATIONS

83. The Province should amend the Municipal Act to allow municipal road pricing schemes without requiring authorization by the Province through specific regulations.
84. Municipalities interested in promoting road pricing should consider piloting road pricing initiatives to explore permutations in the design of such a system.
85. The Ontario Ministry of Transportation (or Metrolinx) should study the various options for structuring a road pricing system in the GGH and consider implementing the most promising system when conditions for doing so are more favourable.

## ISSUE

Most public municipal parking in the GGH is unpriced or inefficiently priced.

## DISCUSSION

- Many GGH municipalities don't routinely charge for parking on the street in residential areas. Charging for residential street parking is not a measure that applies everywhere, but should be considered where it makes sense, e.g., in denser neighbourhoods closer to urban cores where there is more competition for street parking.
- Many GGH municipalities have very low or no hourly rates in municipal parking lots and no metering in commercial areas or at municipal facilities. For those that do charge for parking, discounts are given for longer-term passes, and no effort is made to link parking prices to the changing demand for spaces over the day or week. The first step to addressing these issues is to install parking meters in all targeted locations. Electronic meters are available that accept a wide variety of payment methods, can be easily reprogrammed to reflect different charges at different times of the day or week, and can collect anonymized information on parking space usage, all of which facilitates market pricing of public parking.
- In terms of pricing levels, basic options include hourly pricing and progressive hourly rates. For these options, pricing should be higher than local benchmarks, such as the hourly cost of private parking lots or garages in the area or the cost of a two-way transit ticket. Demand-responsive parking rates is a more effective option for managing parking that works to establish a market rate based on local demand for parking.
- Pricing of previously "free" parking can be controversial with local businesses and motorists, especially in municipalities where car alternatives are not readily available. In these situations, public acceptance can be improved by using the revenues from pricing programs to improving streetscapes and transit services in the affected areas (and advertising this fact). Priced parking can be introduced gradually to gauge public reaction before proceeding with a more comprehensive program.

## RECOMMENDATIONS

86. GGH municipalities that don't already have residential parking permits should consider implementing a system where residents can purchase a pass which allows them to park on residential streets.
87. Municipalities in the GGH should move towards charging for parking on an hourly, progressive, or demand-responsive basis in municipal facilities, municipally operated parking lots, and on-street parking in high-demand areas such as on main streets and commercial areas.
88. Municipalities moving towards more efficient parking pricing should install modern electronic metres on those streets and off-street facilities that are targeted for metering.
89. The Province should support municipalities interested in implementing more efficient approaches to parking pricing, e.g., by offering to act as a single purchasing agent (economies of scale) for and providing grants to install electronic meters, sponsoring research on the most effective policy design options, and including a section on this topic in the Municipal Finances for Smart Growth handbook.



Photo: Shutterstock

## ISSUE

Transit fares are not structured to achieve the most efficient transportation outcomes.

## DISCUSSION

- At present, the operating costs of municipal transit systems in the GGH are subsidized at a relative low rate and do not employ any peak/off-peak or distance fare pricing. They should consider adopting fare structures that would boost transit use and encouraged efficient travel choices, including reduced regular fares, zonal fares and peak-time pricing.
- Discounts for seniors are common on local transit in the GGH. A better approach would be to discount low-income individuals of any age, as is currently done in the Waterloo Region and in Mississauga and Brampton.<sup>182</sup>
- All transit systems in the GGH have reported significant revenue losses due to ridership declines during the COVID-19 pandemic. This has created pressure for adopting more innovative approaches to pricing transit services, which bodes well for zonal and peak-time fare pricing. However, in this context, fare reductions are difficult to contemplate unless new sources of revenue are identified. Reduced fares for local trips could be supported through revenue gains from implementing the parking pricing measures mentioned above or from entirely new revenue sources, such as a commercial parking levy. In the City of Toronto alone, it is estimated that a parking levy could generate net revenue ranging from \$171 million to \$535 million a year, depending on the rate (\$.50 to \$1.50 per spot per day).<sup>183</sup>
- Because municipal transit systems link to each other and GO Transit, attention should also be paid to increasing the efficiency of transit fares on a regional basis. Fare integration across the whole region would provide major benefits in that it would encourage more ridership and lend itself to peak/off-peak and zonal fares on a regional basis. One way to facilitate this would be for municipal transit systems in the GGH that are not already doing so adopt the Presto smart card system. The Presto system is run by Metrolinx, which already uses a distance-based fare system, albeit a highly complex one that is difficult for users to navigate.<sup>184</sup>
- In 2022, the Province announced that municipal systems (except the TTC) would be compensated for providing no-cost trips on local transit that link to GO services. This measure was a step in the right direction, but the Province needs to follow through by eliminating transfer fees from/to GO services and the TTC and between local systems. At that point, fares on the integrated regional system can be set to reflect peak/off-peak periods and distances travelled. The newly integrated fare system in the Montreal region, which incorporates regional subway and elevated train services with local bus services, could serve as a model.<sup>186</sup>

182 GO Transit participates in the Mississauga and Brampton programs by offering participants discounts on GO rides anywhere in the GO network.

183 KPMG (2016). "City of Toronto Revenue Options Study." <https://www.toronto.ca/legdocs/mmis/2016/ex/bgnd/backgroundfile-94513.pdf>

184 There are almost 100 fare zones based on route corridors and up to 1000 possible fares depending on transfers between zones.

185 This would help implement a Growth Plan policy: "Municipalities will work with transit operators, the Province, Metrolinx where applicable, and each other to support transit service integration within and across municipal boundaries."

186 Jason Magder (2022). "Simplified fare plan for Montreal-area public transit in effect July 1." *Montreal Gazette*, April 28.

<https://montrealgazette.com/news/local-news/simplified-fare-plan-for-montreal-area-public-transit-goes-into-effect-july-1>

## RECOMMENDATIONS

90. Municipalities in the GGH that operate transit systems should:
  - consider reducing transit fares, making up the lost income via wider coverage and more efficient user charges on parking (and eventually roads) or through a new parking levy administered through the commercial property tax bill,
  - eliminate fare discounts for seniors and instead implement discounts for low-income riders,
  - introduce zonal fares that reflect distances travelled.
91. Municipalities and Metrolinx should work together to integrate all municipal transit systems in the GGH into the Presto card system.
92. The Province should extend its combined fare discount program to cover trips involving transfers between GO Transit and TTC services and between TTC and surrounding municipal systems.
93. Once all GGH municipalities are integrated into the Presto system and combined fare discounts have been implemented, Metrolinx should work with the municipal transit systems within the GGH to create a streamlined peak/off-peak, zonal, and low-income discount fare system that would operate seamlessly across the GGH on all transit systems.



**Reduced fares for local trips could be supported through revenue gains from implementing the parking pricing measures mentioned above or from entirely new revenue sources, such as a commercial parking levy. In the City of Toronto alone, it is estimated that a parking levy could generate net revenue ranging from \$171 million to \$535 million a year, depending on the rate (\$.50 to \$1.50 per spot per day).**

## ISSUE

Pricing programs are effective but alone cannot shift a community transportation system to a more sustainable basis.

## DISCUSSION

Although the pricing strategies discussed in this section would in themselves help municipalities create a more efficient, affordable, and equitable transportation system, they would be more effective if implemented as part of an integrated program that includes a wider array of regulatory, investment, asset management, and planning policies. As part of a comprehensive approach, pricing strategies can create win-win solutions whereby municipalities generate more revenue, the external impacts of driving on society can be reduced, and drivers themselves financially and personally benefit as a result of reduced congestion and more travel options, including reliable transit.

## RECOMMENDATION

94. Municipalities should implement more efficient pricing of roads, parking, and transit in the context of measures that would improve the efficiency of the existing road network and transit system, while reducing demand for auto-dependent development. This could include a strong growth management framework, investment in transit and active transport, a transportation demand management strategy, effective asset management planning, supportive zoning, and urban design policies that favour car alternatives.



**As part of a comprehensive approach, pricing strategies can create win-win solutions whereby municipalities generate more revenue, the external impacts of driving on society can be reduced, and drivers themselves financially and personally benefit as a result of reduced congestion and more travel options, including reliable transit.**

---



# Conclusions

This report has argued that financial outcomes are strongly influenced by the choices municipalities make concerning the shape of growth, including its scale, location, and density. Once these land use decisions are made, they essentially lock the municipality into long-term (typically permanent) financial obligations that may not be sustainable and that may put future generations at financial risk. To address this issue, better integration between growth planning and financial management is needed, especially in terms of more infrastructure-efficient growth patterns, i.e., compact growth that is more walking-, biking- and transit oriented. This would result in reduced long-term municipal costs, less pressure on property taxes and user fees, a lower infrastructure deficit, and lower municipal debt than would otherwise be the case. More fiscally sustainable infrastructure and development patterns that are planned with life-cycle costs and revenues in mind will in turn will lead to more environmentally and socially sustainable planning, with better performance on important societal issues such as housing affordability, climate change protection, social equity, and increased economic competitiveness.

The two main ways to achieve better linkage between growth planning and fiscal systems explored in this report are through:

- high-level opportunities for the integration of fiscal sustainability considerations into the growth management process.
- restructuring of revenue instruments to avoid inefficient cross-subsidization of low-density development and to promote Smart Growth alternatives.

---

“ **Two main ways to achieve better linkages between growth planning and fiscal systems are through: 1) high-level opportunities for the integration of fiscal sustainability considerations into the growth management process; and 2) restructuring of revenue instruments to avoid inefficient cross-subsidization of low-density development and to promote Smart Growth alternatives.** ”

---

Over the last 15 years or so, Ontario has seen changes in both these dimensions, including revisions to the provincial land use planning framework to encourage municipalities to put more emphasis on the fiscal sustainability of their growth management decisions, the mandatory introduction of municipal asset management planning, changes to legislation governing development charges and property taxes that have mitigated some of the tendencies for revenue tools to undermine Smart Growth goals, and the growing tendency for municipalities to adopt user fees that reflect the marginal cost of providing municipal services, which produces better financial and land-use outcomes. Notwithstanding this progress, however, challenges remain. The report has focused on the actions needed to advance the transition to a municipal financial planning and management system that is more supportive of growth management goals.

### High level integration

The high-level integration of fiscal sustainability considerations into the growth management process is especially important during official plan reviews, but also during secondary (neighbourhood) planning, and the permitting of large-scale development projects. Growth management decisions must consider not only the capital costs of the infrastructure needed for new development, but also the life-cycle operations, maintenance, and eventual renewal costs compared to anticipated revenues. Because of the link between compact land use patterns and fiscal savings, sustainable land use planning tends to make for sustainable fiscal planning.

The report proposes that municipalities move forward by adopting an Integrated Growth Planning approach. This is an ideal planning process drawn from best practices currently emerging in the GGH. It integrates growth management with infrastructure and financial planning processes in order to achieve win-win-win outcomes that are more efficient on all three dimensions. Some municipalities in the GGH are already moving to this approach, while others – especially the medium- and small-sized ones – have been slow to recognize the importance of integrated planning. The shift to more integrative planning requires a reorientation of the municipality's corporate culture towards inter-departmental collaboration, long-term thinking, evidenced-based planning, more extensive data analysis, and more generally, an openness to change.

To facilitate this transition, the report proposes that the Province provide municipalities direction through regulatory or policy changes along with support for voluntary action through the provision of guidance information, analytical or decision-making tools, grants, background studies, and training for municipal employees and the consultants who work with them. By offering an interconnected network of such directives and support, the Province can help overcome some of the barriers to progress, including organizational inertia, poor inter-departmental communication, lack of trained staff, and a dearth of appropriate tools and relevant information.



**The report proposes that municipalities move forward by adopting an Integrated Growth Planning approach. To facilitate this transition, the report proposes that the Province provide municipalities direction through regulatory or policy changes along with support for voluntary action through the provision of guidance information, analytical or decision-making tools, grants, background studies, and training for municipal employees and the consultants who work with them.**

## THE REPORT RECOMMENDS THE FOLLOWING PROVINCIAL ACTIONS:

- **Legislation/regulation/policy:**
  - require that municipalities in the GGH conduct a growth-scenario assessment with a financial sustainability component as part of their official plan/MCR process.
  - require that municipalities in the GGH conduct a fiscal alignment audit to assess whether their fiscal instruments are likely (often inadvertently) to be reinforcing or undermining their growth management goals.
- **Guidance:**
  - develop a Municipal Finances for Smart Growth handbook to help guide municipalities interested in pursuing an Integrated Growth Planning Program (and implementing certain other recommendations in the report – see below).
  - incorporate key parts of the handbook – especially those related to growth scenario assessment – into existing guidance documents issued under the Growth Plan.
- **Tools:** create a “fiscal impact of growth” tool that could be adapted by municipalities in the GGH to model fiscal impacts of growth scenarios and other major growth planning processes.
- **Grants:** use study grants and infrastructure funding to encourage municipalities (and private sector consultants working for them) to transition to integrated planning.
- **Studies:**
  - commission a study to determine whether Smart Growth development patterns have the impacts on fiscal (including costs and revenues) and other important public priorities that its advocates allege in the GGH context.
  - commission a study to examine the negative impacts on growth outcomes of revenue tools as they are often currently designed and the potential benefits of “smart” design choices in terms of achieving Smart Growth outcomes.
- **Training:**
  - enhance mutual learning and educational opportunities on making the transition to integrated planning by partnering with professional organizations to deliver training modules on Integrated Growth Planning, the use of the fiscal impact tool, and undertaking a fiscal alignment audit.
  - build a community of practice to facilitate exchange among senior municipal officials interested in implementing an Integrated Growth Planning Program.

While the Province will need to take the lead on these recommendations, municipalities also have a major role to play in terms of reorienting their planning and financial management practices, undertaking studies to assess opportunities and potential gains, undergoing training, and communicating lessons learned with other municipal officials and private sector consultants. Perhaps most important is the need for municipalities to create integrated planning teams including planners, engineers, and financial officials to coordinate implementation of an Integrated Growth Planning Program. Many municipalities in the GGH – especially the larger ones – are already moving in this direction, driven by the desire to reduce long-term infrastructure costs, optimize revenues, and ensure long-term fiscal sustainability.

### **Restructuring of revenue instruments**

The report has used the “benefits-based” model of municipal finance as a framework for evaluating municipal financial instruments and alternative options. The underlying principle of this model is straightforward: those who benefit from local infrastructure or municipal services should pay the costs of providing them. This is the best way to ensure the efficient pricing and delivery of municipal services and the most efficient land use outcomes. When this principle is applied with a Smart Growth lens, our attention is drawn to the many ways in which location and density – which help determine the pattern of costs involved in providing many types of infrastructure and municipal services – are ignored in the formulation of revenue instruments. This includes the tendency for municipalities to use an average-cost approach in the design of their development charges and their inability (due to provincial legislative constraints) to achieve full cost recovery from the charges. Inaccurate provincial forecasts related to population, employment and housing-mix are also undermining the ability of development charge systems to recover costs and could be pressuring municipal councils into sprawl-inducing decisions.

“Perverse” incentives are also a feature of the property tax system, e.g., to reward property owners who keep land vacant and to charge higher rates on high-density residential units. Underpriced and flat rate user fees have a similar effect as they cross-subsidize low-density properties to the detriment of higher density ones. In addition, poorly priced parking and transit fees contribute to inefficient transportation systems that undermine efforts to move away from automobile use and the development patterns that support that usage. Finally, too few municipalities in the GGH are taking advantage of their tax, development charge, and user fee systems to reverse-subsidize development in ways that are consistent with Smart Growth principles, subsidies that can be justified on the grounds that such development has lower negative externalities and lower long-term costs to the municipality. This applies to development charge and property tax discounts/rebates to encourage development in targeted areas, surplus taxes on vacant residential units held by speculators, a tax on residential units that are kept vacant for most of the year, the use of Tax Increment Financing to help fund Smart Growth-supportive infrastructure (especially transit), and reduced transit fares.



**While the Province will need to take the lead on these recommendations, municipalities also have a major role to play in terms of reorienting their planning and financial management practices, undertaking studies to assess opportunities and potential gains, undergoing training, and communicating lessons learned with other municipal officials and private sector consultants. Perhaps most important is the need for municipalities to create integrated planning teams including planners, engineers, and financial officials to coordinate implementation of an Integrated Growth Planning Program.**

---

**TO REMOVE HIDDEN SUBSIDIES THAT MILITATE AGAINST SMART GROWTH AND USE THE MUNICIPAL INSTRUMENTS TO PROACTIVELY SUPPORT SMART GROWTH, THE REPORT RECOMMENDS THE FOLLOWING PROVINCIAL ACTIONS:**

- **Legislation/regulation/policy:**

- amend the Development Charge Act to encourage municipalities in the GGH to use area-specific charges for location-sensitive services such as water, wastewater, stormwater, and roads in the formulation of development charges.
- amend the Development Charges Act to ensure that all municipal services with a capital component and all costs related to those services are recoverable through development charges. The amendments should also allow municipalities to formulate their development charges based on planned levels of service rather than historic service levels.
- amend the Development Charges Act to allow municipalities to recover lost revenues associated with development charge discounts on properties in targeted Smart Growth areas by applying higher charges to other properties.
- amend the Municipal Act to require that municipalities apply the same tax rate on multi-residential properties as applied to other residential properties, end the tax discounts given to vacant commercial and industrial units, eliminate the vacant and excess lands property tax subclasses, and require municipalities to phase out discounts to farmland being kept vacant by speculators.
- prescribe a regulation under the Tax Increment Financing Act to activate the Act and allow municipalities to use this tool for financing redevelopment projects.
- amend the Municipal Act to require municipalities with stormwater management services in settlement areas to impose user charges as a dedicated and sustainable revenue source with which to fund those services. The amended Act should specify that the user fee must include a lot area or a pervious surface area (i.e., roofs, paved areas, etc.) parameter in the calculation of the charge.
- amend the Municipal Act to remove the provision that municipal road pricing schemes must be authorized with specific regulations.

- **Guidance:**

- add sections to the Municipal Finances for Smart Growth handbook on the area-specific approach to development charges, the use of development charge discounts/exemptions as a way to incentivize Smart Growth, setting and up and operating CIP-based tax grants, setting up and operating a TIF, and setting up and administering user-fee funded stormwater systems.
- amend the Land Needs Assessment Methodology guidance document to direct municipalities in the use of more forward-looking methods for forecasting housing-mix trends.

- **Tools:** launch an aerial imagery program using machine learning to measure impervious surface areas and provide regularly updated data to municipalities for use in their stormwater user fee programs.
- **Grants:**
  - introduce a provincial tax-increment grant program to match municipal grant programs that incentivize private investments that support growth management goals – e.g., brownfield decontamination, residential and employment intensification, or affordable housing.
  - support municipalities interested in implementing “smarter” approaches to parking pricing by providing grants to install electronic meters.
- **Studies:**
  - revise the methodology for the GGH population and employment forecasts prepared for MMAH to emphasize policy goals of the Growth Plan. In particular, the housing mix forecasting method should put more emphasis on emerging and expected future trends rather than historical market-based trends.
  - fund a study on the impact of the area-specific and other marginal-cost approaches compared to current approaches in terms of their impact on the efficiency of development patterns and overall life-cycle infrastructure costs.
  - explore ways to simplify and standardize the procedure for establishing a vacant unit tax program.
  - explore the possibility of changing the Assessment Act and Municipal Act to allow municipalities to adopt density-based tax rates on residential properties.
  - gather empirical information on the impact of CIP-based grant programs on development activity in targeted locations.
  - study the various options for structuring a road pricing system in the GGH.
- **Training:** partner with professional organizations such as MFOA, OPP, and AMO to create training modules for municipal officials (and private consultants who work with them) on the use of area-specific development charges, development charge discounts/exemptions, CIP-based tax increment grants, the use of TIFs, and stormwater fees.



**Municipalities must be seen as full partners in the movement towards better integration between growth planning and financial management. There are no one-size fits all solutions. Where regulation is called for, provisions should always be made for the variances in approach that might arise from differences in population size, the degree of urbanization, growth rate, employment trends, etc.**

Although these action items focus on the role of the Province, municipalities are obviously far from passive bystanders in the reform of revenue instruments. Needless to say, it's local authorities that will be implementing the proposed changes to development charges, tax rates, and user fees, making the decisions that are most appropriate in their circumstances. Beyond that, municipalities can partner with the Province in developing the revenue sections of the proposed Municipal Finances for Smart Growth handbook, organizing, and conducting training workshops, and piloting programs (such as road pricing) that feed into wider provincial initiatives. Engaging with and educating the public on new approaches to managing growth and raising revenues to pay for public services and monitoring trends after the introduction of reforms in revenue instruments and making adjustments to mitigate negative side-effects are additional roles local authorities can play. Municipalities in the GGH are already connected to each other through a range of professional organizations and countless informal contacts and these can serve as networks for mutual learning as reforms move forward.

### Final remarks

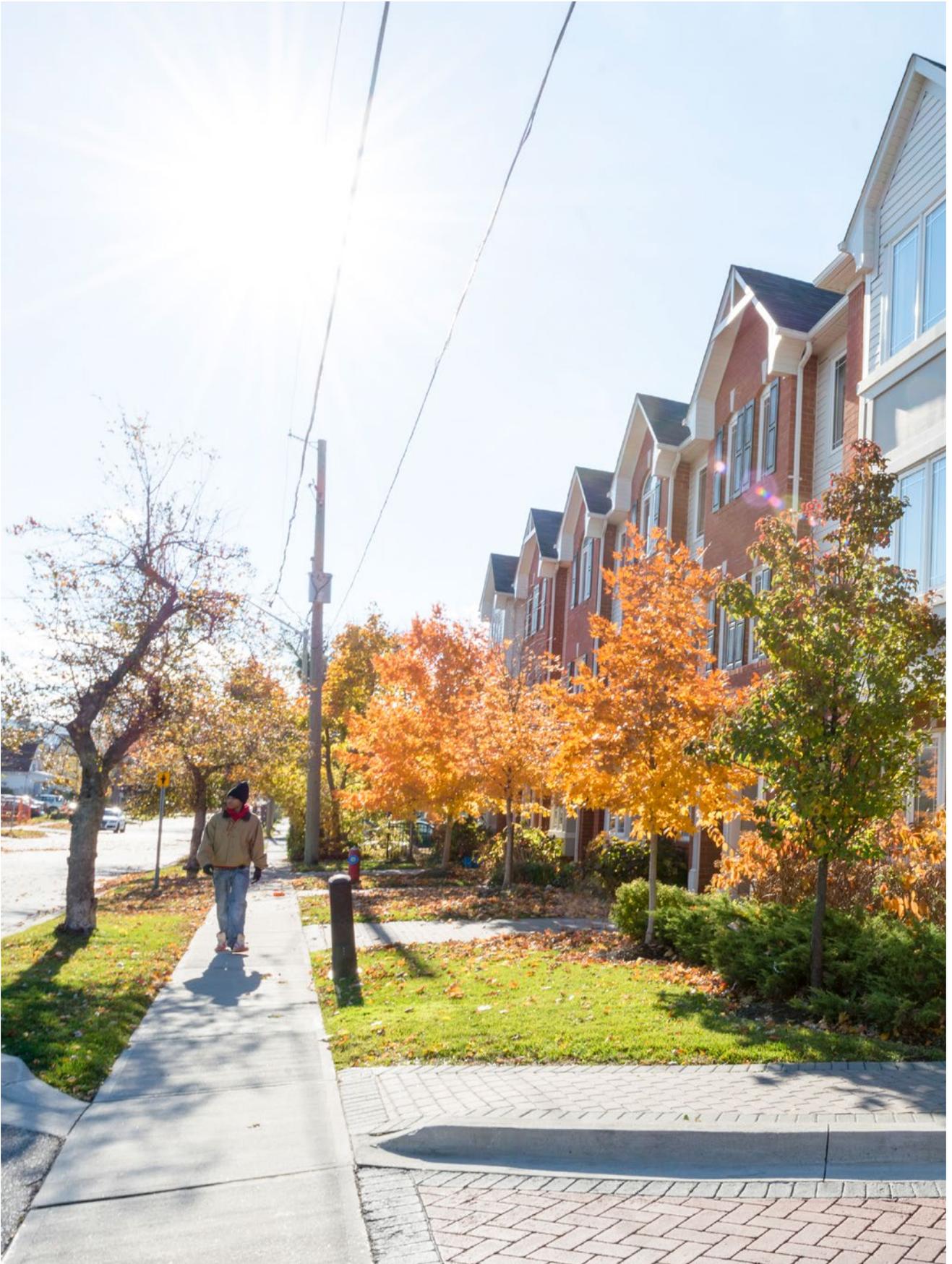
As the long-term costs related to inefficient growth patterns become increasingly obvious over time, the conversation on how to stem sprawl and move to more sustainable forms of growth will likely intensify. This report has tried to bring attention to one strand of this conversation, namely the use of financial processes and instruments to support Smart Growth outcomes. In closing, it may be helpful to offer some final observations that might help advance this conversation:

- Municipalities must be seen as full partners in the movement towards better integration between growth planning and financial management. The advantage of provincial action is the potential it offers for motivating rapid and consistent change across the entire region, but top-down initiatives that are deaf to local nuance can also elicit resistance and push back. There are no one-size fits all solutions and municipalities usually resent being directed from above in a fashion that assumes they are all facing a uniform set of conditions. Where regulation is called for, provisions should always be made for the variances in approach that might arise from differences in population size, the degree of urbanization, growth rate, employment trends, etc. However, it is usually better to work through municipal capacity building, incentives, and voluntary compliance where feasible.
- Many of the recommended actions in this report rely on an enthusiastic response from the Province for their implementation. The Province certainly has an interest in more efficient patterns of growth, lower infrastructure costs, and long-term financial sustainability, as achieving these objectives would engender municipal financial self-sufficiency and ultimately put less pressure on provincial-municipal funding programs. However, the political will to act can be mercurial as it depends on a wide variety of factors such as election cycles, political calculations related to anticipated reactions among urban versus suburban and rural constituencies, and a general desire to avoid stirring controversy. Where provincial action is not forthcoming, municipalities might be able to take more initiative and move the ball forward until a provincial reaction is triggered, as often happens when the Province detects a patchwork of approaches emerging at the local level.
- The use of pricing signals is of increasing interest to sustainability advocates as a way to complement and reinforce efforts to effect change using other instruments, such as regulation, investment, and public education. Getting the prices right is crucial to avoiding destructive cross-subsidization through revenue instruments and taking advantage of opportunities to incentivize positive choices from a Smart Growth point of view. However, it's important to remember that municipalities have other goals in mind when designing revenue instruments, including the need for a reliable stream of income to the municipality, transparency, administrative simplicity, and equity across income groups. Thus, redesigning

revenue instruments to support Smart Growth outcomes may not be appropriate in all situations. The role of the reformer is to assess each case to determine whether significant enough gains can be made to warrant revising established practices.

- Likewise, the purpose of growth management is not to achieve one objective above all contenders. Growth management is the art of balancing objectives and negotiating outcomes with an array of stakeholders with different and often opposing interests and goals. Cleaving to a single overriding objective is not viable in this setting. Crucial as fiscal sustainability is, it's only one of the desirable outcomes of a successful growth management exercise. It's important to keep in mind, however, that land use decisions usually imply obligations to support infrastructure and services into the far future and are practically irreversible. Also, the land use patterns that deliver the most efficient financial outcomes happen to be those that deliver on many other objectives of growth management, including climate change protection, complete communities, a balanced transportation system, social equity, and increased economic competitiveness. Under these conditions, the long-term and evidence-based thinking that is inherent to assessing and ensuring financial sustainability provides a ready argument for giving a certain prominence to financial considerations in growth management discussions.
- It also has to be emphasized that fiscal mechanisms can't be relied upon to ensure progress towards Smart Growth objectives in the absence of other mechanisms to stem sprawl and engender compact growth. Municipalities that embrace the notion that smartly designed revenue instruments, wise financial management and good quality asset planning can set them on the path to Smart Growth objectives may be disappointed to find patterns of urban sprawl continuing at the urban fringe. A strong regulatory framework that directs development to appropriate locations, encourages a mix of land uses, and sets density standards is the core of a successful growth management program. It is important that financial planning processes and revenue instruments are designed to avoid contradicting land use planning efforts and proactively facilitate them where possible, but financial measures are not panaceas in themselves.
- The main thrust of this report has been on efficiency gains in terms of land used to accommodate growth, infrastructure needed to support that growth, and the long-term financial sustainability of growth. Discussions that focus on improving efficiency are often leavened by debates over equity outcomes. Indeed, equity issues are ever-present in discussions involving the implementation of measures that will change development outcomes and the way funds are raised to pay for municipal services. Some of the equity implications of the actions recommended in this report are widely supported, e.g., the use of long-term integrated planning to help ensure that future generations are not unfairly burdened with avoidable financial, social and environmental debts, or the use of area-specific development charges to ensure that developers who benefit from the installation of costly infrastructure are the ones to pay for it. Other equity implications of the suggested actions can be more controversial, for example, when municipal services are priced to achieve land use and economic efficiencies but end up depriving low-income residents of services essential to maintaining their quality of life. During the COVID-19 epidemic, equity issues were brought to the surface and many hope they will remain there in the aftermath. This can only enrich the discussion about the equity implications of the types of measures proposed in this report, and hopefully suggesting ways to avoid or mitigate negative equity impacts.

- Any report that proposes changes to existing practices will have to reckon with the inertia inherent in the established ways of doing things. In the context of this report, we've witnessed several instances in which arguments against the types of changes being proposed relied on the desire to avoid the disruption that change can present. A less financially sustainable growth scenario may be chosen for implementation on the grounds that it promises to deliver low-density housing that matches existing market trends rather than the scenario that better meets policy aspirations. Another manifestation of this inertia is the tendency to configure long-term growth forecasts as simple extrapolations of past trends, even when there are clear indications that fundamental change is afoot. Inertia is also at work when a new approach to formulating development charges is rejected because consulting firms or regulatory tribunals are used to handling things the "old way". It can also be detected when a proposal for charging for previously unpriced services is spurned because it clashes with what is considered an acquired right to "free" services. That's not to say that none of these are good arguments to resist change, only that the proponents of change must be ready to address the poor ones.
- The research findings emphasize the importance of ongoing monitoring of any innovation in planning processes or revenue instrument design. Some of the recommended actions could have negative side-effects - e.g., if a shift towards redevelopment of already urbanized land facilitated by a switch to area-specific development charges triggers gentrification of older areas, or if parking charges on commercial streets lead to a decline in business incomes. Anticipating such outcomes and monitoring for changes in key metrics can help officials decide on appropriate adjustments to the programs or other countermeasures. Also, some of the report's recommendations relate to programs whose efficacy may wane over time - e.g., property tax grants offered in the context of a Community Improvement Plan and development charge discounts. It's important for municipalities to track outcomes, adjust the program accordingly, and eventually end it when objectives are achieved.
- The report has largely stayed away from suggesting major changes in the way municipalities finance growth and pay for services. Radical reforms to the way property taxes are assessed (such as land-value assessment), alternatives to property taxes (such as municipal sales taxes or income taxes), or moving from development charges to user fees to support "utility-like" infrastructure such as water and wastewater, and other major restructurings of existing approaches were broached but not seriously considered as measures that could be recommended in the context of this study. However, all of these ideas have academic proponents, and some are of interest from a Smart Growth point of view. Future research could look into these more expansive measures. Another issue that might interest researchers in this area relates to senior government grants, which were not closely examined in the present study. These grants currently make up a significant portion of municipal budgets in the GGH and could be assessed in terms of the role they could play in contributing to Smart Growth outcomes.



# Bibliography

- AJOT (2022). "Mileage-based user fee pilot program addresses concerns about privacy, rural drivers, and trucks." *American Journal of Transportation*, February 28. <https://ajot.com/news/mileage-based-user-fee-pilot-program-addresses-concerns-about-privacy-rural-drivers-and-trucks>
- Alfaro, Devin (2010). "The Parking Lot Tax." *Spacing*, January 17. <http://spacing.ca/montreal/2010/01/17/the-parking-lot-tax/>
- Amborski, David (2011). "Alternatives to Development Charges for Growth-Related Capital Costs." (Residential and Civil Construction Alliance of Ontario).
- Amborski, David (2016). "Using Land Value Capture Tools in Canadian Municipalities," *Plan Canada*, 56(2): 25-28.
- Asset Management British Columbia (2019). "Land Use Planning and Asset Management." (AMBC: Victoria, BC) <https://www.assetmanagementbc.ca/wp-content/uploads/Land-Use-Planning-and-Asset-Management.pdf>
- Barter, Paul (2018). "Every city with 'Goldilocks' parking fees". Web blog, June 11. <https://www.reinventingparking.org/2018/06/every-city-with-goldilocks-parking-fees.html>
- Baumeister, Mia (2012). "Development Charges across Canada: An Underutilized Growth Management Tool?" (Institute on Municipal Finance and Governance, University of Toronto: Toronto). [https://munkschool.utoronto.ca/imfg/uploads/201/imfg\\_no.9\\_online\\_june25.pdf](https://munkschool.utoronto.ca/imfg/uploads/201/imfg_no.9_online_june25.pdf)
- BC Ministry of Municipal Affairs and Housing (2018). "Community Lifecycle Infrastructure Costing (CLIC) Tool and User Guide." (BCMMAH: Victoria, BC) [https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/local-governments/planning-land-use/clic\\_decision\\_support\\_tool\\_user\\_guide.pdf](https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/local-governments/planning-land-use/clic_decision_support_tool_user_guide.pdf)
- Blais, Pamela (2010). *Perverse cities: Hidden subsidies, wonky policy, and urban sprawl*. (UBC Press: Vancouver).
- Blais, Pamela (2011). "Urban Sprawl: The Price is Wrong." *Plan Canada*, 51(2): 14-19.
- Blais, Pamela (2018). "Planning the Next GGH." (The Neptis Foundation: Toronto). [https://neptis.org/sites/default/files/planning\\_the\\_next\\_ggh/neptis\\_planningthenextggh\\_report\\_dec4\\_2018.pdf](https://neptis.org/sites/default/files/planning_the_next_ggh/neptis_planningthenextggh_report_dec4_2018.pdf)

- Building Industry and Land Development Association (2020). "Summary of Development Charges in the GTA." (BILD: Toronto). <https://bildgta.ca/Assets/FINAL%20GTA%20-%20Development%20Charges%20-%2009%202020.pdf>
- Burchell, R.W. et al. (2002). "Costs of Sprawl." (Transportation Research Board, Washington, DC).
- Burda, Cherise (2013). "Priced Out: Understanding the factors affecting home prices in the GTA." (Royal Bank of Canada and the Pembina Institute: Toronto).
- Buzuku, Arben (2021). "Municipal Property Taxation in Law and Practice: A descriptive comparative study between Alberta and Ontario." (Western University: London, ON).
- Caldwell, Phillip (2020). "Municipal Best Practices Review." (City of Hamilton: Hamilton).
- Canada Mortgage and Housing Corporation (2001). "Research Highlights: The Headwaters Project— East Clayton Neighbour- hood Concept Plan." *Socio-Economic Series*, Issue 78.
- Canada Mortgage and Housing Corporation (undated). "Research Highlights: Infrastructure Costs Associated with Conventional and Alternative Development Patterns." *Socio-Economic Series*, Issue 26.
- canadainfrastructure.ca (2019). "Canadian Infrastructure Report Card." <http://canadianinfrastructure.ca/downloads/canadian-infrastructure-report-card-2019.pdf>
- Chan, Kenneth (2021). "All coin parking meters to be replaced with pay stations in Vancouver for \$14 million." *Daily Hive*, Feb 19. <https://dailyhive.com/vancouver/vancouver-parking-meter-station-replacement>
- Chan, Kenneth (2022). "Vancouver City Council to decide on road tolls after October election." *Daily Hive*, January 7. <https://dailyhive.com/vancouver/vancouver-transport-pricing-road-tolls-timeline>
- City of Greater Sudbury (2017). "Comparative Fiscal Impact Analysis of Growth Study." (City of Greater Sudbury). <https://pub-greatersudbury.escribemeetings.com/filestream.ashx?documentid=7127>
- City of London (2021). "Downtown Community Improvement Plan – Performance Measures and Indicators of Success." (Report of Planning and City Planner: London).
- Clayton, Frank (2021). "Forecasting Housing Needs to 2051: York Region is Credible Hamilton is Not." (Centre for Urban Research and Land Development, Ryerson University: Toronto).
- Dachis, Benjamin (2013) "Cars, Congestion and Costs: A New Approach to Evaluating Government Infrastructure Investment." (CD Howe Institute: Toronto). [https://www.cdhowe.org/sites/default/files/attachments/research\\_papers/mixed/Commentary\\_385\\_0.pdf](https://www.cdhowe.org/sites/default/files/attachments/research_papers/mixed/Commentary_385_0.pdf)
- Duff, David G. (2005). "Road Pricing in Theory and Practice: A Canadian Perspective." (University of British Columbia: Vancouver). [https://commons.allard.ubc.ca/cgi/viewcontent.cgi?article=1105&context=fac\\_pubs](https://commons.allard.ubc.ca/cgi/viewcontent.cgi?article=1105&context=fac_pubs)
- Duke, J.M. & T. Gao (2021). "Land Value Taxation: A Spatially Explicit Economic Experiment with Endogenous Institutions." *Journal of Real Estate Finance and Economics*, November 8.
- Dye, Richard F. & David Merriman (2000). "The Effects of Tax Increment Financing on Economic Development." *Journal of Urban Economics*, 47(2): 306-328.
- Eby, Kevin (2020). "Population Forecasting in the GGH: A Comparison of the Growth Plan Population Forecasts and the Ministry of Finance Population Projections." (Greenbelt Foundation: Toronto).

- Eby, Kevin & Susan Lloyd Swail (2022). "Planning Presentation." (Ontario Greenbelt Alliance webinar). <https://www.youtube.com/watch?v=dbeRR65KreQ>
- Energy Pathways Inc. (1997). "Levying Development Cost Charges on a Square-Foot Basis." (Urban Development Institute Pacific Region: Vancouver).
- Environmental Commissioner of Ontario (2016). "Urban Stormwater Fees: How to Pay for What We Need." (ECO: Toronto). <https://www.auditor.on.ca/en/content/reporttopics/envreports/env16/Urban-Stormwater-Fees.pdf>
- Environmental Defence (undated). "Benefits of Smart Growth." (Environmental Defence : Toronto). <https://environmentaldefence.ca/benefits-of-smart-growth/>
- Financial Accountability Office of Ontario (2022). "Ontario's Municipal Finances." (FAOO: Toronto). <https://www.fao-on.org/en/Blog/Publications/municipal-finances-2020>
- Fleischer, David & Nicole Visschedyk (2011). "Ontario faces \$100B infrastructure gap." *Era-Banner, Newmarket*. June 22: 1.
- Found, Adam (2016). "Tapping the Land/ Tax Increment Financing of Infrastructure." (CD Howe Institute: Toronto).
- Found, Adam (2019). "Development Charges in Ontario: Is Growth Paying for Growth?" (Institute on Municipal Finance and Governance, University of Toronto: Toronto).
- Found, Adam (2021). "Development Charges and Housing Affordability: A False Dichotomy?" (Institute for Municipal Finance and Governance: Toronto).
- Fowler, Kim (2016). "Integrating Land Use Planning and Development Finance to Improve Local Government Sustainability." *Plan Canada*, 56(2): 42-46.
- Government of Ontario (2013). "Development Charges in Ontario Consultation Document." [https://www.mfoa.on.ca/MFOA/WebDocs/Development\\_Charge\\_Consultation.pdf](https://www.mfoa.on.ca/MFOA/WebDocs/Development_Charge_Consultation.pdf)
- GSA Consulting Inc. (2018). "Edmonton Municipal Tools Review: Evolving Infill." (City of Edmonton: Edmonton).
- Hemson Consulting (2020). "City Plan Growth Scenarios Relative Financial Assessment." (City Of Edmonton: Edmonton).
- Hemson Consulting (2021). "Summary Update of Comparative Municipal Fiscal Impact Analysis." (City of Ottawa: Ottawa).
- Hemson Consulting (2013). "Greater Golden Horseshoe: Growth Forecasts to 2041." (Ministry of Municipal Affairs and Housing: Toronto).
- Hemson Consulting (2020). "Greater Golden Horseshoe: Growth Forecasts to 2051." (Ministry of Municipal Affairs and Housing: Toronto).
- IBI Group (2009). "The Implications of Alternative Growth Patterns on Infrastructure Costs." (City of Calgary: Calgary). <http://www.reconnectingamerica.org/assets/Uploads/planitcalgarycoststudyanalysisaprilthird.pdf>
- Institute for Local Self-Reliance (undated website). "Tax Base Sharing." <https://ilsr.org/rule/tax-base-sharing/>

- Jose, Ben (2017). "San Francisco Adopts Demand-Responsive Pricing Program to Make Parking Easier." *San Francisco Metropolitan Transport Agency*, December 5. <https://www.sfmta.com/blog/san-francisco-adopts-demand-responsive-pricing-program-make-parking-easier>
- Kitchen, Harry (2000). "Municipal Finance in a New Fiscal Environment." (C.D. Howe Institute: Toronto).
- Kitchen, Harry (2004). "Financing City Services: A Prescription for the Future." (Atlantic Institute of Marketing Studies: Halifax).
- Kitchen, Harry (2019). "Ontario's Downward Trend for Fuel Tax Revenue: Will Road Pricing Fill the Gap?" (Residential and Civil Construction Alliance of Ontario: Toronto).
- Kitchen, Harry (2021). "Age Based Service Demands in Canada: Municipal Responsibility and Financing." *Local Government Studies*, 47(3).
- Kitchen, Harry & Enid Slack (2016). "More Tax Sources for Canada's Largest Cities: Why, What, and How?" (Institute on Municipal Finance and Governance: Toronto).
- Kitchen, Harry & Robin Lindsey (2013). "Financing Roads and Public Transit in the Greater Toronto and Hamilton Area." (Residential and Civil Construction Alliance of Ontario: Toronto). [https://rccao.com/research/files/RCCAO\\_JAN2013\\_REPORT\\_LOWRES.pdf](https://rccao.com/research/files/RCCAO_JAN2013_REPORT_LOWRES.pdf)
- Kitchen, Harry; Melville McMillan & Anwar Shah (2019). *Local Public Finance and Economics: An International Perspective*. (Palgrave McMillan: Cham, Switzerland).
- Kotval, Zenia & John Mullin (2006). "Fiscal Impact Analysis: Methods, Cases, and Intellectual Debate." (Lincoln Institute of Land Policy: Cambridge, MA).
- KPMG (2016). "City of Toronto Revenue Options Study." <https://www.toronto.ca/legdocs/mmis/2016/ex/bgrd/backgroundfile-94513.pdf>
- Lindsey, Robin (2007). "Congestion relief: Assessing the case for road tolls in Canada." (CD Howe Institute: Toronto).
- Linstone, H. & M. Turoff (1975). "Introduction", in *The Delphi Method: Techniques and Applications*. Edited by H. Linstone & M. Turoff (Addison-Wesley: Don Mills, ON), 3-12 on p. 3.
- Litman, Todd (2021). "Parking Pricing Implementation Guidelines: How More Efficient Parking Pricing Can Help Solve Parking and Traffic Problems, Increase Revenue, and Achieve Other Planning Objectives." (Victoria Transport Policy Institute: Victoria, BC). <https://www.vtpi.org/parkpricing.pdf>
- Litman, Todd (2021). "Selling Smart Growth: Communicating the Direct Benefits of More Accessible, Multi-Modal Locations to Households, Businesses and Governments." (Victoria Transport Policy Institute: Victoria, BC).
- Litman, Todd (2022). "Evaluating Public Transit Benefits and Costs." (Victoria Transport Policy Institute: Victoria, BC).
- Litman, Todd (2022). "Understanding Smart Growth Savings: Evaluating Economic Savings and Benefits of Compact Development" (Victoria Transport Institute: Victoria, BC).
- Loukaitou-Sideris, A. (2000). "Transit-oriented development in the inner city: A Delphi survey." *Journal of Public Transportation*, 3(2): 5.

- Magder, Jason (2022). "Simplified fare plan for Montreal-area public transit in effect July 1." *Montreal Gazette*, April 28. <https://montrealgazette.com/news/local-news/simplified-fare-plan-for-montreal-area-public-transit-goes-into-effect-july-1>
- Mahaffy, Michael W. (2022). "Re-Thinking the Transport and Land Use Connection." In Michael W. Mahaffy and Jorge Rogat (eds.) *The Road Forward: Cost-Effective Policy Measures to Decrease Emissions from Passenger Land Transport*. (Centre For The Future Of Places, Kth Royal Institute Of Technology: Copenhagen).
- Meloche, Jean-Philippe & François Vaillancourt (2021). "Municipal Financing Opportunities in Canada: How Do Cities Use Their Fiscal Space?" (Intergovernmental Institute on Finance and Governance: Toronto).
- Ministry of Municipal Affairs and Housing (2008). "Community Improvement Planning Handbook." (Ministry of Municipal Affairs and Housing: Toronto). <https://www.midland.ca/Shared%20Documents/Community%20Improvement%20Planning%20Handbook%202008%20MMAH.pdf>
- Ministry of Municipal Affairs and Housing (2010). "Business Improvement Area Handbook." (Government of Ontario: Toronto). <https://www.ontario.ca/document/business-improvement-area-handbook>
- Ministry of Municipal Affairs and Housing (2017). Greenbelt Plan (2017). <https://www.ontario.ca/document/greenbelt-plan-2017>
- Ministry of Municipal Affairs and Housing (2020). A Place to Grow. Growth Plan for the Greater Golden Horseshoe Region. <https://www.ontario.ca/document/place-grow-growth-plan-greater-golden-horseshoe>
- Ministry of the Environment & Climate Change (2017). "Draft Low Impact Development Stormwater Management Guidance Manual." (MECC: Toronto). [https://municipalclassea.ca/files/7\\_DRAFT\\_MOECC\\_LID%20SWM%20Manual.pdf](https://municipalclassea.ca/files/7_DRAFT_MOECC_LID%20SWM%20Manual.pdf)
- Moore, Oliver (2022). "Edmonton mulls tough-sell property tax shakeup to encourage density." *Globe and Mail*, April 8.
- Muro, Mark & Robert Puentes (2004). "Investing in a Better Future: A Review of the Fiscal and Competitive Advantages of Smarter Growth Development Patterns." (The Brookings Institution Center on Urban and Metropolitan Policy: Washington, DC). <https://www.brookings.edu/research/investing-in-a-better-future-a-review-of-the-fiscal-and-competitive-advantages-of-smarter-growth-development-patterns/>
- Nix, F. (2001). "Alternative Road Financing Arrangements: Research conducted for the Canada Transportation Act Review" (Transport Canada: Ottawa): 18–35.
- Novakowski, N. & B. Wellar (2008). "Using the Delphi Technique in Normative Planning Research: Methodological Design Considerations." *Environment and Planning A: Economy and Space*, 40(6), 1485-1500.
- O'Neill, Sara Jane & Stephanie Cairns (2016). "New Solutions for Sustainable Stormwater Management in Canada." (Smart Prosperity Institute: Ottawa). <https://institute.smartprosperity.ca/sites/default/files/stormwaterreport.pdf>
- Ontario Good Roads Association (2021). "Ontario's Municipal Road Infrastructure Deficit." (Toronto: OGRA).
- Parry, Ian & Kenneth Small (2009). "Should urban transit subsidies be reduced?" *American Economic Review* 99(3), 700-724.

- Regional Municipality of Peel (October 10, 2017). "Financial Policy & Technical Inputs for 2041 Growth Based Development Charges By-Law Update." (Report of Commissioner of Finance and Chief Financial Officer).
- Regional Municipality of York (2019). "Growth and Infrastructure Alignment." (Report of the Commissioner of Corporate Services and Chief Planner, June 13,).
- Shoup, Donald (2005). *The High Cost of Free Parking*. (APA Planners Press: Chicago, IL and Washington, DC)
- Shoup, Donald (2007). "Cruising for Parking." *Access*, 30: 16-20. <https://www.accessmagazine.org/wp-content/uploads/sites/7/2016/02/Access-30-04-Crusing-for-Parking.pdf>
- Skaburskis, Andrejs (1991). "The design of development cost charge schedules." *Journal of Property Research*, 8 (1): 83–98.
- Skaburskis, Andrejs (2003). "Planning city form: Development cost charges and simulated markets." *Planning Practice and Research* 18 (2): 197–211.
- Skaburskis, Andrejs & Ray Tomalty (2000). "The effects of property taxes and development cost charges on urban development: Perspectives of planners, developers and finance officers in Toronto and Ottawa." *Canadian Journal of Regional Science*, 23 (2): 303–25.
- Slack, Enid (2002). "Municipal Finance and the Pattern of Urban Growth." (C.D. Howe Institute: Toronto).
- Slack, Enid (2006). "The Impact of Municipal Finance and Governance on Urban Sprawl." (A paper sponsored by the Science Advisory Board of the International Joint Commission and presented to the International Symposium on Urban Impacts: Global Lessons for the Great Lakes Basin, Chicago, Illinois September 25-26.)
- Slack, Enid (2009). "Provincial-Local Fiscal Transfers in Canada: Provincial Control Trumps Local Accountability." (Institute on Municipal Finance and Governance, University of Toronto: Toronto).
- Slack, Enid (2016). "Sustainable Development and Municipalities: Getting the Prices Right." (Institute on Municipal Finance and Governance, University of Toronto: Toronto).
- Slack, Enid & Richard Bird (1991). "Financing urban growth through development charges." *Canadian Tax Journal* 39 (5): 1288–1304.
- Smolka, Martim O. & David Amborski (2000). "Value capture for Urban Development: An Inter-American Comparison." (Lincoln Institute: Washington, DC). [https://www.lincolninst.edu/sites/default/files/pubfiles/1279\\_Smolka%20Final.pdf](https://www.lincolninst.edu/sites/default/files/pubfiles/1279_Smolka%20Final.pdf)
- Speir, Cameron & Kurt Stevenson (2002). "Does Sprawl Cost Us All? Isolating the Effects of Housing Patterns on Public Water and Sewer Costs." *Journal of the American Planning Association*, 1(68): 56–70.
- Srivastava, Lorie & Cherise Burda (2015). "Fare Driving: Exploring the benefits of traffic pricing in Toronto and the GTA." (Pembina Institute: Toronto).
- Stantec Consulting (2013). "Quantifying the Costs and Benefits of Alternative Growth Scenarios." (Halifax Regional Municipality, NS). <https://www.halifax.ca/sites/default/files/documents/about-the-city/regional-community-planning/HRMGrowthScenariosFinalReportJuly82013.pdf>
- Stout, Mark (2021). "Underpriced and Undervalued: Exploring curbside pricing policies in Toronto." (Pembina Institute: Toronto).

- Swanepoel, Lourette & Tina Schaeffer (2017). "CLIC For Better Decision-Making In Prince George." *Planning West*, Winter: 10-16.
- Tassonyi, Almos & Harry Kitchen (2021). "Addressing the Fairness of Municipal User Fee Policy." (Institute on Municipal Finance and Governance, University of Toronto: Toronto).
- Thompson, David (2013). "Suburban Sprawl: Exposing Hidden Costs, Identifying Innovations." (Sustainable Prosperity: Ottawa). [https://institute.smartprosperity.ca/sites/default/files/publications/files/Summary%20for%20Government%20Officials\\_0.pdf](https://institute.smartprosperity.ca/sites/default/files/publications/files/Summary%20for%20Government%20Officials_0.pdf)
- Tomalty, Ray (2000). "The Effects of Development Charges on Urban Form." (Canada Mortgage and Housing Corporation: Ottawa).
- Tomalty, Ray (2003). "Development charges and city planning objectives: The Ontario disconnect." *Canadian Journal of Urban Research*, 12(1): 142–61.
- Tomalty, Ray (2007). "Innovative Infrastructure Financing Mechanisms for Smart Growth." (Smart Growth BC: Vancouver). <https://www.como.gov/Council/Commissions/downloadfile.php?id=12949>
- Tomalty, Ray & Andrejs Skaburskis (1997). "Negotiating development charges in Ontario: Average cost versus marginal cost pricing of services." *Urban Studies*, 34 (12): 1987– 2002.
- Ustaoglu, Eda et al. (2017). "Developing and Assessing Alternative Land-Use Scenarios from the MOLAND Model: A Scenario-Based Impact Analysis Approach for the Evaluation of Rapid Rail Provisions and Urban Development in the Greater Dublin Region." *Sustainability*, 10(1): 1-34. <https://ideas.repec.org/a/gam/jsusta/v10y2017i1p61-d124697.html>
- van Lierop, D.; G. Boisjoly; E. Grisé & A. El-Geneidy (2017). "Evolution in land use and transport research." In T. Sanchez (ed), *Planning Knowledge and Research*. (Routledge, New York, NY).
- Victoria Transport Policy Institute (undated). "Online TDM Encyclopedia, Road Pricing," <http://www.vtppi.org/tdm/tdm35.htm>.
- Warren, F.J. & N. Lulham, eds. (2021). "Canada in a changing climate: national issues report." (Government of Canada: Ottawa).
- West, Róisín (2022). "All's fare? Public transit budgets deserve better than farebox recovery revenue." *The Monitor*, March 2. <https://monitormag.ca/articles/all-s-fare>
- Zhou, Ying; Amelia Clarke & Stephanie Cairns (2020). "Building Sustainable Communities Through Market-Based Instruments," in *Environmental Policy: An Economic Perspective*, edited by Thomas Walker, Northrop Sprung-Much & Sherif Goubran. (John Wiley & Sons: Hoboken, NJ).

# Appendix 1: Reference Panel Members

The following individuals provided input into the research via a structured series of surveys. Panel members were anonymous to each other throughout the study and survey responses were treated confidentially. Members were not asked to endorse the report and the contents should in no way be attributed to panel members.

| Name              | Affiliation  |
|-------------------|--|
| Adam Found        | Manager, Corporate Assets, City of Kawartha Lakes<br>Metropolitan Policy Fellow, C.D. Howe Institute<br>Assistant Professor, Trent University  |
| Ben Le Fort       | Senior Policy Analyst, Ontario Federation of Agriculture   |
| Bill Hughes       | Chair, ONE Joint Investment Board<br>Fellow, Institute on Municipal Finance and Governance, University of Toronto<br>Former Commissioner of Finance and Treasurer, York Region<br>Former Assistant Deputy Minister, Ontario Ministry of Infrastructure |
| David Amborski    | Professor, School of Urban and Regional Planning, Toronto Metropolitan University  |
| Enid Slack        | Director, Institute on Municipal Finance and Governance, University of Toronto   |
| Jesse Zuker       | Vice-President-Infrastructure, Northcrest Developments   |
| Kathy Macpherson  | Former Vice President Research and Policy, Greenbelt Foundation  |
| Kevin Eby         | Former Director, Community Planning, Waterloo Region   |
| Larry Clay        | Former ADM, Ontario Growth Secretariat   |
| Leith Moore       | Principal & Founder, R-Hauz<br>Former VP-Development, Sorbara Group<br>Former President, Ontario Home Builders Association<br>Former Chair, BILD Association   |
| Lynda Lukasik     | Executive Director, Environment Hamilton   |
| Susan Lloyd Swail | Principal, Lloyd Swail Consulting<br>Former Senior Manager, Livable Communities Program, Environmental Defence<br>Former Councillor/Deputy Mayor, Township of King   |
| Victor Doyle      | Former Manager, Local Government and Planning Policy Division, Ontario Ministry of Municipal Affairs and Housing   |

# Appendix 2: Interviewees

The following people were interviewed (and many also furnished documents) during the course of the research. The interviews were conducted on a confidential basis and no information in the report should be associated with any individual interviewee.

Adam Found  
Manager of Corporate Assets  
Corporate Services  
City of Kawartha Lakes  
[adam.found@utoronto.ca](mailto:adam.found@utoronto.ca)

Almos Tassonyi  
Executive Fellow  
The School of Public Policy  
University of Calgary  
&  
Adjunct Lecturer  
Department of Geography and Planning  
University of Toronto  
&  
Senior Economist  
Ministry of Finance  
Province of Ontario  
[almos.tassonyi@alumni.utoronto.ca](mailto:almos.tassonyi@alumni.utoronto.ca)

Anton Szabo  
Director, Policy, and Data Quality  
Assessment and Taxation Branch  
City of Edmonton  
[anton.szabo@edmonton.ca](mailto:anton.szabo@edmonton.ca)

Bailey Loverock  
Senior Policy Planner, Strategic Policy Planning  
Planning Department  
Town of Caledon  
[bailey.loverock@caledon.ca](mailto:bailey.loverock@caledon.ca)

Bill Hughes  
Former Commissioner of Finance and Treasurer  
Finance  
York Region  
&  
Former Assistant Deputy Minister  
Ministry of Infrastructure  
Province of Ontario  
[bill.hughes1@sympatico.ca](mailto:bill.hughes1@sympatico.ca)

Bonny Tam  
Manager, Tax, and Intergovernmental Revenue  
Treasury Office, Finance  
York Region  
[bonny.tam@york.ca](mailto:bonny.tam@york.ca)

Brendon Hemily  
Founder and Principal  
Bredon Hemily Consulting  
[brendon@brendonhemily.com](mailto:brendon@brendonhemily.com)

Cate Watt  
Branch Manager  
Assessment and Taxation and City Assessor  
City of Edmonton  
[cate.watt@edmonton.ca](mailto:cate.watt@edmonton.ca)

Dan Tovey  
Manager, Regional Planning Policy  
Planning Services  
Halton Region  
[Dan.Tovey@halton.ca](mailto:Dan.Tovey@halton.ca)

David Amborski  
Professor  
School of Urban and Regional Planning  
Toronto Metropolitan University  
[amborski@ryerson.ca](mailto:amborski@ryerson.ca)

David Di Giovanni  
Director, Program Finance and CFO  
YTN Telecom Network Inc.  
Former Manager, Fiscal Planning  
York Region  
[David.DiGiovanni@york.ca](mailto:David.DiGiovanni@york.ca)

Dharmen Dhaliah  
Leadership Team  
Asset Management Ontario  
&  
Senior Manager, Climate Change & Asset  
Management  
Strategic Initiatives  
Town of Halton Hills  
[ddhaliah@haltonhills.ca](mailto:ddhaliah@haltonhills.ca)

Dustin Carey  
Lead  
Land Use Sector Development  
Green Municipal Fund  
[dcarey@fcm.ca](mailto:dcarey@fcm.ca)

Enid Slack  
Director  
Institute on Municipal Finance and Governance  
University of Toronto  
[enid.slack@utoronto.ca](mailto:enid.slack@utoronto.ca)

Erin Gray  
Financial Analyst, Development Charges  
Corporate Services  
Waterloo Region  
[EGray@regionofwaterloo.ca](mailto:EGray@regionofwaterloo.ca)

Fabrizio Filippazzo  
Manager, Development Financing Administration  
Treasury Office  
York Region  
[Fabrizio.Filippazzo@york.ca](mailto:Fabrizio.Filippazzo@york.ca)

Graham Bailey  
Senior Planner  
Economic Services and Supports  
City of London  
[gbailey@london.ca](mailto:gbailey@london.ca)

Graham March  
Planner Specialist  
Community Planning  
City of Kelowna  
[gmarch@kelowna.ca](mailto:gmarch@kelowna.ca)

Harry Kitchen  
Professor Emeritus  
Economics  
Trent University  
[hkitchen@trentu.ca](mailto:hkitchen@trentu.ca)

Heather Travis  
Senior Project Manager, Growth Management  
Strategy  
Planning and Economic Development  
City of Hamilton  
[heather.travis@hamilton.ca](mailto:heather.travis@hamilton.ca)

Ilan Treiger  
Development Finance Supervisor  
Corporate & Financial Services  
Richmond Hill  
[ilan.treiger@richmondhill.ca](mailto:ilan.treiger@richmondhill.ca)

James Moore  
Long Range Policy Planning Manager  
Community Planning  
City of Kelowna, BC  
[jmoore@kelowna.ca](mailto:jmoore@kelowna.ca)

Joey Vandermeer  
Deputy Treasurer and Senior Manager of  
Accounting and Taxation  
Corporate Services  
Town of Halton Hills  
[JVandermeer@haltonhills.ca](mailto:JVandermeer@haltonhills.ca)

Katherine Fleet  
Manager, Development Financing  
Finance  
Halton Region  
[Katherine.Fleet@halton.ca](mailto:Katherine.Fleet@halton.ca)

Katie Fischer  
Deputy Treasurer, Financial Services Division  
Corporate Services  
City of Cambridge  
[FischerK@cambridge.ca](mailto:FischerK@cambridge.ca)

Kavita McBain  
Manager, Corporate Budgets & Tax Policy  
Finance  
Halton Region  
[Kavita.McBain@halton.ca](mailto:Kavita.McBain@halton.ca)

Keith Hamilton  
Policy planner  
Planning and Sustainable Department  
Town of Halton Hills  
[khamilton@haltonhills.ca](mailto:khamilton@haltonhills.ca)

Kevin Eby  
Former Director  
Planning and Development  
Waterloo Region  
[kevineby@rogers.com](mailto:kevineby@rogers.com)

Kevin Stehle  
Business Systems Analyst  
Corporate Strategic Services  
City of Kelowna  
[kstehle@kelowna.ca](mailto:kstehle@kelowna.ca)

Larry Clay  
Former Assistant Deputy Minister  
Growth Secretariat  
Ministry of Municipal Affairs and Housing  
Province of Ontario  
[claylarryd@gmail.com](mailto:claylarryd@gmail.com)

Lynda Lukasik  
Executive Director  
Environment Hamilton  
[llukasik@environmenthamilton.org](mailto:llukasik@environmenthamilton.org)

Maggie Wang  
Manager  
Financial Policy & Development Financing  
Peel Region  
[Maggie.wang@peelregion.ca](mailto:Maggie.wang@peelregion.ca)

Margaret Murphy  
Associate Director, Budget Planning & Strategy  
Financial Management & Planning, Corporate  
Services  
Niagara Region  
[margaret.murphy@niagararegion.ca](mailto:margaret.murphy@niagararegion.ca)

Marg Wouters  
Senior Manager, Policy & Research  
Development Services Commission  
City of Markham  
[mwouters@markham.ca](mailto:mwouters@markham.ca)

Mark Inrig  
Senior Development Administrator  
Planning and Economic Development  
Department  
City of Hamilton  
[minrig@hamilton.ca](mailto:minrig@hamilton.ca)

Martin Collier  
Founder  
Transport Futures  
&  
Director  
Healthy Transport Consulting  
[marty.collier@sympatico.ca](mailto:marty.collier@sympatico.ca)

Marian Bannerman  
Program Manager, Grants and Incentives  
Planning and Development Services  
Niagara Region  
[marian.bannerman@niagararegion.ca](mailto:marian.bannerman@niagararegion.ca)

Michael Pugliese  
Senior Financial Analyst  
Corporate Services  
City of Waterloo  
[michael.pugliese@waterloo.ca](mailto:michael.pugliese@waterloo.ca)

Michael Skelly  
Growth Management Strategist  
Planning and Development Services  
Region of Peel  
[michael.skelly@peelregion.ca](mailto:michael.skelly@peelregion.ca)

Nicole Pal  
Economic Development and Special Projects  
Coordinator  
Economic Development, Innovation and Culture  
Town of Halton Hills  
[npal@haltonhills.ca](mailto:npal@haltonhills.ca)

Paul Freeman  
Chief Planner  
Planning & Economic Development  
York Region  
[paul.freeman@york.ca](mailto:paul.freeman@york.ca)

Phil Caldwell  
Senior Project Manager  
Commercial Districts and Small Business Section  
City of Hamilton  
[phil.caldwell@hamilton.ca](mailto:phil.caldwell@hamilton.ca)

Rachel Wagner  
Senior Economic Development Officer  
Planning, Development and Legislation  
Region of Waterloo  
[RWagner@regionofwaterloo.ca](mailto:RWagner@regionofwaterloo.ca)

Ratna Timsina  
Senior Advisor  
Municipal Programs and Analytics Branch  
Ministry of Municipal Affairs and Housing  
Province of Ontario  
[ratna.timsina@ontario.ca](mailto:ratna.timsina@ontario.ca)

Ryan Hagey  
Director  
Financial Planning and Reporting  
City of Kitchener  
[ryan.hagey@kitchener.ca](mailto:ryan.hagey@kitchener.ca)

Sarah Groves  
Account Manager, Zone 5  
Municipal and Stakeholder Relations  
Municipal Property Assessment Corporation  
(MPAC)  
289-251-0752  
[Sarah.Groves@mpac.ca](mailto:Sarah.Groves@mpac.ca)

Shannon Neville  
Senior Financial Analyst  
Financial Services Department  
City of Markham  
[SNeville@markham.ca](mailto:SNeville@markham.ca)

Shaunna X. Zhang  
Stormwater Charge Program Coordinator  
Transportation and Works Department,  
Environmental Services Section  
City of Mississauga  
[shaunnaxiao.zhang@mississauga.ca](mailto:shaunnaxiao.zhang@mississauga.ca)

Steven Burke  
Senior Planner  
Planning Services  
Halton Region  
[Steven.Burke@halton.ca](mailto:Steven.Burke@halton.ca)

Susan Lloyd Swail  
Principal, Lloyd Swail Consulting  
Former Senior Manager  
Livable Communities Program  
Environmental Defence  
&  
Former Councillor/Deputy Mayor  
Township of King  
[susanswail@yahoo.ca](mailto:susanswail@yahoo.ca)

Tara Buonpensiero  
Manager, Policy Development  
Planning and Development Services  
Region of Peel  
[Tara.Buonpensiero@peelregion.ca](mailto:Tara.Buonpensiero@peelregion.ca)

Todd Chapman  
Manager of Programs, City Utilities  
Integrated Planning and Public Works  
City of Waterloo  
[todd.chapman@waterloo.ca](mailto:todd.chapman@waterloo.ca)

Trevor McWilliams  
Manager of Business Development  
Economic Development Division  
Corporate Enterprise Department  
City of Cambridge  
[McWilliamsT@cambridge.ca](mailto:McWilliamsT@cambridge.ca)

Victor Doyle  
Former Manager, Local Government and Planning  
Policy Division  
Ministry of Municipal Affairs and Housing  
Province of Ontario  
[Doylevic@gmail.com](mailto:Doylevic@gmail.com)



