

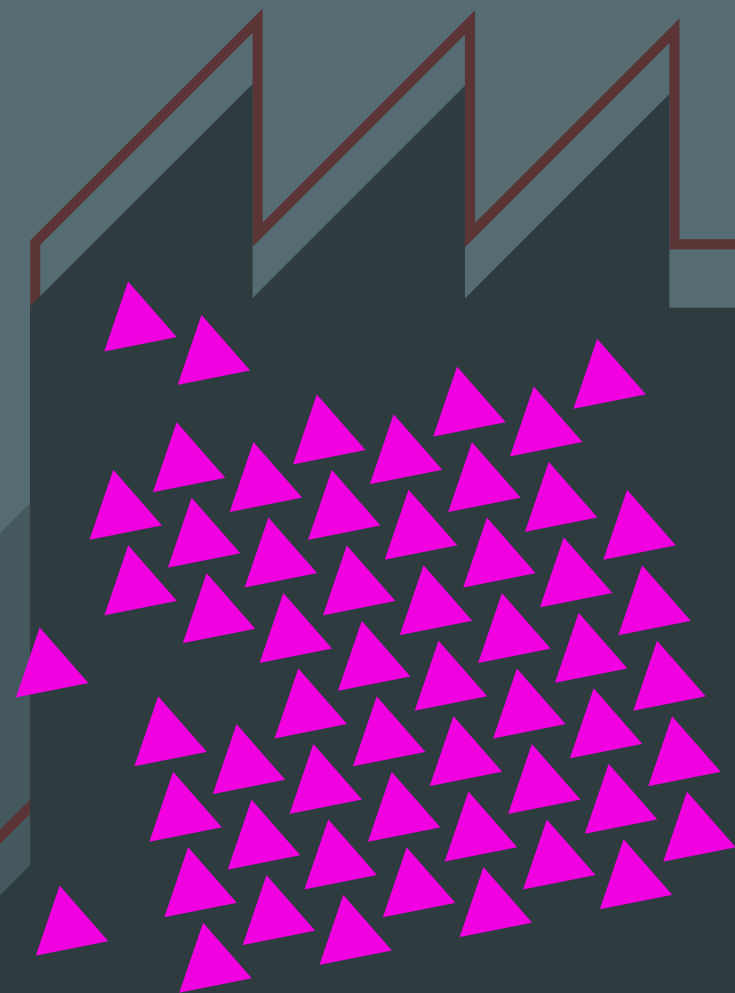
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Rethinking Municipal Finance for the New Economy

BY SUNIL JOHAL, KIRAN ALWANI,
JORDANN THIRGOOD & PETER SPIRO

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Authors

SUNIL JOHAL

Policy Director

Sunil is frequently invited to speak about the future of work, technology and social policy at conferences in Canada and abroad. He has contributed expert commentary and advice on regulatory and policy issues to a range of organizations and media outlets, including the G-20, World Economic Forum, Brookings Institution, The Globe and Mail, The Toronto Star, CBC Radio and Television, CTV News, The Guardian, Maclean's, The Ottawa Citizen, Policy Options, TVO and the OECD. He holds degrees from the London School of Economics, Osgoode Hall Law School and the University of Western Ontario.

KIRAN ALWANI

Policy Associate

Kiran joined the Mowat Centre in October 2017, and has since contributed to a variety of social and economic policy projects. Previously, she has worked in a range of research and policy analysis roles, including with the Asia Pacific Foundation of Canada, the Canada-ASEAN Business Council, and the Conference Board of Canada. Prior to her Master's, Kiran worked in communications, public engagement, and development at the Institute for Canadian Citizenship. She holds a Master of Public Policy and Global Affairs degree from the University of British Columbia.

JORDANN THIRGOOD

Policy Associate

After joining Mowat in 2015, Jordann contributed to a variety of projects on fiscal federalism, the sharing economy, and the impact of technological innovation on Canada's labour market and social programs. Prior to this, she spent two years working in the financial sector and ran a pro bono policy consulting firm for non-profit organizations in the GTA. Jordann holds a Master of Public Policy degree from the University of Toronto, and an Honours degree in International Development Studies from the University of Guelph.

PETER SPIRO

Policy Consultant

Peter Spiro is a policy consultant with many years of experience in quantitative modelling. Prior to joining the Mowat Centre, he had worked in the government, utility and financial services sectors, and taught in the economics department at the University of Toronto. He is the author of numerous publications in peer reviewed professional journals, including the Canadian Tax Journal.

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439 UNIVERSITY AVENUE
SUITE 2200, TORONTO, ON
M5G 1Y8 CANADA

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Municipalities
continue to receive
the smallest share
of the economic
pie – for every
household tax
dollar paid in
Ontario, they collect
only 9 cents.

EXECUTIVE SUMMARY

Governments across the world are grappling with a changing employment landscape where artificial intelligence and automation threaten jobs across sectors, digitization facilitates outsourcing and shrinks the tax base, traditional office spaces and stores become obsolete, societal inequality grows at alarming levels, and workers increasingly engage in precarious ‘gig economy’ jobs.

While these trends are putting pressure on government revenues globally, municipalities in Canada face an additional set of challenges as they operate in a unique context. Constitutionally, municipalities in Canada are “creatures of the province.” In other words, provinces have exclusive authority over them. In Ontario, municipalities are governed by the Municipal Act, which enumerates every power that they have. Adapting to emerging realities is a challenge, as every power not explicitly granted through legislation, including the ability to levy new taxes, requires provincial approval.

Revenue sources for Canadian municipalities are limited. Apart from provincial and federal transfers, primary sources of revenue include residential and non-residential property taxes, development charges and user fees. Over the years, municipal expenditure responsibilities have also increased, while revenue growth has not kept pace. Municipalities continue to receive the smallest share of the economic pie – for every household tax dollar paid in Ontario, they collect only 9 cents.

Like the rest of Ontario and Canada, Peel Region’s economy is in transition – there has been a shift from goods production to goods movement, and many manufacturing plants have been replaced by warehouses and distribution centres. E-commerce has reduced demand for retail spaces. The service sector continues to expand, with a particular emphasis on knowledge-based jobs. Workplaces are shrinking, and the average square footage per employee has declined significantly. At the same time, mobile work options such as telecommuting and hot-desking are becoming increasingly popular.

These trends are likely to further strain municipal revenues, as municipal revenue tools are inordinately reliant on land-based approaches to value that are becoming less relevant in the digital era. In Peel, the share of revenue from industrial property is on a downward trend, in large part due to the decline of the manufacturing sector. Growth in employment land consumption has also slowed. Furthermore, provincial growth forecasts have not been reflective of the actual pace of development, which has led to a shortfall in expected development charge revenue. Reliance on the residential property-tax base has been increasing, as non-residential property-tax revenue as a proportion of total tax-revenues declines. If these trends continue, property taxes will become increasingly unaffordable for residents in the years ahead.

Amidst the ongoing digital revolution and changing employment landscape, how can municipalities adapt? This study suggests that municipalities must modernize their approaches to revenue generation and governance to meet spending obligations. Less reliance on land-based tax bases is not only important to reflect the new world of work, but also because changing demographics (such as an aging population, increasing demand for social services, and challenges posed by climate change) will require municipalities to shoulder even more responsibilities going forward.

The fiscal challenges facing the Region of Peel and other municipalities won't be addressed through any single measure. Given the host of service pressures and tax base issues posed by demographic, technological and employment shifts, municipalities must consider a range of approaches and tactics to solidify their footing. To deal with the ongoing and emerging changes, the following hierarchy of approaches should guide Peel's thinking on the revenue side of the ledger:

- » Advocate for and explore a **realignment of existing revenues, with both the federal and provincial governments** and engage in a meaningful dialogue with the public around how Canada's taxes and responsibilities are allocated amongst levels of government.
- » Explore opportunities to **raise more revenues from existing tools**, including a comprehensive definitional review of various property types to ensure that misclassification isn't leading to tax leakage, as well as explore progressive property taxes or hiking property taxes at rates higher than historical patterns. This should also include a review of planning and forecasting assumptions to ensure that revenue projections are realistic and reflect exogenous trends.

- » Then look to **new revenue tools specific to particular uses and users**.
- » Finally, **explore general purpose revenue tools** (e.g., sales tax, share of income taxes).

Municipalities should also look to review their service-delivery frameworks and wring further efficiencies from existing expenditures. Furthermore, they should explore ways to realize benefits from the digital economy as well as utilize strategic foresight techniques to ensure that policies are robust and forward-looking. Finally, municipalities must recognize the value of collaboration with neighbouring municipalities to develop economic development approaches that promote shared prosperity. Taken together, these approaches will help place municipalities on surer footing in the years ahead.

1 INTRODUCTION

Canada's economy and labour market are experiencing transformative shifts. Like many advanced economies around the world, the population is aging while overall economic and labour market growth is anticipated to slow down. Income inequality is at high levels and wages for many workers continue to stagnate amidst rising costs of living. The nature of employment itself is also fundamentally changing, as fewer people are engaged in full-time, permanent employment and many are increasingly working in part-time, temporary or "gig" jobs. The sectors in which people work are also changing: industrial sectors continue to shrink, while service sectors grow and the knowledge economy gains greater momentum.

It is anticipated that technological change will further accelerate these ongoing trends and pose new challenges. In recent years, digitization has helped facilitate a more global marketplace for goods and services. While this provides more choices for consumers, it also means that firms are more mobile and better able to jurisdiction-shop for favourable taxation and regulatory frameworks. Technology has also enabled more mobile labour, providing flexibility for workers, but also increased digital outsourcing by firms to lower-cost jurisdictions. Workspaces are transforming as well, with decreased need for traditional office spaces and an increased trend towards teleworking. Furthermore, automation and adoption of artificial intelligence in the workplace threatens to disrupt multiple industries, potentially leading to widespread job displacement and entirely new skills demands for the new economy.

This changing nature of work has real impacts on the fiscal health of all levels of government. For municipal governments reliant on property taxes, changes in patterns of commercial and industrial land consumption have placed pressures on their

ability to generate revenues and meet spending obligations to provide core public services. Insufficient job growth and the shrinking physical space required for employment may erode the non-residential property-tax base and create a shortfall in anticipated development-charges revenue. Growing service demands as a result of deteriorating job quality and an aging population may squeeze governments' ability to manage expenditures. Greater urbanization may begin to upend regional planning priorities and the expectations of local residents.

Our federal structure and intergovernmental relationships mean that local and regional municipalities in Canada face a unique set of opportunities and challenges. In Ontario, municipal governments are heavily reliant on three fiscal tools – property taxes, development charges and user fees – in addition to federal and provincial transfers. Yet, despite limited resources and taxation authority, local governments are increasingly at the forefront of tackling a number of complex policy and service-delivery issues.

Municipalities are, to a far greater extent than provinces and the federal government, equipped with an outdated set of revenue tools inordinately reliant on land that do not adequately capture the economic value generated in today's economy, and that will become further antiquated as the digital revolution continues to reshape work patterns. As the economy and labour market evolve, how can municipal governments modernize their approaches to revenue generation and governance to reflect the new world of work?

This study begins with an overview of the context of municipal governance and taxation in Ontario, the primary revenue sources available to municipal governments, as well as the key characteristics of the Regional Municipality of Peel. A number of key macro-level economic and social trends and drivers are explored, with consideration of how these trends are reflected in Peel and other municipalities. In addition, the implications of these trends and resulting potential threats to the revenue base are analyzed using a scenario-testing exercise. Finally, a comprehensive set of policy options in response to these trends is presented and implementation challenges and key success factors to overcome them are discussed along with top-line short and medium-term recommendations.

This report is the result of extensive research, stakeholder consultation and economic modelling. This includes a literature review and jurisdictional scan, as well as key informant interviews with 29 internal and external stakeholders from the public and private sectors and academia. An econometric forecasting model for Peel was also developed to better understand the impacts of the changing nature of work on the fiscal health of the Region. While this report aims to inform the strategic planning of the Region of Peel, the findings are relevant to many municipalities across Ontario and Canada which face similar challenges.



Municipal
revenue tools
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digital era.

2 SETTING THE STAGE

Peel Region – Facts and Figures

Governance and Finance

The Regional Municipality of Peel is an upper-tier (regional) municipal government, with the lower-tier (local) governments comprising the City of Mississauga, City of Brampton and Town of Caledon. The responsibilities of the upper and lower tiers are described in Figure 1.

FIGURE 1

Responsibilities



Infrastructure	Peel	Member Munis*	Services	Peel	Member Munis*
Water	✓		Police	✓	
Wastewater (Sewer)	✓		Paramedics	✓	
Storm Water		✓	Fire		✓
Roads (Arterial)	✓		Transit		✓
Roads (Local)		✓	Public Health	✓	
Waste Collection & Disposal	✓		Long-Term Care	✓	
Parks & Recreation		✓	Social Assistance	✓	
			Social Housing	✓	
			Children's Services	✓	
			<u>Debt Issuance</u>	✓	
			Libraries		✓
			Licensing		✓
			Economic Development		✓
			Planning & Development	✓	✓
			Parking		✓

* Member Municipalities include the Cities of Mississauga and Brampton, and the Town of Caledon

Source: Region of Peel

FIGURE 2

Region of Peel budget overview

2018 Regional Budget Overview - \$3.1B			
Operating Budget - \$2.4B & Capital Budget – \$0.7B			
10-Year Capital Plan - \$7.2B			
 Property Tax Supported		 Utility Rate Supported	
Operating Budget	\$1,868M	Operating Budget	\$505M
Capital Budget	\$260M	Capital Budget	\$463M
10-Year Capital Plan	\$3,196M	10-Year Capital Plan	\$3,971M
*Property Tax Increase	1%	Average Utility Rate Increase	6.5%
(includes 1.0% for Infrastructure)		(includes 5.0% for Infrastructure)	
**Impact :		Impact:	
Average home value at \$484,000	\$47	Average household (290m ³)	\$41
Average Small Business at \$567,000	\$85	Average Small Business (695m ³)	\$99
Commercial at \$1,701,200	\$255		
Industrial at \$1,683,500	\$283		
Region's Portion of Annual Average Residential Municipal Tax Bill	\$1,889	Annual Average Residential Water Bill	\$659

* Assumed weighted average municipal portion of tax bill is approximately 41 per cent
 ** Weighted average of 3 local municipalities.

Source: Region of Peel "2018 Budget Document." <https://www.peelregion.ca/budget/2018/2018-budget.pdf>.

According to the Region's 2018 budget, the operating expenditures of the Region are \$2.4 billion and capital expenditures are \$0.7 billion. Property-tax revenue makes up around 44 per cent (\$1.04 billion) of the 2018 operating expenditure budget. Development-charges revenue covers 33 per cent (\$239 million) of the 2018 capital budget and 40 per cent of the \$2.7 billion ten-year capital plan.¹

1 Region of Peel "2018 Budget Document." <https://www.peelregion.ca/budget/2018/2018-budget.pdf>.

Demography

The Region of Peel has a total population of 1,481,400 spread across Mississauga (754,200), Brampton (654,100) and Caledon (73,100), occupying a total of 430,180 private dwellings. The Region saw an estimated 18,700 new residents added between Q3 2017 and Q3 2018, and it is projected that the population will reach about 2 million by 2041.²

For many years, population growth in Peel was about 1.5 to 2 percentage points per year higher than the provincial average. According to the 2016 census, this growth has slowed sharply in the latest five-year period, when Peel's growth averaged only 0.2 percentage points higher than the provincial average.³

The Region's population is considerably younger than the province overall, with the median age at 38.1, compared to 41.3 years for the province.⁴ However, the population of seniors (65+) is expected to more than double, and increase by 134 per cent by 2041.⁵

Peel has a large immigrant community: 706,835 people (51.5 per cent of population); 94,105 of which are recent immigrants (13.3 per cent of population).⁶

2 Data from Peel Data Centre.

3 Mowat calculation based on Statistics Canada census data.

4 Peel Data Centre "General Facts (2016 Census)." <https://www.peelregion.ca/planning/pdc/data/quickfacts.htm>.

5 Region of Peel (2017) "Peel's Economic Overview Presentation." <https://www.peelregion.ca/budget/2018/Peel-Economic-Overview.pdf>.

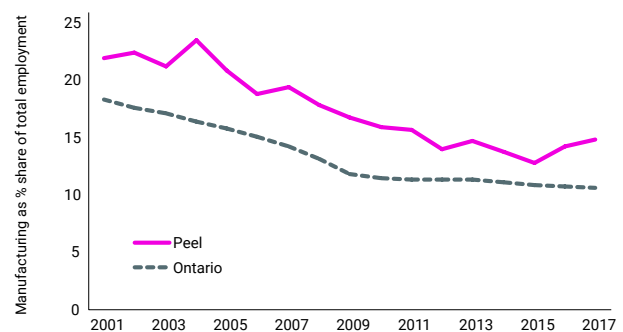
6 Peel Data Centre "General Facts (2016 Census)." <https://www.peelregion.ca/planning/pdc/data/quickfacts.htm>.

Economy and Labour Market

While manufacturing across Ontario and in Peel has been on the decline, Peel has consistently relied more on manufacturing employment than Ontario as a whole.

FIGURE 3

Peel relies more on manufacturing employment than Ontario as a whole



Source: Created by Mowat based on Region of Peel data and Statistics Canada Table 14-10-0202-01.

A total of 172,999 businesses were established in June 2018.⁷ The largest employers in Peel include the Royal Bank of Canada, Suncor Energy, Rogers Communications and Hewlett-Packard.⁸

Peel Region's employment as a share of Ontario's total has held steady (around 12 per cent).⁹ In 2017, the Region had a labour force of 873,000 people and an unemployment rate of 6.9 per cent.¹⁰

7 Data from the Region of Peel.

8 Region of Peel (2018) "Investor Presentation (Spring 2018)." pp. 12. http://www.peelregion.ca/finance/_media/investor-presentation-2018-spring.pdf.

9 Mowat calculation based on Region of Peel data.

10 Region of Peel (2018) "Investor Presentation (Spring 2018)." pp. 7. http://www.peelregion.ca/finance/_media/investor-presentation-2018-spring.pdf.

Non-standard work¹¹ led Peel's employment growth from 2007-2017, with above-average growth in self-employment, temporary and part-time positions, and below-average growth in full-time and permanent positions. Growth in part-time employment was 48.3 per cent (compared to 17.1 per cent for full-time) and temporary employment was 33.5 per cent (compared to 19.8 per cent for permanent employment). Growth in self-employment was 46.7 per cent.¹²

Median private household after-tax income is \$75,667, although much higher in Caledon (\$96,009) than Brampton (\$77,156) and Mississauga (\$72,657). Prevalence of low-income (based on LIM-AT) is around 12.8 per cent of the population, and similarly much higher in Mississauga (14.7 per cent) and Brampton (11.3 per cent) than in Caledon (5.7 per cent).¹³

Overview of Peel's Fiscal Health

Peel's Pillars of Sustainability

The Region of Peel's 2013 Long Term Financial Planning Strategy outlines three pillars of sustainability that provide a holistic perspective on the Region's financial condition. These pillars include:

» **Financial Sustainability:**

This can be defined as the "ability to provide and maintain planned service and infrastructure levels without resorting to unplanned increases in rates or disruptive cuts to services."¹⁴

» **Financial Vulnerability:**

This indicates the level to which the Region is dependent on external sources of funding that it cannot control, such as the changing nature of employment and its impact on the non-residential property-tax base, as well as dependence on federal and provincial transfers which aren't within the Region's control. Such vulnerability can affect the Region's ability to fulfill its commitments and maintain an adequate level of services.¹⁵

» **Financial Flexibility:**

This shows the Region's "ability to change either debt levels or taxes to meet financial obligations."¹⁶

Based on these pillars, the Region developed nine financial principles. These include: respect the tax and utility ratepayer, ensure the capital plan is sustainable, maintain assets, deliver value for money, users pay where appropriate, work with area municipalities to support the economic viability of the community, make prudent investments, mitigate significant fluctuations in tax and utility rates, and borrow only for substantial long-term assets at affordable levels.¹⁷ Peel's 2018 Financial Scorecard indicates that the Region is on track with the majority of its targets, and has maintained its AAA credit rating. At the same time, the Region has maintained a satisfactory level of services with 75 per cent of the residents saying that the programs and services offered by the Region provide good value for taxpayer money. The scorecard recommended collaborating with local municipalities to address the changing nature of employment in order to maintain adequate non-residential tax revenues.¹⁸

11 Non-standard work includes temporary jobs, part-time jobs, sub-contracting, multiple job-holding and self-employment.

12 Data from the Region of Peel.

13 Peel Data Centre "General Facts (2016 Census)." <https://www.peelregion.ca/planning/pdc/data/quickfacts.htm>.

14 Region of Peel (2013) "Long Term Financial Planning Strategy." <https://www.peelregion.ca/finance/PDFs/Long-Term-Financial-Planning-Strategy.pdf>.

15 Ibid.

16 Ibid.

17 Ibid.

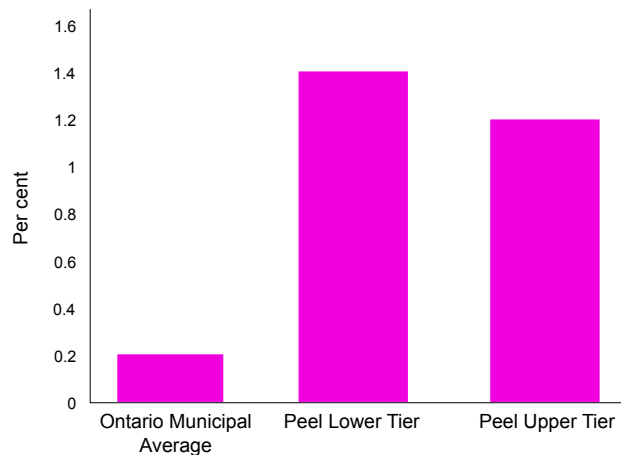
18 Region of Peel (2018) "2018 Financial Condition Scorecard." <https://www.peelregion.ca/finance/pdfs/2018/2018-financial-scorecard.pdf>.

Historical Growth of Peel's Upper and Lower Tier Expenditure and Revenue

Both levels of municipal government in Peel have had fairly rapid spending growth, as compared to the average of all Ontario municipalities. Over the historical period for which consistent data is available, the Peel upper tier's total current expenditures increased from about \$1.2 billion to about \$1.7 billion.¹⁹ When inflation and population growth are factored out, this represents an annual growth rate of about 1.2 per cent in real per capita spending over the period.

FIGURE 4

Growth in real per-capita spending, annual average, 2010-2017



Source: Created by Mowat based on data obtained from the Ministry of Municipal Affairs and Housing's "Financial Information Return" website.

¹⁹ Data obtained from the Ministry of Municipal Affairs and Housing's "Financial Information Return" website: <https://efis.fma.csc.gov.on.ca/fir/Welcome.htm>. The spending figures are obtained from Table 40 of each municipality's Return; the amounts for transfers received are deducted, as these are items that do not have to be covered by current own-source revenue. The quote figures refer to spending in 2009 and 2017, respectively. With 2009 as the base year, the percentage growth can be calculated for the period from 2010 to 2017, inclusive.

The lower-tier municipalities (the combined total of Mississauga, Brampton and Caledon), increased their spending over this period at a slightly faster rate. It increased from about \$1.1 billion to about \$1.6 billion. This increase by the lower-tier governments represents an annual growth rate of about 1.4 per cent in real per capita spending.

Both of these growth rates considerably exceeded the provincial average for all municipalities, which was only 0.2 per cent (note that the province-wide average may not be representative due to significant differences in the expenditure growth rate of municipalities; for example, the City of Toronto had an average annual real per capita spending change of -0.6 per cent over the period). The growth of spending in Peel was considerably more than the growth in real personal disposable income. This implies that the cost of municipal government, in the form of taxes and user fees, is occupying a growing share of the household budget. In Ontario as a whole, property tax has increased by about 23 per cent more than the overall Consumer Price Index between 2002 and 2017. In the Region of Peel, real per capita property-tax revenue increased nearly 2 per cent per year from 2001 to 2017.²⁰

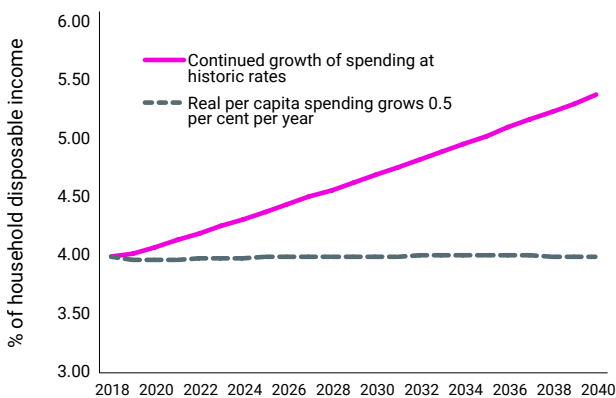
It is challenging to restrain the growth of costs. Municipal services are labour intensive and tend to have relatively little productivity growth. In fact, the inflation rate for municipal services is higher than the general inflation rate. It could be argued that, if real per capita spending grows only at a zero rate, using the general inflation rate, in reality the quantity or quality of services is being cut.

²⁰ Mowat calculation based on Statistics Canada and Peel Region data; Statistics Canada (2018) "Consumer Price Index, annual average, not seasonally adjusted." <https://www150.statcan.gc.ca/t1/tbl1/en/tv.action?pid=1810000501>.

Whatever the reasons may have been for the rapid growth in spending, the past rate of growth is likely to be unsustainable. Continued real per capita growth in spending at such a rapid rate would create a substantial upward trend in property tax as a percentage of household income in the long term, as depicted in Figure 5. In order to maintain property tax at a constant share of household income, real per capita spending would need to be reduced to a growth rate of 0.5 per cent per year.

FIGURE 5

Residential property tax % of income, alternative scenarios of spending



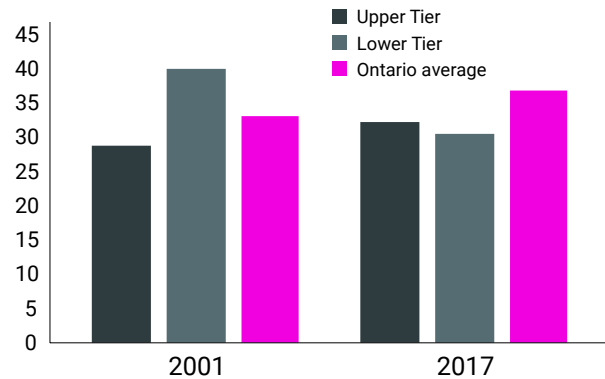
Source: Created by Mowat based on Region of Peel data.

Composition and Sources of Revenue

The composition of revenue in Peel has also changed somewhat, as seen in Figure 6. In 2001, the lower-tier municipalities obtained about 40 per cent of their revenue from user fees, license fees etc., rather than from property tax. By 2017, they were getting about 70 per cent of their revenue from property tax. By contrast, the upper-tier government increased its reliance on fee revenue between 2001 and 2017. Peel’s reliance on user and license fees as a percentage of revenues is now slightly below the provincial average. To the extent that there is room for increasing reliance on those fees, it may be desirable to do so.

FIGURE 6

Per cent share of current revenue from user fees, license fees, etc.



Source: Created by Mowat based on Region of Peel data.

As a result of the reduced reliance of the lower-tier governments on fees relative to 2001, the share of the municipal property-tax revenue in Peel going to the lower-tier municipalities increased substantially. In 2001, the lower-tier municipalities combined were receiving less than \$300 million of property-tax revenue, compared to almost \$500 million for the upper tier. By 2018, the property-tax revenue received by each level was almost equal, at about \$1 billion.

Context of Municipal Governance and Taxation

The following section provides a broad overview of municipal governance and revenue sources in Canada and Ontario, as the Region of Peel faces a similar set of challenges to other municipalities in the country due to high-level macroeconomic trends as well as identical legislative barriers.

Municipal governments in Canada operate in a rather different context than municipalities elsewhere in the world. As a result of our federal structure and intergovernmental relationships, local and regional municipalities in Canada face a unique set of opportunities and challenges that impact their current fiscal health. Discussions around municipal governance cannot be had without addressing the fact that decision-making powers for local governments were not enshrined in the Canadian Constitution. Section 92 of the *Constitution Act, 1867* outlines the division of powers for the federal and provincial governments, granting provincial legislatures exclusive responsibility over laws relating to municipal institutions. Thus, local governments are legally subordinate to their provincial counterparts, which have a “largely unfettered” scope of control over municipal affairs.²¹ This means that any authority – including taxation authority – must be explicitly provided to local governments through provincial legislation.

In Ontario, the *Municipal Act, 2001* sets out the responsibilities of local governments in the province. The Act outlines broad authority for lower and upper-tier municipalities to pass by-laws in relation to specific spheres of jurisdiction, such as transportation systems, waste management,

public utilities, economic development services and business licensing. The Act also outlines in detail the authority and limits to municipal taxation, primarily in relation to property taxes – the only major taxation tool available to municipal governments in Ontario.²² Finally, the Act sets out the requirement that municipalities, unlike federal and provincial governments, must balance their annual budgets (i.e. they cannot run deficits).²³ From a fiscal health perspective, all of this means that autonomy in decision-making and revenue generation is significantly constrained.

All municipal governments in Ontario operate under the *Municipal Act* with the exception of the City of Toronto, which in recognition of its size and unique demands, has its own municipal statute. The *City of Toronto Act, 2006* similarly outlines the responsibilities of Toronto’s municipal government, with additional powers and unique revenue tools that have not, to date, been granted to other municipalities in the province.

Over the years, there has also been a shift in responsibilities, and municipal governments have witnessed significant downloading of responsibilities from the federal and provincial governments (discussed in greater detail in the following section). While local governments in Canada have been increasingly burdened with new responsibilities, the revenue tools available to them have not changed to reflect this.²⁴

21 Erin Tolley and William R. Young (2001) “Municipalities, the constitution, and the Canadian federal system.” Government of Canada. <http://publications.gc.ca/Collection-R/LoPBdP/BP/bp276-e.htm#Legislative>.

22 *Municipal Act, 2001*, S.O. 2001, c. 25. <https://www.ontario.ca/laws/statute/01m25#BK348>.

23 Bruce Ratford “Legislated Budget Requirements – The Balancing Act.” PSAB/Asset Management Newsletter No. 49, AMCTO and MFOA. http://www.mfoa.on.ca/MFOA/webdocs/PSAB_Newsletter_No_49.pdf.

24 Robert Duffy, Gaetan Royer and Charley Beresford (2014) “Who’s picking up the tab? Federal and provincial downloading onto local governments.” Columbia Institute, Centre for Civic Governance. <http://www.civicgovernance.ca/wordpress/wp-content/uploads/2014/09/Whos-Picking-Up-the-Tab-FULL-REPORT.pdf>.

It can be argued that the way we approach local governance is generally outdated. While we still use the Constitution's initial division of powers, municipalities must now deal with complex emerging issues – some of which were inconceivable 150 years ago. Consider the municipal responses to issues such as having to regulate fast-moving technology and platform service delivery (e.g. Uber), as well as climate change mitigation and adaptation measures that require significant capital investments to address extreme weather events. Today, however, municipalities remain “creatures of the province” and have limited authority and resources to respond to the growing pressures and emerging challenges they face.

Shift in Responsibilities and Revenues

During the 1990s, revenue pressures increased on municipalities due to increased responsibilities as a result of downloading. At the federal level, the 1995 budget ended the Canada Assistance Plan and Established Programs Financing, and replaced them with the Canada Health and Social Transfer. This meant significant cuts to provincial transfers in the areas of social assistance, post-secondary education and healthcare funding. This further translated into cuts for municipalities. While the federal government introduced a series of programs targeting urban issues, these were not sufficient to offset the impacts of downloading.²⁵ This downloading resulted in increased municipal reliance on property taxes for revenue generation. Further, due to inadequate means of raising revenues, many municipalities became forced to rely on urban growth as a way of increasing their property-tax base.²⁶

25 Carlo Fanelli (2014) “Under Pressure: How Public Policy is Constraining Ontario Municipalities.” Canadian Centre for Policy Alternatives, Ontario. pp. 12-15. <https://www.policyalternatives.ca/sites/default/files/uploads/publications/Ontario%20Office/2014/10/Under%20PressureFINAL.pdf>.

26 Ibid.

FIGURE 7

The effects of Local Services Realignment (LSR), 1998

Responsibility	Pre-LSR		LSR	
	Provincial	Municipal	Provincial	Municipal
Social Assistance (Ontario Works or OW)	80%	20%	80%	20%
<i>Social Assistance Administration</i>	50	50	50	50
Ontario Disability Support Program (ODSP)	100	0	80	20
Child Care Services	100	0	80	20
<i>ODSP & Child Care Administration</i>	100	0	50	50
Ontario Drug Benefit (ODB)	100	0	80	20
Public Health*	75	25	50	50
Land Ambulance**	100	0	0	100
Social Housing	100	0	0	100
Municipal Transit Costs***	33	67	0	100
Property Assessment	100	0	0	100
Sewer & Water	10	90	0	100
Policing	10	90	0	100
Farm Tax & Conservation Lands Tax Rebates	100	0	0	100
Children’s Aid Societies	80	20	100	0

*Public health costs were returned to the pre- LSR 75- 25% shares in 2007.

** The land ambulance funding share was shifted to 50-50% in 1999.

***GO Transit was completely devolved to municipalities, only to be re-assumed by the Province in 2002.

Source: André Côté and Michael Fenn (2014) ‘Provincial-Municipal Relations in Ontario: Approaching an Inflection Point.’ Institute on Municipal Finance and Governance. pp. 10. https://munkschool.utoronto.ca/imfg/uploads/275/1560_imfg_no_17_online_full_colour.pdf.

At the provincial level, during the late 1990s and early 2000s, the Ontario government introduced three major reforms – realigning responsibilities between the provincial and local levels, halving the number of municipal governments through restructuring and amalgamations, and comprehensively reforming the property-tax system. In January 1998, the Local Services Realignment (LSR) – often referred to as downloading – took effect that required municipalities to take responsibility for funding

several essential social services.²⁷ The change in responsibilities prior to and after the LSR are described in Figure 7.²⁸

For every household tax dollar paid in Ontario, municipalities collect only 9 cents, while 44

27 André Côté and Michael Fenn (2014) “Provincial-Municipal Relations in Ontario: Approaching an Inflection Point.” Institute on Municipal Finance and Governance. pp. 9-10. https://munkschool.utoronto.ca/imfg/uploads/275/1560_imfg_no_17_online_full_colour.pdf.

28 Note that funding responsibilities have further shifted over the years. For example, Ontario Works benefits costs were phased out between 2010 and 2018, and fully uploaded to the province last year.

cents go to the province and 47 cents go to the federal government.²⁹ Despite receiving the lowest share of the economic pie, municipalities across Canada face a number of significant expenditure responsibilities. Ontario municipalities in particular are responsible for a broad suite of services (see Figure 8).

The Institute on Municipal Finance and Governance conducted an assessment of trends in the levels of expenditures and revenues for all three orders of government from 1988 to 2004 to understand whether there is a fiscal imbalance.

The research found that while the revenue tools available to municipalities remained the same, expenditures rose steadily during this period. In particular, expenditure on social services increased significantly in Ontario after the LSR in 1998. The largest proportionate increase in the expenditure was on housing.³⁰

In the period from 1988 to 2004, property taxes and user fees increased in relative importance as revenue sources for Canadian municipalities, while intergovernmental transfers – particularly from the provincial government – decreased significantly.

FIGURE 8

Municipal expenditure responsibilities across Canada, 2005

Responsibility* / Province & Territory	NL	PEI	NS	NB	QC	ON	MB	SK	AB	BC
General Government Services	X	X	X	X	X	X	X	X	X	X
Courts of Law					X					
Policing (incl. bylaw enforcement)		X	X	X	X	X	X	X	X	X
Fire Fighting	X	X	X	X	X	X	X	X	X	X
Regulatory Measures						X			X	
Roads & Streets	X	X	X	X	X	X	X	X	X	X
Public Transit			X		X	X	X	X	X	X
Hospital Care										X
Preventative Care						X				
Other Health Services						X	X		X	
Social Assistance						X			X	
Other Social Services			X		X	X			X	
Agriculture								X	X	
Tourism / Promotion & Trade / Industry				X	X	X				X
Water Purification & Supply	X	X	X	X	X	X	X	X	X	X
Sewage Collection & Disposal	X	X	X	X	X	X	X	X	X	X
Garbage / Waste Collection & Disposal	X	X	X	X	X	X	X	X	X	X
Recreation & Culture	X	X	X	X	X	X	X	X	X	X
Housing					X	X			X	
Regional Planning & Development	X	X	X	X	X	X	X	X	X	X

* An X denotes per capita expenditures larger than \$10
Source: Statistics Canada, compiled for Slack, Kitchen, McMillan and Vaillancourt 2007.

Source: Association of Municipalities of Ontario (2015) "What's Next Ontario? Imagining a prosperous future for our communities: A fiscal overview." pp. 42. <https://www.amo.on.ca/AMO-PDFs/Whats-Next-Ontario/Whats-Next-Ontario-Fiscal-Overview-Accessible-2015.aspx>.

29 Association of Municipalities of Ontario (2015) "What's Next Ontario? Imagining a prosperous future for our communities: A fiscal overview." pp. 25. <https://www.amo.on.ca/AMO-PDFs/Whats-Next-Ontario/Whats-Next-Ontario-Fiscal-Overview-Accessible-2015.aspx>.

30 Harry M. Kitchen and Enid Slack (2006) "Trends in Public Finance in Canada." pp. 2-14. https://munkschool.utoronto.ca/imfq/uploads/102/trends_in_public_finance_in_canada__june_1.pdf.

While revenues grew at an annual rate of 0.7 per cent, expenditures grew at an average rate of 0.9 per cent.³¹ Further, while federal revenues have been increasing, federal expenditures in constant dollars per capita have been declining. For the provincial government, while expenditures were increasing, they were increasing at a slower rate than revenues. Only for the municipal governments were expenditures increasing at a faster rate than revenues.³²

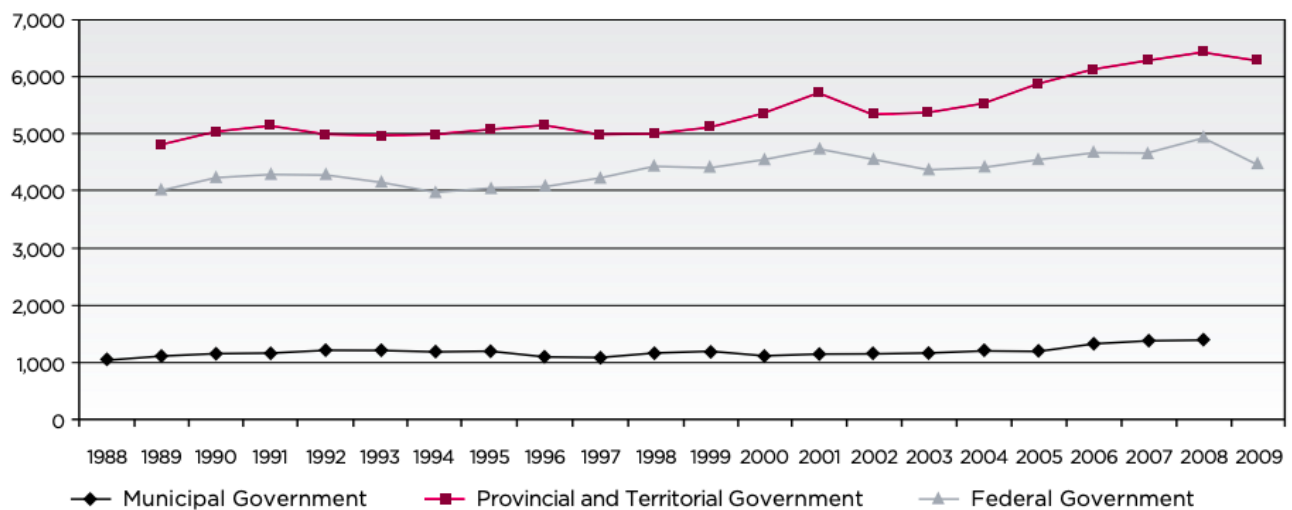
The Federation of Canadian Municipalities conducted a study comparing revenues for all three orders of government from 1989 to 2009 which found similar results.³³ Provincial/territorial governments in Canada raised the most revenues on a per capita basis. The share of

federal and provincial/territorial revenues was also considerably higher than municipalities. During the twenty-year comparison period, the average annual increase (in per capita constant dollar terms) in federal revenues was 0.8 per cent while it was 1.9 per cent for provincial revenues. Municipal revenues grew at a rate of 1.5 per cent (see Figure 9).

The Federation of Canadian Municipalities (FCM) also looked at revenues for each order of government as a proportion of consolidated revenues for all governments. This has stayed pretty much the same over the years with provincial/territorial governments accounting for the largest proportion, while municipal governments account for the smallest proportion (See Figure 10). These facts point towards the

FIGURE 9

Federal, provincial and municipal government revenues per-capita, 1989-2009, constant (1988) dollars



Source: Federation of Canadian Municipalities (2012) "The State of Canada's Cities and Communities 2012." Chapter 1. pp. 11. <https://suma.org/img/uploads/documents/FCM%202012%20State%20of%20Cities%20and%20Communities.pdf>.

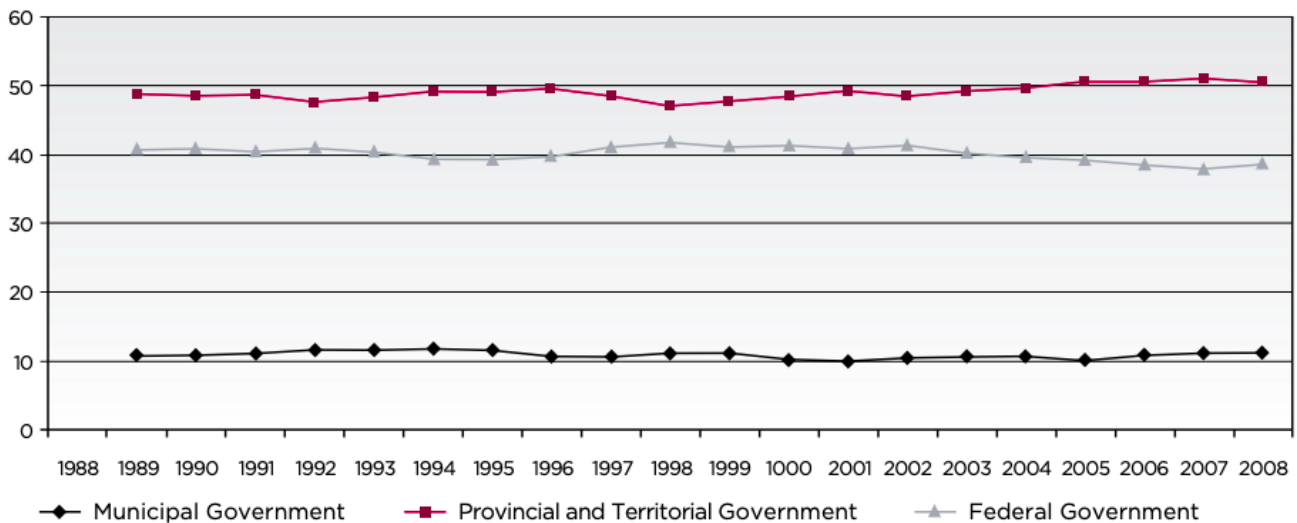
31 Ibid.

32 Ibid.

33 See: Federation of Canadian Municipalities (2012) "The State of Canada's Cities and Communities 2012." Chapter 1. <https://suma.org/img/uploads/documents/FCM%202012%20State%20of%20Cities%20and%20Communities.pdf>.

FIGURE 10

Total government revenue as percentage of consolidated revenue, 1988-2008



Source: Federation of Canadian Municipalities (2012) "The State of Canada's Cities and Communities 2012," Chapter 1, pp. 12. <https://suma.org/img/uploads/documents/FCM%202012%20State%20of%20Cities%20and%20Communities.pdf>.

increasing fiscal burden on municipalities – while their expenditure responsibilities have increased substantially, they continue to receive the smallest share of overall government revenues, which has stayed constant over the years. Further, revenue growth has not kept pace with expenditure growth for municipalities.

Primary Municipal Revenue Sources

Local and regional municipal governments in Ontario have a limited set of tools to use for revenue generation. A large portion of operating and capital expenditures are financed from three primary sources: residential and non-residential property taxes, development charges, and user fees. In addition to these sources, municipalities derive revenue from licensing and permits, although these consist of considerably smaller sums. A much larger portion of funds comes from intergovernmental transfers from the federal

and provincial governments, which make up on average over 20 per cent of municipal revenues in Ontario.³⁴ The bulk of these transfers come from the provincial government – some of which are unconditional, although most are conditional. This means that funds are earmarked to be spent on specific programs or services such as public health, social services and transportation. Conditional transfers, while an important revenue source, can have negative implications for a municipality's fiscal management and accountability.³⁵

Property taxes, development charges and user fees are the focus of analysis in this report. Each have their benefits and drawbacks in the municipal context, which are described below.

34 André Côté and Michael Fenn (2014) "Provincial-Municipal Relations in Ontario: Approaching an Inflection Point." Institute on Municipal Finance and Governance. https://munkschool.utoronto.ca/imfg/uploads/275/1560_imfg_no_17_online_full_colour.pdf.
35 Ibid.

Property Taxes

Property taxes remain the primary revenue source for municipalities in Ontario and across Canada: on average, property taxes (including payments in lieu of property taxes) account for 45 per cent of municipal revenues across Canada and 46 per cent in Ontario.³⁶ The property tax in Ontario has two components – a municipal portion and a provincial education portion. Both municipal and education property taxes are based on the assessed value of a property as determined by the Municipal Property Assessment Corporation (MPAC), and this value is updated every four years. Property-tax rates are applied to this value, and are set autonomously by municipal governments within provincial constraints – for those operating within a two-tiered structure, both the local and regional governments set their own rate and neither can influence the other’s rate-setting. Property owners pay this combined amount, in addition to the provincial education tax, to their local municipality.³⁷ Tenants pay property taxes indirectly to their landlord through rent.

There are multiple classes and subclasses of property with various rates. For the purposes of this report, it is important to make a distinction between residential and non-residential property-tax classes. While residential property-tax rates are applied to homeowners, non-residential property-tax rates are applied to businesses, which can further be broken down into commercial (including office) and industrial properties. While the rates vary depending on the property class, the taxes are flat – meaning that the same rate is applied to all properties that fall within that

class. Generally speaking, when revenues decline from one portion of the tax base, the burden is shifted elsewhere in the tax base (e.g. from non-residential to residential). Alternatively, municipal governments would need to make cuts in spending to balance their budgets in spite of the lower revenue.

Most municipalities in Ontario rely heavily on the property-tax base for funding public services – particularly from the residential base. In the Region of Peel, for example, the reliance on residential tax base has been growing over time and currently sits at around 63.6 per cent of the total property-tax revenue. This is picking up the slack from declines in non-residential revenues: the share of revenue from industrial property is on a downward trend (falling from around 9 per cent in 2000 to 5 per cent in 2018), in large part due to the decline of manufacturing. The share from commercial and office buildings has remained relatively stable over this time period, at around 20 per cent (see Figures 11, 12 and 13).³⁸

As a revenue tool, the property tax has its proponents and critics. From an economic efficiency standpoint, the property tax is a good tax – particularly for local governments. Relative to other taxes on income and sales for example, property is inelastic, which means there is a relatively small impact on economic behaviour compared to other taxes.³⁹ Property is also immovable: since property cannot be hidden and the base cannot shift location as a result of the tax, it is difficult to evade property taxes.⁴⁰ This results in a relatively stable base and consistent source of revenue for municipalities.

36 Calculations from Enid Slack based on 2016 data.

37 The education tax is applied to properties across Ontario as a means to help fund the elementary and secondary education system. These rates are determined by Ontario’s Minister of Finance under the Education Act and apply to multiple property classes. See: <https://www.fin.gov.on.ca/en/tax/pt/index.html>.

38 Mowat calculation based on Region of Peel data.

39 Enid Slack and Richard M. Bird (2015) “How to Reform the Property Tax: Lessons from around the World.” Institute on Municipal Finance and Governance. https://munkschool.utoronto.ca/imfg/uploads/325/1710_imfg_no.21_online_sept17.pdf.

40 Ibid.

FIGURE 11

The share of revenue from industrial property is on a downward trend

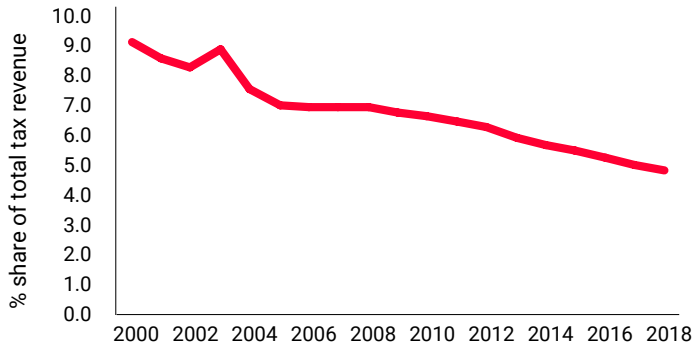


FIGURE 12

Peel is increasingly reliant on residential property tax

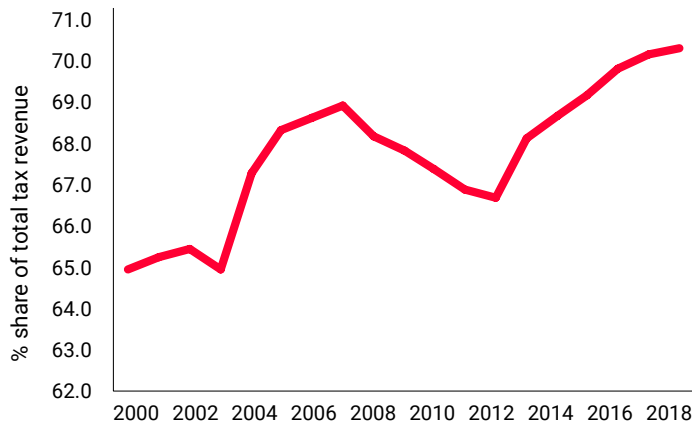
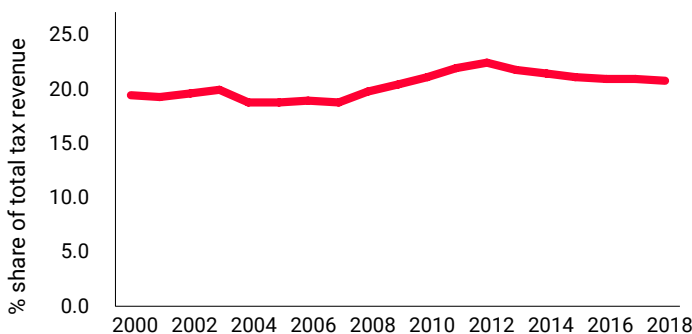


FIGURE 13

Commercial and office buildings have remained fairly steady at around 20%



However, the property tax is often criticized for being regressive as lower-income households are disproportionately burdened. This has become a particular challenge for seniors living on a fixed income but residing in homes which have had property values soar over time (i.e., asset-rich but income-poor households), and must pay significantly higher property taxes as a result despite limited income.⁴¹ For this reason and others, it is politically unpopular, and most provincial-level governments offer tax deferrals or some other programs to address regressivity at the low end of the income spectrum, especially for seniors. Furthermore, it is highly visible, and it is difficult to reform or increase rates.⁴² In fact, some municipal governments in Ontario do not raise property taxes sufficiently to keep pace with the rate of inflation (most notably Toronto in the last few years) – resulting in a loss of revenue in real terms.

41 Michael Bradfield (2013) "Policy Points: An alternative to property taxes." Canadian Centre for Policy Alternatives, Nova Scotia. <https://www.policyalternatives.ca/publications/commentary/policy-points-alternative-property-taxes>.

42 Enid Slack (2011) "The Property Tax – in Theory and Practice." Institute on Municipal Finance and Governance. https://munkschool.utoronto.ca/imfg/uploads/173/enidslack_imfg_no_2_online.pdf.

Source: Created by Mowat based on Region of Peel data.

Development Charges

Development charges are one-time fees that municipal governments can levy for infrastructure in new developments or redevelopment in their jurisdictions. These charges are collected from developers at the time that a building permit is issued, and are designed to help recover growth-related capital costs required to service new developments.

Ontario's *Development Charges Act* outlines the process whereby municipal governments can impose development charges, and on which eligible development they can be levied – namely “hard services” such as water, wastewater and roads; and “soft services” such as social housing and police services. Local and regional governments can introduce the levies through municipal by-laws and set their own rates after completing a mandatory background study that provides details on the growth projections as well as capital expenditure forecasts used to inform their decisions. Municipalities must revisit their development charges with a new background study every five years.

Development charges are typically applied to both residential and non-residential developments, although these are calculated somewhat differently. Peel currently derives the majority of its \$247.5 million development-charges revenue from residential development – making up 80 per cent of the total with the remaining 20 per cent coming from non-residential development. This make-up was more or less consistent between 2002 and 2017.

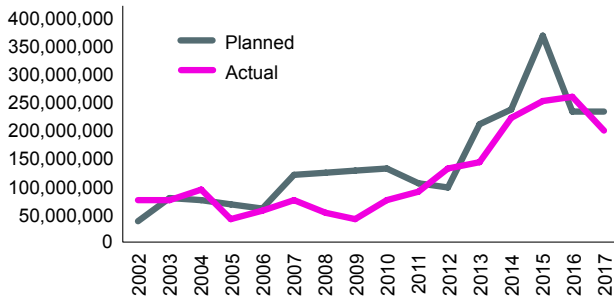
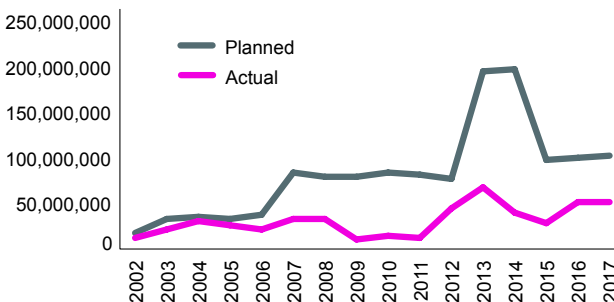
Municipalities may decide to grant exemptions or deferrals for development charges in some instances for strategic reasons. Exemptions are common for places of worship for example, as well as non-residential developments that could attract investment and drive economic

development (e.g. office space) and developments that drive social objectives (e.g. affordable housing). Exemptions may also be provided as a result of successful appeals made on a case-by-case basis.

While exemptions may be of strategic importance or are otherwise unavoidable, they can result in significant sums of lost revenue for municipal governments. Furthermore, when some properties are exempt from development charges, it means that they are not paying their portion of the infrastructure necessitated by the development. This invariably means that someone else is paying for it – and therefore the rationale behind these exemptions must be thoroughly considered.

The most significant criticism of the development-charges concept is that while they are designed to pay for growth in theory, this is rarely the case in practice. Many municipalities in Ontario – particularly in Southern Ontario – have indeed benefitted from development-charges revenues during population and housing booms, even though the charges levied did not result in full cost recovery of capital investments. This is due in part to the fact that growth has not necessarily kept pace with forecasts used to make decisions for infrastructure investments – particularly provincial projections used through the *Places to Grow Act*.

When local and regional governments begin making investments in infrastructure that are not met with anticipated growth, municipalities are left with unexpected costs. Like many other municipalities, this has been the case in Peel for both residential and non-residential projections. While non-residential development makes up a smaller proportion of total revenues, its shortfall from planned revenues is more substantial (see Figures 14 and 15).

FIGURE 14**Residential DC revenues, planned vs. actual, Peel Region, 2002-2017****FIGURE 15****Non-residential DC revenues, planned vs. actual, Peel Region, 2002-2017**

Source: Created by Mowat based on Region of Peel data

A striking example of how this might happen is the previously proposed GTA West Corridor – a highway from Vaughan to Milton that was projected to generate significant growth and investment throughout Peel Region. The assumption of its completion was included in growth forecasts – and its cancellation in 2018 has left many scrambling to understand its implications on the ability for Peel and other regions to meet their growth projections. There are other inherent problems with development-charges revenue forecasts, including that rates are set based on historical data of service levels, which tend not to capture more recent changes.

Furthermore, not all infrastructure is eligible for development charges, and some types of infrastructure must have a 10 per cent discount rate applied.

Other concerns around the sustainability of development charges as a revenue source centre on its emphasis on constant growth and development – particularly greenfield development. The current model places high value on greenfield developments (i.e. those that lack constraints imposed by prior work), which inevitably slows down as a city urbanizes and reaches capacity (e.g. Mississauga). Brownfield developments (i.e. land previously used or built upon; structures needing to be demolished or renovated) generally result in less revenue.

Furthermore, from a planning perspective, development charges can often provide perverse incentives to develop. Since it's a significant revenue generator in some instances, there might be an inclination for municipalities to build and approve developments – even if they are not ultimately in the public interest. This misalignment of incentives could, for example, be a contributor to unnecessary sprawl at the expense of more walkable, livable communities.

User Fees

The other key revenue tool currently available to municipal governments is user fees. Province-wide, municipalities on average derive slightly more than one-third of their revenues from fees. Fees are different from taxes in that they are effectively charges applied to individuals for the use of a particular public service, whereas taxes are pooled and collectively spent in a broader manner. This distinction makes user fees easier to implement for local and regional municipalities from a constitutional standpoint as they do not require approval from the province, although they still face some restrictions.

The *Municipal Act* lays out the nature of fees that may be charged by a municipality, i.e. “for services or activities provided or done by or on behalf of it.”⁴³ There is sometimes a grey area in determining whether something is a fee (which the municipality has the power to levy) or an impermissible tax. This has been extensively dealt with by jurisprudence. The Supreme Court of Canada has established the principle that for something to qualify as a fee, “a nexus must exist between the quantum charged and the cost of the service provided in order for a levy to be considered constitutionally valid.”⁴⁴

This principle may be generously interpreted. The Ontario Court of Appeal upheld as valid a municipal fee charged on outdoor advertising signs, where the revenue was applied to the sign enforcement unit rather than going into general revenue.⁴⁵ Even if the basis of the calculation is questionable, a fee will be valid as long as a “reasonable attempt” was made to relate it to the cost of service.⁴⁶ On the other hand, a complete failure to show a nexus between the cost of service and the fee would invalidate it. This was the case for a municipal permit fee on the importation of fill material, that was found to be a tax and thus outside the power of the municipality.⁴⁷

43 S. 391(1). See: <https://www.ontario.ca/laws/statute/01m25>.

44 *Eurig Estate (Re)*, [1998] 2 SCR 565 at para. 21. For a general survey, see: Kelly I.E. Farish and Lindsay M. Tedds (2013) “User Fee Design by Canadian Municipalities: Considerations Arising from the Case Law.” *Canadian Tax Journal* (2014) 62:3, 635-70.

45 *Urban Outdoor Trans Ad v. Scarborough (City)*, 2001 CanLII 24140 (ON CA).

46 *Nylene Canada Inc. v. Corporation of the Town of Arnprior*, 2017 ONSC 795, at para. 49. In this case, the charge was intended to be for wastewater, but it was not based on the measurement of wastewater but on the original amount of clean water supplied.

47 *Angus v. Corporation of the Municipality of Port Hope*, 2016 ONSC 3931.

While not necessarily bolstering the general revenue base directly, user fees can alleviate pressure and reliance on the property-tax base by deriving revenue from users to fund specific public services rather than using property-tax revenues to fund those services. However, there are limits to what can feasibly be transformed into a pay-per-use service in the public realm without raising significant fairness and accessibility concerns.

User fees are widely lauded by observers for a number of reasons. When tied to a specific, visible and high-quality public service, there is greater public acceptance of user fees than other taxes or charges. Furthermore, user fees can drive change in behaviour and consumption patterns of residents and thus have potential to be used for a greater purpose beyond revenue generation. For example, charging fees for water usage can result in more optimal and sustainable consumption levels and reduce the risks of underfunded infrastructure. Similarly, road pricing schemes can be used to disincentivize vehicle use, thereby reducing traffic congestion, promoting public transit usage and lowering greenhouse gas emissions.

In order for user fees to positively influence consumption behaviour, however, getting the price right is key. Rather than charging user fees to generate revenues in excess of its cost, fees should be set to equal the marginal cost of providing goods and services. For the most economically efficient usage of service, price per unit of output should equal the cost of the last unit consumed.⁴⁸

48 Harry Kitchen and Enid Slack (2016) “New Tax Sources for Canada’s Largest Cities: What Are the Options?” Institute on Municipal Finance and Governance. https://tspace.library.utoronto.ca/bitstream/1807/82858/1/imfg_perspectives_no15_newtaxsources_kitchen_slack_2016.pdf.



Local and regional municipal governments in Ontario have a limited set of tools to use for revenue generation.

3 TRENDS AND DRIVERS OF THE NEW ECONOMY

Ongoing economic trends and emerging issues resulting from technological innovation are reshaping the way we work, play and do business, and will continue to do so over the coming years. The Region of Peel and the surrounding GTHA are, in many ways, a microcosm of these larger, macro-level shifts – and thus act as an interesting case study for the future of fiscal health of municipal governments. The following section discusses key trends and drivers of the new economy, and contextualizes how the Peel Region and GTHA fit into the broader picture.

Demographic Changes

Like most developed nations, Canada is expecting continued population growth over the coming decades, although at a slower pace than has been experienced in the past. This trend is visible in the Peel Region as well. Currently, Peel’s total population is 1.48 million and it is forecasted to grow to around 1,970,100 by 2041 – with growth significantly higher between 2016 and 2031 than the following ten years (see Figure 16).

The Region’s population is considerably younger than the provincial average with the median age at 38.1 and generally more children and fewer seniors than elsewhere in Ontario. However, Peel is still expected to see significant aging of its population: the senior population (65+) is expected to increase by 134 per cent by 2041.⁴⁹ Population aging has important implications on service demands (e.g. increasing pressures on the public healthcare system) as well as an overall shrinking of the labour force as baby boomers come to retirement age.

FIGURE 16

Population projections

	2016	2021	2031	2036	2041	2016-2031 Growth	2031-2041 Growth	2016-2041 Growth
Peel	1,428,400	1,540,400	1,770,050	1,870,000	1,970,100	341,650	200,050	541,700
Brampton	613,680	683,700	811,970	853,940	890,000	198,290	78,030	276,320
Caledon	68,820	78,970	116,010	136,850	160,080	47,190	44,070	91,260
Mississauga	745,900	777,730	842,070	879,210	920,020	96,170	77,950	174,120

Source: Region of Peel.

⁴⁹ Region of Peel (2017) “Peel’s Economic Overview Presentation.” <https://www.peelregion.ca/budget/2018/Peel-Economic-Overview.pdf>.

In Ontario, annual labour force growth is forecasted to drop from 1.4 per cent between 1981-2015 to 0.8 per cent between 2021 and 2040. Similarly, while real GDP grew at about 2.6 per cent between 1986 and 2015, growth is expected to slow to around 2.1 per cent between 2016 and 2040.⁵⁰ Peel's current position of having a relatively young population could be beneficial in offsetting these impacts with new labour market entrants, although this would need to be sustained over time.

Peel Region also has a very large immigrant community, representing around 51.5 per cent of the regional population, of whom 13.3 per cent are recent immigrants.⁵¹ This could be expected to continue as immigration is forecasted to be a key driver of population growth across Ontario. In fact, as fertility rates decline and the population ages, only 13 per cent of Ontario's overall population growth is expected to come from natural increase (i.e. births minus deaths). Rather, net migration – particularly from immigration – will be an important factor in sustaining population growth.⁵²

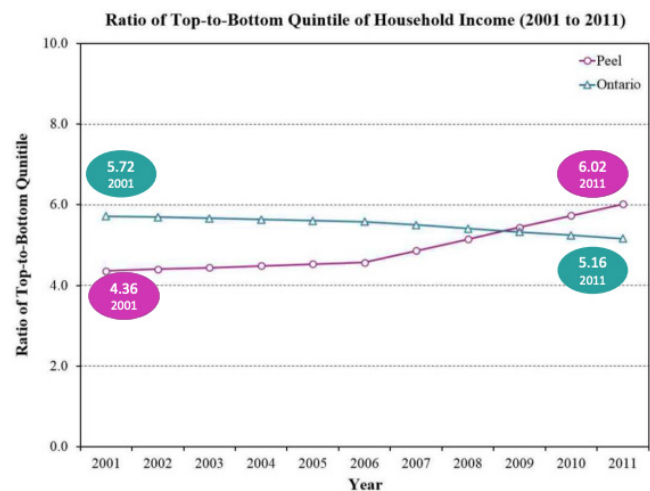
Inequality and Wage Stagnation

While economic growth and wage growth have historically occurred in tandem, this is no longer the case. Although GDP and labour productivity have grown substantially in recent years, this has not translated into higher wages or a higher standard of living. In Ontario, for example, provincial GDP per capita increased by 57 per cent between 1976 and 2015, whereas real median

adjusted after-tax income only increased by about half that rate, and similarly there have been small increases in measures of wellbeing such as the Canadian Index of Wellbeing.⁵³ The divergence between economic growth and wages also presents itself in the decline in labour income as a portion of GDP. Indeed, as the wage share of GDP continues to decline, the share of GDP comprised of corporate profits continues to rise.⁵⁴

FIGURE 17

Increasing income disparity in Peel



Source: Region of Peel (2017) "Peel's Economic Overview Presentation." <https://www.peelregion.ca/budget/2018/Peel-Economic-Overview.pdf>.

50 Ontario Ministry of Finance (2017) "Chapter II: Economic Trends and Projections." In Ontario's Long-Term Report on the Economy. <https://www.fin.gov.on.ca/en/economy/ltr/2017/ch2.html>.

51 Region of Peel (2017) "2016 Census Bulletin: Immigration and Ethnic Diversity." <https://www.peelregion.ca/planning-maps/CensusBulletins/2016-immigration-ethnic-diversity.pdf>.

52 Ontario Ministry of Finance (2017) "Chapter I: Demographic Trends and Projections." In Ontario's Long-Term Report on the Economy. <https://www.fin.gov.on.ca/en/economy/ltr/2017/ch1.html>.

53 Ontario Ministry of Finance (2017) "Chapter III: Employment Trends." In Ontario's Long-Term Report on the Economy. <https://www.fin.gov.on.ca/en/economy/ltr/2017/ch3.html>.

54 Sunil Johal and Jordann Thirgood (2016) "Working Without a Net: Rethinking Canada's social policy in the new age of work." Mowat Centre. https://mowatcentre.ca/wp-content/uploads/publications/132_working_without_a_net.pdf.

In Peel, 175,980 residents or 12.8 per cent of the population live in poverty. This number is higher for racialized communities (16 per cent) and children between the ages of 0 and 17 (18 per cent).⁵⁵ The growing disparity between the rich and the poor has been well-documented in countries around the world. Income inequality – the extent to which income is distributed unequally amongst participants in an economy – has been growing and is known to be a driver of social and economic challenges. Income inequality has been notably visible across Canada and Ontario, including in the Peel Region.

Non-Standard and Precarious Work

The standard employment relationship is on the decline in most OECD countries. While it was once common to work in a full-time, permanent position with employer-provided benefits, today these roles are becoming increasingly rare. At the same time, there has been significant growth in “non-standard” employment, which broadly includes temporary or part-time jobs, as well as sub-contracting and self-employment. Non-standard work has accounted for 60 per cent of the employment growth in advanced economies since the mid-1990s.⁵⁶ Non-standard work has driven Peel’s employment growth over the past decade as well (see Figure 18).

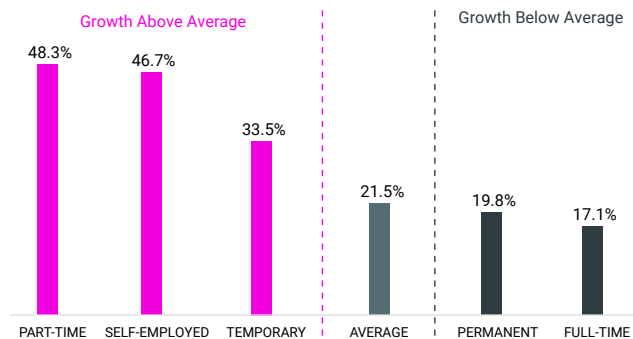
While it is rather easy to measure changes in standard and non-standard work, the term “precarious work” is more difficult to define and measure. Generally speaking, precarious work is characterized by instability, lack of protections and benefits, and low wages. Precarious job positions

55 Region of Peel “2018-2028 Peel Poverty Reduction Strategy: Community Action.” pp. 9. http://www.povertyinpeel.ca/_include/Peel-Poverty-Reduction-Strategy-2018-2028.pdf.

56 OECD (2015) “In It Together: Why Less Inequality Benefits All.” <http://www.oecd.org/social/in-it-together-why-less-inequality-benefits-all-9789264235120-en.htm>.

FIGURE 18

Percentage change in employment in Peel’s labour market by job permanency, 2007-2017



Changes	2007-2017
Average Hourly Earnings	21.3%
Median Hourly Earnings	17.6%
Inflation Rate (Toronto CMA)	21.0%

Source: Region of Peel.

tend not to be unionized or offer employer-provided benefits, and can entail other elements of volatility, such as unpredictable scheduling and inconsistent income. While there is a correlation between non-standard and precarious work, it is important to note that there is a distinction. For instance, non-standard employment can still be quite highly paid and secure (e.g. a self-employed consultant) and standard employment can still be precarious (e.g. full-time contractor with low pay and no benefits).⁵⁷ Further, while non-standard jobs may not necessarily be precarious, the growth of non-standard jobs has put more workers in precarious circumstances.⁵⁸

57 Ontario Ministry of Labour (2017) “Chapter 4: Vulnerable workers in precarious jobs.” In *The Changing Workplaces Review – Final Report*. <https://www.ontario.ca/document/changing-workplaces-review-final-report/chapter-4-vulnerable-workers-precarious-jobs>.

58 Ibid.

Based on the definition outlined by a recent Government of Ontario external study, a substantial proportion (about 30 to 32 per cent in 2014) of workers in the province fall into the category of “vulnerable workers in precarious jobs.” The government’s Changing Workplaces Review, quantified this group by looking at those who were:

- » working full-time for low wages, with minimal or no benefits, (such as no pension plan); or
- » working for low wages without any or minimal benefits such as without a pension plan; and who:
- » work part-time involuntarily because they want more hours (about 30 per cent of all part-timers according to Statistics Canada);
- » work part-time voluntarily, in the sense that they do not want, or cannot avail themselves of, more hours;
- » work for temporary help agencies or on a temporary basis directly for employers;
- » work on term or contract;
- » are seasonal workers or casual workers;
- » are solo self-employed with no employees;
- » are multiple jobs holders where the primary job pays less than the median hourly rate.

While it is not clear exactly how many Peel residents fall within this definition of vulnerable workers in precarious positions, there has been interesting research focused on precarity in the broader GTHA that can further aid in understanding the dynamics in the Region. It found that over 37 per cent of GTHA workers are engaged in some form of precarious employment – despite economic improvement following the

recession.⁵⁹ Amongst those who fall within this definition of precarity, 90 per cent do not have access to employer benefits and 80 per cent do not have access to an employer-provided pension. Furthermore, 85 per cent reported that their income varied from week to week. They are also three times more likely to pay out-of-pocket for training-related expenses.⁶⁰ In addition to financial difficulties, such instability also has real impacts on the mental health and wellbeing of workers, around 40 per cent of whom report that work-related anxiety interferes with their personal and family life.

These trends have multiple ripple effects throughout the economy. Lower incomes generally result in less purchasing power for individuals and families, which can hamper economic growth. Furthermore, income volatility can make long-term financial planning exceptionally difficult and impact personal life decisions. For instance, about one in five workers aged 25-35 in the GTHA report having delayed childbearing due to their employment situation. In the context of an aging population and a shrinking labour force, these factors are worth noting.

Over 37 per cent of GTHA workers are engaged in some form of precarious employment – despite economic improvement following the recession.

59 Wayne Lewchuk et al. (2018) “Getting Left Behind: Who gained and who didn’t in an improving labour market.” Poverty and Employment Precarity in Southern Ontario (PEPSO) research group. https://pepso.ca/documents/pepso-qlb-final-lores_2018-06-18_r4-for-website.pdf.

60 Ibid.

Growth of the Knowledge Economy

Peel Region's economy is in transition. This is reflective of what is happening elsewhere in Ontario, across Canada and many other industrialized countries. The shift from manufacturing to a service-based economy has been well-documented, however this trend has been more gradual in Canada compared to other countries. As a result of automation, globalization, exchange rate fluctuations and low productivity, the proportion of Canada's labour market employed in manufacturing has declined substantially.⁶¹ These losses were particularly hard-hitting in Ontario, as the industry was once the bedrock of the provincial economy – accounting for as much as 24 per cent of the jobs in the province in 1980. This proportion has been on a continuous decline, falling to 18 per cent in 2001 and just over 10 per cent in 2017.⁶² Manufacturing jobs as a proportion of total jobs in Peel also fell from 22 per cent in 2001 to 15 per cent in 2017.⁶³

Job losses in goods-producing sectors such as manufacturing have largely been offset by gains in the service sector, which accounts for about 79 per cent of total jobs in Peel Region. Perhaps most notably, this includes jobs in trade, transportation and warehousing, which currently account for around 28 per cent of regional employment. Since 2001, the Region has gained 53,200 jobs in the trade sector and 36,500 jobs in transportation and warehousing.⁶⁴ This is reflective of a wider

61 Ronald Hirshhorn (2011) "Impacts of Structural Changes in the Canadian Economy," Industry Canada. https://www.ic.gc.ca/eic/site/eas-aes.nsf/eng/h_ra02276.html; Matthias Oschinski, Katherine Chan with Liza Kobrinsky (2014) "Ontario Made: Rethinking Manufacturing in the 21st Century." Mowat Centre. <https://mowatcentre.ca/ontario-made-full/>.

62 Mowat calculation based on Statistics Canada data, CANSIM Table: 14-10-0023-01 (formerly CANSIM 282-0008)

63 Mowat calculation based on Region of Peel data

64 Ibid.

shift from goods production to goods movement, whereby manufacturing plants have largely been replaced by warehouses and distribution centres, impacting the industrial portion of the regional tax base.

Also worth noting within the expansion of the service sector is the broader trend of the emerging "knowledge economy," which places greater emphasis on the value derived from information and intellectual capital. This is evident in job growth across sectors such as finance, insurance and real estate which have grown by 40 per cent in Peel since 2001, as well as professional, scientific and technical services which have grown by 28 per cent. There has also been a boom in population-related employment such as education services as well as healthcare and social assistance, which have grown by 48 per cent and 52 per cent respectively.⁶⁵ Most of these knowledge-based jobs are associated with non-residential non-industrial properties such as offices and institutional spaces.

Technological Change

Inextricably linked to the knowledge economy is technological change. Technological innovation has already begun to reshape the way we live, work and do business. And while many new technologies have the potential to unlock economic gains and productivity improvements, there is also considerable concern around their implications for the labour market and individual workers. In particular, the advent of artificial intelligence and machine learning means that automation of tasks has the potential to replace a significant proportion of the workforce. For example, according to one estimate, approximately 42 per cent of Canada's existing jobs could be automated over the next 10-20

65 Ibid.

FIGURE 19

Probability of automation by industry and proportion of workforce

Industry	Probability of Automation	Proportion of Workforce		
		Peel	Ontario	Canada
Trade	48%	18.19%	14.64%	14.85%
Manufacturing	61%	14.78%	10.49%	9.11%
Transportation and Warehousing	61%	9.69%	4.62%	4.95%
Healthcare and Social Assistance	37%	9.38%	11.63%	12.32%
Finance, Insurance, Real Estate and Leasing	42%	8.95%	7.54%	6.09%
Professional, Scientific and Technical Services	35%	8.49%	8.51%	7.58%
Construction	51%	5.53%	7.15%	7.77%
Educational Services	30%	5.16%	6.80%	6.77%
Management, Administrative and Other Support	42%	5.00%	4.47%	4.13%
Accommodation and Food Services	69%	4.98%	6.33%	6.53%
Other Services	45%	3.69%	3.77%	4.13%
Information, Culture and Recreation	40%	2.78%	4.35%	4.24%
Public Administration	41%	2.61%	4.96%	4.98%
Utilities	44%	0.42%	0.64%	0.69%
Agriculture	52%	0.32%	0.94%	1.49%
Forestry, Fishing, Mining, Oil and Gas	52%	0.00%	0.50%	1.82%

Source: Creig Lamb and Matthew Lo (2017) "Automation Across the Nation: Understanding the potential impacts of technological trends across Canada." Brookfield Institute. <https://brookfieldinstitute.ca/report/automation-across-the-nation>; Statistics Canada Table: 14-10-0023-01 (formerly CANSIM 282-0008); Peel Region data.

years.⁶⁶ Applying a widely used methodology, Figure 19 examines the probability of automation by industry, and the comparative proportion of the workforce employed in those industries across Peel, Ontario and Canada. Generally speaking, the impacts of automation will be felt similarly in all Canadian regions.

There are, however, important particular areas to highlight. For example, the three most prominent industries in the Region are trade, manufacturing, and transportation and warehousing – all of which have a rather high estimated probability of being impacted by automation. Furthermore, the Region is more reliant on these sectors for employment

compared to the provincial or national workforce. The Region’s reliance on manufacturing is particularly noteworthy, as it comprises almost 15 per cent of the workforce compared to less than 11 per cent of Ontario’s and only 9 per cent of Canada’s workforce.

The manufacturing industry has already seen significant job losses in the past two decades, and more jobs in the industry may become automated in the near future. Similarly, while the Region has experienced promising growth in “logistics” or goods-movement jobs given its strategic location, those working in warehousing or transportation are likely to come under threat, particularly given the advancement of autonomous vehicle technology.

66 Frey and Osborne methodology – Brookfield Institute applied to Canadian labour market estimates.

Finally, it is important to note that Peel has a much smaller proportion of its workforce engaged in low-risk industries – notably healthcare and social assistance (37 per cent probability of automation) and educational services (30 per cent probability of automation). Jobs in these industries tend to be comprised of non-routine cognitive functions, and require an element of human interaction that has not yet been mastered by technology, and perhaps may never acquire the social license to become automated in the future (e.g. cultural expectations around care of children and the elderly might demand human labour in these fields).

Furthermore, there is some anticipation that jobs in health and social services sectors may grow – particularly as a result of an aging population. However, only 9 per cent of Peel’s workforce is employed in healthcare and social services (compared to 12 per cent in both Ontario and Canada), and only 5 per cent of the workforce is employed in educational services (compared to 7 per cent in Ontario and Canada).

It is important to note that there is much disagreement over the anticipated magnitude of disruptions caused by workplace automation in the years ahead. Other studies, which have used alternative methodologies based on tasks rather than occupations (as used above), suggest estimates as low as 9 per cent of Canada’s total existing jobs will be automated over the next 10-20 years.⁶⁷ Of course, it is impossible to predict with certainty what this number will actually be. In any case, sound policy interventions will be critical to ensuring that new technologies create shared benefits and prosperity, as well as making sure that supports are available to workers to effectively transition and cope with changing realities, through re-skilling initiatives or other supports.

67 Arntz et al. (OECD) estimate on the lower end using a task-based methodology.

Regional Variation: Where does Canada Stand?

While some jurisdictions might anticipate large regional differences in the number of jobs susceptible to automation, Canada does not – according to new research from the OECD’s Centre for Entrepreneurship, SMEs, Regions and Cities. This uneven distribution is caused by regional concentration of jobs that are at high risk. Subnational estimates calculated by the OECD show that while countries like Spain have roughly a 12 percentage point difference between the region with the largest proportion of jobs at risk to automation and the region with the smallest proportion, Canada has amongst the smallest disparities (see Figure 20 for the difference between Ontario and Newfoundland and Labrador).

Economic development initiatives typically aim to generate jobs – but if these new jobs are at risk to automation, the problem of displaced workers and associated challenges is simply being deferred. The OECD has devised a typology that captures how regions are experiencing job loss:

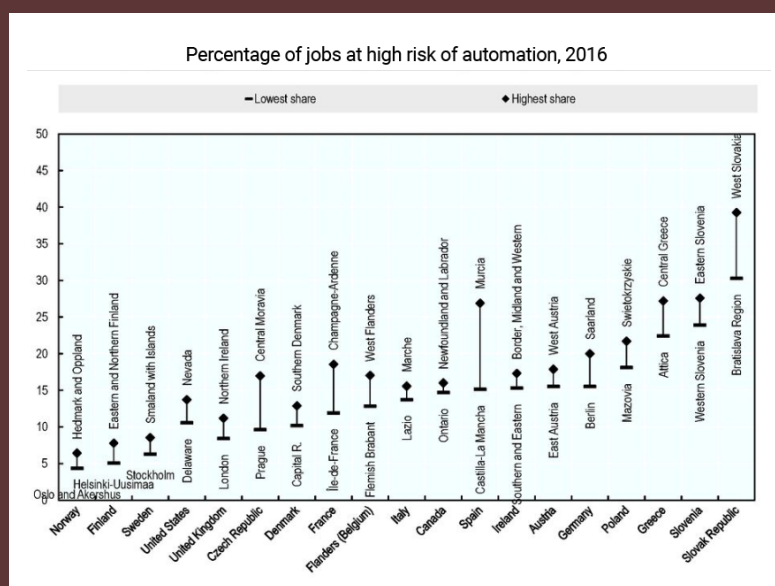
- » Creating jobs predominantly in less risky occupations – improve job situation in the short term and reduce long-term risks of unemployment from automation
- » Creating jobs predominantly in more risky occupations – improve short-term job situation but at the expense of moving towards riskier job profile in the future
- » Losing jobs predominantly in more risky occupations – typical profile of regions in process of structural change; jobs are being lost but risk of further job losses in future is reduced
- » Losing jobs predominantly in less risky occupations – facing the greatest challenge by suffering current job losses and increasing risk of further losses down the road

Most regions have created jobs in less risky occupations – a good position to be in. In Canada, a majority (60 per cent) of regions land within this category, while about 10 per cent seem to be creating riskier jobs. 30 per cent of the regions are experiencing the typical loss of risky jobs during the structural change process.

This 2018 OECD report concludes that regions and cities can and should be at the forefront of local responses to these trends. Given potential regional variation, national labour market policies should be flexibly designed to enable innovation from the bottom up. Building a “skills ecosystem” at the local level can also enable economic diversification in skills-related activities.

FIGURE 20

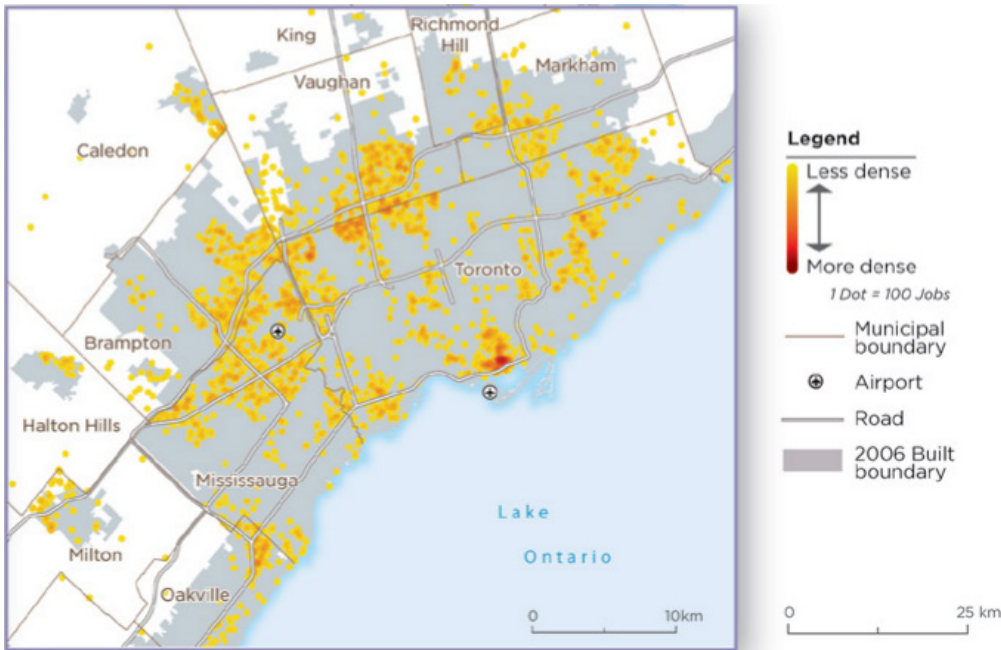
Some countries have wide disparities in terms of risk of automation across regions



Source: OECD (2018) “Job Creation and Local Economic Development 2018: Preparing for the Future of Work.” pp. 45, https://read.oecd-ilibrary.org/employment/job-creation-and-local-economic-development-2018_9789264305342-en#page47.

FIGURE 21

Employment in industries with the highest vulnerability to automation, 2016



Source: Pamela Blais and The Neptis Foundation (2018) "Planning the Next GGH." pp. 118. http://www.neptis.org/sites/default/files/planning_the_next_ggh/neptis_planningthenextggh_report_dec4_2018.pdf.

A recent report from the Neptis Foundation analyzed the geography of disruption for the Greater Golden Horseshoe (GGH) area. The report finds that⁶⁸, 23.3 per cent of the jobs in Brampton and 28.9 per cent of the jobs in Caledon fall under the 'most vulnerable' category with a high risk of automation. These numbers are considerably higher than the overall average for the GGH area (18.7 per cent). Mississauga is closer to the average, with 17 per cent of the city's jobs at high risk of automation.⁶⁹

The study also highlights the unprecedented hyper-concentration of economic development and jobs in downtown Toronto, accompanied by a slowdown in job growth in other regions – a reversal of the trend of suburbanization of employment from the 1980s to early 2000s. These trends are mainly driven by the rapid growth of knowledge-intensive activities which benefit from the co-location of related firms. Downtown Toronto's proximity to transit, urban neighbourhoods with a highly-skilled workforce, and amenities make it attractive to knowledge-intensive firms. However, it is important to note that the Airport and Meadowvale Suburban Knowledge-Intensive District (SKID) was the only SKID that saw employment growth during the 2006-2016 period – indicating the benefits of Peel's strategic location.⁷⁰

68 Neptis calculation based on research undertaken for the C.D. Howe Institute by Matthias Oschinski and Rosalie Wyonch.

69 Pamela Blais and The Neptis Foundation (2018) "Planning the Next GGH." pp. 117-129. http://www.neptis.org/sites/default/files/planning_the_next_ggh/neptis_planningthenextggh_report_dec4_2018.pdf.

70 Ibid.

Digitization and Globalization

Technological change has helped facilitate a more global marketplace for goods and services. Regardless of where a corporation is headquartered, it can sell goods and provide services to consumers from all corners of the globe. While this is a positive development for consumers – having greater access and more options – it can have dangerous implications for governments’ revenue generation. For one, this means firms can derive significant profits from multiple jurisdictions without contributing much economic value to those jurisdictions. For example, if a tech company is headquartered in the US and Peel residents use a service it provides, the transaction may avoid sales tax and the profits that the company earns as a result, and the company may also avoid paying corporate taxes. While this directly impacts federal and provincial coffers, municipal governments could indirectly feel pinched through reduced transfers as senior levels of government struggle to recoup lost revenues. Moreover, digital, international firms do not create local jobs or other positive spillover effects that come with a local firm operating in the Region.

Technology has enabled a more mobile and global labour force. Employees are now better able to work from outside a traditional office space, which can take many forms.

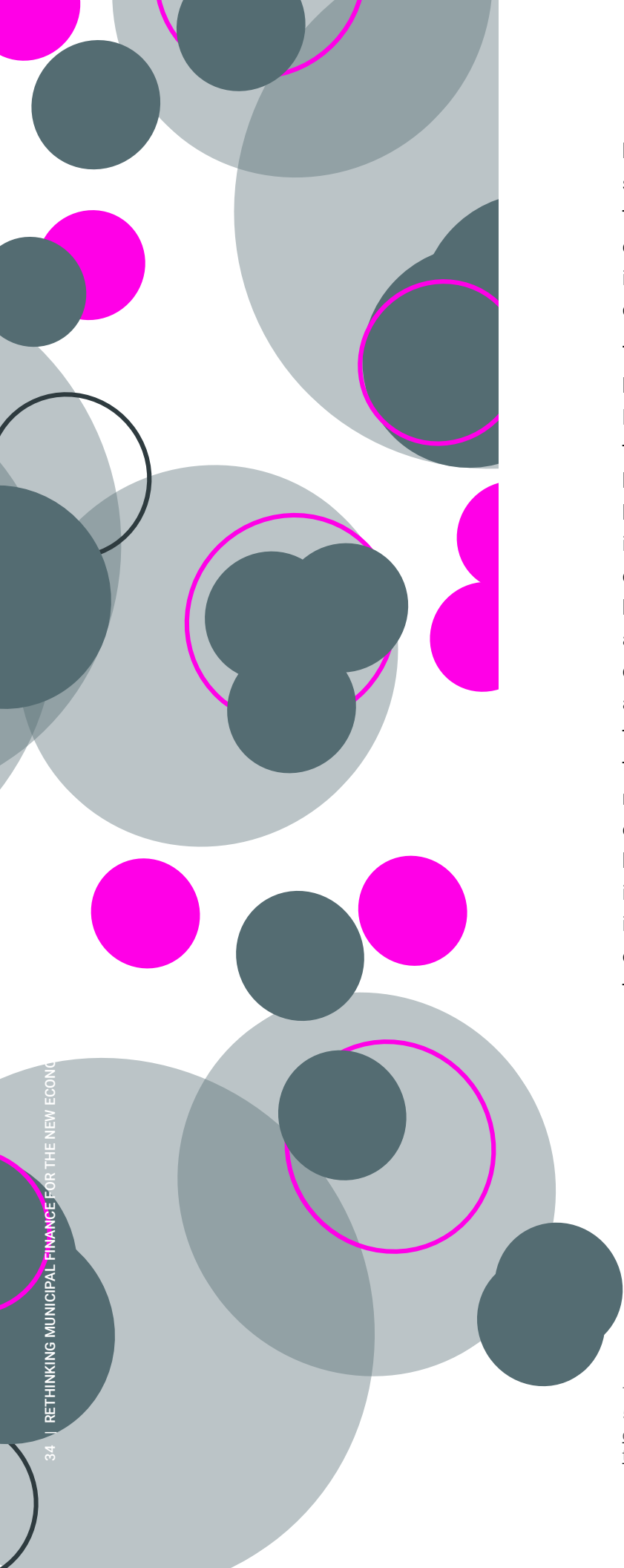
Another implication of this increased mobility is that if a jurisdiction imposes additional taxes, firms can rather easily locate elsewhere or cease to operate business within that jurisdiction to maximize profits. This problem has been exacerbated over the years due to the commercial consolidation of a handful of powerful tech firms. Features of the digital economy such as network effects⁷¹, low marginal costs and increased data analytics capacity have contributed to the ability of a few “superstar” companies to rise to the top and dominate the market.⁷² The scale and influence of these companies perpetuates their ability to evade and avoid taxation.

Flexibility and the Gig Economy

Technology has enabled a more mobile and global labour force. Employees are now better able to work from outside a traditional office space, which can take many forms. Some workers may be engaged in a traditional occupation but have the flexibility to work from home some or all of the time (i.e. “teleworking”). Others can use technology to better facilitate self-employment or freelance work. There has also been an increase in shared co-working spaces, as employees often only need a laptop and internet connection to do their work. Freelancing and self-employment have always existed as rather small components of the overall workforce, but have grown considerably in many advanced nations – in Peel Region, self-employment was the fastest growing subset of the workforce between 2006 and 2016 at 46.5 per cent. This trend is estimated to accelerate: for instance, recent research in the US has estimated that over half of the American labour force could

71 Network effects are the positive impacts induced by increased numbers of people or participants that improve the value of a good or service.

72 Sunil Johal et al. (2018) “Robots, Revenues & Responses Ontario and the Future of Work.” Mowat Centre. <https://mowatcentre.ca/robots-revenues-responses/>.



be comprised of freelancers by 2027.⁷³ Indeed, shared offices and co-working spaces such as the Centre for Social Innovation or WeWork have emerged in response to growing entrepreneurship in today's economy that provide a viable and cheaper alternative to traditional office spaces.

The flexibility and greater connectivity enabled by technology have also given rise to the use of labour platforms and what is often referred to as the "gig economy." Traditional jobs are increasingly being unbundled into individual tasks that can be outsourced to the global marketplace. These include global platforms such as ride-hailing companies like Uber and Lyft, as well as web-based platforms such as Mechanical Turk, Upwork and Freelancer that utilize this business model to digitally outsource micro-tasks to be completed on a piece-work basis for very low wages. Given that these platforms are a rather new phenomenon, there is little data available to understand how many people in Peel Region or elsewhere are engaged in this type of work. However, as these business models grow and expand into new industries, they could threaten to suppress wages in developed countries like Canada where the cost of labour is relatively higher than where these tasks are outsourced to.

73 Elaine Pofeldt (2017) "Are We Ready For A Workforce That is 50% Freelance?" Forbes, October 17, 2017. <https://www.forbes.com/sites/elainepofeldt/2017/10/17/are-we-ready-for-a-workforce-that-is-50-freelance/#262035023f82>.

A person is sitting at a desk in a dimly lit room, working on a laptop. A mouse is visible on the desk. The entire scene is overlaid with a semi-transparent red filter. The text is centered over the person's torso and the laptop.

As the knowledge economy grows and technology continues to advance, the physical space required for workers may continue to shrink.

4 IMPLICATIONS FOR FISCAL HEALTH

Ongoing and emerging trends continue to reshape the way we envision work, and this has important implications for revenue generation and the fiscal health of municipal governments in Ontario. The following section explores macro-level key threats facing municipal governments across Canada, including Peel, as a result of economic and labour market transformations.

Insufficient Local Job Growth

One of the most significant threats to the municipal revenue base is insufficient local job growth – which impacts both non-residential property tax and development charges revenues. In the event that local jobs do not materialize, this can result in the erosion of the non-residential base and therefore increase pressure on the residential tax base.⁷⁴ Consider that rates are effectively calculated backwards: since municipalities cannot run deficits and property taxes are the dominant revenue source for operating expenditures, governments first determine how much revenue is required from the base and calculate the necessary rates to meet that goal.⁷⁵ This means that in order to meet spending obligations, municipalities must work with the base they have, increasing rates for some property classes to make up for revenue losses in others. In the event that non-residential

contributions decline, this might mean increasing rates for residential properties, which further shifts the burden onto residents. Alternatively, a government may need to make cuts to balance the budget.

Weakened job growth in the Region may also negatively impact development-charges revenues. If employers do not establish commercial or office spaces in the Region as projected, this leads to a shortfall in expected development-charges revenues. As discussed, projections used for policy, planning and growth management at the provincial level have not come to fruition. As a result, municipal governments have been left with unexpected costs due to significant investments in infrastructure based on these calculations. While this has already been a challenge for governments to date, there is a possibility that these shortfalls will increase if non-residential development continues to shrink.

74 Cushman & Wakefield (2017) "Employment Strategy Discussion Paper." Prepared for the Region of Peel.

75 This is different from other levels of government with other revenue sources such as sales and income taxes. See: Edward Keenan (2015) "Why property tax revenues don't rise with inflation" Toronto Star, March 6, 2015. <https://www.thestar.com/news/gta/2015/03/06/why-property-tax-revenues-dont-rise-with-inflation-keenan.html>.

As the nature of work changes, elements of the new economy threaten to further exacerbate these challenges. For instance, the growth of the knowledge economy has shifted employment away from goods-producing sectors such as manufacturing, towards various service sectors such as finance and professional services that tend to operate in an office environment, which result in lower revenues (industrial property-tax rates in Peel are about 15 per cent higher than commercial property-tax rates). Further, as Toronto establishes itself as a hub for this new knowledge economy, there is a risk that Peel will lose some of its existing revenue from non-residential taxpayers as they move to the downtown Toronto core. Furthermore, other emerging office nodes in Vaughan Metropolitan Centre, Downtown Markham and Midtown Oakville, are likely to increase competitive pressure for Peel to attract tenants to its office market.⁷⁶ It has been observed that many knowledge workers enjoy an urban environment with the amenities that a city such as Toronto can offer, which may create a competitive disadvantage for Peel in this sector.

Indeed, Peel has experienced a consistently weak office market since the recession, resulting in high vacancy rates: 14 per cent in Mississauga and Brampton, relative to the GTA suburban average of 11.7 per cent and GTA overall rate of 7.9 per cent. This in turn places downward pressures on rents, which over time can hamper development interest in the area.⁷⁷ Furthermore, if automation of tasks and AI adoption in the workplace results in widespread disruption and job losses in traditional industries, they could result in overall insufficient job growth not currently captured in projections.

76 Cushman & Wakefield (2017) "Employment Strategy Discussion Paper." Prepared for the Region of Peel.

77 Ibid.

Transforming Work and Workplaces

The way in which municipal governments collect revenues, particularly for non-residential property taxes and development charges, is based on a set of assumptions around the physical space required for employment. However, as the nature of work changes and thus the physical space required for work transforms, these assumptions will be challenged. Below are a few such trends that threaten to erode the existing tax base.

SHIFT FROM GOODS PRODUCTION TO GOODS MOVEMENT

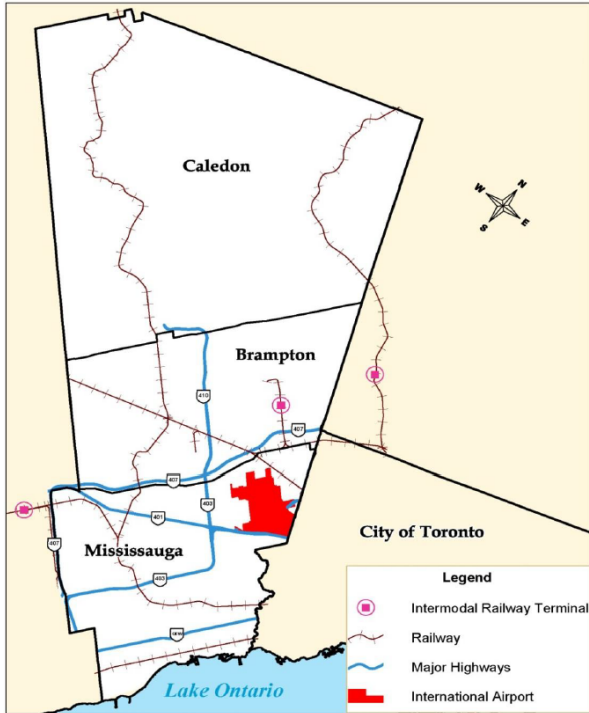
The shift from goods production to goods movement is already underway. Largely as a result of technology and globalization, Ontario's manufacturing sector has declined, while warehousing has continued to grow. Goods are produced elsewhere – i.e. in jurisdictions with lower labour costs, such as China and areas of Southeast Asia – but are shipped back to be stored locally and distributed. Given its critical location, Peel has certainly benefitted from this shift: approximately \$1.8 billion worth of commodities travel to, from and through Peel every day.⁷⁸ The Region is considered a key freight hub for national distribution, home to Canada's largest international airport, mainline tracks and facilities for two national railways and seven 400-series highways crossing through the Region.⁷⁹

78 Region of Peel (2017) "Peel Region Goods Movement Strategic Plan 2017-2021." <https://www.peelregion.ca/pw/transportation/goodsmovement/pdf/goods-movement-strategic-plan-2017-2021.pdf>.

79 Ibid.

FIGURE 22

Peel Region strategic transportation advantages



Source: Region of Peel

While this shift has provided economic opportunity in the Region, there are specific implications for revenue. While a warehouse might be the same size as a manufacturing facility or larger, its property class may change depending on its activities. For example, if a manufacturing facility is attached to a warehouse, it is still considered to be industrial. However, a warehouse on its own without goods production would be assessed as commercial, which is often charged a lower rate.

More importantly, the key distinction between a manufacturing facility and a warehouse is the number of employees working within it. Manufacturing, at least in the past, tended to be very labour intensive – sometimes with hundreds of employees at a given facility. A warehouse, on the other hand, might account for the same

amount of space but have significantly fewer people working in the building, thereby providing less jobs to the Region and its residents. Furthermore, manufacturing and warehousing facilities are highly susceptible to automation.

SHRINKING WORKSPACES

There is also an overall trend of shrinking workspaces. This is in part a natural outcome of the growing knowledge economy, as employment shifts away from goods production and into various service sectors. With the exception of goods-movement, service-related occupations tend to be located in commercial and office spaces that tend to be much smaller and generate less value per square foot than industrial spaces. For example, the average square footage per employee for an industrial space (e.g. manufacturing) is around 2000 square feet, whereas the average for office and retail spaces is around 400 square feet per employee – lower still for office space specifically.⁸⁰

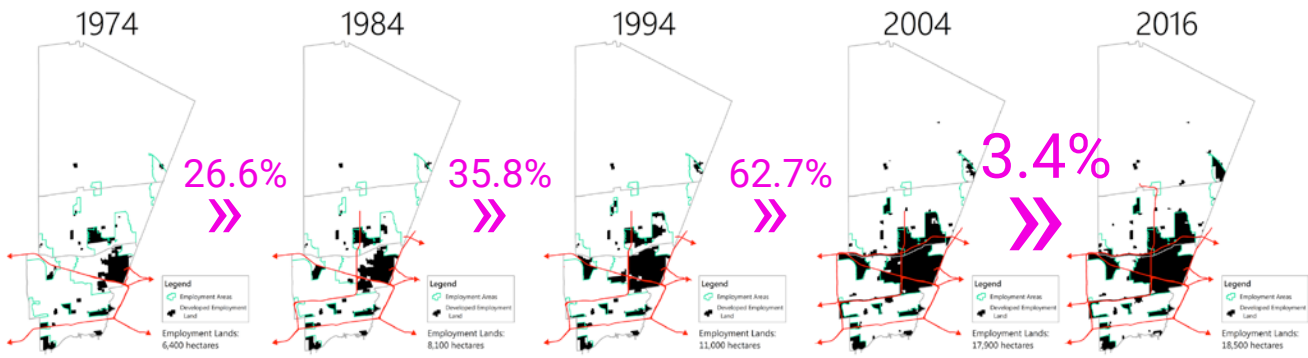
Furthermore, technology is having widespread impacts on the use of space – from reducing the space required for functions such as paper filing and storage, to better facilitating the option of “telecommuting” and shared desk space amongst coworkers.⁸¹ Indeed, many firms are incorporating “hot-desking” or “hotelling” into their offices – an approach which abandons assigned cubicles or offices and instead sees workers sit in a new place each day. These approaches are increasingly being adopted across many industries in both the public and private sectors. As the knowledge economy grows and technology continues to advance, the physical space required for workers may continue to shrink.

80 Cushman & Wakefield (2017) “Employment Strategy Discussion Paper.” Prepared for the Region of Peel.

81 Ibid.

FIGURE 23

Growth rate of employment land consumption in Peel



Source: Region of Peel.

The Region of Peel has experienced a decline in the growth rate of employment-land consumption over the years. Based on estimates, while employment land consumption increased from 6,400 hectares in 1974 to 8,100 hectares in 1984 to 11,000 hectares in 1994 and 17,900 hectares by 2004, this growth declined sharply between the 2004 to 2016 period. From 2004 to 2016, employment-land consumption increased from about 17,900 hectares to only 18,500 hectares or just 3.4 per cent.⁸²

While the value of assessment and tax revenue is not entirely determined by the size of the land area, but also by the size and value of the buildings on it, this reduced rate of growth has been concerning for the Region of Peel as it has traditionally relied on growth in employment land as the driver of growth in non-residential tax revenues. Non-residential property-tax rates are considerably higher than residential property-tax rates, and a declining non-residential base increases the burden on residential taxpayers. As of 2018, about 30 per cent of Peel’s property-tax revenue came from non-residential property, even

82 Region of Peel data.

though non-residential only accounted for about 19 per cent of the market value of all property.⁸³ In addition to the declining rate of growth of employment land consumption, the Region has also seen a reduction in the proportion of its tax revenue that comes from non-residential sources.

FIGURE 24

The tax rate on non-residential property is about 35% higher than on residential



Source: Created by Mowat based on Region of Peel data.

83 Mowat calculation based on Region of Peel data. Nominal differences in tax rates are greater than shown. The chart shows effective tax rates, taking into account lower rates on vacant property.

MOBILE WORKERS

Technology has enabled workers to be more flexible in where they physically conduct their work. This can include both workers who are tied to a particular employer on a more permanent basis but work partially or entirely from home, as well as freelancers who conduct work on a project or client basis – either working from home and/or using co-working spaces on a membership or rental basis.

Freelancing and self-employment have always existed as rather small components of the overall workforce but have grown considerably in many advanced nations, and this trend is estimated to accelerate. Self-employment was the fastest growing subset of Peel Region’s workforce between 2006 and 2016, although it is not clear whether this translates into a growing incidence of home-based employment or what is considered “no fixed place of work” (NFPOW). Home-based employment has certainly grown over time, although mostly alongside population growth as its proportion of overall employment has not shifted considerably. The same is true for those working in positions without a fixed place of work, although while NFPOW growth can capture freelancing and self-employment, it can also include occupations in sales or construction in which the location of work changes on a day-to-day basis.⁸⁴

While the impacts of mobile workers on the broader use of office space are not yet well-understood, this is an area that should be closely examined by municipal governments. If the incidence of home-based work or NFPOW continues on a large enough scale, this will reshape the way we currently envision the workplace in the knowledge economy. To the extent that workers become so mobile that

traditional office space is hardly necessary, this will exacerbate the stubborn vacancy rates that Peel Region is already experiencing. Over the long term, this could erode the commercial and office portion of non-residential property taxes.

ONLINE RETAIL

The retail sector is coming under significant pressure with the growth of online transactions. Online shopping has been growing over recent years as retailers increasingly provide options to make purchases online, and offer products that can be delivered directly to buyers’ homes for little to no cost. The growth of e-commerce is reducing the size of retail spaces that do exist, and the convenience of these options is beginning to lower the demand for traditional “bricks and mortar” retail outlets altogether. Furthermore, this landscape is ever-changing as large firms like Amazon encroach on multiple industries, and threaten profitability for small and local businesses.

This growth in e-commerce will continue to have positive impacts on the goods-movement sector – an important component of Peel’s economy – as new distribution models emerge and highway access gains importance. However, there will likely be a net loss in retail-related employment and reduction in properties used for commercial purposes. This may shrink the portion of property-tax revenue received from commercial properties, as well as reduce the demand for new commercial developments.

There are indications of this transition already occurring. Shopping malls offer an interesting example: consider that a shopping mall consists of multiple retail tenants that pay their share of the property taxes owed each year. When one of the stores closes, particularly a large department store (e.g. as was the case for Sears), the property tax owed remains the same as the initial assessment,

⁸⁴ Ibid.

but the burden is shared across a smaller number of tenants. As a result, the landlord may appeal the property assessment, making the case that the property is worth less overall and generating less revenue to pay the current rate. If these appeals result in a lower assessed value and therefore lower taxes owed, municipalities lose out on revenue.

Urbanization and Redevelopment

Peel Region is an urbanizing environment, with the exception of Caledon, which remains quite rural. Mississauga has been built out significantly – perhaps to its limits of greenfield opportunities – and Brampton is well on its way.

While there are many benefits to these areas reaching “urban” status, this does change the way in which development is perceived and generates revenue. In general, non-residential development charges are applied per square metre, which means large-scale greenfield development generates significantly more revenues than smaller developments. When jurisdictions are in their earlier stages of growth, there is more opportunity for this type of development – although these opportunities dwindle as a city fully urbanizes and reaches its natural limit of available greenfield spaces.

Mississauga, for example, might be nearing this threshold. While there is still opportunity to derive development charges from brownfield initiatives, there is less revenue to receive through redevelopment. This is despite the fact that new commercial redevelopments often require more infrastructure due to the intensification of work spaces, i.e. since the square footage per employee has declined, employers are able to fit more employees in the same space. Consequently, current development charges fail to capture the true cost of infrastructure.

Redevelopment can also result in loss of property taxes – particularly when old industrial spaces are converted into commercial and residential spaces. For example, areas in Toronto such as the Distillery District have had many buildings converted into boutique shops and loft apartments. These conversions tend to lose out on potential revenues, as industrial buildings, on average, generate more than twice as much as revenue as residential.

While commercial redevelopment generates slightly more than residential spaces, the conversion from industrial still results in a loss. This is beginning to happen in areas of Mississauga with the renewal of the old city core. While this type of redevelopment is good for vibrancy and liveability, it reduces overall available revenues and results in more residents in that area that increase municipal expenditures that were not considered in the initial development.

Growing Service Demands

Challenges such as an aging population, growing income gap amongst residents and threats due to climate change, will continue to increase demands for municipal services. A brief discussion of key areas under the Region of Peel’s jurisdiction that may face pressure is outlined below.

SOCIAL ASSISTANCE

Over the past several years, expenses for basic needs have increased drastically while real wages have remained stagnant, and municipalities have been spending more on social services. This trend is likely to continue due to an aging population and the changing nature of work, as residents may increasingly find it harder to get by on existing incomes, and widespread job losses are very possible. The rise of global digital platforms and the gig economy, and predictions of increased automation and artificial intelligence taking over

jobs, mean not only that there will be job losses, but also that many of the new jobs created will be lower in quality.

This means that social programs and services will face increased pressures as more people may rely on them. For example, higher incidence of poverty would presumably translate into more residents receiving social assistance (Ontario Works) and increased demand for affordable housing and subsidized childcare. Further, investments in skills upgrading programs will be required for workers to leverage the market for new jobs. To protect citizens and maintain an adequate standard of living, municipal governments could face spiralling cost pressures. In the absence of increased revenues, there is risk that there will be cuts to existing services that will further deteriorate the quality of life of citizens.

These trends also mean that there will be more pressure on the property-tax base. As the non-residential base in Peel is shrinking and there aren't enough new office developments, residential property owners will have to bear the burden unless the municipality successfully diversifies its revenue sources.

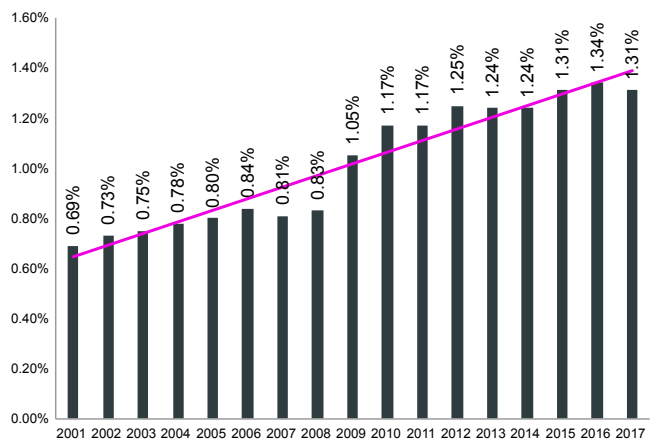
A recent report from the Peel-Halton Local Employment Planning Council attempted to estimate the total cost of unemployment and underemployment to governments. In Peel, their research calculated the annual costs per unemployed person to be \$21,504 for an individual with no income, \$26,909 for an individual receiving Employment Insurance, and \$29,531 for a person receiving social assistance.⁸⁵

85 Ben Earle (2018) "The Costs and Impacts of Unemployment and Underemployment in Peel and Halton." Peel Halton Workforce Development Group. <https://static1.squarespace.com/static/59d54ac1ccc5c5a938e27565/t/5bad48939140b7ab9f5707cf/1538082969141/The+Costs+of+Unemployment+and+Underemployment+-+LECP+FINAL%5B19018%5D.pdf>.

Providing various payments, benefits and assistance programs to address joblessness tends to be the responsibility of local and regional municipal governments. In Ontario, Ontario Works (OW) is the primary program that provides financial assistance to low-income individuals – alongside Ontario Disability Support Program (ODSP). While these are provincial programs, primarily funded by the provincial government, municipalities do share a portion of the administration cost and are responsible for delivering services to residents. The Region of Peel has seen an increase in the average monthly caseloads and the average caseloads to population ratio has also increased over the years, as shown in Figure 25. In 2017, an average of 18,678 households in Peel were supported each month through the OW program.⁸⁶

FIGURE 25

Average monthly caseloads to population ratio



Source: Created by Mowat based on Region of Peel data.

86 Data from the Region of Peel.

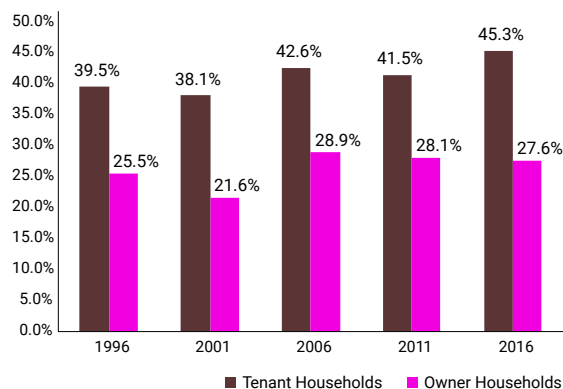
HOUSING

Peel’s regional government is responsible for providing housing and shelter services such as subsidies, shelter support and renovations for safety and accessibility. If the changing nature of work results in job losses, lower wages and increased incidence of poverty, the demand for such services may increase. This will be particularly true in the event that market housing and rental prices continue to rise rapidly in the GTHA, as housing affordability and affordable housing are closely interrelated.

In the Region of Peel, about 70 per cent of low-income households and 30 per cent of middle-income households live in housing that is unaffordable. The vacancy rate of just 1 per cent has driven up monthly rents. As a result, there were nearly 15,000 visits to regionally owned emergency homeless shelters in 2017.⁸⁷ In Peel, the proportion of residents spending more than 30 per cent of household income on shelter costs has grown for both tenants and homeowners (see Figure 26), although the increase has been much larger for renters.

FIGURE 26

Residents spending more than 30% of household income on shelter costs



Source: Created by Mowat based on Region of Peel data.

87 Region of Peel (2018) “Housing Support.” <https://www.peelregion.ca/strategicplan/community-for-life/housing-support.asp>.

TRANSIT

From 2017 to 2041, the Region of Peel is projected to see 19 per cent population growth and 21 per cent employment growth. This population growth will have an obvious impact on transportation demand in the Region – it is estimated that in 2041, Peel residents and employees will make 40 per cent more trips compared to 2011. Currently, Peel households make 63 per cent of their trips using single-occupant vehicles (SOV). If this trend continues, there will be 200,000 more cars on the road in 2041 – or a 45 per cent increase in SOV trips during the peak morning period. This means that it is vital to invest in long-term sustainable transportation, as well as walking and cycling infrastructure, to maintain quality of life, remain environmentally sustainable as well as improve economic competitiveness. By 2041, transit will have to carry more than double the number of passengers and about 11 per cent of the residents will have to walk or bike to work during peak periods. At the same time, it will be essential to fully embrace new approaches to working – such as teleworking – to reduce travel demand.⁸⁸

Additionally, transportation systems across the GTHA will have to become more connected to facilitate better mobility. Currently, one in five trips in Peel is either to or from Toronto.⁸⁹ While this number may decrease as local employment grows, connectivity is likely to be a key factor for businesses when deciding locations for new offices and to attract qualified workers from neighbouring municipalities. Therefore, transportation will have to be a focus area of investment to ensure the availability of livable, sustainable and connected communities.

88 IBI Group (2017) “Transportation Strategies to Support Employment Growth: Discussion Paper.” Prepared for the Region of Peel. pp. 5. <https://www.peelregion.ca/planning/officialplan/pdfs/transportation-strategies-appendix-II.pdf>.

89 Ibid.

AGING POPULATION

Another area where service demand is likely to increase considerably will be in meeting the needs of an aging population. The Region of Peel will see an increase in its senior population from 1 in 10 residents in 2011 to 1 in 4 residents by 2041.⁹⁰ Population aging has important implications on service demands (e.g. increasing pressures on the public healthcare system) as well as an overall shrinking of the labour force as baby boomers enter retirement. Twenty-four per cent of Canadians over the age of 65 live with three or more chronic conditions, accounting for 40 per cent of the healthcare utilization in this age group.

It is important to recognize that seniors (i.e. those over the age of 65) are not a homogenous group, and factors such as income level and presence of chronic conditions are key determinants of service demand. However, the proportion of 911 calls is higher amongst seniors over the age of 75. The proportion of seniors over the age of 75 will considerably increase – from 4.3 per cent in 2011 to 11.9 per cent in 2041. In the Region of Peel, the average age of residents in long-term care is 80, and the proportion of seniors in this age group is also projected to increase.⁹¹

In 2000, Ontario's municipal governments spent \$846,388,193 on assistance for seniors, and this number increased to \$1,433,109,628 in 2008 or about 40 per cent more in 8 years after accounting for inflation.⁹² The Region of Peel currently funds programs such as the Low-Income Seniors Dental

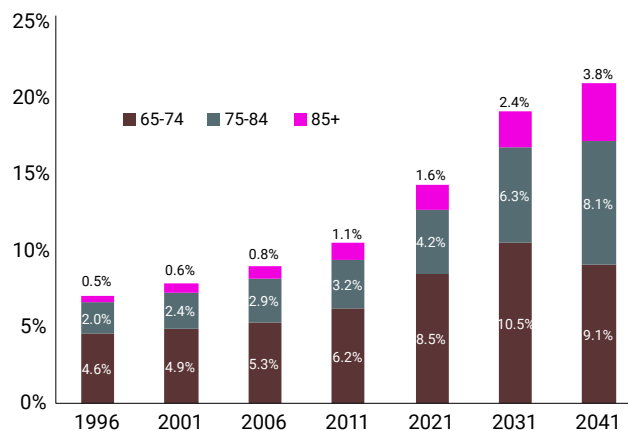
90 Region of Peel (2016) "Planning for an Aging Population – Peel 2041: Regional Official Plan Review." pp. 3. <https://www.peelregion.ca/planning/officialplan/pdfs/age-friendly-discussion-paper.pdf>.

91 Region of Peel (2014) "Recommendations from the Aging Population Term of Council Priority Steering Committee." In Council Agenda. <http://www.peelregion.ca/council/agendas/2014/2014-05-29-apsc-agenda.pdf>.

92 Association of Municipalities of Ontario (2011) "Coming of Age: The municipal role in caring for Ontario's seniors." pp. 17. https://www.amo.on.ca/AMO-PDFs/Reports/2011/2011_Coming_of_Age_the_Municipal_Role_in_Caring_fo.aspx.

FIGURE 27

Seniors by age sub-groups as a percentage of total population in Peel

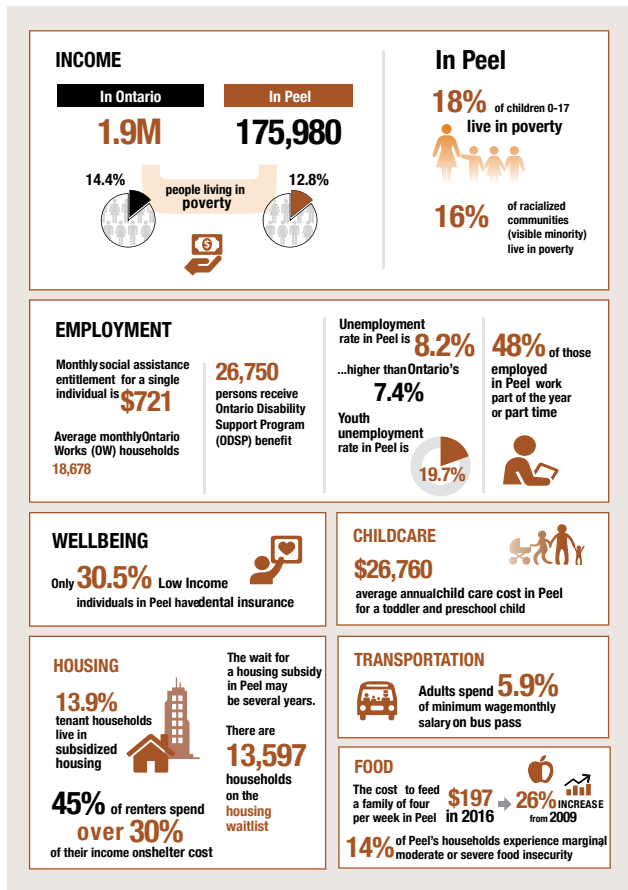


Source: Region of Peel (2014) "Recommendations from the Aging Population Term of Council Priority Steering Committee." In Council Agenda. <http://www.peelregion.ca/council/agendas/2014/2014-05-29-apsc-agenda.pdf>.

Program for low-income seniors without dental insurance. Since 2008, the program has served thousands of seniors, but many seniors continue to be on the waitlist. While the Regional Council tightened the eligibility criteria to reduce waitlists and serve those who are most in need, about 18 new seniors continue to be added to the waitlist each week suggesting that the annual budget of \$1.3 million is insufficient.⁹³ With the growth in the population of seniors, as well as the rise in precarious work, it can be anticipated that demand for such services will continue to increase.

93 Region of Peel (2014) "Recommendations from the Aging Population Term of Council Priority Steering Committee." In Council Agenda. <http://www.peelregion.ca/council/agendas/2014/2014-05-29-apsc-agenda.pdf>.

FIGURE 28



Source: Region of Peel "2018-2028 Peel Poverty Reduction Strategy: Community Action." pp. 9. http://www.povertyinpeel.ca/_include/Peel-Poverty-Reduction-Strategy-2018-2028.pdf.

With the growth in the population of seniors, as well as the rise in precarious work, it can be anticipated that demand for social services will continue to increase.

Climate Change and Intense Weather Events

The increased frequency of intense weather events, such as severe storms and heatwaves, and anticipated effects of climate change, are going to impact municipal finances as local governments will need to prepare for and respond to these changes. According to the Intergovernmental Panel on Climate Change's 2014 report, the average annual temperatures will increase significantly over the next two decades in North America. In particular, Northern and Eastern Canada are vulnerable. There will also be an increase in average annual precipitation, especially in winter, drier summers and higher number of days with extreme hot temperatures.⁹⁴ In 2018, more than 80 people died in Quebec due to extreme heat. According to a study, this trend is expected to get much worse – Canada could see five times more heat-related deaths from 2031 to 2080, compared to the 1984 to 2015 period.⁹⁵

Currently, flooding is the most expensive climate hazard faced by municipal governments as floods cause significant property damage, and these costs are only projected to increase further. In Canada, from 2003 to 2012, there were more than \$20 billion in losses that can be attributed to sewer backup and extreme rainfall in urban areas. The torrential rain experienced by Calgary in 2013 became Canada's most expensive natural disaster, resulting in economic losses of over \$6 billion. Toronto experienced record rainfall causing severe flooding in the same year, which severed

94 Daniel Henstra and Jason Thistlethwaite (2017) "Climate Change, Floods, and Municipal Risk Sharing in Canada." Institute on Municipal Finance and Governance. pp. 3. https://tspace.library.utoronto.ca/bitstream/1807/81204/1/imfgpaper30_henstra_thistlethwaite_Feb_23_2017.pdf.

95 Alexa Taylor (2018) "New research predicts heat waves in Canada could become more frequent – and five times more deadly." National Post, August 9, 2018. <https://nationalpost.com/news/canada/new-research-predicts-heat-waves-in-canada-could-become-more-frequent-and-five-times-more-deadly>.

power to about 300,000 residents and cost more than \$65 million to the municipal government.⁹⁶ It is projected that by 2020 the annual cost of such natural catastrophes will go up to \$5 billion, and over \$20 billion by 2050.⁹⁷

It is also important to note that payments under the federal government's Disaster Financial Assistance Arrangements (DFAA) increased significantly from an average of \$118 million annually from 1996-2011 to \$280 million annually from 2012-2015. This significantly surpassed the program's annual budget of \$100-million. It is projected that over the next five years, DFAA payments will reach more than \$650 million annually. To overcome this financial pressure, the Government of Canada modified its expense thresholds in 2015 – from \$2 per capita to \$6 per capita, reducing its future contributions. This means that municipalities will be forced to devote even more financial resources to disaster relief in the coming years.⁹⁸

The Federation of Canadian Municipalities (FCM) has estimated that the annual cost of extreme weather events in Canada would be \$5 billion by 2020.⁹⁹ This means that municipalities, including the Region of Peel, would have to make significant investments to build climate resilient communities by taking meaningful steps to reduce their carbon footprint as well as invest in climate change mitigation and adaptation.

96 Daniel Henstra and Jason Thistlethwaite (2017) "Climate Change, Floods, and Municipal Risk Sharing in Canada." Institute on Municipal Finance and Governance. pp. 4-5. https://tspace.library.utoronto.ca/bitstream/1807/81204/1/imfgpaper30_henstra_thistlethwaite_Feb_23_2017.pdf.

97 CUPE (2018) "Public infrastructure builds a sustainable, equitable future." <https://cupe.ca/public-infrastructure-builds-sustainable-equitable-future>.

98 Daniel Henstra and Jason Thistlethwaite (2017) "Climate Change, Floods, and Municipal Risk Sharing in Canada." Institute on Municipal Finance and Governance. pp. 5-6. https://tspace.library.utoronto.ca/bitstream/1807/81204/1/imfgpaper30_henstra_thistlethwaite_Feb_23_2017.pdf.

99 Federation of Canadian Municipalities (2017) "Seizing the Moment: Budget 2017 Recommendations from Canada's Local Order of Government." pp. 8. https://fcm.ca/Documents/issues/2017_FCM_Budget-SeizingTheMoment_EN.pdf.

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5 PLAUSIBLE SCENARIOS

Governments across the world are feeling challenged to effectively predict and plan for the future in the face of rapid changes to the economy, including the changing nature of work and its impact on people and places. Given this reality, it is vital for policymakers to take a future-oriented approach to the decision-making process and prepare for multiple possibilities in the face of uncertainty.

Strategic planning should not only include an analysis of historical trends and data, but also creative strategies that go beyond it. This section employs scenario planning to systematically anticipate various possibilities for the future and determine how policymakers can influence various outcomes. The three scenarios – business-as-usual, worst case and best case – presented below were developed based on the economic model¹⁰⁰ created for the Region of Peel that utilizes historical data for the Region. Additionally, qualitative insights from this study, based on a comprehensive literature review and stakeholder engagement, were also employed to envision these scenarios.

100 The Mowat Centre developed an economic model for the Region of Peel utilizing historical data from the region. Based on historical trends, the model allows the user to predict how various items, such as the affordability of property taxes for households, may vary based on key assumptions for different variables. While this model will serve as a useful tool to assist policymakers with their strategic planning activities, it must be noted that the actual outcomes cannot be predicted with certainty.

Principles for Strategic Foresight

When policymakers are analyzing trends, developing future scenarios and preparing for new or uncertain challenges, they should keep some key strategic foresight principles at the core to help them increase the relevance and value of their planning activities.¹⁰¹ These principles include:

Agility

A key reality facing decision-makers is that the future cannot be predicted with complete certainty. While policymakers should use existing evidence and projections to support their planning, they must also acknowledge that they will be faced with unanticipated challenges.¹⁰² Hence, policies and programs should be created in a manner that utilizes existing evidence and projections, while being agile enough to adapt to emerging realities.

Multiplicity

Another important fact that should be kept in mind when planning for the long term is that there are multiple possibilities for the future. Therefore, policymakers should prepare for and think about multiple futures when designing policies and programs. Futurists have suggested planning for four different but interrelated types of futures. These include the possible, plausible, probable and preferable futures.¹⁰³

Proactivity

Current action or inaction are both going to influence the future.¹⁰⁴ Hence, it is vital to take proactive steps to work towards the desired future. One of the approaches to this is backcasting, i.e. creating a vision for the preferred future and working backwards to determine the pathway to achieving it.¹⁰⁵ This technique allows policymakers to focus on the future as a process rather than a destination, and create proactive policies in the present that are geared towards achieving desired outcomes. This also allows policymakers to acknowledge their agency in influencing the future in a positive direction.¹⁰⁶

Long-term Sustainability

Decisions should not just be geared towards short-term or medium-term goals. Rather, visionary policymaking involves thinking about the impact of policies on future generations and taking responsible actions in the present.¹⁰⁷ Thinking about the long-term future in addition to the short term and medium-term ensures that decision-makers keep environmental sustainability and intergenerational equity at the heart of policies.

Engagement and Inclusion

To avoid narrow visions of the future, it is essential for policymakers to engage with diverse stakeholders that represent a range of perspectives and interests. Inclusion and participation of diverse groups, particularly marginalized voices, is also essential to understand and address the various needs, aspirations and concerns for the future of different groups. Further, engagement is vital to increase buy-in for policies and programs.¹⁰⁸

Intergovernmental Collaboration

To create effective and feasible policies, it is vital that governments at all levels collaborate to achieve mutual goals that ensure the wellbeing of the people. Operating in silos will create the risk of developing plans that are not well-aligned and therefore inefficient. Working collaboratively is essential to ensuring that plans across the board are compatible, and in line with the overall targets for sustainability, shared prosperity and equity.

101 Adopted from research conducted by Mowat for the OECD. See: Sunil Johal, Jordann Thirgood and Kiran Alwani (2018) "Analysing megatrends to better shape the future of tourism." OECD. <https://mowatcentre.ca/analysing-megatrends-to-better-shape-the-future-of-tourism/>.

102 UNDP (2018) "Foresight Manual: Empowered Futures for the 2030 Agenda." pp. 8. http://www.undp.org/content/dam/undp/library/capacity-development/English/Singapore%20Centre/UNDP_ForesightManual_2018.pdf.

103 David N. Bengston (2018) "Principles for Thinking about the Future and Foresight Education." World Futures Review. 10(3): 193-202. <https://doi.org/10.1177/1946756718777252>.

104 Maree Conway (2014) "Foresight: an introduction." Thinking Futures. pp. 5. <http://choo.ischool.utoronto.ca/fis/courses/inf1005/foresight.intro.conway.pdf>.

105 Angela Wilkinson (2017) "Strategic Foresight Primer." European Political Strategy Centre. pp. 13. https://ec.europa.eu/epsc/sites/epsc/files/epsc_-_strategic_foresight_primer.pdf.

106 David N. Bengston (2018) "Principles for Thinking about the Future and Foresight Education." World Futures Review. 10(3): 193-202. <https://doi.org/10.1177/1946756718777252>.

107 Maree Conway (2014) "Foresight: an introduction." Thinking Futures. pp. 5. <http://choo.ischool.utoronto.ca/fis/courses/inf1005/foresight.intro.conway.pdf>.

108 UNDP (2018) "Foresight Manual: Empowered Futures for the 2030 Agenda." pp. 14-15. http://www.undp.org/content/dam/undp/library/capacity-development/English/Singapore%20Centre/UNDP_ForesightManual_2018.pdf.

Scenario 1: Status Quo or Business-As-Usual

Policy variables	Assumptions
Population growth difference relative to Ontario	Historically, Peel's population growth was considerably higher than the provincial average – by 1.5 to 2 per cent. However, this has slowed to about 0.2 per cent higher than the Ontario average over the past few years. The business-as-usual scenario assumes that this trend will continue, i.e. Peel's population will grow at a slower pace (about 0.2 per cent higher than the province growth rate).
Real wage growth rate	This scenario assumes that real wage will continue to grow at the current level – by 0.45 per cent annually.
Employment as a percentage of total population	The historical trend for Peel has been flat, and this scenario assumes that there will be no change.
Upper tier annual per cent change in real per capita government expenditure (deflated by consumer expenditure deflator)	This scenario assumes that the real per capita spending for the upper tier will increase at current levels – 1.2 per cent per year, the actual average from 2009 to 2017.
Lower tier annual percentage change in real per capita government expenditure (deflated by consumer expenditure deflator)	This scenario assumes that the real per capita government expenditure for the lower tier will rise at the current levels. The actual average during the 2009 to 2017 period was 1.4 per cent per year.
Elasticity of non-residential tax revenue to employment	This reflects the per cent change in tax revenue from businesses as a ratio of the percentage increase in employment. Historically, this has been about 0.86, reflecting the shift in employment away from higher-value industrial uses. This scenario assumes that it will remain the same.
Upper tier annual percentage change in real per capita fee revenue	The historical growth rate of revenues from user and license fees for the upper tier has been 1.6 per cent per year. This scenario assumes that this growth rate will be maintained.
Lower tier annual percentage change in real per capita fee revenue	The historical growth rate of revenues from user and license fees for the lower tier has been 1.2 per cent per year. This scenario assumes that growth will stay at this level.

Based on the assumptions made, we see that maintaining the status quo would lead to a modest increase in the burden on residential property taxpayers over the coming years (see Figure 29). The upper tier's residential property tax represents an average of 1.65 per cent of the total household income of residents as of 2018, and this would increase to about 2 per cent by 2040. Taking into account the lower tier as well, the total residential property tax paid by households, which currently makes up an average of 4 per cent of total household incomes, would rise to about 5 per cent by 2040.

A figure such as 5 per cent may not sound terribly high as an absolute number, but it might feel that way to overburdened households. It would mean that the share of the household budget taken by property tax rises by one-quarter. It must be remembered that we are talking about just one item, municipal property tax, taking a sizeable chunk of all the income that people need for all the very many things that they must buy to maintain their standard of living.

FIGURE 29

Property tax burden on households



This scenario analysis suggests that maintaining the status quo in terms of spending growth and revenue sources is likely to be unsustainable and politically unfeasible. If expenditures continue to grow substantially faster than the real income growth of households, Peel residents will feel increasingly burdened by property taxes. To reduce the pressure on ratepayers, Peel would have to decrease the rate of growth in spending. That would require some rebalancing, and could result in cuts to some public services. This might be prevented if the Region can find economic gains through new investments and well-paying jobs that increase incomes for workers. By contrast, if the current labour market trends continue, the Region can expect to see a rise in precarious work and income inequality. Moreover, the poverty rate in the Region would remain stubborn in the absence of suitable policy interventions.

In a business-as-usual scenario, Peel can expect to see mixed sectoral changes. While the manufacturing sector will continue to contract, goods movement and particularly warehousing and logistics will continue to gain importance as a strong economic driver in the Region’s economy.

Online retail will continue to negatively impact big-box stores, boutique shops and small businesses, and shrink their customer base to some degree. However, the growth in online retail would moderately benefit Peel’s logistics industry.

We have seen that office sizes have been shrinking, leading to a reduction in the average number of square feet per employee. This has impacted non-residential property-tax revenues for municipalities. In a business-as-usual scenario, this will continue to decline and then plateau at a significantly lower level than today. While more workers will have flexible work arrangements with their employers, it would not change the way MPAC assesses commercial properties or the way the Region taxes commercial space. Automation and digital outsourcing will increase at a moderate level, but this would not lead to large-scale unemployment or reduction in the non-residential tax base.

Based on projections, we know that the proportion of seniors (aged 65 and above) in Peel’s population, as in the rest of Canada, will continue to increase. Therefore, it can be anticipated that the demand for social and public health services would rise. While this scenario assumes that employment as a percentage of total population will remain constant, there are various possibilities for how the aging population will impact Peel’s workforce. On one hand, the higher number of seniors may lead to a shortage of workers in the Region. On the other hand, there may not be a shortfall due to technological advancements such as automation, or due to increased immigration. Another possibility could be an increase in the working age of the population as seniors may continue to work beyond the age of 65, particularly as they enjoy better health due to medical advancements.

The impacts of climate change will continue to exacerbate in the face of the status quo – it is predicted that the frequency of extreme weather events will increase and cause significant damage to infrastructure. If strategies and initiatives to combat this remain small-scale and piecemeal from various levels of government, municipalities will face unanticipated high costs for disaster relief, including for infrastructure repairs and public health costs.

Scenario 2: Worst Case

Policy variables	Assumptions
Population growth difference relative to Ontario	<p>This scenario assumes that the population growth in Peel will slow down. While historically Peel's population growth has been considerably higher than the provincial average (by 1.5 to 2 per cent), during the latest 5 year census period, it has become quite similar to Ontario – being just 0.2 per cent above the provincial average. Under this scenario, we assume that it will become equal to the provincial average.</p> <p>It is important to note here that population growth does not have a direct impact on fiscal health. Higher population growth can potentially lead to higher income and revenue growth, but it can also lead to a higher demand for services. Therefore, depending on other factors, it can either improve or worsen Peel's fiscal situation. In the worst case scenario, we assume that slower population growth will have a negative impact on Peel's fiscal health.</p>
Real wage growth rate	<p>The actual average for 2002 to 2017 was an annual increase by 0.45 per cent. This scenario assumes that due to the changing nature of work, such as the rise in precarious jobs, real wage will decline significantly. For the purpose of this scenario, we assume that it will decline by 0.45 per cent each year.</p>
Employment as a percentage of total population	<p>Currently, about 58 per cent of Peel's population is employed. Historically, this figure has remained flat for Peel. In this worst-case scenario, we assume that economic changes such as increased automation will lead to large-scale job losses. Further, demographic changes, such as an aging population, will significantly reduce the size of the employed population. Therefore, the percentage of the population employed will decrease by 0.2 per cent each year.</p>
Upper tier annual per cent change in real per capita government expenditure (deflated by consumer expenditure deflator)	<p>This worst-case scenario assumes that the real per capita spending for the upper tier will increase at a higher pace (20 per cent above current levels at 1.44 per cent) due to factors such as increased demand for health and social services. The actual average for 2009 to 2017 was 1.2 per cent per year.</p>
Lower tier annual percentage change in real per capita government expenditure (deflated by consumer expenditure deflator)	<p>This pessimistic scenario assumes that real per capita government expenditure will rise at a higher pace for the lower tier as well – 20 per cent above current levels at 1.68 per cent annually. The actual average during the 2009 to 2017 period was 1.4 per cent per year.</p>
Elasticity of non-residential tax revenue to employment	<p>This reflects the per cent change in tax revenue from businesses as a ratio of the percentage increase in employment. Historically, it has been slightly less than one (about 0.86), reflecting the shift in employment away from higher value industrial uses.</p> <p>The worst-case scenario assumes that the elasticity will decline further due to factors such as telecommuting. We assume this number to be half of the current elasticity (0.43), indicating a decline in commercial-tax revenues.</p>
Upper tier annual percentage change in real per capita fee revenue	<p>The historical growth rate of revenues from user and license fees for the upper tier has been 1.6 per cent per year. In the worst-case scenario, we assume that no new user fees are instituted and that the real per capita revenue growth rate stagnates to zero, thereby increasing reliance on property taxes.</p>
Lower tier annual percentage change in real per capita fee revenue	<p>The historical growth rate of revenues from user and license fees for the lower tier has been 1.2 per cent per year. In the worst-case scenario, we assume that no new user fees are instituted and that revenue growth rate stagnates to zero – ultimately increasing reliance on property taxes.</p>

Based on the assumptions made in this scenario, we see that the residential property-tax burden increases significantly (see Figure 30). The combination of lower employment and declining real wage growth rates reduces the capacity of households to pay taxes. At the same time, the municipal government is forced to ask for even more from households as commercial-tax revenues decrease, while expenditures continue to rise.

Since higher wage growth implies rising household incomes, a decline means that the property tax will become more unaffordable. While in 2018, the upper-tier residential property tax forms an average of 1.65 per cent of the total household income for residents, this increases to 3.5 per cent by 2040. Overall, while the total residential property tax paid by households currently makes up an average of 4 per cent of their total household incomes, this would more than double to 8.05 per cent in 2040.

The worst-case scenario indicates that if economic changes, such as labour market and digital disruption, occur at a rapid pace, the Region will struggle severely to maintain its fiscal health. Over the past several years, wage growth

for residents has not kept pace with expenditure growth, already resulting in a somewhat increased burden on taxpayers. If the overall employment growth decreases and wage growth declines even further, Peel residents will see their quality of life deteriorate. Property taxes paid as a portion of total household disposable incomes could increase dramatically – making them even more unaffordable.

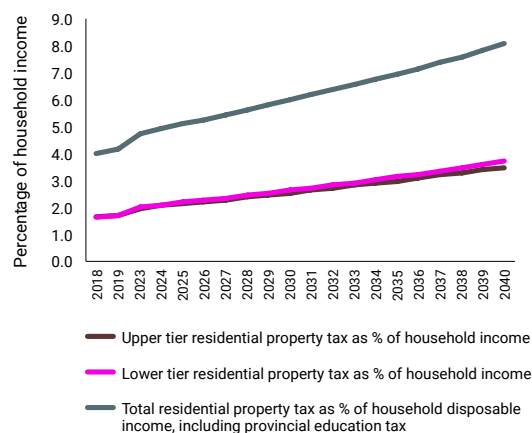
Peel, and other municipalities, will struggle to cope with the changing economy and digital transformation in this scenario. Automation will potentially take over human labour in both goods production (e.g. manufacturing) and goods movement (e.g. logistics) – two industries that Peel is largely reliant on. Workplaces will continue to shrink as efficiencies reduce the physical space required for jobs, particularly commercial office space.

The growth of the gig economy (flexible work and freelancing) would intensify the downward trend of office space demand in the Region. If work becomes so fissured that the use of digital labour platforms becomes widespread, certain tasks and job functions may be outsourced to low-cost countries altogether. All this will reduce the non-residential property-tax base.

In addition to dramatic increases in unemployment, many in the workforce will be underemployed or engaged in precarious work. This precarity is likely to increase residents' reliance on social services, as well as negatively impact their mental and physical wellbeing. Many residents who experience job losses due to automation are likely to be faced with a labour market in which their skills profile is no longer relevant. In a pessimistic scenario, local job training initiatives will not be prepared for the new economy. One reason for this is that labour market policies and programs remain severely underfunded across Canada.

FIGURE 30

Property tax burden on households



In the worst-case scenario, there is little to no political will to take meaningful action to address climate change. Governments at all levels fail to act urgently to put in place adequate mitigation and adaptation measures. As a result, municipalities across Canada, including Peel, would be unable to cope with strains to infrastructure and increased demand for services created by frequent extreme weather events.

If work becomes so fissured that the use of digital labour platforms becomes widespread, certain tasks and job functions may be outsourced to low-cost countries altogether. All this will reduce the non-residential property-tax base.

One of the main drivers behind this worst-case scenario is likely to be that governments across different levels fail to work together to achieve mutual goals and support one another. Municipalities, due to their limited authority and restricted revenue sources, continue to struggle to maintain their fiscal health. This would either result in an increased property-tax burden on residents or cuts to essential public services. In this dystopian scenario, Peel fails to diversify its revenue sources, or increase revenues through new or improved user fees. Further, policymakers struggle to find ways to ensure that efficiency gains from technology result in shared prosperity. Therefore, societal inequality reaches new levels.

In this negative scenario, policymakers fail to take a long-term approach. Rather, they remain focused on reacting and responding to rapid changes in the economy. The Region fails to capitalize on opportunities to drive prosperity and does not make sufficient long-term investments in transit or critical infrastructure. This austerity further contributes to the lack of business investment and an inability to attract residents. At the same time, expenses for public health and social services soar.

Scenario 3: Best Case

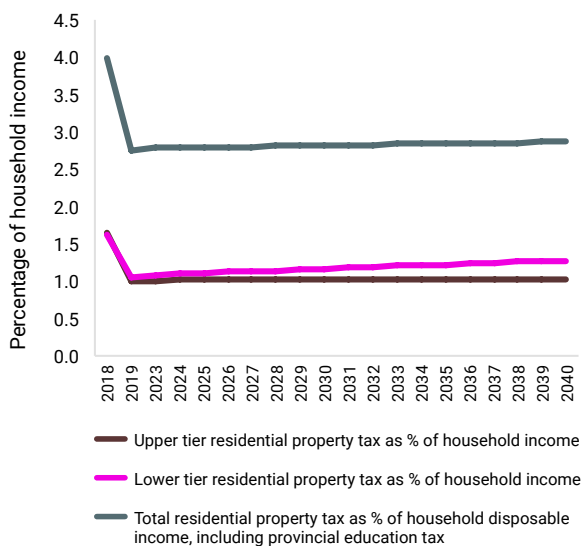
Policy variables	Assumptions
Population growth difference relative to Ontario	<p>Historically, Peel's population growth has been considerably higher than the provincial average, by 1.5 to 2 per cent. However, this has slowed to about 0.2 per cent higher than the Ontario average over the past few years. The best case scenario assumes that it will rise again to 1.5 per cent above the provincial average.</p> <p>It is important to note here that population growth does not have a direct impact on fiscal health. Higher population growth can potentially lead to higher income and revenue growth, but it can also lead to a higher demand for services. Therefore, depending on other factors, it can either improve or worsen Peel's fiscal situation. In the best case scenario, we assume that higher population growth will have a positive impact on Peel's fiscal health.</p>
Real wage growth rate	This scenario assumes that real wage growth rate will double to 0.9 per cent, thereby increasing residents' standard of living and affordability of taxes. The actual average for 2002 to 2017 was an annual increase of 0.45 per cent.
Employment as a percentage of total population	Currently, about 58 per cent of Peel's population is employed. In the best case scenario, we assume that employment opportunities in Peel will increase, causing the percentage of population employed to increase by 0.2 per cent each year. Historically, this figure has remained flat for Peel.
Upper tier annual percentage change in real per capita government expenditure (deflated by consumer expenditure deflator)	Decline in expenditures can signify either increased efficiency or austerity and cuts to essential public services. Similarly, growth in expenditure can denote reduced efficiency, or it may mean more investments with long-term benefits and improved public services. This best case scenario therefore takes a neutral approach, assuming that the annual growth rate of real per capita government expenditure will stay at the current level (1.2 per cent per year) for the upper tier.
Lower tier annual percentage change in real per capita government expenditure (deflated by consumer expenditure deflator)	This best case scenario assumes that the real per capita government spending for the lower tier will rise at the current levels. The actual growth rate during the 2009 to 2017 period was 1.4 per cent per year.
Elasticity of non-residential tax revenue to employment	This reflects the per cent change in tax revenue from businesses as a ratio of the percentage increase in employment. Historically, it has been slightly less than one (about 0.86), reflecting the shift in employment away from higher value industrial uses. This best case scenario assumes that the elasticity will increase – i.e. as employment increases, tax revenues from businesses will increase – by a higher amount (0.9) than the current level (0.86).
Peel personal income tax, percentage rate on income	The best case scenario assumes that Peel will diversify its revenue sources, and reduce reliance on property tax as the primary revenue source. In this scenario, we assess the impact of a potential 1 per cent municipal income tax on household personal income.
Upper tier annual percentage change in real per capita fee revenue	The historical growth rate of revenues from user and license fees for the upper tier has been 1.6 per cent per year. In the best case scenario, we assume that this increases by 20 per cent to 1.92 per cent per year, thereby decreasing reliance on property taxes.
Lower tier annual percentage change in real per capita fee revenue	The historical growth rate of revenues from user and license fees for the lower tier has been 1.2 per cent per year. In the best case scenario, we assume that this increases by 20 per cent to 1.44 per cent per year, thereby decreasing reliance on property taxes.

Based on the assumptions made above, we see that the property tax as a proportion of total household income declines (see Figure 31). A key assumption made in the best case scenario is that the municipality will be able to successfully diversify its revenue sources – in this scenario, a 1 per cent municipal income-tax rate acts as a potentially rich source of revenue, replacing a large portion of the residential property tax that Peel collects. This scenario also optimistically assumes an increase in the real wage growth rate, implying that the affordability of taxes will increase for residents. Based on the assumptions made in this scenario, while the total residential property tax currently makes up an average of 4 per cent of total household incomes, it decreases significantly to less than 3 per cent in 2040.

The changing nature of work means that all municipalities will have to go through an adjustment period. In the best case scenario, Peel is able to thrive amidst the digital revolution and labour market disruption. While there is likely to be a transition period coupled with some precarity and job churn, the Region would be able to cope

FIGURE 31

Property tax burden on households



with it by assisting its population to transition to and leverage the new economy through re-skilling and local job training initiatives. Further, in the best case scenario, the Region would be able to tap into the digital economy for revenue to maintain its fiscal health and the wellbeing of residents.

It is important to note that Peel cannot achieve these positive outcomes in isolation. It will largely be dependent on successful collaboration with and support from other levels of government. Such support can be through increased transfers from other levels of government for labour market and other social initiatives, uploading of some responsibilities that had been downloaded on municipalities over the years, or increased jurisdiction for municipal governments to diversify their revenue sources.

To avoid a race to the bottom, an optimistic scenario also means that Peel and other municipalities in the GTHA will work together to plan for economic development to promote shared prosperity. This is vital to curb jurisdiction shopping by businesses, as well as to create connected communities with access to world-class amenities such as reliable transit and entertainment facilities. Collaboration amongst GTHA municipalities is also key to ensuring that jobs in the new economy are not precarious. Such collaboration would also allow GTHA municipalities to attract new talent by enhancing the Region's reputation as an attractive place to live and work.

In the best case scenario, policymakers also work successfully with the private sector to drive responsible corporate behaviour. This leads to the creation and implementation of decent work standards. Due to the creation of good jobs and lack of precarity in the workforce, residents enjoy good fiscal and mental health, leading to increased productivity and job satisfaction. Good incomes

also mean that the affordability of property taxes increases. Reduction in precarious work also leads to reduced burden on taxpayers, as reliance on social services, such as Ontario Works, decreases.

Even in the best case scenario, a potential area of increased spending for municipalities would still be on coping with the increasing number of intense weather events. Under the best case scenario, governments at all levels take proactive steps to address climate change. This political will to take meaningful climate action results in long-term investments to develop and implement adaptation and mitigation strategies. Municipalities in particular, including Peel, demonstrate resilience due to investments in livable cities and improved urban planning. Initiatives that would be taken in an optimistic scenario include zero-waste promotion, densification, investments in adequate transit and cycling infrastructure to reduce transportation emissions, expansion of renewable energy projects, building retrofits and other climate-smart initiatives.

While this scenario uses a 1 per cent municipal income tax as an example, there are various possibilities for revenue tools that may be implemented, many of which would require provincial approval. These include a municipal sales tax, new user fees, progressive property taxes, new tax classes or creative ways to benefit from the digital economy.¹⁰⁹ Revenue diversification would be critical to decrease Peel’s reliance on property taxes, particularly in light of a reduced non-residential tax base that results from shrinking workplaces and increasing digital activity. In the best case scenario, while flexible work arrangements such as telecommuting become more common, they do not negatively impact revenues. At the same time, efficiency gains are made due to technological advancements and by cutting unnecessary red tape.


FIGURE 32

Comparative tax burden on households with and without Peel income tax

	2020	2025	2030	2035	2040
Best Case Scenario: Increase in personal income tax, \$ for average household (1 per cent municipal income tax)	1,217	1,284	1,355	1,431	1,511
Best Case Scenario: Residential property tax paid, \$ for average household (with income tax)	2,771	2,962	3,159	3,363	3,577
Business-As-Usual Scenario: Residential property tax paid, \$ for average household (without income tax)	4,050	4,361	4,690	5,038	5,406
Worst Case Scenario: Residential property tax paid, \$ for average household (without income tax)	4,170	4,776	5,420	6,107	6,845

Note: the numbers in the chart are based on the assumptions described for each scenario.

109 See: Sunil Johal et al. (2018) “Robots, Revenues & Responses: Ontario and the Future of Work.” Mowat Centre. <https://mowatcentre.ca/robots-revenues-responses/>.



Despite the
changing
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and increasing
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6 POLICY OPTIONS

Municipalities across Canada are dealing with increasing fiscal pressures as a result of the changing nature of work, rising income inequality, growing service demands, deteriorating infrastructure and shifting demographics. Despite these changing circumstances and increasing responsibilities, the revenue sources available to municipalities have largely remained unchanged. This largely limits the ability of municipalities to implement innovative projects and effectively deal with novel 21st century challenges, such as the changing nature of work.

The following section discusses a number of policy responses that municipalities can look into to meet their revenue needs today and maintain fiscal health in the future. These include working around the margins by making improvements to currently available tools, advocating for the introduction of new revenue tools, developing innovative approaches to municipal service delivery, as well as rethinking economic development and integrated planning.

Working at the Margins

Changes to the Property Tax

Municipalities in Ontario continue to rely heavily on the property tax – a tool that is considerably exposed to the changing nature of the economy and labour market. The changing nature of work has already posed challenges: for instance, the non-residential property-tax base has declined and will likely continue to shrink over the coming years – shifting the burden on homeowners through the residential tax base at a time when work quality and wages may be deteriorating.

As property taxes are fairly inelastic, at a minimum, they should be maintained at the level of inflation, if not increased. As discussed however, property taxes are incredibly unpopular politically and as such, rate increases – particularly above the rate of inflation – are difficult to implement. In the event that overall rate increases are not feasible, many have suggested other ways of modernizing the property tax to meet the changing needs of municipal governments. Modernizing property tax is also important as it is argued that low property taxes encourage people to hold residential real estate as an investment, as the low carrying cost makes it more attractive compared to other types of investments.¹¹⁰

110 Alex Hemingway (2018) "Policy Note: Low property taxes help fuel housing crisis." Canadian Centre for Policy Alternatives, BC. <http://www.policynote.ca/housing-crisis-fuel/>.

It is important to note that the gap between home prices and incomes has increased significantly over the past four decades. While home prices have more than doubled after adjusting for inflation, real incomes for young Canadians have declined. A 25 to 34 year old worker in Canada with median full-time earnings now has to work for 13 years to save for a 20 per cent down payment for an average home. This is eight more years compared to the 1976 to 1980 period. This gap is even higher in Ontario, where 16 years of work is required.¹¹¹ These facts point towards the need to reform income and housing policies, as well as property taxes, to reap gains from increased housing wealth.

Some ideas to reform property taxes include:

» **Progressive Property Tax:**

A progressive property tax would be one in which the tax rate increases as the value of the property goes up – much like the way in which income is taxed in Canada. Currently, property taxes are flat – meaning that while rates differ depending on the property-tax class (e.g. residential vs. commercial), the same rate applies to all properties within that class.

Progressive property tax is a promising proposal to increase municipal revenues and obtain benefits from the increased housing wealth created by soaring property values over the past several years. However, a key challenge with reforming property tax is that it is a highly visible tax, and is therefore quite unpopular. This makes reforming property taxes politically challenging in general.¹¹²

111 Paul Kershaw (2018) "A Tax Shift that Benefits the Vast Majority: the case for more annual (deferrable) taxation of housing wealth to rebalance the mix of revenue generation tools used by Canadian government." Generation Squeeze Lab. pp. 6. https://www.citynews1130.com/wp-content/blogs.dir/sites/9/2018/05/16/Tax_Shift_2018-05-15_website.pdf.

112 Institute on Municipal Finance and Governance (2017) "Investigating Residential Property Tax and Inflation." <https://munkschool.utoronto.ca/imfg/research/data-visualizations/property-tax/>.

To ensure that a progressive property tax does not disadvantage those who are house rich but income poor, such as seniors on fixed incomes, it has been suggested that they should be deferrable by low-income earners until the sale of the home. Certain deferral programs are already in place in some Canadian jurisdictions. Such a system would capture additional property value generated over the years without creating burden for low-income homeowners. A deferrable tax would also address the intergenerational golden rule, i.e. help pay for increased public expenditures in the midst of demographic changes, such as an aging population, without burdening the younger generation that earns lower incomes compared to historical levels, and faces higher housing costs.¹¹³

In Canada, the 2018 British Columbia Budget has proposed a progressive property-tax rate. This has been regarded as a positive development because real estate wealth cannot be hidden, and as a result property taxes provide a stable revenue base, and progressive rates would lead to increased revenues. To overcome the issue of increased tax burden on low-income homeowners, seniors in BC can defer the payment of the tax until the home is sold, while still realizing massive capital gains on their properties.¹¹⁴

113 Paul Kershaw (2018) "A Tax Shift that Benefits the Vast Majority: the case for more annual (deferrable) taxation of housing wealth to rebalance the mix of revenue generation tools used by Canadian government." Generation Squeeze Lab. pp. 8-9. https://www.citynews1130.com/wp-content/blogs.dir/sites/9/2018/05/16/Tax_Shift_2018-05-15_website.pdf.

114 Marc Lee (2018) "Policy Note: Everything you wanted to know about the housing taxes and expenditures in BC Budget 2018." Canadian Centre for Policy Alternatives, BC. <https://www.policynote.ca/everything-you-wanted-to-know-about-the-housing-taxes-and-expenditures-in-bc-budget-2018/>.

Opponents of progressive property taxes argue that progressive property taxes can create negative competition between municipalities if some municipalities choose to implement a progressive property tax while others do not. High-income people may choose to move across jurisdictions unless progressive taxes are applied on a broader geographic scale. Therefore, collaboration with other GTHA municipalities would be key to avoid such competition.

» **New Tax Classes:**

Observed trends in relation to the changing nature of work, such as increase in telework and home offices, have caused a rise in commercial activity in non-commercial places. These developments may exacerbate the problems facing the already-shrinking non-residential property-tax base of municipalities. To overcome this, it has been suggested that new categories of properties should be introduced that are reflective of the changing realities. These new categories may include a “home office” class that attempts to capture some of the non-residential revenue losses that have effectively been absorbed into residential spaces with higher tax rates for teleworkers, or a “co-working space” class as these become increasingly popular.

While there may be potential to introduce new categories of property, this would need to be introduced through amendments to the Assessment Act at the provincial level. There will also be administrative challenges to implementation – in particular, it is difficult to define specific tax classes. For example, in the case of teleworkers, work that is done online may not have a fixed place of work (i.e. neither home nor traditional office space). Adding new tax classes is also likely to result in an increase in the number of appeals with owners

trying to get into classes with lower tax rates. Finally, addition of new tax classes will further complicate the already complex property-tax system in Ontario, which currently has over 30 different potential tax classes and subclasses, many of which are optional.

Optimizing Development Charges

Development charges are a useful tool to derive revenue in jurisdictions experiencing considerable growth, such as Peel Region. Like most Ontario municipalities outside Toronto, however, growth forecasts have not been reflective of the actual pace of development in Peel. As a result, the cost of anticipatory growth-related infrastructure has not been recovered, which tends to be the most significant challenge that municipalities face with development charges. While this is a difficult problem to get around, there are some improvements that can be made to optimize development charges as a revenue generator in this context.

To best address the challenge of growth projections, forecast models should be revised on a regular basis to keep pace with changing realities. Rates based on historical data that is too outdated can be obsolete and lead to misguided decisions in infrastructure investments. As mentioned above, new office buildings today tend to accommodate more employees with lower square footage per employee. Therefore, forecasting based on historical rates of service provision for a smaller number of people within a larger physical space, is now inaccurate.

In addition to taxes, user fees can serve as useful tools for municipalities to cover the costs of various services, while encouraging citizens to make more efficient consumption choices.

Municipalities may also be losing significant potential revenues as a result of exemptions and deferrals. Not all infrastructure is eligible for development charges, and not all of the costs are eligible. While exemptions tend to be made for strategic reasons or oftentimes must be made as a result of an appeals process, these case-by-case decisions can add up to considerable sums. To potentially increase revenues from development charges, local and regional governments should undertake a thorough analysis of these exemptions and deferrals to better understand where revenue losses might occur, and whether these are fair and justifiable. Moreover, redevelopment revenues should be reassessed to analyze whether they are sufficient to cover the costs of providing services, especially for non-residential buildings renovated to accommodate more people in the same space. Payment deferrals should also be minimized as much as possible to avoid undue financial burden on municipalities.

New or Improved User Fees

In addition to taxes, user fees can serve as useful tools for municipalities to cover the costs of various services, while encouraging citizens to make more efficient consumption choices. There is potential for municipalities to incorporate new user fees to cover the costs of essential services, although some of these options would require approval through provincial legislation. Some possibilities include:

» **Road Pricing:**

While road pricing is often politically unpopular, it has been proven to be effective in managing travel demand, reducing congestion and curbing pollution. Road pricing could take the form of high occupancy toll lanes or highway tolls.¹¹⁵ In municipalities such as Peel Region however, many residents travel primarily by car, and transit is not as widespread or accessible as in fully urbanized areas. In these instances, the municipality would have to be careful in ensuring that these fees are fair and do not unnecessarily penalize citizens for driving. Having said that, similar to how public transit users pay fares, drivers can be charged a fee for the cost of maintenance of roads that they use.

» **Parking Charges:**

Another way to generate revenue is to charge parking levies in high-demand areas, as well as fees for non-residential and commercial parking spaces. These could help reduce traffic volume, easing congestion and encouraging transit use and development.¹¹⁶ Such fees would also cover the cost of maintaining parking spaces.

» **Motor Vehicle Registration Fee:**

These fees can be levied annually, and be based on features such as engine size, age of vehicle, emissions and weight. While these modest levies can generate significant revenue, they are unlikely to affect travel behaviour. If it is combined with the provincial tax, it would also be easy to administer.¹¹⁷

115 Harry Kitchen and Enid Slack (2016) "New Tax Sources for Canada's Largest Cities: What Are the Options?" Institute on Municipal Finance and Governance. pp. 3-7. https://tspace.library.utoronto.ca/bitstream/1807/82858/1/imfg_perspectives_no15_newtaxsources_kitchen_slack_2016.pdf.

116 Ibid.

117 Ibid.

New Revenue Tools

Additional Taxes

Contrary to popular perception, it is essential to note that while Canada is perceived to be a high-tax jurisdiction overall, taxes in the country (31.7 per cent) are slightly lower than the OECD average of 34.3 per cent of the national economy.¹¹⁸ If taxed at the OECD average, governments would collect an additional \$40 billion in revenue.¹¹⁹ As mentioned, however, this tends to be difficult for several reasons. Firstly, given the perception that we do live in a high-tax jurisdiction, it is challenging for any political party to advocate for new or higher taxes. Secondly, any revenue tool that is not already outlined in the *Municipal Act* (or for Toronto, the *City of Toronto Act*), requires provincial approval and legislation. Finally, tax revenue as a percentage of GDP in the United States is much lower at 26 per cent.¹²⁰ Due to Canada's proximity to the US and competitiveness concerns, increasing taxes may not be a feasible option, and would certainly not be politically popular.

Proponents of new taxation tools for municipalities in particular would argue that it is critical to diversify revenue sources, as they are overly reliant on property taxes as their primary revenue source. In the face of rising expenditures and economic changes such as the changing nature of work, new taxes may help increase flexibility and allow governments to

118 OECD (2018) "Revenue Statistics 2018: Tax revenue trends in the OECD." pp. 3. <https://www.oecd.org/tax/tax-policy/revenue-statistics-highlights-brochure.pdf>.

119 Paul Kershaw (2018) "A Tax Shift that Benefits the Vast Majority: the case for more annual (deferrable) taxation of housing wealth to rebalance the mix of revenue generation tools used by Canadian government." Generation Squeeze Lab. pp. 9. https://www.citynews1130.com/wp-content/blogs.dir/sites/9/2018/05/16/Tax_Shift_2018-05-15_website.pdf.

120 OECD (2018) "Revenue Statistics 2018: Tax revenue trends in the OECD." pp. 3. <https://www.oecd.org/tax/tax-policy/revenue-statistics-highlights-brochure.pdf>.

efficiently provide services without making cuts or compromising quality. More types of taxes might also mean lower tax rates on any given tax base, which could improve efficiency. The following options have been discussed in the context of Ontario:

MUNICIPAL SALES TAX

A municipal sales tax is one of the ways municipalities can generate significant revenue and tax non-residents who use local services. Such local sales taxes are used in various cities across the world, including 25 states in the United States.¹²¹ If it is local, such a tax could provide flexibility to municipalities to determine the tax structure and benefit from the local economy. A municipal sales tax may also be piggybacked to the provincial tax. However, according to the Institute on Municipal Finance and Governance (IMFG), it may not be possible to piggyback a municipal sales tax in provinces with existing HST and GST, including Ontario, because of the administrative structure of these taxes. Currently, the GST and HST revenues collected from each province are not tracked by the federal government, but entitlement for each province is calculated based on estimates of the consumption expenditure base.

If municipalities were to piggyback the municipal tax onto the HST, estimates for the taxable consumption base for each municipality would need to be calculated, which are currently unavailable. As with other taxes, it will also be essential to coordinate with neighbouring municipalities to prevent tax avoidance and

121 Association of Municipalities of Ontario (2017) "What's Next Ontario – The Local Share." <https://www.amo.on.ca/AMO-PDFs/Local-Share/Reports/AMO-Local-Share-Proposed-Action-Plan-2017-05-25.aspx>.

generate mutual benefits. As such, a feasible way to administer this approach might be for the province to increase its tax rate and distribute the additional revenues amongst municipalities. However, there would be no local autonomy in this scenario.¹²²

The Association of Municipalities of Ontario (AMO) has advocated for such an approach – namely implementing a 1 per cent HST increase to be added to the existing provincial portion of the HST. They have regarded this as the most feasible revenue generating option for municipalities, and estimate that it would generate \$2.5 billion in additional revenues annually.¹²³ According to a public opinion survey conducted by the AMO, 60 per cent of Ontarians support a 1 per cent increase in HST to be used for addressing municipal infrastructure gaps.¹²⁴ While the municipal sales tax is a promising option, it would require political buy-in and approval from the province.

PERSONAL INCOME TAX

A municipal income tax can serve as a progressive way to generate revenues and fund redistribution. It is widely applied by municipalities in other countries. As the income tax is progressive and related to the taxpayer's ability to pay, it may be considered fairer than the property tax. The property tax does not take into account the ability of the property owner to pay. Some properties in certain locations have appreciated considerably, but that value cannot be realized without selling the home. The homeowner may be "house rich but cash poor."

122 Harry Kitchen and Enid Slack (2016) "More Tax Sources for Canada's Largest Cities: Why, What, and How?" Institute on Municipal Finance and Governance. pp. 16-17. https://tspace.library.utoronto.ca/bitstream/1807/81209/1/imfg_paper_27_kitchen_slack_June_27_2016.pdf.

123 Association of Municipalities of Ontario (2017) "What's Next Ontario – The Local Share." <https://www.amo.on.ca/AMO-PDFs/Local-Share/Reports/AMO-Local-Share-Proposed-Action-Plan-2017-05-25.aspx>.

124 Ibid.

Municipalities can levy an income tax either by administering it themselves or by piggybacking onto the existing provincial system, where the province would collect the revenues and transfer them to municipalities. The latter would be inexpensive to administer, but municipalities would not have control over the tax base. If municipalities administer it on their own, it would give them greater autonomy over the tax base and the tax rate. However, it would be expensive to administer and may result in a patchwork with lack of coordination amongst municipalities.¹²⁵

A personal income tax at the local level could either be residence-based or payroll-based. If it is residence-based, it may promote jurisdiction hopping to avoid taxes. To overcome this and ensure economic efficiency, a personal income tax would work best if it is levied on a Region-wide basis. In the case of a payroll-based tax, employees who live in the municipality as well as those who live outside but work in the municipality would be taxed. While a local personal income tax has the potential to generate significant revenues, instituting it would be difficult as provincial approval would be required.

The province and local politicians may be reluctant due to its lack of popularity amongst taxpayers, making this option politically infeasible.¹²⁶

Moreover, Canada already has relatively high income tax rates. Personal income tax as a share of total tax revenue in Canada is about 37 per cent, far above the OECD average of 24.4 per cent.¹²⁷ Nevertheless, the income tax may have to be considered as an option in the future if fiscal pressures on municipalities become more

125 Harry Kitchen and Enid Slack (2016) "More Tax Sources for Canada's Largest Cities: Why, What, and How?" Institute on Municipal Finance and Governance. pp. 14-16. https://tspace.library.utoronto.ca/bitstream/1807/81209/1/imfg_paper_27_kitchen_slack_June_27_2016.pdf.

126 Ibid.

127 OECD (2018) "Revenue Statistics 2018: Tax revenue trends in the OECD." pp. 3-4. <https://www.oecd.org/tax/tax-policy/revenue-statistics-highlights-brochure.pdf>.

severe. The income tax is a potentially rich source of revenue. Personal income in Peel in 2018 is estimated to be about \$53 billion. Therefore, even a one percentage point effective tax rate¹²⁸ on that income would yield \$530 million.

While no municipality in Canada currently levies a local income tax, the Province of Manitoba has an income-tax-sharing program. Proportionate to their populations, all municipalities in Manitoba receive either a share of the personal income and corporate taxes as well as fuel tax or a share of the province's sales tax – depending on which is greater.¹²⁹ Currently, the *Municipal Act* in Ontario explicitly prohibits the imposition of a levy that is based on income.¹³⁰ An amendment to the *Municipal Act* would be required to permit an income tax.

As the income tax is a direct tax, it would be within the competence of the provincial legislature to delegate the power to impose an income tax. In practice, the cooperation of the federal government, through the Canada Revenue Agency, would also be needed. The CRA collects income tax on behalf of the province. There would be some administrative complexity if only some municipalities in Ontario opted to have an income tax. By contrast, it would be relatively straightforward if there was a uniform income tax in all municipalities. If only some municipalities opted for it, there would also be concerns about competitiveness.

128 A 1 percentage point increase in the effective tax rate would require somewhat more than a 1 percentage point increase in the posted tax rate schedule, as some forms of income are exempt from tax while other forms (e.g., capital gains and dividends) are taxed at considerably lower rates than employment income.

129 David Thompson et al. (2014) "Funding a better future: Progressive revenue sources for Canada's cities and towns." CUPE, pp. 60. https://cupe.ca/sites/cupe/files/funding_a_better_future_0.pdf.
130 S. 394(1). See: <https://www.ontario.ca/laws/statute/01m25#BK498>.

Income tax may have to be considered as an option in the future if fiscal pressures on municipalities become more severe.

The incidence of the income tax on different types of individuals would be different than the incidence of the property tax. It is generally true that higher income people own more expensive houses, but the correlation is imperfect. It is particularly likely that relatively low-income seniors would benefit at the expense of younger people, as many seniors acquired their homes at a time when real estate was considerably cheaper. Further, it could be considered unfair to impose higher taxes on younger people working hard and struggling to afford a home. Renters will also be differently impacted. They would be caught by the income-tax increase, but may get little or no benefit from the offsetting reduction in property-tax rates.

DEDICATED FUEL TAX

While municipalities in Canada do not levy fuel taxes, the federal government provides grants to municipalities based on population and public transit ridership. Some municipalities also receive a share of provincial fuel-tax revenues. In Ontario, the province shares 2 cents per litre from gas-tax revenues, which is distributed amongst municipalities based on population and public transit ridership. Despite this, there is potential for an additional municipal fuel tax.

Benefits include the incentive for drivers to reduce emissions and increase public transit use. A fuel tax can also provide critical funding needed for public transit expansion, roads and infrastructure maintenance. However, it is important to note that with the increased use of more fuel-efficient cars and less driving due to public transit expansion,

this tax revenue is likely to decline in the long term. To maximize administrative efficiency, this tax should be coordinated at the regional level and piggybacked onto the provincial rate with the province responsible for collecting and remitting it.¹³¹

HOTEL AND MOTEL TAX

The *Transient Accommodation Tax* came into effect in Ontario on December 1, 2017, allowing municipalities to implement a municipal accommodation tax.¹³² The advantage of such a hotel and motel tax is that it falls largely on visitors to cities, and allows cities to be compensated for the services provided to them. Several Canadian municipalities, including Winnipeg, Montreal, Charlottetown and municipalities in British Columbia, have such a tax. As with other taxes, it would be most beneficial if it is coordinated regionally, as lack of coordination may create an incentive for visitors to stay at hotels or motels in competing neighbouring municipalities if they do not have such a tax.¹³³ In Peel, the City of Mississauga recently implemented such a tax.¹³⁴

131 Harry Kitchen and Enid Slack (2016) "More Tax Sources for Canada's Largest Cities: Why, What, and How?" Institute on Municipal Finance and Governance. pp. 17-18. https://tspacelibrary.utoronto.ca/bitstream/1807/81209/1/imfg_paper_27_kitchen_slack_June_27_2016.pdf.

132 O. Reg. 435/17: Transient Accommodation Tax under Municipal Act, 2001, S.O. 2001, c. 25. See: <https://www.ontario.ca/laws/regulation/170435>.

133 Harry Kitchen and Enid Slack (2016) "More Tax Sources for Canada's Largest Cities: Why, What, and How?" Institute on Municipal Finance and Governance. pp. 20-21. https://tspacelibrary.utoronto.ca/bitstream/1807/81209/1/imfg_paper_27_kitchen_slack_June_27_2016.pdf.

134 See: City of Mississauga (2018) "Municipal Accommodation Tax." <http://www.mississauga.ca/portal/business/municipal-accommodation-tax>.

CANNABIS TAX

In 2015-2016, the direct costs of cannabis use for governments, particularly in the areas of health and criminal justice, were estimated to be around \$830.3 million – 70 per cent of which were borne by municipal governments. With the 2018 legalization of recreational cannabis in Canada, it can be expected that while policing costs for enforcement will decrease for municipalities, costs to deal with cannabis-impaired driving will increase. Provinces will receive 75 per cent of the revenues from the cannabis excise tax, and will be responsible for passing a share on to municipalities.¹³⁵

The Province of Ontario has promised to provide \$40 million of the provincial portion to municipalities, and share 50 per cent of the amount in excess of \$100 million received from the excise tax with municipalities.¹³⁶ However, it is currently unclear precisely what costs municipalities will incur to deal with cannabis-related challenges or what the level of strain on provincial healthcare costs will be. Therefore, it will be critical for municipalities to analyze potential risks and revenue shortfalls associated with cannabis legalization and advocate for a fair share of revenues, as well as conduct ongoing assessments to advocate for appropriate adjustments to the funding formula as necessary.

135 Erich Hartmann (2018) "Sharing the Costs of Cannabis in Canada: Key Takeaways." Mowat Centre. <https://mowatcentre.ca/sharing-the-costs-of-cannabis-in-canada-key-takeaways/>.

136 Association of Municipalities of Ontario (2018) "Towards a long-term vision for Municipal-use of the Cannabis Excise tax." pp. 3. <https://www.amo.on.ca/AMO-PDFs/Cannabis/Towards-a-long-term-vision-for-Municipal-use-of-th.aspx>.

Tools Available in the *City of Toronto Act*

The *City of Toronto Act, 2006* provided expanded powers to the City of Toronto to pass by-laws on a number of matters as well as provided it increased taxation powers that are not available to other municipalities. This authority was granted to Toronto as it is Canada's 6th largest government, and therefore "requires a broad, permissive legislative framework to achieve "made-for-Toronto" policies commensurate with its size, responsibilities, diversity and economic and cultural significance."¹³⁷ Based on the provisions in this Act, the city has implemented a Municipal Land Transfer Tax (MLTT), Personal Vehicle Tax (which was rescinded in 2011) and Third Party Sign Tax. Additional revenue tools available to the City of Toronto include an alcoholic beverage tax, Entertainment and Amusement Tax, Parking Levy, Road Pricing and Tobacco Tax.¹³⁸

It has been argued that providing similar authority to other municipalities to employ some of these tools would help diversify their revenue sources by creating more choices at the local level to deploy taxes and fees according to particular needs and circumstances. It would also make municipalities more fiscally autonomous. On the other hand, it has been argued that it may create a patchwork which could promote jurisdiction shopping.¹³⁹

137 City of Toronto "City of Toronto Act." <https://www.toronto.ca/city-government/accountability-operations-customer-service/city-administration/city-managers-office/intergovernmental-affairs/city-of-toronto-act/>.

138 City of Toronto (2016) "City Revenue Fact Sheet." <https://www.toronto.ca/city-government/budget-finances/city-finance/long-term-financial-plan/city-revenue-fact-sheet/>.

139 Association of Municipalities of Ontario (2017) "What's Next Ontario – The Local Share." <https://www.amo.on.ca/AMO-PDFs/Local-Share/Reports/AMO-Local-Share-Proposed-Action-Plan-2017-05-25.aspx>.

Several municipalities in Ontario have indicated a particular interest in obtaining the authority to institute an MLTT, which has been a major source of revenue for the City of Toronto over the past few years. While it has been a significant revenue generator, the land transfer tax has been criticized as being inequitable as it targets property buyers only and is volatile to the property market cycle.¹⁴⁰ It also unfairly compensates for Toronto's artificially low property taxes.¹⁴¹ It has been suggested that the MLTT disincentivizes people from moving and creates inflexibilities in the labour market.¹⁴² Critics have argued that the Province of Ontario should instead require all municipalities to assess property values annually and increase property-tax rates by at least the rate of inflation.¹⁴³

Tapping into Digital Economic Activity

With the rise of the gig economy and global digital platforms, many business activities that occurred in-person traditionally now take place online, and therefore remain untaxed. For example, instead of physically visiting a mall or a store, individuals can now order many of the things they need online, often via global platforms such as Amazon, and have these delivered at their doorstep. Since

140 Frank Clayton (2015) "Forget a Municipal Land Transfer Tax in Ontario - Tweak the Property Tax Instead." Centre for Urban Research and Land Development, Ryerson University. <https://www.ryerson.ca/cur/Blog/blogentry2/>.

141 Jeff Gray (2018) "Toronto land-transfer tax revenue beats expectations by \$30-million despite market decline." The Globe And Mail, May 24, 2018. <https://www.theglobeandmail.com/canada/toronto/article-toronto-land-transfer-tax-revenue-beats-expectations-by-30-million/>.

142 Harry Kitchen and Enid Slack (2016) "More Tax Sources for Canada's Largest Cities: Why, What, and How?" Institute on Municipal Finance and Governance. pp. 6. https://tspace.library.utoronto.ca/bitstream/1807/81209/1/imfg_paper_27_kitchen_slack_June_27_2016.pdf.

143 Centre for Urban Research and Land Development (2015) "Policy Commentary: Making Toronto's Tax System Better - Repeal the Land Transfer Tax." Faculty of Community Services, Ryerson University. pp. 4. https://www.ryerson.ca/content/dam/cur/pdfs/policycommentaries/CUR%20Policy%20Commentary3_Clayton.pdf.

municipalities rely heavily on non-residential property taxes, the reduced need for new physical stores and closing of existing ones has significantly impacted and will continue to impact this tax base.

To obtain revenues from digital economic activities, policymakers across the world are trying creative approaches. An example of such an approach at the municipal level in Ontario can be seen in Ottawa which has entered into a tax agreement with Airbnb, the digital short-term rental platform. This agreement is only the second of its kind in Canada, after Quebec. Since August 2018, every listing on the platform in the city pays a hotel tax or municipal accommodation tax collected by Airbnb.¹⁴⁴ It is estimated that the city would have received about \$850,000 in additional tax revenue if this tax was collected from the 2,700 hosts on the platform in 2017.¹⁴⁵ The City of Toronto also implemented a municipal accommodation tax on hotels and short-term rentals in 2018.

Research from the IMFG found that if properties listed on Airbnb are charged a commercial property-tax rate, which is significantly higher compared to the residential rate, it will result in significant municipal revenues. In order to do this effectively, however, municipalities would have to devise appropriate means to effectively distinguish between commercial enterprises and casual users of the platform, which may prove challenging.¹⁴⁶

144 City of Ottawa (2018) "Hotel and short term accommodation tax." <https://ottawa.ca/en/city-hall/budget-and-taxes/hotel-and-short-term-accommodation-tax>.

145 The Canadian Press (2018) "Airbnb to collect, remit hotel tax on its listings in City of Ottawa." Ottawa Citizen, July 31, 2018. <https://ottawacitizen.com/news/airbnb-to-collect-remit-hotel-tax-on-its-listings-in-city-of-ottawa/wcm/ed41233d-5c2f-4444-9a92-879293534b27>.

146 Zachary Spicer (2018) "The Platform Economy and Regulatory Disruption: Estimating the Impact on Municipal Revenue in Toronto." Institute on Municipal Finance and Governance. pp. 18-19. https://tspace.library.utoronto.ca/bitstream/1807/88262/1/imfgpaper_no40_platformeconomyregulatorydisruption_zacharyspicer_june_5_2018.pdf.

Another example of generating revenue from digital economic activity can be seen in Sao Paulo. The city has instituted prepaid fees of an average of 0.10 reals (about \$0.04 CAD)¹⁴⁷ per vehicle per kilometre travelled on Transportation Network Companies (TNCs) such as Uber. The purpose of this fee is to ensure that these commercial platforms or apps that match drivers and passengers contribute to the cost and maintenance of the public infrastructure, such as roads, that they rely on. The city estimates that this fee will raise about 37.5 million reals (or about \$15.3 million CAD) each year.¹⁴⁸ Similarly, the City of New York has implemented a congestion charge in busy areas on for-hire vehicles.¹⁴⁹

To generate benefits from foreign online services, such as Netflix, Amazon, iTunes and Spotify, the Government of Quebec announced in its 2018 budget that it will start charging a provincial sales tax on these services as of January 1, 2019. All services collecting more than \$30,000 in revenue from Quebecers will have to pay 9.975 per cent in provincial sales taxes. According to estimates, the province is currently losing \$270 million in revenues annually by not collecting these taxes.¹⁵⁰ Other provincial governments and the federal government can look at similar measures, and also consider sharing the increased revenues with municipalities.

147 Based on the 2017 annual average exchange rate. See: <https://www.bankofcanada.ca/rates/exchange/annual-average-exchange-rates/>.

148 Sharon Ede (2018) "Ride-sharing companies charged mileage fees to help fund infrastructure." Shareable. <https://www.shareable.net/blog/ride-sharing-companies-charged-mileage-fees-to-help-fund-infrastructure>.

149 Zachary Spicer (2018) "The Platform Economy and Regulatory Disruption: Estimating the Impact on Municipal Revenue in Toronto." Institute on Municipal Finance and Governance. pp. 12. https://tspace.library.utoronto.ca/bitstream/1807/88262/1/imfgpaper_no40_platformeconomyregulatorydisruption_zacharyspicer_june_5_2018.pdf.

150 Daniel Tencer (2018) "Quebec's New Tax On Netflix, Amazon A Reaction To Feds' Laissez-Faire Attitude." The Huffington Post, March 27, 2018. https://www.huffingtonpost.ca/2018/03/27/netflix-tax-quebec-budget_a_23396919/.

What Can We Learn from Others? Revenue Tools in International Jurisdictions

United States

Generally, local governments in the US are much less constrained in their ability to implement new revenue tools than Canada, and therefore tend to have a much more diverse revenue base. **New York City**, for example, has one of America's most diverse municipal tax bases, receiving 27 per cent of its revenues from property tax (residential and non-residential), 10 per cent from sales and use taxes (including general sales tax and other taxes on cigarettes, commercial motor vehicles and stock transfers), 24 per cent from income taxes (including personal income and multiple corporate/business taxes), and another 4 per cent from other taxes, such as beer and liquor excise, hotel occupancy, taxi medallion transfers and horse race admission taxes.¹⁵¹

Given their freedom to introduce new taxation tools, there is considerable variation in the make-up of revenue sources across US cities. Income taxes are popular in some states, for example, although the way in which these revenues are collected varies. New York City, for example, which generates a significant portion of its municipal revenues from income taxes, piggybacks onto the state-level income tax. In Pennsylvania, Ohio, Kentucky and Michigan, however, income taxes are collected directly by the municipal government. Some cities are particularly reliant on income tax as a revenue source: in **Springfield, Ohio**, for instance, local income taxes comprised 77 per cent of general revenues in 2015, and are expected to grow to 79 per cent by 2021.¹⁵²

Many US cities also levy a local sales tax. For example, **Denver, Colorado** uses sales taxes extensively on various items including retail sales and purchases of tangible personal property, telephone services, informational and entertainment services, food and beverage, aviation and railway fuel, car rentals, retail marijuana etc. This forms the major revenue source for the General Fund which finances the city's operations – in 2016, Sales and Use Tax made up 49.8 per cent of the General Fund's revenues compared to just 9.7 per cent for the property tax.¹⁵³

Europe

Local income taxes are also prominent elsewhere internationally – particularly in Nordic countries such as Denmark, Finland, Norway and Sweden. In **Sweden**, for example, municipalities derive nearly all of their revenues from income taxes (97.4 per cent in 2013).¹⁵⁴ Income is taxed by both the national and local governments in Sweden – the latter set their own rates (with the average at around 32 per cent). It is only applied to taxable earned employment income. Business and employment income are taxed in the same manner, and capital is generally taxed at a flat rate of 30 per cent.¹⁵⁵

In **Germany**, the national government taxes corporate residents on their worldwide income. Corporate profits in Germany are subject to two separate taxes: a uniform corporation tax and a trade tax. The trade tax (*Gewerbesteuer*) combines both the national base rate applied to all German corporate profits, and an additional rate that is separately determined by municipalities (it is generally between 7 and 17 per cent).¹⁵⁶ In some cases, the trade tax is the primary source of tax revenue in German municipalities: in **Frankfurt**, for example, the trade tax makes up around 49 per cent of the total revenues.¹⁵⁷

151 Enid Slack (2017) "How Much Local Fiscal Autonomy Do Cities Have? A Comparison of Eight Cities around the World." Institute on Municipal Finance and Governance. https://tspace.library.utoronto.ca/bitstream/1807/82864/1/imfg_perspectives_no19_localfiscalautonomy_slack_2017.pdf.

152 Public Financial Management (2016) "City of Springfield: Financial Trend Analysis." <https://springfieldohio.gov/wp-content/uploads/2016/10/Springfield-Financial-Trend-Analysis-Final.pdf>.

153 Timothy M. O'Brien (2016) "Audit Report: Department of Finance, Municipal Sales Tax Collection Practices." Office of the Auditor, Audit Services Division, City and County of Denver. https://www.denvergov.org/content/dam/denvergov/Portals/741/documents/Audits_2016/MunicipalSalesTaxCollectionPractices_August2016.pdf.

154 Harry Kitchen and Enid Slack (2016) "More Tax Sources for Canada's Largest Cities: Why, What, and How?" Institute on Municipal Finance and Governance. https://munkschool.utoronto.ca/imfg/uploads/348/imfgpaper_no27_taxrevenues_slack_kitchen_june_27_2016_updated.pdf.

155 Deloitte (2018) "International Tax: Sweden Highlights 2018." <https://www2.deloitte.com/content/dam/Deloitte/global/Documents/Tax/dttl-tax-swedenhighlights-2018.pdf>; PwC (2018) "Sweden: Individual – Taxes on Personal Income." <http://taxsummaries.pwc.com/ID/Sweden-Individual-Taxes-on-personal-income>.

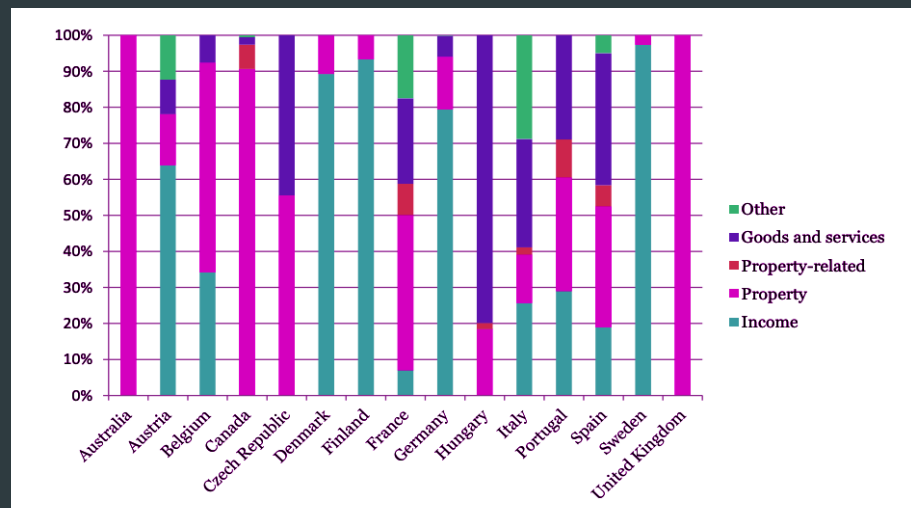
156 PwC (2018) "Germany: Corporate – Taxes on Corporate Income." <http://taxsummaries.pwc.com/ID/Germany-Corporate-Taxes-on-corporate-income>; German Trade and Invest (2018) "Trade Tax." <https://www.gtai.de/GTAI/Navigation/EN/Invest/Investment-guide/The-tax-system/Company-taxation/trade-tax.html>.

157 Enid Slack (2017) "How Much Local Fiscal Autonomy Do Cities Have? A Comparison of Eight Cities around the World." Institute on Municipal Finance and Governance. https://tspace.library.utoronto.ca/bitstream/1807/82864/1/imfg_perspectives_no19_localfiscalautonomy_slack_2017.pdf; City of Frankfurt (2018) "Trade Tax (Gewerbesteuer)." https://www.frankfurt.de/sixcms/detail.php?id=4615&ffmpar%5B_id_inhalt%5D=4733002.

Municipalities that have city-state status can often have more autonomy and greater ability to collect revenues compared to other cities, depending on their structure and location (e.g. within a federal or unitary state).¹⁵⁸ **Berlin**, Germany, for example, has access to state taxes (e.g. real estate transfer and inheritance taxes), local taxes (e.g. trade and property taxes) as well as a share of taxes collected by the state (e.g. income and value-added taxes) and national governments (e.g. wage and capital income taxes). While some city-states may have greater fiscal autonomy, they must take on greater challenges and responsibilities as well.¹⁵⁹

FIGURE 33

Sources of local taxation, selected OECD countries, 2012



Source: Enid Slack (2016) "Local Governments in the 21st Century: What are the Funding Options? Presentation to the Municipal Finance Authority of British Columbia." https://munkschool.utoronto.ca/imfg/uploads/340/slack_presentation_mfabc_march_31_2016.pdf.

South America

Some municipalities in Brazil use progressive property-tax rates – meaning that properties with higher assessed values pay a higher marginal tax rate. In 2002, **Sao Paulo** shifted its property tax structure from uniform rates to progressive property-tax rates with six different tax brackets.¹⁶⁰ Similarly, **Porto Alegre** has used a progressive rate structure since the 1990s. These two cities have levied progressive property taxes for a significant enough time to enable study and evaluation of its success, which should be considered as municipalities in Canadian jurisdictions like British Columbia deliberate such a structure in the upcoming years.¹⁶¹

Asia

Singapore also uses a progressive property-tax structure specifically for residential properties, which was introduced in 2010 and enhanced in their 2013 budget (non-residential properties are taxed at a flat rate of 10 per cent). Furthermore, since 2015, Singapore has made a distinction between owner-occupied and non-owner-occupied residential properties – the latter are subject to a higher rate even at the same assessed value. Currently, owner-occupied property rates are determined on a sliding scale from zero to 16 per cent, whereas non-owner-occupied property rates range on a scale from 10 to 20 per cent.¹⁶²

158 Enid Slack (2017) "How Much Local Fiscal Autonomy Do Cities Have? A Comparison of Eight Cities around the World." Institute on Municipal Finance and Governance. https://tspace.library.utoronto.ca/bitstream/1807/82864/1/imfg_perspectives_no19_localfiscalautonomy_slack_2017.pdf.

159 Ibid.

160 Ciro Biderman and Yuri Camara Batista (2018) "Working Paper" Is Progressive Property Tax Progressive? Evidences from São Paulo. Lincoln Institute of Land Policy. https://www.lincolnst.edu/sites/default/files/pubfiles/wp18cb1_biderman.pdf.

161 See the above-referenced study (the progressive property tax section), as well as: Pedro Humberto Bruno de Carvalho Junior (2017) "Property Tax Performance and Potential in Brazil." University of Pretoria. https://repository.up.ac.za/bitstream/handle/2263/62689/Carvalho_Property_2017.pdf?sequence=1; C. M. De Cesare and L. Ruddock (1999) "The Property Tax System in Brazil." <http://www1.worldbank.org/publicsector/decentralization/June2003Seminar/PTBRAZIL.pdf>.

162 Government of Singapore (2018) "Progressive Property Tax Structure For Residential Properties." <https://www.mof.gov.sg/Policies/Tax-Policies/Property-Tax/Progressive-Property-Tax-Structure-For-Residential-Properties>.

Innovative Approaches to Service Delivery

Partnerships with the Private and Non-Profit Sectors

To deliver services in a cost-efficient manner, municipalities can look towards strategic partnerships with the private and non-profit sectors. However, municipalities must assess the risks and costs associated with contracting out services and getting into public-private partnerships, as they can often be more expensive and inefficient.

There are several examples of creative partnerships. For example, Innisfil – a growing town to the north of Toronto with a moderate to low population density, partnered with the ride-hailing company Uber to expand its public transit offerings in a cost-efficient manner. Since traditional options, such as fixed bus routes, were too expensive and would not have provided sufficient service, the town decided to partner with Uber to carry out an innovate pilot project. Residents can call an Uber on-demand (or a local taxi for accessible rides) and be driven to key destinations in the town for \$3-5.¹⁶³ According to estimates, this project is leading to annual savings of over \$8 million for the town compared to traditional bus services.¹⁶⁴

Apart from the private sector, municipalities can also work with non-profits to deliver services more efficiently, particularly in the domain of human services, as these community organizations often have pre-established knowledge of, trust and partnerships within the community. Over the recent years, governments have increasingly relied

on this sector to help with service delivery in areas such as social housing, child care, employment and social services, shelter services, cultural programming and recreation. The Region of Peel currently has two grant programs for non-profit organizations that provide human services to residents – the Community Investment Program (CIP) and the Homelessness Partnering Strategy (HPS).¹⁶⁵

Partnerships with Other Governments

To deliver services more efficiently, municipalities should also consider partnering with one another to create economies of scale. In cases where a municipality does not have sufficient resources to deliver a service, they can contract another municipality to provide the service. This can lead to significant cost efficiencies by saving initial start-up costs. One example of this is transit extension agreements that several communities around Edmonton have made to extend transit services. Since establishing transit systems is extremely costly in terms of both capital and operating expenses, this has resulted in significant financial benefits.¹⁶⁶

Another example of cost-effective shared services is the York-Peel Agreement instituted in 2002 between the Peel Region and York Region. Based on this agreement, Peel provides water to York, and the municipalities share infrastructure and plant operating costs. This has created a win-win situation for both municipalities. Compared to other options considered, York receives water

163 Town of Innisfil (2018) "Bringing Transit to Innisfil: Background and Answers to Frequently Asked Questions." <https://innisfil.ca/mygovernment/planningforourfuture/BringingTransittoInnisfil>.

164 The Canadian Press (2018) "Uber transit partnership saving Innisfil, Ont., \$8M per year." Global News, March 15, 2018. <https://globalnews.ca/news/4084807/uber-innisfil-transit-savings/>.

165 Region of Peel (2018) "Community Investments." <https://www.peelregion.ca/communityinvestments/>.

166 Zachary Spicer (2015) "Cooperation and Capacity: Inter-Municipal Agreements in Canada." Institute on Municipal Finance and Governance. pp. 6. https://munkschool.utoronto.ca/imfg/uploads/318/1623_imfg_no.19_spicer_online.pdf.

from Peel at a substantially lower cost, while Peel also benefits financially. The financial benefit for Peel is estimated \$152.4 million to the year 2031. Based on estimates, York Region will also contribute \$340 million towards the expansion of Peel's water supply and distribution system that is necessary to meet increasing needs.¹⁶⁷

The SouthWestern Integrated Fibre Technology (SWIFT) Network is another example of innovative collaboration amongst municipalities. A non-profit collective broadband initiative, SWIFT aims to provide access to high-speed broadband for communities across Southwestern Ontario, Caledon and Niagara Region – making up 3.5 million Ontarians or 25 per cent of the population. SWIFT aims to do this by building critical infrastructure that connects over 350 communities.¹⁶⁸ The project was built on the premise that a fast and reliable internet service is essential to promote social and economic opportunities for development, as well as to improve service delivery in various sectors including health and social services. As private telecom service providers did not invest in building this critical infrastructure due to lack of return on investment, the public sector had to take the lead. The project is funded by combined investments of \$180 million from the federal and provincial governments, as well as over \$17 million from municipal governments.¹⁶⁹ SWIFT is using an open procurement process where telecom service providers can bid to build, own and operate the network. SWIFT aims to release the final network design and begin construction in spring 2019.¹⁷⁰

167 Region of Peel (2018) "York-Peel Agreement." <https://www.peelregion.ca/pw/water/water-trtmt/york-peel/agreement.htm>.

168 SWIFT website: <https://swiftnetwork.ca/>.

169 SWIFT (2018) "Briefing Note – Project Update: 2018." <http://swiftnetwork.ca/wp-content/uploads/2018/03/2018-SWIFT-Briefing-Note-2.pdf>.

170 SWIFT website: <https://swiftnetwork.ca/>.

Cutting Red Tape

Cutting red tape can help municipalities realize cost savings while improving service delivery and increasing business attractiveness. The World Bank ranked Canada 22nd out of 190 economies in its annual ease of doing business rankings – a low ranking compared to competing jurisdictions such as the United States, United Kingdom, Australia and New Zealand.¹⁷¹ This highlights the burdens faced by entrepreneurs and businesses in the country. If the cost of establishing a business is too high or it takes too long, opportunities can shift to other jurisdictions. While regulation is essential to ensure considerations such as sustainability, health and safety are taken into account, they should not be too cumbersome, complex and bureaucratic. Streamlining the regulatory process and timelines can provide certainty, attract businesses and entrepreneurs, and expand the non-residential property-tax base.

Deploying municipal resources prudently by improving administrative efficiencies can also save money for taxpayers. Having said this, success in reducing red tape depends largely on the province as well, as the provincial government needs to streamline regulatory processes in areas of provincial jurisdiction.¹⁷² Over the recent years, the Government of Ontario has taken notable steps towards simplifying processes and modernizing regulations, including the *Cutting Unnecessary Red Tape Act, 2017* and *Reducing Regulatory Costs for Businesses Act, 2017*.¹⁷³

171 World Bank Group (2018) "Doing Business 2019, 16th Edition." pp. 5. http://www.worldbank.org/content/dam/doingBusiness/media/Annual-Reports/English/DB2019-report_web-version.pdf.

172 See: Michael Fenn (2017) "Reducing Business Burdens: Great Ideas from Five Innovative Ontario Municipalities." Association of Municipalities of Ontario. <https://www.amo.on.ca/AMO-PDFs/Reports/2017/ReducingBusinessBurdensGreatIdeasfromFiveInnovativ.aspx>.

173 See: Ministry of Economic Development, Job Creation and Trade (2018) "2018 Burden Reduction Report: Building a better business climate for Ontario." Government of Ontario. <https://www.ontario.ca/page/2018-burden-reduction-report-building-better-business-climate-ontario>.

Apart from the burdens faced by businesses, municipalities also face extensive reporting requirements from the province. According to research from the Association of Municipal Managers, Clerks and Treasurers of Ontario (AMCTO), the province receives about 422 reports from municipalities each year - a conservative estimate. While not all municipalities are responsible for submitting all 422 reports, there are some that submit over 200 – the City of Toronto submitted 270 reports to various provincial ministries and agencies in 2012. On the lower end, some municipalities submit as few as 90 reports – still a considerable number. These reports are time consuming and put burden on municipal resources.¹⁷⁴ According to a survey conducted by AMCTO, about half of the Ontario public servants believe that undertaking onerous provincial reporting impacts their ability to deliver services effectively by putting a squeeze on their already busy schedules. This is often overcome by employees working overtime or by hiring consultants, both of which add additional costs for municipalities.¹⁷⁵

Planning and Economic Development

Building Livable Communities

When undertaking financial planning, it is vital for municipalities to take a holistic and long-term approach. This means realizing that positive long-term fiscal health cannot be achieved without making strategic investments in the short term. Particularly, it is essential to build livable, welcoming and inclusive communities by investing in adequate transit and cycling infrastructure,

174 AMCTO (2017) "Bearing the Burden: An Overview of Municipal Reporting to the Province (Summary Report)." pp. 4-6, <https://www.amcto.com/getattachment/8a6fcf9a-c10b-4d9e-8d1a-3062d99aaf20/.aspx>.

175 Ibid.

pedestrian-friendly environments with access to various amenities, entertainment options, as well as opportunities to celebrate diversity and foster social connections amongst residents. These strategic investments are essential to attract residents and position Peel as a preferred destination for workers and businesses.

Over the past decade, downtown Toronto has been the preferred destination for new office development compared to suburbs. This is mainly because of amenities such as transit accessibility, a young and qualified workforce available to businesses, and other attractions such as restaurants and shops. While suburbs offer cheaper rents, businesses and workers increasingly value the urban, amenity-rich environment.¹⁷⁶ Investments in such amenities may seem costly initially, but lack of investment in building livable communities and an attitude of austerity limits opportunities for long-term gains and stagnates the economy.

Attracting Investment and Business Opportunities

According to the 2017 Employment Strategy Discussion Paper prepared for the Peel Region by Cushman & Wakefield, the Region can make development more cost competitive compared to other municipalities and encourage new office development in the municipality through a range of financial incentives such as development-charges reductions, tax increment equivalent grants (TIEGs), and municipally-built parking facilities. In order for the Peel Region to do this effectively, an environmental scan should be conducted on incentives provided by other municipalities in the GTHA, and the pros and cons of any incentive should be studied beforehand.¹⁷⁷ It

176 Cushman & Wakefield (2017) "Employment Strategy Discussion Paper." Prepared for the Region of Peel.

177 Ibid.

is also essential to avoid a race to the bottom with unnecessary incentives. Therefore, cooperation with other municipalities in the GTHA is critical.

Municipalities also need to take proactive steps to drive innovation and entrepreneurship in their jurisdictions. An example of such an initiative in the Peel Region is the Research Innovation Commercialization Centre (RICC). Founded by the City of Mississauga, City of Brampton and Town of Caledon along with educational partners, the RICC is an entrepreneur and innovation hub that provides a range of services to technology start-ups of various sizes for free. For 2018-2019, the RICC is focused on Advanced Manufacturing & Materials, Clean & Green Technologies, and ICT & Internet of Things as its main priorities.¹⁷⁸ The RICC currently has over 500 clients, and has so far generated \$29 million in revenue, of which \$17 million was in Canada.¹⁷⁹

It is important to note that lower-tier governments are mainly responsible for economic development planning, rather than the upper-tier regional government. Therefore, effective collaboration amongst local governments and the Region is critical to promoting economic development.

Collaboration with Other Municipalities

Municipalities cannot operate in isolation. They must collaborate with other governments, and particularly neighbouring municipalities, in working towards shared prosperity. While it is widely believed that lower tax rates attract businesses, there is minimal evidence to prove that this is the predominant factor in a business's decision in determining its location. Therefore, it is critical when it comes to taxation policy to harmonize revenue tools amongst municipalities across the GTA and to avoid a race to the bottom in local tax competition.

An example of collaboration amongst municipalities was seen with the Amazon bid, where cities and municipalities from the Toronto region, including the City of Toronto, Peel Region, York Region, Durham Region and Halton Region came together to submit a regional bid for Amazon's second corporate headquarters in North America.¹⁸⁰ For the purposes of this bid, Waterloo Region and Guelph were also included in the Toronto region. The rationale for this combined effort was to leverage collective strengths to put together an attractive bid, and in particular highlight the Region as having the most educated workforce in North America.¹⁸¹ The Toronto region was the only shortlisted Canadian location amongst 20 finalists announced by the company.¹⁸²

178 RIC Centre (2018) "About RIC Centre." <https://riccentre.ca/entrepreneur-and-innovation-hub/about-us/>.

179 RIC Centre (2015 – 2016) "Welcome to RIC Centre's Annual General Report." <http://agr.riccentre.ca/>.

180 Toronto Global (2017) "Toronto Region Municipalities Join Forces to Submit Regional Bid for Amazon's New Corporate Headquarters." <https://torontoglobal.ca/about-us/News/2017/Toronto-Region-Municipalities-Join-Forces-to-Submi>.

181 Toronto Global (2017) "Toronto Region Bid for Amazon's HQ2 Highlights Most Educated Workforce in North America." <https://torontoglobal.ca/about-us/News/2017/Toronto-Region-Bid-For-Amazon-s-HQ2-Highlights-Mos>.

182 Bisnow (2018) "Amazon HQ2 Shortlist: Details On The 20 Finalists In \$5B Sweepstakes." Forbes, January 19, 2018. <https://www.forbes.com/sites/bisnow/2018/01/19/amazon-hq2-shortlist-details-on-the-20-finalists-in-5b-sweepstakes/#37b181eb79e6>.

Municipalities cannot operate in isolation. They must collaborate with other governments, and particularly neighbouring municipalities, in working towards shared prosperity.

Collaboration with neighbouring municipalities is also essential to plan improved transit connections and facilitate the movement of people. Good transit is likely to increase investments in businesses and recreational facilities, as transportation is currently a major barrier to visiting the Region for people seeking employment or entertainment. In the long term, investments in transit are also essential to reduce the number of cars on the road and reduce GHGs.

Community Benefits Agreements and Social Procurement Policies

As mentioned above, municipalities across the country are in urgent need of infrastructure upgrades and will have to invest in this in the near future. Attracting new businesses will also lead to new infrastructure development. This presents an opportunity to use community benefits agreements (CBAs) to maximize value for money. CBAs and social procurement policies can create additional social, economic or environmental value to benefit local communities, by leveraging funding that is already being spent on infrastructure development.

Community benefits can include local job creation and training opportunities for those disadvantaged in the labour market, social procurement to purchase goods and services from local businesses or social enterprises, improvement of public spaces or any other benefit identified by the community. These benefits can be achieved through private agreements between developers and local communities; public initiatives such as social procurement clauses, contracts between developers and governments, or other policies and legislation; or they can take a hybrid approach where developers, government and community groups come together to create three-way agreements.¹⁸³

The Region of Peel has recognized the potential of CBAs in maximizing gains. In 2014, the Peel Poverty Reduction Committee identified CBAs as a tool to advance economic opportunities in the Region, and in 2017, the Committee created the Peel Community Benefits Network. Recently, a Community Benefits Framework Agreement was signed with Metrolinx for the Hurontario Light Rail Transit, the construction of which is expected to begin in 2019.¹⁸⁴

183 Jordann Thirgood, Kiran Alwani and Erich Hartmann (2018) "Engage & Empower: Defining and engaging community in Ontario's community benefits initiatives." Mowat Centre. <https://mowatcentre.ca/engage-and-empower/>.

184 Region of Peel "2018-2028 Peel Poverty Reduction Strategy: Community Action." pp. 11. http://www.povertyinpeel.ca/_include/Peel-Poverty-Reduction-Strategy-2018-2028.pdf.

Economic Benefits from the Airport

The Region of Peel is home to Canada's largest international airport – a key employment generator and an important infrastructure element. Pearson Airport has been named the best large airport in North America.¹⁸⁵ It handles more air cargo than Vancouver and Montreal airports combined, and the largest passenger volumes in the country.¹⁸⁶ According to the Greater Toronto Airports Authority (GTAA), the economic contribution of the airport will be even more substantial in the coming years. It is predicted that the number of passengers will increase from 47 million in 2018 to 85 million in 2037, that the airport will facilitate 700,000 jobs in 2037 compared to 332,000 jobs today, and form 8.5 per cent of Ontario's GDP compared to 6.3 per cent in 2018.¹⁸⁷

The airport is a key asset to Peel, bringing in employment and business. With the predicted increase in goods movement in the Region and its connection with increased cargo traffic at the airport, it will be key for Peel to negotiate renewed terms with the federal and provincial governments to get a greater share of the benefits for its host municipality. Currently, GTAA pays ground rent to the federal government as well as payments in lieu of property taxes (PILT) to its host municipalities of Toronto as well as the City of Mississauga and the Region of Peel.

185 CTV News (2018) "Toronto Pearson airport named best large airport in North America for customer service." March 7, 2018. <https://www.ctvnews.ca/canada/toronto-pearson-airport-named-best-large-airport-in-north-america-for-customer-service-1.3832567>.

186 Region of Peel (2017) "Peel Region Goods Movement Strategic Plan 2017-2021." <https://www.peelregion.ca/pw/transportation/goodsmovement/pdf/goods-movement-strategic-plan-2017-2021.pdf>.

187 Greater Toronto Airports Authority (2018) "Local economic benefits: land development and taxation." https://www.torontopearson.com/uploadedFiles/Pearson/Content/About_Pearson/Community_Relations/Committees/Consultative_Committee/Landdevelopmentandtaxation-Mar272018.pdf.

The PILT rate was established by the province based on Ontario Regulation 282/98 Section 45.1(7). While the PILT paid by the GTAA has increased over the years due to increases in passenger volume, the per-passenger rate of \$0.94 has stayed constant since 2001. In addition, Mississauga's building permit and development-charges regime does not apply to development of airport lands as it is a federal property. However, GTAA has voluntarily made development charges a requirement for third party non-aviation developments. Third party tenants also pay municipal property taxes.¹⁸⁸

Since the PILT rate has not changed since 2001, the City of Mississauga, as well as the Region of Peel, have been advocating to the province for years to increase it. The \$0.94 PILT rate has remained unchanged despite inflation, and is capped at a 5 per cent increase. Further, these rates are based on passenger traffic only and do not recognize cargo traffic. The rates for some other airport authorities, also set by the province, are higher than the GTAA – \$1.67 for the Greater London International Airport Authority and \$1.08 for the Ottawa International Airport Authority.¹⁸⁹

According to city officials, the rate for the GTAA should have increased by 30 per cent to \$1.22 in 2016. According to estimates made by the City of Mississauga, the stagnant PILT has resulted in a revenue loss of \$2.6 million for the city and the Region of Peel based on conservative estimates. It is also important to note that because municipal property assessments have increased significantly, property taxpayers have

188 Ibid.

189 Region of Peel (2018) "The GTAA and the City of Mississauga." In Council Agenda. <https://www.peelregion.ca/council/agendas/2018/2018-02-08-rc-agenda.pdf>.

been facing a greater burden.¹⁹⁰ In addition, GTAA has refused to pay the stormwater levy to the City of Mississauga, which the city estimated to be over \$3 million annually, citing that it disagrees with the formula used to calculate it and that it has invested over \$120 million in state of the art stormwater management at the airport. The city sued the Authority for non-payment in February 2017.¹⁹¹ These facts point towards the need for renewed negotiations between the province, Peel, Mississauga and GTAA to address these issues and ensure a positive and mutually beneficial relationship for all stakeholders.

In addition to the PILT paid to municipalities, airport authorities in Canada pay rent to the federal government. In 2016, GTAA paid over \$148 million in ground rent to the federal government while paying \$34.6 million in PILTs to municipalities.¹⁹² This points towards the opportunity to negotiate with the federal government, and advocate for better economic benefits for the Region, given that Peel and Mississauga provide significant services to ensure smooth operation of this important national revenue generator. It is also vital that the municipality takes into account the environmental impacts of increased cargo traffic, air pollution and pressure on roads when analyzing the airport's economic impact and advocating for increased benefits.

190 Rachael Williams (2017) "Mississauga getting 'deeply shafted' by Pearson airport, says councillor." Mississauga.com, January 23, 2017. <https://www.mississauga.com/news-story/7080851-mississauga-getting-deeply-shafted-by-pearson-airport-says-councillor/>.

191 City of Mississauga (2017) "Additional Agenda." https://www7.mississauga.ca/documents/committees/council/2017/2017_12_13_Council_Additional_Agenda.pdf.

192 City of Toronto (2018) "Report for Action: City of Toronto Interests Regarding Airport Ownership." <https://www.toronto.ca/legdocs/mmis/2018/ex/bqrd/backgroundfile-110721.pdf>.

Implementation Challenges

As municipalities work towards diversifying revenue sources to improve their fiscal health, they can expect to confront a host of challenges. These challenges include: fiscal constraints, an uncertain operating environment, evolving demographic and economic pressures and public opinion around taxation issues.

Specifically:

- » The primary limiting factor for Canadian municipalities to address fiscal challenges is their limited toolkit. As it is often said, 'municipalities are creatures of the provinces.' Constitutionally, provinces have exclusive power over municipalities and they can provide powers to municipalities at their discretion.
- » Depending on the province, municipal powers vary somewhat across Canada.¹⁹³ In Ontario, municipalities are governed by the *Municipal Act* which is a 'laundry list' legislation, i.e. it lists every power municipalities have. This makes adapting to new changes and emerging realities extremely difficult for municipalities, as every action not explicitly granted under legislation, including the ability to levy new taxes, requires provincial approval.
- » In addition, municipalities are not allowed to run a deficit in their operating budgets. They can only incur long-term debt for capital expenditures. There is an Annual Repayment Limit, which is 25 per cent of annual own-source revenues for most municipalities less their annual long-term debt servicing costs and annual payments for other long-term financial obligations.¹⁹⁴ There is a fiscal imbalance in the share of revenues available to municipal governments – the resources being transferred from other levels of governments have eroded over time, while the responsibilities of municipalities to provide additional services have increased. Consequently, municipalities have increasingly been doing more for less, and as such there is limited scope to find further efficiencies. Given this scenario, a key success factor in ensuring that municipalities are able to maintain their fiscal health and deal with emerging economic challenges is on the willingness of the provincial and/or federal governments to increase contributions to municipalities, as well as expand their authority to diversify revenue sources.
- » Another challenge to increasing revenues is the lack of data and uncertainty in being able to forecast the future accurately. As mentioned earlier, provincial and local forecasts have not always matched realities. This makes planning adequately extremely difficult, especially when investing in long-term infrastructure.
- » When talking about the changing nature of work and threats such as automation and office space transformation, this is even more difficult as estimates vary widely. For example, based on one study about 42 per cent of Canadian jobs are at high risk of automation, while according to another only 9 per cent of the jobs face this threat.¹⁹⁵
- » Finally, a key challenge to successfully implementing new revenue tools, including taxes and user fees, is public opinion. There is little support for new taxes in Canada at any level of government, particularly as many Canadians face rising costs in areas such as housing, childcare and energy but with limited wage growth over the past two decades.¹⁹⁶
- » Any new tax or tax increase would require a clearly articulated rationale as to why other means or identifying budget efficiencies could not be accomplished as well as what the purpose of the additional taxes would be. For the Peel municipal governments, this challenge would be particularly acute, as the historic trend of property tax increases has already created a rising burden on household incomes.

193 City of Toronto (2001) "Powers of Canadian Cities - The legal framework." https://www.toronto.ca/ext/digital_comm/inquiry/inquiry_site/cd/gg/add_pdf/77/Governance/Electronic_Documents/Other_CDN_Jurisdictions/Powers_of_Canadian_Cities.pdf.

194 Ontario Ministry of Municipal Affairs and Housing (2017) "Understanding Municipal Debt." <http://www.mah.gov.on.ca/Page15266.aspx>.

195 Sunil Johal et al. (2018) "Robots, Revenues & Responses Ontario and the Future of Work." Mowat Centre. pp. 14-15. <https://mowatcentre.ca/robots-revenues-responses/>.

196 See: Sunil Johal and Armine Yalnizyan (2018) "Race to the Top: Developing an Inclusive Growth Agenda for Canada." Mowat Centre. <https://mowatcentre.ca/race-to-the-top/>.

Given the host of demographic challenges, service pressures and tax base difficulties posed by technological and employment shifts, municipalities must consider a range of approaches and tactics to solidify their footing.

7 RECOMMENDATIONS

The fiscal challenges facing Peel and other municipalities in the years ahead won't be addressed through any single measure. Given the host of demographic challenges, service pressures and tax base difficulties posed by technological and employment shifts, municipalities must consider a range of approaches and tactics to solidify their footing. In particular, this is critical as land consumption (which is intimately linked to existing municipal revenue tools) is increasingly becoming decoupled from broader economic growth. Increases in digital economic activities, knowledge-based jobs and a broader shift towards the service sector have decreased demand for land. For municipalities this means that their land-based revenue tools are increasingly falling further away from the realities of economic growth and activity.

As a general strategy, Peel and other municipalities need to advocate for a review of, and realignment of, the existing revenues and responsibilities of each level of government. This realignment must recognize that provinces are, by and large, in a much more fiscally precarious situation than the federal government over the long term, largely as a result of the projected increase in healthcare costs. The federal government is projected to have capacity to increase spending (or reduce taxes) by \$29B a year while maintaining current net-debt-to-GDP levels, whereas provinces will over the longer-term be faced with an \$18B shortfall in order to maintain current debt ratios.¹⁹⁷ As creatures of the province, municipalities will be further squeezed by this inexorable diminution of provincial fiscal flexibility.

Therefore, bilateral municipal-provincial conversations about realigning current revenue sources are unlikely to yield much in the way of substantive progress. The federal government must be at the table for these conversations, given its relatively rosier fiscal situation and room to potentially allow municipalities or provinces to occupy existing federal tax space or provide direct transfers to fund core services. Any conversations around re-allocating the existing revenue pie must involve all three levels of government.

Nevertheless, there is a clear opportunity for dialogue with the province around new revenue powers which could be granted to municipalities, modelled on the *City of Toronto Act* precedent. Opportunities to explore a municipal sales tax, road pricing and other measures would provide significant flexibility to mitigate the weaknesses of land-based tax bases in an evolving operating environment. However, all of these approaches will be viewed with skepticism by the public and are unlikely to generate much political support,

¹⁹⁷ Office of the Parliamentary Budget Officer (2018) "Fiscal Sustainability Report 2018." https://www.pbo-dpb.gc.ca/en/blog/news/FSR_September_2018.

despite the fact that Canadians are taxed at lower levels than most other residents in advanced economies.

Finally, it is critical to engage in a public dialogue around these issues. Residents of Peel, and other municipalities, are taxpayers for three levels of government. The lack of transparency around which tax dollars pay for which services makes it challenging for municipalities to make a case to residents that they ought to pay higher property taxes or user fees for municipal services, let alone that new revenue tools might be required. Few residents are likely aware that municipalities are by far the lowest taxing level of government in Ontario (receiving only 9 cents of every tax dollar paid, roughly one-fifth the amount the federal and provincial governments each receive). Clearly articulating where tax dollars from residents go, and what services they directly fund, is a critical first step to gaining more public and political support for a change to the status quo.

Therefore, the following hierarchy of approaches should guide Peel's thinking on the revenue side of the ledger:

- » Advocate for and explore a **realignment of existing revenues, with both the federal and provincial governments** and engage in a meaningful dialogue with the public around how Canada's taxes and responsibilities are allocated amongst levels of government.
- » Explore opportunities to **raise more revenues from existing tools**, including a comprehensive definitional review of various property types to ensure that misclassification isn't leading to tax leakage, as well as explore progressive property taxes or hiking property taxes at rates higher than historical patterns. This should also include a review of planning and forecasting assumptions to ensure that revenue projections are realistic and reflect exogenous trends. (see the Working at the Margins section on page 59).

- » Then look to **new revenue tools specific to particular uses and users** (ideally not out of step with neighbouring jurisdictions), including measures such as road pricing.
- » Finally, **explore general purpose revenue tools** (e.g., sales tax, share of income taxes).

Municipalities should, of course, also look to review their service-delivery frameworks and wring further efficiencies from existing expenditures. Yet, ultimately, the options that the Region of Peel can consider to address revenue shortfalls stemming from a changing employment and technological landscape are proscribed by the existing roles and relationships municipalities operate within in Ontario and Canada. The existing approach to taxation by municipalities relies inordinately on land, and the consumption of land – whether through ongoing commercial and residential property taxes, or development charges. As outlined in this report, this approach is already showing significant signs of strain, and those strains are only likely to get more acute over time.

The broader, more systematic and transformational approach that would yield more revenue tools to the Region, necessarily involves authority being granted from senior levels of government, or transfers from senior levels of government. Whether through dedicated access to revenue sources such as the gas tax, a share of income-tax revenues or the right to introduce municipal income tax, or similarly sharing or introducing sales-tax revenues, these measures are well-known.

Some specific short-term and medium-to-longer-term options that the Region should consider to address the growing imbalance between revenues and expenditures are outlined below, in ranked priority order:

Short Term

- » Building on this report, gather additional data and evidence regarding the shifting nature of revenues and expenditure pressures in the Region. Work with other municipalities to identify similarly situated jurisdictions. Develop a business case for change that can serve as a starting point for discussions with the public, province and federal government about service responsibilities and revenue sources. To depoliticize such an exercise, it may be prudent to advocate for a Royal Commission to explore the tax system, which hasn't had a fundamental review in Canada for 50 years.
- » Explore options for introducing progressive property-tax rates, modelled on experience in international jurisdictions such as Singapore, including rebates or exemptions for low-income households and higher rates for non-owner-occupied residences. (see page 60 for a deeper discussion on progressive property taxes).
- » Discuss with the federal government, province and GTAA options for a larger share of Pearson-generated revenues, and an update to the 2001 PILT rate, as well as inclusion of cargo traffic in calculations.
- » Explore the option of the "Toronto Act" toolkit with the province, including road pricing, alcoholic beverage tax, entertainment and amusement tax, tobacco tax (as well as potentially a share of cannabis-tax revenues).
- » Explore options for taxing newly emerging digital services such as Airbnb and Uber, in line with actions by other jurisdictions in Canada and abroad. For example, the City of Ottawa and the City of Toronto have recently instituted a hotel and short-term accommodation tax to generate revenue from platforms such as Airbnb. In Sao Paulo, Transportation Network Companies (TNCs) such as Uber are required to pay fees per vehicle per kilometre travelled to help with infrastructure maintenance costs.¹⁹⁸ (see the Tapping into Digital Economic Activity section on page 67 for more examples).
- » Explore opportunities to work with the province and adopt a volume-based approach (as opposed to a surface area approach) to industrial taxes, reflecting shifts in the nature of warehousing and land-usage.
- » Reconsider definitions of industrial vs commercial space to reflect the trend towards warehousing and away from manufacturing activities, and associated tax revenue reductions.
- » Adopt a "future-proof" approach to development that budgets for worst-case scenarios. Recent projections for growth have been overly optimistic when compared with actual development-charges revenues. Working with the province to understand why these forecasts have not been accurate should be a starting point, but the Region should also adopt more cautious revenue assumptions to reflect recent history on this front.
- » Continue to explore and implement expenditure side approaches to improve service efficiencies, such as service integration across siloed departments (modelled on successful human services integration that Peel undertook), outcomes-based funding models, and exploration of innovative financing models such as social impact bonds.

198 Sharon Ede (2018) "Ride-sharing companies charged mileage fees to help fund infrastructure." Shareable. <https://www.shareable.net/blog/ride-sharing-companies-charged-mileage-fees-to-help-fund-infrastructure>.

Medium and Longer Term

It's already apparent that property taxes, at current levels, are ill-suited to provide sufficient revenues for municipalities in Canada. Given their, arguably, regressive nature with respect to income, there is limited scope to increase property taxes to meet service expectations and other cost pressures, particularly as wages and income levels fail to keep pace for many families. Consequently, municipalities must be prepared to advocate for more transformational changes that equip them with the revenue tools necessary to discharge their obligations to residents. Some of these options could include:

- » Revenue options that, currently, aren't available to any municipality in Ontario such as a municipal sales tax, a municipal income tax (both corporate and personal) and a development levy to capture land value gains. (For a broader discussion, see the New Revenue Tools section on page 63 and the What Can We Learn from Others? Revenue Tools in International Jurisdictions section on page 69).
- » Explore uploading of expenditure responsibilities with senior levels of government to reflect revenue capacities of each level of government.
- » Find opportunities for efficiencies and cost savings in service delivery by partnering with other municipalities, non-profits or the private sector. Similarly, assess whether technological solutions may exist to deliver services or back-office functions more efficiently.
- » Utilize strategic foresight to ensure that policies are robust and forward-looking.¹⁹⁹ This should include conducting pilots to determine effectiveness, increasing analytics capacity to conduct ongoing evaluations and effectively utilize data, streamlining systems and ensuring that policies are flexible and adaptable to changing circumstances.

¹⁹⁹ See the Plausible Scenarios section on page 48 for an example of a strategic foresight exercise.

A graduation cap with a tassel and a diploma, set against a background of horizontal lines. The cap is black with a gold tassel. The diploma is white with a gold border and the word "LIBER" is visible on it. The background consists of horizontal lines in shades of purple and blue.

Modernizing revenue approaches to reflect the 21st century economy will position municipalities to thrive as the technological and economic landscape continues to evolve.

8 CONCLUSION

Ongoing trends and emerging issues have reshaped the economy and labour market, and will continue to challenge outdated policy and processes at every level of government. While municipalities face fiscal and legislative constraints, there are opportunities for local governments to benefit from the digital revolution to improve municipal fiscal health, enhance service delivery and invest in the future.

The Region of Peel specifically can take advantage of its strategic location, diverse population and emerging markets to become a leader in the new economy. Yet, this leadership position will require support and authority granted from senior levels of government and will require a significant commitment by Council and staff to develop a forward-looking, action-oriented strategic approach that will optimize the Region's strengths and position it to be as resilient and nimble as possible.

Reliance on land-based revenue tools that sustained growth and prosperity in the 20th century will place municipalities in a perilous situation. Modernizing revenue approaches to reflect the 21st century economy will position municipalities to thrive as the technological and economic landscape continues to evolve.

