FEDERATION MUNICIPALITIES

A BETTER QUALITY OF LIFE

THROUGH SUSTAINABLE COMMUNITY DEVELOPMENT:

PRIORITIES AND INVESTMENT PLAN

Federal Budget Submission

To

Finance Minister Paul Martin

September, 2001

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EXECUTIVE SUMMARY

A strengthened national partnership is needed to create a stable framework for investment in Canada's communities, bringing together federal, provincial, territorial and municipal governments and the private and not-for-profit sectors. The focus should be on six priority areas for investment, each requiring a tailored response:

1. Water Infrastructure
2. Waste Diversion, Landfill gas and Energy Infrastructure (See Attachment A)
3. Integrated Multi-modal Transportation, including Public Transit
4. Brownfield Redevelopment
5. Affordable Housing
6. Canada in the Global Community

FCM's 2001 Federal Budget Submission elaborates on opportunities for making the current tri-partite Infrastructure Canada program permanent and for increasing investment over the next five years in water, waste diversion, landfill gas and energy infrastructure.

Separate programs are called for to invest in inter-modal, integrated transportation systems, brownfield redevelopment and affordable housing.

FCM is proposing a phased approach, with initial increased investments announced in the 2002 budget and scaling up to proposed levels within five years.

FCM is seeking up to $1 billion per annum in federal investment within five years through Infrastructure Canada for water infrastructure and an additional $700 million in federal contributions to Infrastructure Canada for waste diversion, landfill gas and energy infrastructure investments (for a total of $1.7 billion per year within five years).

New programs would be established to support investments in Inter-modal, integrated transportation systems (up to $1 billion within five years), and affordable housing (up to $1.6 billion within five years).

The Green Municipal Funds would be used to increase feasibility study support for waste diversion, landfill gas, community energy and combined heat/power systems, renewable energy and transportation, as well as the addition of brownfield redevelopment. FCM is seeking an additional $125 million over five years for the Green Municipal Enabling Fund to support this activity. For additional detail on how these activities would contribute to Canada's greenhouse gas reductions goals, see Attachment A.

FCM's position is that sustainable community development is the integrating concept defining a path forward. Our proposal for "A Better Quality of Life Through Sustainable Community Development" identifies additional investments and new approaches to infrastructure funding that would contribute to Canada's Kyoto target, as well as a range of other local and national goals. FCM is also calling on the federal and provincial/territorial governments to collaborate to establish permanent funding to enable long-term planning for human resources capacity development, effective delivery of services and integrated decision making.

Infrastructure Canada

Water

The signals are evident in every region: Canada's supplies of drinking water are at risk. To ensure access to clean, safe water, FCM is calling on the Government of Canada to make the national infrastructure program permanent. The current approach to funding municipal water infrastructure would be phased out so that by the end of the current Infrastructure Program the following would be in place:

- traditional tri-partite program for communities without the revenue-generating capacity to support full-cost pricing;
- revolving funds offering low and no-interest loans for larger urban communities that can over time move to full-cost pricing; and
- a comprehensive package of measures aimed at protecting water sources and water quality.

To achieve these goals, the Government of Canada would increase federal contributions to the current national infrastructure program in 2002 so that by the end of the existing initiative an additional $1.7 billion per year in federal contributions is available. Of this amount, $1 billion a year would be dedicated to water and sewer infrastructure through grants and revolving funds.

Waste Diversion, Landfill gas, Energy Infrastructure

FCM is seeking up to $700 million within five years for non-water municipal infrastructure investments like waste diversion, landfill gas utilization, efficiency retrofits of buildings and facilities, community energy systems and combined heat/power projects to contribute up to one-quarter of the Kyoto target by 2010. FCM is calling on an initial 2002 investment in this area of $70 million. For additional detail on these initiatives see Attachment A.

Integrated, Multi-modal Transportation

The deteriorating state of municipal roads and bridges continues to preoccupy municipal governments at a time when road traffic is rapidly expanding. At the same time, the lack of adequate alternatives, such as urban transit, commuter rail, and cycling and walking infrastructure, contributes to congestion and increasing gridlock affecting the movement of goods, increasing greenhouse gas emissions and creating other health and safety problems in our communities. To begin to address these issues, FCM proposes that the Government of Canada:

- establish a program separate from Infrastructure Canada with up to $1 billion within five years for investments in multi-modal, integrated transportation systems; matching contributions would be required of provincial/territorial and municipal governments (for transportation infrastructure within municipal jurisdiction);
- consider funding its $1 billion contribution by allocating the equivalent of 3 cents/litre of fuel taxes towards multi-modal, integrated transportation systems, and encourage provincial and territorial governments not yet allocating a portion of excise taxes (only British Columbia, Alberta and Quebec at this time to match the federal contribution;
- support municipal governments' investments in comprehensive transportation management plans, including assessments of financial options, low-cost solutions, user fees and vehicle and parking restrictions; and

- commit in the 2002 federal budget to eliminating excise taxes and GST on fuels used in municipal transit systems and to transportation initiatives aimed at increasing the use of public transit as outlined in Attachment A.

In almost all developed economies, national governments contribute to transit. In Canada, the Government of Canada only taxes it.

FCM recognizes the real need to invest in the National Highways System. The proposals outlined here, however, do not include the National Highway System, which must be funded separately from municipal transportation infrastructure.

Brownfield Redevelopment

Brownfields typically are located within developed urban areas or along transportation corridors where municipal services are readily available. As such, they represent lost opportunities for cost-effective economic development and revenue to governments. Brownfields also represent real health and environmental risks from toxics that can become air borne or leach into groundwater. Brownfield redevelopment can contribute to protecting water quality and should be considered as eligible by Infrastructure Canada for projects aimed at protecting water quality.

FCM proposes that the Government of Canada encourage brownfield redevelopment by complementing provincial programs where they exist; where provincial programs do not exist program design should create incentives to strengthen provincial efforts. Taking a comprehensive approach: Revenue Canada, Environment Canada, Public Works, Canada Mortgage and Housing and the Department of Finance all have a role to play in:

- updating Canadian Council of Ministers of the Environment (CCME) remediation criteria and risk assessment/management protocols (Environment Canada);
- amending federal legislation to limit liability associated with site clean up (CCME);
- amending the Income Tax Act to allow capital costs associated with site clean up to be treated as expenses against income in the year incurred (Finance Canada);
- removing crown liens against orphan sites (Revenue Canada);
- providing grants through the Green Municipal Enabling Fund for completion of inventories, risk assessment and community consultation; and
- providing mortgage insurance for brownfield redevelopment where residential development is the priority.

Affordable Housing

Canada's supply of affordable rental housing is rapidly declining as existing units are sacrificed to redevelopment. Further, the private sector has all but abandoned the construction and management of new rental units. In the context of an ever-growing demand from low-income households strong remedial measures must be taken soon without which Canada faces the dire prospect of a profound social and economic crisis. FCM acknowledges the important steps taken recently by the Government of Canada in reducing the Goods and Services Tax on affordable rental housing and in proposing a cost-shared capital grants program to the provinces and territories, but asks that this commitment be taken much further.

FCM proposes a three-part strategy: [1]

1. A flexible grants program:

- a ten-year capital grants program, to reduce financing requirements sufficiently to house primarily core-need[2] households and sufficiently resourced to produce an increment of approximately 20,000 affordable units per year[3], through a combination or new development or acquisition, and approximately 10,000 affordable units per year through rehabilitation and assisted homeownership initiatives;[3]

- a multi-sector advisory group to facilitate effective implementation of any federal/provincial/territorial capital grants program. Alternatively, FCM is prepared to work with the Government of Canada to provide the administrative foundation for a program, on a national basis, or where provinces or territories decline to participate; and

2. Measures to attract new investment:

- a restricted set of changes in tax and mortgage insurance regulations and policy:
  - further reduce the Goods and Services Tax on rental housing;
  - allow rental investors to qualify as small businesses;
  - restore Capital Cost Allowance pooling;
  - create investment pools for affordable housing;
  - customize mortgage underwriting for qualifying non-profit developers;
  - reduce cost of CMHC mortgage insurance for affordable housing;
  - set affordable housing goals for the CMHC Mortgage Insurance Fund; and
  - seek permission to leverage existing equity in the social housing stock.

3. Provincial/territorial shelter and rental assistance initiatives

- income-oriented initiatives (shelter allowances and/or rent supplements) with an annual incremental target of 40,000 households, culminating after ten years with assistance to 400,000 low-income households.

Together these initiatives in water and transportation infrastructure, brownfield redevelopment and affordable housing would advance sustainable development in Canada contributing to real improvements in environmental and health protection, social cohesion and quality of life.

Sharing in the Global Community

Federal program spending should support Canada's role in developing sustainable local communities world wide. Recent trends such as decentralization, urbanization and globalization of economic and socio-cultural forces place enormous stress on local management and service

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1 See the Appendix to this submission for more detail on this strategy.

2 A household in core need must spend 30% or more of its income to access housing which meets minimum standards of size and condition.

3 Up to 5,000 market units may be required to ensure that 20,000 rent geared to income units are delivered in mixed income projects.

delivery capacities

To fight deteriorating conditions in the world's communities, FCM is calling on the Government of Canada to:

- engage Canadian municipalities as active partners in international co-operation policy development, program design and delivery;
- develop a national program for municipal international co-operation to fight the devastation of poverty and infectious disease in African municipalities;
- double its current programming budget for sharing Canadian municipal expertise and knowledge with developing world municipalities with an aim to strengthening local leadership, management and service delivery.

Fiscal Realities

FCM recognizes that needs must be managed in the context of fiscal capacity. The financial contributions FCM is calling for suggest optimal investment levels based both on need and capacity of the economy to absorb increased investment activity. FCM urges the Government of Canada to signal its intentions by ramping up its contribution in the 2002 budget with the goal of reaching these investment levels within five years.

Summary

Together, these initiatives in water, waste, energy and transportation infrastructure, brownfield redevelopment and affordable housing would advance sustainable development in Canada contributing to real improvements in environmental and health protection, social cohesion and quality of life.

INTRODUCTION

The Federation of Canadian Municipalities (FCM) has been the national voice of municipal governments since 1901. FCM is dedicated to improving the quality of life in all communities by promoting strong, effective and accountable municipal government. FCM's membership represents municipalities of all sizes in every province and territory in Canada, embracing 80 per cent of the Canadian population. Since 1987, FCM also has shared its members' expertise in management, governance, and service delivery with municipalities around the world.

FCM's National Board of Directors, comprising 72 elected municipal officials from all regions and types of communities, meets quarterly to set policy objectives. The Directors appoint members to Standing Committees to develop policy positions on key national municipal issues. The FCM Annual Conference provides member delegates the opportunity to debate and vote on policy matters for the coming year.

FCM policy positions are rooted in the wide range of issues faced by municipal governments as they work to meet their responsibilities to protect the health and general welfare of citizens. These include:
- infrastructure;
- transportation and transit;
- environmental protection;
- water supply and wastewater treatment;
- solid waste management;
- economic development;
- land use and management;
- public health;
- affordable housing;
- community safety and crime prevention; and
- race relations and social cohesion.

Municipal leadership and services in these areas of responsibility anchor sustainable community development and this nation's quality of life. These anchors are increasingly vulnerable as municipal governments face new responsibilities, growing and diverse populations, and diminishing financial resources.

Local government revenue rose only 7.7 per cent over the past five years, compared with Government of Canada revenue increases of 33.2 per cent, and provincial/territorial increases of 26.1 per cent over the same period. Population growth in the largest urban centres during the same period was 7.5 per cent: the stark reality is that municipal governments are not keeping pace.

Municipal leaders are struggling to manage crumbling municipal infrastructure, a national crisis in affordable housing, air, water and soil pollution and climate change, all within the context of a rapidly evolving and more competitive global economy. A concerted effort is needed from all orders of government to implement long-term, integrated solutions. The way forward must be based on a unified commitment to sustainable community development.

MUNICIPAL GOVERNMENTS AND THE CANADIAN ECONOMY

Municipal government is the order of government that is closest to citizens' daily lives. Canada's 4,000 municipal governments have a direct influence upon the environmental, economic and social factors that define the quality of community life.

In managing these assets and providing community services, municipal governments spent more than $45 billion in 2000, accounting for 10 per cent of all government spending. Municipal governments employed 247,000 Canadians in 2000, more than any other order of government. Capital spending by municipal governments is expected to top $8.3 billion in 2001, accounting for over 50 per cent of all public capital investment this year. [4]

Municipal governments finance the operation, rehabilitation and replacement of their assets through a combination of general taxes, user fees, and debt financing. With few exceptions, municipal taxing powers are limited to property taxes, which account for nearly 55 per cent of all municipal revenues. User fees are paid by the direct beneficiaries of a service, and are commonly used to support water infrastructure, public transit, and recreation programs. In setting user fees, municipal governments must take into account equity issues to ensure low-income residents have access to services. In general, user fees constitute the second largest source of revenues for operating infrastructure facilities.

Municipal duties and responsibilities are carried out within a legislative framework prescribing requirements for decision-making and revenue-raising capabilities. Long-term infrastructure planning undertaken by each community is based on comprehensive growth management strategies and fiscal forecasting. Temporary funding programs can disrupt municipal planning cycles and undermine the ability to carry out integrated planning and service delivery. Permanent funding sources are needed to accommodate planned development and support clearly stated municipal objectives.

A Vision for Communities

FCM undertook a study during the summer of 2001 to better understand the goals and visions of Canadian municipalities for the next ten to 20 years. Focusing on long-term growth strategies and related economic, environmental and social objectives, the study reviewed the development and land-use plans of 30 municipal governments and surveyed more than a dozen in depth.

What is striking is the number of principles in common among the cities surveyed (e.g., sustainable development), goals (e.g., quality of life), and even specific objectives (e.g., reduced reliance on private vehicles for transportation). The following principles are typical of those found in vision statements and/or other parts of the municipal plans reviewed:

- Sustainable development
- Healthy communities
- Efficiency
- Democratic decision-making (i.e., participation of the public)
- Social diversity/inclusion

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[4] Statistics Canada, Public and Private Capital Expenditures, Government Services, August 2001.

- Quality of life

Further, a majority of municipalities set specific objectives relating to:

- Transportation: the desire to reduce dependency on the automobile; increase use of public transit and other modes of transportation (i.e., bicycle, walking).

- Urban form and land use: to revitalize downtown cores; to foster opportunities to walk to work and recreation areas; and to plan for "smarter" growth to avoid urban sprawl.

- Environment: to preserve green spaces, agricultural land, wildlife, and cultural heritage; to reduce energy consumption.

- Economy: to foster a diversified and healthy economy, increase employment opportunities, and reduce inequality**.**

While implementation strategies vary among the municipalities surveyed, nearly all interviewees identified inadequate financial resources as a key barrier to meeting municipal objectives – especially in areas such as environmental and public transit infrastructure. Many respondents further described the existing limitations on municipal revenue-generating activities, stressing their over-reliance on property taxes.

Vibrant Communities: What's at Stake

In addition to serving the same taxpayer, federal and municipal governments share many policy objectives, including:

- creating a climate where innovation can flourish, where businesses can grow, and where the new economy workers want to live, work, and play;
- assuring a clean, healthy sustainable environment by slowing the rate of climate change, cutting air and water pollution and cleaning contaminated soils;
- the provision of safe, efficient, and adequate infrastructure: clean water and transportation choices;
- the availability of affordable housing to meet the needs of a diverse population;
- equality of access to community services;
- welcoming new Canadians and helping them settle;
- increasing citizen involvement and citizen engagement;
- providing the best possible community and education services to children and youth; and
- supporting seniors, particularly in health and community support services.

The 2001 Speech from the Throne described the Government's intentions regarding a clean, healthy environment and the preservation of our natural spaces; strong and safe communities; and a world-leading economy driven by innovation, ideas and talent. Achievement of these goals will depend on the leadership of all orders of government to foster strong and healthy local communities.

MUNICIPAL GOVERNMENTS AND SUSTAINABLE COMMUNITY DEVELOPMENT

Municipal governments across Canada have shown strong leadership in sustainable community development, notably on climate change. Commitments to greenhouse gas reductions are expressed through specific strategies and targets, in line with the Partners for Climate Protection program, as well as through municipal participation in international climate negotiations and political support from more than 300 communities for ratification of the Kyoto Protocol.

FCM's Partners for Climate Protection (PCP) Program includes 90 communities representing more than half of Canada's population. By the end of this fiscal year, 100 communities are expected to have joined the program. Municipal governments' interest in PCP reflects a growing understanding that actions to reduce greenhouse gas emissions address local priorities: saving money, creating jobs, improving efficiency and productivity, protecting public health and increasing quality of life while also contributing to global solutions. The fact that investments in building retrofits, water conservation, waste diversion, community energy systems, combined heat and power, renewable energy, and transit also generate greenhouse gas emission reductions is a happy co-benefit of doing what makes sense for the community.

Defined from the sustainable development perspective, the benefits are:[5]

1. Capital stock: efficient use of resources, lower operating costs, increased innovation and productivity through the use of new technologies;
2. Human capital: professional and skills development from incorporating new management practices, learning to install and operate new technologies and processes;
3. Natural capital: cleaner air, water and soil and climate protection, more green space, reduced heat island effect; and
4. Social capital: job creation in growing new technology sectors, higher quality of life through increased livability of communities and increased community engagement in solutions.

Under the Kyoto Protocol in 1997, Canada committed to reducing greenhouse gas emissions 6 per cent below 1990 levels by 2012. The successful outcome of the July 2001 climate negotiations on the operating rules for the Kyoto Protocol has led the Prime Minister to indicate that Canada is likely to ratify the Protocol in 2002, following a period of consultation.

Municipal governments, through their participation in the national post-Kyoto consultation process, believe that investments focused on achieving sustainable community development could contribute up to a quarter of Canada's greenhouse gas reduction target, or approximately 50 million tonnes (of at least 200 million tonnes required). These reductions can be achieved while contributing to other national goals on air and water quality, innovation, productivity and social cohesion.

The focus on green infrastructure and the establishment by the Government of Canada of the Green Municipal Funds in the 2000 federal budget was recognition of this municipal potential. To deepen the level of investment, FCM now urges the Government of Canada, in partnership with provincial/territorial governments, to set a target of achieving one-quarter of Canada's greenhouse gas reduction target through investment in sustainable community development. Experience gained at home could then be used to invest in sustainable community development in developing countries with associated carbon credits accruing to Canada.

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[5] Sustainable development expands the definition of capital stock to include human capital (skills), natural capital (natural resources and biodiversity) and social capital. Sustainable development is equivalent to investment in this composite stock of capital. (Climate Change 2001, Mitigation, Contribution of Working Group III to the Third Assessment Report of the Intergovernmental Panel on Climate Change: Climate Change and Sustainable Development, page 93.)

FCM's position is that sustainable community development is the integrating concept defining a path forward. Our proposal for "A Building a Better Quality of Life Through Sustainable Community Development" identifies additional investments and new approaches to infrastructure funding that would contribute to Canada's Kyoto target, as well as a range of other local and national goals.

Central to building sustainable communities is the human capital skills development required to incorporate new management practices, integrate new technologies and provide services in a manner consistent with the quality of life expectations of Canadians. The recent initiative by HRDC to begin assessing the human resource capacities and capacity gaps in Canadian municipalities is a first step towards skills development programs to support the changing demands on human capital in meeting the needs for sustainable communities in Canada. FCM calls on the Government of Canada, in co-operation with the provincial and territorial governments, to provide sustained funding of a human resources development program that will allow Canadian municipalities to support sustainable communities through efficient and innovative service delivery and management practices.

For details on how the greenhouse gas goals would be achieved see Attachment A.

PRIORITIES FOR INVESTING IN CANADA'S COMMUNITIES

The Government of Canada's 2000 budget responded to FCM's proposals by committing $2.05 billion over six years to a new national infrastructure program and by establishing the Green Municipal Funds. Both programs emphasize green infrastructure, with the latter profiling high levels of performance improvement and innovation by demonstrating new technologies and processes. The aim is to establish, over time, these new approaches as standard operating practice thereby increasing overall environmental performance of municipal infrastructure.

Relative to the infrastructure program, the Green Municipal Funds are small, but can generate best practice results from up to 100 feasibility studies and 10 – 15 projects per year. As of August 2001, FCM had approved 115 Green Municipal Fund projects. To date, the Green Municipal Funds have committed $5,265,923 in grants and $3,402,500 in loans (107 Enabling Fund; 8 Investment Fund) for a total project value of $42,539,712.

The infrastructure program, based on tri-partite partnerships among federal, provincial/territorial and municipal governments, supports investments that:

- enhance the quality of Canada's environment
- support long-term economic growth
- improve community infrastructure
- build 21st century infrastructure through best technologies, new approaches and best practices.

FCM, in partnership with the National Research Council of Canada (NRC), is committed to facilitating the improvement of community infrastructure through the development of a municipal infrastructure guide. With funding support from the Infrastructure Program, work on the guide is underway, identifying best practices in decision-making and proven technology for infrastructure construction, maintenance and rehabilitation.

These are positive first steps. The municipal infrastructure initiatives announced in the millennium budget, however, are limited relative to need.

The needs are significant:

- To assure safe potable water, tens of $billions are needed for upgrades to drinking water treatment facilities and distribution systems. [6,7]
- More than 1.5 million Canadians live in communities that dump untreated wastewater into rivers and oceans, and 5 million more live where major improvements are needed to upgrade very basic sewage treatment facilities;
- Local roads, owned and maintained by municipal governments total 655,000 km, account for two-thirds of the country's entire road network. Yet, the federal and provincial and territorial governments are collecting $14.3 billion in road-related revenues, with very few of these dollars invested in local roads.
- $9.2 billion over the next five years is the estimated need for capital investment in public transit, primarily for buses, rail cars, stations, and other facilities. (Canadian Urban Transit Association)
- The summer of 2000 generated more smog advisories in cities across Canada than ever before. The health costs of air pollution in Ontario will be over $1 billion in 2000, and governments must advance their action plans on smog to ensure that public health is protected. [8]
- Canada has an estimated 3,000 contaminated industrial sites, including decommissioned refineries, railway yards, abandoned gas stations, former dry cleaners, and others.
- One in five Canadian households, an estimated 1.7 million people, are in need of housing. These households comprise mainly families with children, senior citizens and aboriginal Canadians.

To address the infrastructure investment deficit, FCM calls upon the Government of Canada, in collaboration with provincial/territorial and municipal governments to:

- **Make the Infrastructure Canada program permanent and include the following new elements:**
  - **a) increase investment in water and sewer infrastructure by expanding funding approaches to include revolving funds offering low and no-interest loans and grants, as well as tri-partite contributions. Contributions would be targeted to meet the specific needs of small and rural communities, while revolving funds would meet the needs of larger urban centres;**
  - **b) commit to a comprehensive package of programs and grants aimed at protecting water sources and water quality; and**
  - **c) increase investment in energy and waste systems infrastructure to meet greenhouse gas objectives (See detail in Attachment A).**
- **Fund separately investment in public transit and commuter rail to better move people;**

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6 AMO Municipal Action Plan – Protecting Ontario's Water, June 2000.

7 Un projet de société pour le Québec de l'an 2000. Mémoire présenté par la Coalition pour le renouvellement des infrastructures du Québec. Août 1999.

8 The Illness Cost of Air Pollution, Ontario Medical Association, June 2000.

road and rail infrastructure to better move freight as part of a national multi-modal integrated transportation system.

- **invest in a comprehensive program for the redevelopment of brownfields by expanding eligibility and resources available from the Green Municipal Funds.**
- **Implement new funding mechanisms for affordable housing.**

PRINCIPLES FOR INVESTMENT

FCM believes that the following principles should guide development of the proposed initiatives:

1. **Municipally driven:** Communities are in the best position to determine their needs and set local priorities. Municipal governments should:
   - sponsor projects;
   - have access to program funding to support all types of infrastructure (physical, environmental, social, and cultural);
   - be represented on project selection committees.

2. **Sustainable long-term solutions: Permanent** funding solutions for infrastructure are needed to ensure municipal goals for sustainable communities are achievable.

3. **Fairness:** Municipal governments, whether large or small, should have equitable access to funding in order to meet community priorities. Recognizing the diversity that is Canada, new programs and new funding mechanisms must incorporate options to suit geo-political variations.

4. **Helping those in greatest need:** The needs of the most vulnerable Canadians should be taken into account when designing funding programs. Income, physical ability, age, or ethnicity should not be barriers to accessing publicly funded services. This is particularly relevant to initiatives supporting the creation of a new supply of affordable housing.

5. **Accountability:** Each participating order of government must be accountable for its contribution to program funding. Municipal governments will identify and implement low-cost solutions first (e.g. – user pay); identify opportunities for full-cost pricing (water, wastewater systems, for example); and then identify outstanding gaps in funding. The Government of Canada, in collaboration with provincial and territorial governments, will design flexible funding programs taking into account all of these nine principles.

6. **Fiscal choice: Program** spending should be designed to allow for the use of innovative financing mechanisms to match project needs, and may include such instruments as tax incentives, revenue sharing, grants, and loans. For example, grants are appropriate for projects that will produce societal benefits beyond those that could be obtained only with municipal resources.

7. **Continuous improvement:** Investments should aim to drive continuous improvement, while supporting multiple community objectives. Communities that have managed their infrastructure to achieve environmental health, social or economic goals should be rewarded with incentives to go beyond business-as-usual to the best available practices.

8. **Partnerships:** Program spending and policy changes should encourage partnerships and investment from other orders of government and the private and non-profit sectors.

9. **Sharing in the Global Community** Program spending should support Canada's role in supporting sustainable local communities world- wide. Recent trends place enormous stress on local management and service delivery capacities. Poverty and disease further undermine local sustainability.

NEW PROGRAM ELEMENTS

FCM's proposal for "A Better Quality of Life Through Sustainable Community Development" targets investments that can generate significant public health and environmental benefits. From an economic perspective, incremental spending of this magnitude produces a larger economy, greater employment, and increased incomes for households and businesses in the short term. Longer-term positive effects on the economy may be generated by a larger and better-trained labour-force and increased capital stock (plant and equipment) of business.

A strengthened national partnership is needed to create a stable framework for investment in Canada's communities, bringing together federal, provincial, territorial and municipal governments and the private and not-for-profit sectors. The focus should be on six priority areas for investment, each requiring a tailored response:

1. Water Infrastructure
2. Waste Diversion, Landfill gas, and Energy Infrastructure
3. Integrated Multi-modal Transportation, including Public Transit
4. Brownfield Redevelopment
5. Affordable Housing
6. Canada in the Global Community

WATER INFRASTRUCTURE

Long-term planning cycles are the cornerstone of sound infrastructure investments. The lack of permanent, reliable funding sources is a barrier not only to good fiscal management, but also to sustainable community development.

Additional funding and a new comprehensive approach is urgently needed to ensure safe potable water for citizens through investments in treatment facilities, distribution systems, watershed management, source protection, water testing and training. Wastewater system investments are also required to ensure compliance with new regulations under the Canadian Environmental Protection Act to cut chloramines and ammonia in effluent.

FCM has examined financing mechanisms for infrastructure in the United States and Europe and compared them to options used in Canada.[9] Two of the most interesting tools for funding permanent water infrastructure programs in the United States are:

- permanent revolving funds that encourage sustainable asset management, including full-cost pricing (municipalities must have the revenues to repay the low or no-interest loans) based on life-cycle assessment (for additional detail see Appendix One); and

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- special purpose grants to support municipalities that do not have the critical population or revenue mass to support full-cost pricing.

FCM is calling on the Government of Canada to consider using these kind of mechanisms to establish permanent water infrastructure programming. The current approach to funding water infrastructure would be phased out over the life of the current Infrastructure Canada program to be replaced with: a traditional tri-partite grant approach for communities without the revenue-generating capacity to support full-cost pricing (there are core costs born by all communities regardless size where full-cost pricing could be extremely onerous for rate payers) and revolving funds for larger urban communities that can, over time, move to full-cost pricing. The Government of Canada would capitalize the revolving funds. In the U.S., federal capital is provided to states that in turn establish the revolving funds. The same approach may be viable in Canada.

A phased-in approach to full-cost pricing is required because few communities in Canada currently cover the full capital and operating costs of providing water and sewer infrastructure through water rates. Changes in water pricing are politically challenging. Time will be needed to implement changes in approach, to build public support and to ensure information campaigns are in place to assure the public they are not being charged for water, but rather the infrastructure to provide water that is safe for public consumption and the environment.

Finally, the new program would also include grants, available to any Canadian community, to undertake watershed planning, water source inventory and protection strategies, and operator training and alternative treatment processes.

The proposed approach to water infrastructure may be applicable to other municipal infrastructure. Analysis will be undertaken throughout 2001-2002 for consideration in the 2003 federal budget on these additional opportunities. The aim is to have in place an agreement on a range of approaches for funding permanent infrastructure investment programs before the end of the current program.

FCM is calling on the Government of Canada to make the Infrastructure Canada Program permanent. The current approach to funding municipal water infrastructure would be phased out so that by the end of the current Infrastructure Canada Program the following permanent mechanisms would be in place:

- **traditional tri-partite contributions for communities without the revenue-generating capacity to support full-cost pricing;**
- **revolving funds offering low and no-interest loans for larger urban communities that can over time move to full-cost pricing; and**
- **a comprehensive package of programs and grants aimed at protecting water sources and water quality.**

To achieve these goals, the Government of Canada would in the 2002 budget increase the federal contribution to the Infrastructure Canada so that by the end of the existing initiative $1.7 billion per year in federal contributions is available. Of this amount, $1 billion a year would be dedicated to water and sewer infrastructure through grants and revolving funds.

INTEGRATED, MULTI-MODAL TRANSPORTATION SYSTEMS

Highways, local and regional roads, rail, and urban transit systems are critical to competitiveness and economic viability. The Canada Transportation Act Review Panel underscores this:

> An efficient and effective transportation system is vital to the economic development of the regions and the whole country… and it is vital to the functioning of urban regions, where much of the wealth is produced in a new economy. (June 2001)

The deteriorating state of municipal roads and bridges continues to preoccupy municipal governments at a time when road traffic is rapidly expanding. Recent forecasts anticipate auto use will outpace population growth in the next 15 years. At the same time, the lack of adequate alternatives, such as urban transit, commuter rail, and cycling and walking infrastructure, contributes to congestion, affects the movement of goods, increases greenhouse gas emissions, and creates other healthy and safety problems in our communities.

According to the Canadian Urban Transit Association (CUTA), overall government investment in transit in Canada has declined 25 per cent over the past five years. This, compounded by recent growth in ridership, has led to reduced service and fare increases making transit less attractive and accessible. CUTA estimates Canadian transit infrastructure needs at some $9.2 billion over the next five years, mostly in the form of buses, rail cars, stations and other facilities.

The post-Kyoto consultation process identified urban transportation as a major area in which new policies and actions would be needed to help meet greenhouse gas emission reduction targets. Approximately one-third of the potential greenhouse gas reductions identified by the Transportation Table were from urban transport measures (13.8 Mt out of 42.6 Mt in reductions identified) in 2010.

The transportation sector contributes more than one-quarter of Canada's greenhouse gas emissions and a significant component of the pollutants causing smog. Groups as diverse as the Canadian Automobile Association (CAA) and the Canadian Urban Transit Association are united in their commitment to sustainable transportation. In their presentation to the Canada Transportation Act Review Panel, the CAA notes that "simply driving more fuel-efficient vehicles or smoothing traffic flow cannot achieve this (*sustainability*). "

HLB Decision Economics Inc. in a paper for the review of the Canada Transportation Act, notes that the economic benefits from transit, which tend to exceed its costs, spring from three sources: congestion management, affordable mobility and the management of urban land-use (sprawl).

> "Among the main modes of transit, bus systems yield the highest and most consistent economic rates of return (in the region of 10 – 30 per cent). Investments in rail can yield acceptable economic rates of return (in the range of 8 to 10 per cent after inflation). Rail investment in highly congested urban corridors can outperform highway expansion; corridor-level highway expansions yield economic rates of return in the region of four to six per cent.
>
> …the market's failure to internalize the costs of road congestion (including social and environmental costs) yields a quantitatively significant rationale for subsidy. Total transit subsidy (capital and operating) from all levels of government in 2000 was $2.1 billion; HLB estimates the optimal subsidy for that year at $5.7 billion. . .. In the absence of road pricing (namely, the internalization of the congestion externality), Canada is under-spending on transit by a factor of almost three."

Transportation-related revenues to the federal and provincial and territorial governments are considerable. In 1998-99, for instance, users paid an estimated $6.8 billion in provincial and territorial special motor fuel taxes, $4 billion in federal excise taxes on road fuels, and $3.5 billion in vehicle registration, driver licence fees, and tolls. With few exceptions, (Alberta, Québec, and British Columbia), none of these revenues are invested in public transit. Furthermore, in more than half the provinces and territories, municipal governments are fully responsible for public transit funding.

Canada's transportation infrastructure needs are great. FCM proposes that the Government of Canada:

- **establish a program, separate from Infrastructure Canada, with up to $1 billion per year within five years for investments in multi-modal, integrated transportation systems, with a matching contribution from provincial/territorial and municipal (for transportation infrastructure within its jurisdiction) governments;**
- **consider funding its $1 billion contribution by allocating the equivalent of 3 cents/litre of fuel taxes towards multi-modal transportation systems, and that provincial and territorial governments not yet doing so be encouraged to match the federal contribution;**
- **support municipal government investments in comprehensive transportation management plans, including assessments of financial options, low-cost solutions, user fees and vehicle and parking restrictions; and**
- **commit in the 2002 federal budget to eliminating excise taxes and GST on fuels used in municipal transit systems and to transportation initiatives aimed at increasing the use of public transit as outlined in Attachment A.**

BROWNFIELD REDEVELOPMENT

Contaminated sites (brownfields) are vacant properties where past activities have caused real or suspected environmental contamination. Typically, brownfields are located within developed urban areas or along transportation corridors where municipal services are readily available. As such, brownfields represent lost opportunities for economic development and revenue to governments. Brownfields also represent real health and environmental risks from toxics that can leach into groundwater. Brownfield redevelopment can contribute to water quality protection and should be considered as eligible by Infrastructure Canada for projects aimed at protecting water quality.

Redevelopment of brownfields also can reduce congestion, greenhouse gas emissions, and air pollution through reduced greenfield development and urban sprawl. Redevelopment also makes efficient use of existing infrastructure and lowers long-term capital costs.

FCM has extensively surveyed municipal government officials on the barriers they face in redeveloping brownfields. Preliminary results indicate that the greatest barriers are:

- lack of public funds (from all orders of government)
- lack of knowledge about the value of redeveloping brownfields
- lack of a co-ordinated program or policy framework across the country

This varies slightly from what was expected at the outset. Most successful redevelopments occurred where a public inventory of the sites was done and municipalities had a clear policy for redevelopment.

FCM is collaborating with the National Round Table on the Environment and Economy (NRTEE) on assessing brownfield redevelopment options. Background research for the NRTEE federal budget submission has identified a number of Government of Canada opportunities to support brownfield redevelopment. FCM endorses these proposals, including:

Taking a comprehensive approach: Revenue Canada, Environment Canada, Canada Mortgage and Housing, Public Works and the Department of Finance all have a role to play in:

- **updating Canadian Council of Ministers of the Environment (CCME) remediation criteria and risk assessment/management protocols (Environment Canada);**
- **amending federal legislation to limit liability associated with site clean up (CCME);**
- **amending the Income Tax Act to allow capital costs associated with site clean up to be treated as expenses against income in the year incurred (Finance Canada);**
- **removing crown liens against orphan sites (Revenue Canada);**
- **providing grants through the Green Municipal Enabling Fund for completion of inventories, risk assessment and community consultation; and**
- **providing mortgage insurance for brownfield redevelopment where residential development is the priority.**

Government of Canada involvement and support for brownfield redevelopment should be undertaken so that it complements provincial programs where they exist, and provides incentives for provinces to strengthen efforts where they do not.

FCM research has found that municipalities could employ a range of tools to help redevelop brownfields, but to date uptake is low. These tools include:

- Grants
- Loans
- Tax Increment Equivalent Grants or Loans
- Refunds
- Waivers
- Developer exemption from development charges and impact fees
- Research and Development; Pilot Projects
- Liability agreements with the province
- Liability insurance
- Ownership transferred into a trust
- Official Plan Amendments
- Rezoning

Communities that have succeeded in redeveloping brownfields have an inventory of sites, a clear policy in support of brownfield redevelopment, and an assistance package to accompany it.

The City of London, for example, has completed an inventory of its orphan sites. It labeled these as "sites that are a priority to redevelop" and offered to provide tax relief up to the cost of the clean up. This strategy was clearly outlined in a resolution adopted by council. The approach, coupled with liability agreements with the province, engaged the private sector. FCM's conclusion is that:

- Municipalities need an initial push to get the "ball rolling". Experience has shown that the best way to do this is through establishing inventories and providing legislative certainty and clarity.

- A grant program to needed to support feasibility studies, inventories and community outreach and consultations. Community outreach and consultations serve to dispell myths and uncertainties about the contamination and redevelopment of the land.

FCM is calling on the Government of Canada to commit to a comprehensive approach to brownfields redevelopment where Revenue Canada, Finance Canada, Environment Canada, Public Works and Canada Mortgage and Housing each undertake to advance brownfields redevelopment within their jurisdiction. The federal program should be designed to complement and enhance provincial initiatives.

For fiscal 2001-2002, FCM is calling for an expansion of the Green Municipal Enabling Fund (GMEF) by $25 million a year for five years ($125 million) to meet strong municipal demand for feasibility studies in the areas of water, transit, waste and energy and to support brownfield redevelopment.

Project implementation is the focus of the Green Municipal Investment Fund (GMIF). Brownfield redevelopment projects could be supported by broadening eligible categories to include brownfield redevelopment.

As of the August 2001, FCM had approved 115 projects. Of these, 29.6 per cent fall into the energy category, 40 per cent in water, 22.6 per cent waste; 4.3 per cent transit and 3.5 per cent are in the integrated category (community energy plans, greenhouse gas inventories).

To date, the Green Municipal Funds have committed $5,265,923 in grants and $3,402,500 in loans to 115 projects (107 Enabling Fund; 8 Investment Fund) for a total project value of $42,539,712. Of these amounts, $3,380,694 has been committed in grants and $2,750,000 in loans so far in fiscal 2001-2002. FCM has set a national target of $5 million in grant disbursements from the Enabling Fund and $10 million from the Investment Fund for fiscal 2001 – 2002.

Council will meet again in November 2001 and so is likely to reach the national target for the Enabling Fund. A number of projects are in the development stage for the Investment Fund and FCM is confident the national target can be met for fiscal 2001-2002. The Green Municipal Fund Annual Report will be released in early October.

A NATIONAL AFFORDABLE HOUSING STRATEGY

Through the 1990's the number of Canadian households experiencing difficulty finding affordable housing dramatically increased. During this decade real disposable incomes at low-income levels have stagnated or declined while rent levels have increased much faster than general inflation, leaving less income to cover shelter costs.

- One in five households, or 1.7 million Canadians, is estimated to be in housing need. These households comprise mainly families with children, senior citizens and aboriginal Canadians.
- More people are in <u>dire</u> need – one in five renter households pays more than 50 per cent or their income on housing.
- New rental construction has plummeted from 25,000 units annually in the 1980's to less than 8,500 units in the 1990's. Vacancy rates have tightened from a national average of 4.8 per cent in 1993 to 2.6 percent in 1999.
- The supply problem is most serious in the "affordable" end of the housing market. From 1991 to 1996 the number of affordable units declined by 310,000 due mainly to rent increases. A bigger crunch is coming, as the demand for affordable units is expected to increase significantly over the next ten years.

In recent years reports of homeless individuals dying on the streets have mounted. But homelessness is the tip of the iceberg. For every homeless person visible on the street, four families are at risk of losing their homes because they cannot afford the rent.

FCM proposes a three-part strategy: [10]

1) A flexible capital grants program:

Aimed at the immediate shortage and projected increase in need over the next decade, FCM proposes:

- **a ten-year capital grants program, to reduce financing requirements sufficiently to house**

primarily core-need [11] **households and sufficiently resourced to produce an increment of approximately 20,000 affordable units per year**[12] **through a combination or new development or acquisition, and approximately 10,000 affordable units per year through rehabilitation and assisted homeownership initiatives**[13]

This program would represent a substantial revision of the current federal Affordable Rental Program proposal.

Based on the accountability of municipal government, the FCM program would support locally designed responses. Provincial/territorial contributions and participation in this program are needed, but the FCM proposal is structured to stand without this support. FCM proposes:

- **a multi-sector advisory group to facilitate effective implementation of any federal/provincial/territorial capital grants program. Alternatively, FCM is prepared to work with the Government of Canada to provide the administrative foundation for a program, on a national basis, or where provinces or territories decline to participate.**

Through this body, coordination with programs related to health, seniors and children's wellbeing could provide the necessary housing element of a continuum of care.

A significant contribution of resources by municipal governments is integral to this plan. Municipalities will continue to participate through contributions of capital, land, reduction of fees, and zoning and regulatory changes and to identify other means by which to assist development.

2) Measures to attract new investment:

FCM proposes a restricted set of changes in tax and mortgage insurance regulations and policies related to investment in rental properties and lending that would enable the private sector to begin to re-enter the field of affordable housing and aid the efforts of the non-profit sector. FCM proposes:

- **a restricted set of changes in tax and mortgage insurance regulations and policy:**

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10 See the Appendix to this submission for more detail on this strategy.

11 A household in core need must spend 30% or more of its income to access housing which meets minimum standards of size and condition.

12 Up to 5,000 market units may be required to ensure that 20,000 rent geared to income units are delivered in mixed income projects.

13 25 Over and above the temporary expansion of the Residential Rehabilitation Assistance Program specifically oriented to homelessness.

- further reduce the Goods and Services Tax on rental housing;
- allow rental investors to qualify as small businesses;
- restore Capital Cost Allowance pooling;
- create investment pools for affordable housing;
- customize mortgage underwriting for qualifying non-profit developers;
- reduce cost of CMHC mortgage insurance for affordable housing;
- set affordable housing goals for the CMHC Mortgage Insurance Fund; and
- seek permission to leverage existing equity in the social housing stock.

An advisory group, or alternatively, a foundation-based administrative body, as proposed in connection with the capital grants program, could act as a catalyst and focal point for ongoing development of further non-governmental support for affordable housing.

Through this approach, a response to an immediate problem can lead to a sustainable long-term policy, involving less government participation than in the past.

3) Provincial/territorial shelter and rental assistance initiatives

The FCM strategy recognizes the primary importance of the provinces and territories in income support and housing. Enhanced shelter allowances or rental assistance by provinces and territories would greatly increase the reach of a capital grants program and provide a major component of a long-term strategy. FCM proposes:

- ♦ **income-oriented initiatives with an annual incremental target of 40,000 households annually, culminating after ten years with assistance to 400,000 low-income renters.**

CANADA AND THE GLOBAL COMMUNTIY

Municipal management, service delivery and local governance are the cornerstones of sustainable community development throughout the world. Decentralization programs have increased municipal responsibilities and expanded the role of municipal government in a nation's development. In tandem with decentralization, a worldwide increase in local democracy has placed municipal government at the centre of democratic development and public engagement in civic affairs. Together, these trends have increased the stress on local management and service delivery capacities.

Exacerbating the strain on local capacities, globalizing forces of economic and socio-cultural development have reduced the ability of authorities to manage local social and economic conditions. Demographic shifts, leading to an urbanized world where two thirds of the global population will live in urban areas by 2025, place significant additional stress on local environmental, economic and social conditions. [14]

[14] Proposal: Phase 4 Program, UNCHS-Habitat Urban Management Program, 2000, page 4

Local capacities to provide leadership, deliver services and manage local social and economic conditions are seriously weakened by these trends, thus limiting the capacity of municipal government to respond to its central role in sustainable community development.

In 1987 the Government of Canada, ahead of most other industrialized nations, recognized the growing importance of municipal government worldwide and began supporting international co-operation at the municipal level. Canada has become a leader in sharing municipal knowledge and expertise to strengthen the capacities of developing world municipalities. Since 1987, CIDA has expanded its program of support to municipal governments worldwide through projects implemented by a variety of Canadian organizations, institutions and private sector firms. CIDA has also

expanded its work in this field through co-operation with, and contributions to the World Bank and other multilateral agencies.

Recent estimates, place CIDA contributions to municipal capacity development at less than 10 per cent of its total program budget.

Growing stress on municipalities resulting from global trends, exacerbated by the devastating impacts of increasing urban poverty demands an increase in Canada's effort to share its municipal knowledge and expertise with the developing world. Populations of inner city slums and squatter settlements are growing in size at almost double the rate of the average city population growth rates. Large populations do not have access to safe drinking water, and many lack proper sewage facilities and nearly 50 per cent of the solid waste of an average developing world city remains uncollected on city streets. [15]

These conditions of poverty are accompanied by serious health problems. Nowhere is this more critical than in Africa where infectious disease, particularly HIV/AIDS is devastating local populations. In Sub Saharan Africa 25.3 million people are living with AIDS[16]. In Botswana and Zimbabwe 25 per cent of young adults are HIV positive.[17] Municipal governments face unprecedented challenges as poverty and disease dramatically change the management, governance and service delivery needs of local communities.

To respond to these growing needs Canadian municipalities such as Vancouver, Edmonton, Toronto, and Quebec City have voluntarily established a Steering Committee to develop strategies and project ideas to assist African municipalities in the fight against HIV/AIDS.

While many of these issues are in far away places, Canada will be a less secure in a world characterized by poverty and unsustainable development. Canada will not be able to maintain the quality of its environment if the global environment deteriorates under the pressure of rapidly growing populations and unsustainable development. Our prosperity and health, being directly linked to global economics and demographics will be undermined if large numbers of the world's population remain mired in poverty and disease.

To fight the deteriorating conditions in the world's municipalities and the growing

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[15] *Proposal: Phase 4 Program, UNCHS-Habitat Urban Management Program, 2000, page 8*

[16] The Global Strategy Framework on HIV/AIDS, UNAIDS, 2001, page 3

[17] CIDA's HIV/AIDS Action Plan, 2000, page 3

devastation of poverty and infectious diseases, FCM is calling on the Government of Canada to:

- **engage Canadian municipalities as active partners in international co-operation policy development, program design and delivery;**

- **develop a national program for municipal international co-operation to fight the devastation of poverty and infectious disease in African municipalities; and**

- **significantly increase its current programming budget for sharing Canadian municipal**

expertise and knowledge with developing world municipalities with an aim to strengthening local leadership, management and service delivery.

CONCLUSION

Together, these initiatives in water and transportation infrastructure, brownfield redevelopment, affordable housing and sharing in the global community would advance sustainable development in Canada and globally, contributing to real local improvements in environmental and health protection, social cohesion and quality of life.

These programs would make a significant contribution to additional national goals, including advancing innovation through investment in new technology and processes as well education and training; greenhouse gas reductions to meet the Kyoto Protocol targets; and clean water, air and soil.

SUMMARY OF INVESTMENTS

FCM recognizes that needs must be managed in the context of fiscal capacity. The following figures suggest optimal investment levels based both on need and capacity of the economy to absorb increased investment activity. FCM urges the Government of Canada to signal its intentions by ramping up its contribution in the 2002 budget with the goal of reaching the following investment levels within five years.

WATER INFRASTRUCTURE

Infrastructure Type	*Benefits*	*Proposed Investment Total after five years (Annual, $ Billions)*	
		Federal	Other governments
Potable Water Systems	Safe potable water, improved public health, metering for full cost pricing	500	1.000
Wastewater Systems	Reduced emissions of metals, organic chemicals, nutrients and other pollutants, improved quality of aquatic environment	500	1.000
Building/facilities retrofits, waste management, landfill gas utilization, community energy systems, (For additional detail see Appendix A) recreation	Ghg and smog precursor reductions, safe, cleaner groundwater	700	700
ANNUAL FEDERAL CONTRIBUTION WITHIN FIVE YEARS			**$1.7 billion**

INTER-MODAL, INTEGRATED TRANSPORTATION: SEPARATE PROGRAM FROM INFRASTRUCTURE CANADA

Infrastructure Type	*Benefits*	*Proposed Investment Total after five years (Annual, $ billions)*	
		Federal	Other Governments
Multi-modal systems: • freight and commuter rail; • public transit; • cycling & walking lanes; • municipal roads, bridges.	Increased productivity and competitiveness, access to goods and services, enhanced public safety, improved air quality.	1.000	1.000
ANNUAL FEDERAL CONTRIBUTION EQUIVALENT TO 3 CENT GAS TAX		$1 billion	

BROWNFIELD REDEVELOPMENT

Program	Benefits	Proposed Investment Total after five years ($ millions)
Green Municipal Enabling Fund	Add brownfield redevelopment as a category for feasibility studies and meet demand for existing project categories like waste diversion, landfill gas, and energy infrastructure to reduce greenhouse gas emissions..	$25 a year for five years. This amount would also be available to waste diversion, landfill gas and energy infrastructure studies as outlined in Attachment A.
Green Municipal Investment Fund	Add brownfield redevelopment as a category for investment, leading to increased property value, reduced soil pollution, urban revitalization and to meet demand for existing project categories.	TO BE DETERMINED
ONE-TIME FEDERAL CONTRIBUTION		$125 million

NATIONAL AFFORDABLE HOUSING STRATEGY

PROGRAM	BENEFITS	PROPOSED INVESTMENT TOTAL AFTER FIVE YEARS (ANNUAL, $ BILLIONS)	
		Federal	Other Governments
10 year Flexible Capital Grant Program	Fund locally-designed initiatives with municipal and private/non-profit partnerships, produce 20,000 new or acquired units/year, and 10,000 rehabilitated units/year	(1) 1.480	
Private Rental Measures and Regulatory Enhancements***	Help private sector produce affordable housing in partnership with municipal and non-profit groups	(2) 0.120 to 0.140	
Rental Assistance	Improvement and expansion of provincial/territorial income assistance and rent supplements; will assist ½ of the 800,000 households now in need		(3) Year 1: 0.032 to 0.080 Year 10: 0.320 to 0.800
ANNUAL FEDERAL CONTRIBUTION		$1.60 billion	

(1) Municipal and private/non-profit contributions may reduce the required federal contribution to $1.1 billion/year for ten years. Up to 5,000 market units may be produced on top of the 30,000 rent geared to income units

(2) GST option; other options incur negligible real cost

(3) Ramps up over ten years, range depends upon depth of assistance

Proposed annual levels of federal investment within five years ($ billions):

Water, energy and waste infrastructure	1.7
Inter-modal, integrated Transportation	1.0
Affordable Housing	1.6
TOTAL ANNUAL:	***$4.30 billion***

TOTAL FEDERAL CONTRIBUTION

APPENDIX ONE

The Government of Canada has committed $2.05 billion over six years to the municipal component of the national infrastructure program with a primary investment focus on “green infrastructure”. Secondary priorities include support for affordable housing, culture, tourism and recreation infrastructure, rural and remote telecommunications, high-speed access for local public institutions, and local transportation.

When combined with provincial/territorial and municipal government contributions, the national program will result in more than $6 billion of infrastructure spending in six-year life of the program. Partnerships with the private sector could add a significant amount to this total.

Table 1 provides estimates of national infrastructure investment needs.

Table 1: Estimated Infrastructure Investment Needs Over 10 Years

INFRASTRUCTURE TYPE	BENEFITS	TOTAL INVESTMENT NEED ($ BILLIONS, OVER 10 YEARS)[18]
Potable Water Systems	Safe potable water, improved public health	$5.40
Wastewater Systems	Reduced emissions of metals, organic chemicals, nutrients and other pollutants, improved quality of aquatic environment	Included above
Solid Waste	Reduced land filling, incineration, leachate, toxics and greenhouse gases, protection of water sources	$0.346
Landfill Gas Capture and Utilization	Reduced emissions of volatile organic compounds, methane	$0.141
Community Buildings	Improved indoor air quality and energy efficiency, increased cultural and recreational opportunities	$4.700
Municipal Roads	Improved competitiveness, public safety and mobility	$9.000
Urban Transit	Reduced GHG emissions, reduced congestion, more affordable travel choices	$9.200

To achieve the goal of sustainable communities, the federal contribution to the national infrastructure program should increase over three to five years to reach a total of $1.7 billion per year; the program should be made permanent. Municipal and provincial/territorial governments will match this contribution, and private sector investments will add significantly to the total.

18 FCM’s Quality of Life Infrastructure Program Proposal. Federal Budget Submission to Finance Minister Paul Martin, October 1999.

The investment focus of the national program should be environmental and core elements of the municipal infrastructure asset portfolio.

Water Infrastructure

There is a new urgency in addressing drinking water infrastructure needs across Canada. In Ontario[19] and Quebec[20], provincial government inspections of water treatment facilities over the Summer of 2000 have uncovered deficiencies in facilities, testing and operator training. In the same time period, half of the communities in Newfoundland have received "boil water orders" when their potable water supplies failed to meet some aspect of drinking water quality guidelines.

A similar urgency applies to sewage treatment facilities as effluent discharges have a direct bearing on the quality of water sources and the aquatic environment. More than ever, Canadians have a deep appreciation of the vital impact of water and wastewater infrastructure on public health.

There are approximately 4,000 municipal water treatment facilities and 3,000 municipal wastewater treatment facilities across Canada. Most of these provide service to less than 1,000 people and the majority are both owned and operated by municipal governments. Many of these facilities need to be upgraded to meet existing and anticipated new quality standards. In other cases, rapid growth has placed a huge demand on existing infrastructure and could leave communities struggling to provide services.

More than 24 million Canadians receive treated municipal drinking water. Faced with stringent public health and environmental standards, aging infrastructure and limited economic resources, municipal water suppliers must have the resources to deliver high-quality drinking.

The quality of potable water is directly linked to the quality of water sources. Ground and surface water supplies are under increasing threat of contamination from human activities, including municipal wastewater discharges. Nearly 22 million Canadians were serviced by municipal sewer systems as of 1996[21] although not all of these collection systems are connected to treatment plants. Levels of wastewater treatment are mainly primary in British Columbia, secondary in the Prairie Provinces and tertiary in Ontario. Quebec has a mix of all three levels. In the Atlantic Provinces, more than half of the population served by sewer systems release untreated wastewater directly into estuarine and coastal waters.[22] A number of BC coastal communities also still discharge directly into marine waters.

Canadians have the second highest average per capita water consumption in the world, at more than 300 litres per person per day although many larger cities have residential consumption levels approximating what is found in European cities with similar population densities. High demand for water,

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[19] Environment Ministry Orders Corrective Actions at 72 Water Works. Ontario Ministry of Environment news release, July 28, 2000.

[20] Québec exige l'amélioration de 90 réseaux d'aqueduc. Ministère de l'Environnement du Québec, Communiqué de Presse, 18 août 2000

[21] Municipal Water Use Database (MUD). 1996. Environment Canada

[22] SOE Bulletin 98-4. Urban Water: Municipal Water Use and Wastewater Treatment. Environment Canada.

coupled with water loss in the distribution system (greater than 20 per cent in many communities) results in higher than necessary capital, chemical and energy costs.

The rehabilitation of a large part of the existing distribution systems, particularly in the older sections of cities and towns, is needed to reduce water losses. The NRC estimates that Canadian municipalities could save more than $350 million per year by reducing leakage from 25 per cent to 10 per cent. The National Guide to Sustainable Municipal Infrastructure (the Guide) will inform the investments in this sector by collecting and widely disseminating technology guidelines to diagnose and repair leaks. In addition, the Guide will focus on priority areas in potable water systems, and storm and wastewater management.

Volumetric water meters are a key feature of demand management to reduce per capita consumption levels. In 1994, Canadian households paying for water by volume used on average 263 litres per person per day - 39% less water than households paying a flat rate, which used 430 litres per person per day.[23] Water meters are necessary in to implement full-cost pricing. Full cost recovery requires all water and wastewater system costs for operations and capital finances to be recovered ~~from~~ through user rates and charges. It not only influences demand by providing a signal to Canadians about the amount of water they are consuming, but provides the revenue needed to allow municipal governments to maintain, operate and renew water and wastewater infrastructure. The stability of a long-term infrastructure program is critical to allow orderly planning and the implementation of sound rate setting and metering policies in a manner appropriate to local conditions. Full cost pricing is a an item that will also be studied by the Municipal Guide team through the asset management working group, and may require changes to Provincial/Territorial legislation governing municipalities in order to implement.

This sector also offers significant opportunities for reduction in energy use. Municipalities use a substantial amount of energy particularly in water supply and to a lesser extent in wastewater treatment facilities. Estimates vary greatly, but the total amount used is roughly equal to that used for all other municipally owned buildings and facilities. Where centralized water and wastewater services exist, 750 MJ per capita is consumed, primarily from electricity.[24] The second highest energy consumption in municipalities normally comes from street lighting and traffic signaling systems.

Environmental and community benefits to be derived from infrastructure investments in this sector include:

- lower risks of water contamination and avoided health costs due to water-related illness;
- efficient water use resulting from reductions in water loss in distribution systems and better demand management through metering;
- reductions in energy use and associated greenhouse gases;
- reduced chemical use in treatment;
- improved management of toxics[25] in effluents and biosolids;
- improved nutrient management in wastewater discharges;
- enhanced freshwater and marine ecosystem quality;

To achieve these benefits, projects funded by the national program could include:

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[23] SOE Bulletin. Indicator: Metered residential water use. Environment Canada. June 1998.
[24] Municipalities Table Foundation Paper - June 1999
[25] Includes reductions in substances considered “toxic” under the *Canadian Environmental Protection Act* such as ammonia in the aquatic environment and chlorinated wastewater effluents

- upgrades to treatment facilities to meet drinking water or wastewater quality objectives
- upgrades to distribution systems to protect quality and reduce water loss;
- full metering to identify and eliminated unaccounted for water uses
- improved wastewater collection systems to reduce infiltration and overflows;
- stormwater management structures and programs to protect receiving waters;
- sewer use programs to control toxics at the source;
- watershed management initiatives;
- innovative technology pilot projects and research;
- human resource development such as operator education, training and certification;
- implementation of full-cost pricing, including water metering;
- rural water and wastewater systems (to take into account the specific challenges of small systems and apply innovative solutions).

The Canadian Water and Wastewater Association estimated in 1997 that $5.4 billion in additional investment would be required through to 2012 to bring all water and wastewater treatment plants up to state of the art, and to extend central water supply and wastewater collection systems to all residents of municipalities. These figures take into account expected populations growths over this period.

Water Infrastructure Financing: Clean Water and Drinking Water State Revolving Funds

The DWSRF (Drinking Water State Revolving Fund) program in the United States provides local entities with the possibility of borrowing funds at zero-or low-interest rates (i.e., at or below the market interest rate) for the purpose of capitalization. Generally, the re-payment terms of such agreements are quite favourable. Eligible projects are those that aim to make public water systems capable of complying with requirements of the Safe Drinking Water Act (SDWA). Essentially, this is a tool designed to facilitate compliance with the Act.

The DWSRF was established under amendments made to the SDWA in 1996. Under the SDWA amendments, the EPA (United States Environmental Protection Agency) is authorized to award capitalization grants to states. These, in turn, are authorized to provide low-cost loans and other types of assistance to water systems. The funds are meant to finance the costs of infrastructure projects needed to achieve or maintain compliance with SDWA requirements.

There are at least two types of DWSRF loans: leveraged loans and regular reduced rate direct loans. Leveraged loans are financed from bond proceeds, while the regular reduced rate direct loans are made available to borrowers not eligible for leveraged loans.

As loans are repaid, money becomes available for new loans. This is a key characteristic of the ‘revolving funds’, which makes the funding available on a ‘permanent’ basis.

In applications for capitalization grants, states must provide assurances as to how they will comply with the following fifteen specifications for DWSRF program funding:

1. Assurance that state has the authority to establish a fund to operate the DWSRF program in accordance with the SWDA.
2. Assurance that state will comply with state statutes and regulations.
3. Assurance that state has the technical capability to operate the program.
4. Assurance that state will accept capitalization grant funds in accordance with a payment schedule.

5. Assurance that the state will deposit all capitalization grant funds in the Fund or set-aside account.
6. Assurance that the state will provide an amount at least equal to 20 per cent of the capitalization grant (state match) in the fund.
7. Assurance that the state will deposit net bond proceeds, interest earnings, and repayments into the fund.
8. Assurance that the state will match capitalization grant funds the state uses for [1452 (g) (2)] set-asides.
9. Assurance that the state will use generally accepted accounting principles.
10. Assurance that the state will have the fund and set-aside account audited annually in accordance with generally accepted government auditing standards.
11. Assurance that the state will adopt policies and procedures to assure that borrowers have a dedicated source of revenue for repayments.
12. Assurance that the state will commit and expend funds as efficiently as possible, and in an expeditious and timely manner.
13. Assurance that funds will be used in accordance with the intended use plan.
14. Assurance that the state will provide EPA with a biennial report.
15. Assurance that the state will comply with all federal cross-cutting authorities.

Assistance from the Fund may be provided to privately- and publicly-owned community water systems and non-profit non-community water systems. Assistance is available for projects "that address present or prevent future violations of health-based drinking water standards". Projects designed to maintain compliance with existing water regulations are eligible, as are those replacing aging infrastructure if they are needed to maintain compliance with - or further the public health protection objectives of - the SDWA.

Projects in the following categories are eligible for assistance from the Fund:

1. Treatment (e.g., installation or upgrade of facilities to improve the quality of drinking water to comply with standards)
2. Transmission and distribution (e.g., installation or replacement of transmission and distribution pipes to improve water pressure to safe levels or to prevent contamination caused by leaks or breaks in the pipes)
3. Source (e.g., rehabilitation of wells or development of eligible sources to replace contaminated sources)
4. Storage (e.g., installation or upgrade of eligible storage facilities)
5. Consolidation (e.g., projects needed to consolidate water supplies where a supply has become contaminated or a system is unable to maintain compliance for technical, financial or managerial reasons)
6. Creation of new systems (e.g., projects that result in the creation of a community water system to address existing public health problems with serious risks caused by unsafe drinking water provided by individual wells or surface water sources).

Federally-owned public water systems and for-profit non-community water systems are not eligible for assistance. Neither are those systems that lack the technical, financial and managerial capability to ensure compliance with the requirements of the SDWA. With few exceptions, systems that are in "significant" noncompliance with national drinking water regulations are not eligible.

The following projects are ineligible for assistance from the Fund: a) dams or rehabilitation of dams; b) water rights (with a few exceptions); c) reservoirs or rehabilitation of reservoirs (with exceptions); d) projects needed primarily for fire protection; e) projects needed primarily to serve future population growth; and f) projects that have received assistance from the national set-aside for Indian Tribes and Alaska Native Villages. In addition, project-related costs such as laboratory fees for compliance monitoring or operation and maintenance expenses are ineligible for assistance.

An Intended Use Plan (IUP) describing how a State intends to use the funds made available through the DWSRF program in a given year to meet the requirements of the SDWA is a “central component” of the capitalization grant application. These IUPs are prepared by each state and must be subjected to public review and comment. States are expected to respond to substantial comments received. A description of the public review process must be included in the capitalization grant application.

As stated above, project funding is available for community water systems (both publicly- and privately-owned) and for non-profit, non-community water systems. It appears that states can only provide loans to water systems in these categories. Eligibility of projects is determined based on an established project priority ranking system. Projects are scored and ranked as they are reviewed. This results in a list of projects eligible for funding. Serious risks to public health (e.g., risks related to microbiological organisms, chemical contamination) are given the highest priority. Both ‘technical’ and ‘non-technical’ (e.g., financial) criteria are used to score and rank projects.

The 1996 amendments of the SDWA require that water systems serving fewer than 10,000 persons must receive a minimum of 15 per cent of the DWSRF. Up to 30 per cent of the annual federal capitalization grant can be used to provide subsidies for disadvantaged communities. These communities are typically offered loans at lower interest rates. Thus, in some states, a project in a community with a population under 10,000 and median household income less than or equal to 80 per cent of the state’s median household income would receive additional points in the scoring stage. Some states impose annual caps or ceilings on the percentage of DWSRF resources that may be received by a single applicant.

Pre-applications for funding under the program must include a project description with details as to the number of people served by the project and the water system in question, whether the project has been listed in an IUP, whether other sources of funding are anticipated, as well as cost estimates and information on financing needs. This information provides the basis for the development of eligibility and other lists. Actual loan applications require more detailed information – i.e., environmental review, State Comptroller approval, municipal bond resolution, engineering report approval, etc. As of the year 2000, states had provided more than $2 billion in assistance through the DWSRF.

Initiated in 1988, the successful Clean Water State Revolving Fund (CWSRF) program supports projects aiming to protect source water and enhance water quality. As a revolving fund program, it operates very much like the DWSRF in that loans are offered at low (i.e., below market) interest rates and repayment conditions are quite favourable. Assistance can be provided to communities, water systems and conservation organizations. The CWSRF has issued $26 billion in loans since 1988, and currently funds source water protection projects to the tune of $3 billion annually. As in the case of the DWSRF, states are required to develop IUPs outlining how they intend to use the funds made available through the program.

The CWSRF program supports a wide variety of environmental infrastructure projects. In additional to wastewater treatment projects, states can use the program to support non-point source, wetlands, or national estuary projects aimed at addressing problems related to rural and urban runoff and contaminated urban stormwater. Watershed management projects are eligible for funding through the program - at least in some states.

An interest feature of the two SRF (State Revolving Fund) programs is that the SDWA amendments of 1996 created the possibility of transfers of funds between the two programs. That is, states can transfer a certain percentage of the DWSRF grant to the CWSRF program, and vice-versa. The amount that states are allowed to transfer between the two SRFs can be equal to 33 percent of the grant.

Multi-Modal, Integrated Transportation

National transportation infrastructure is critical to the economy and our quality of life. For communities, a strong holistic transportation system means national mobility and access to goods and services, trade and tourism. For northern and remote communities, it means access to emergency services and supplies and opportunities for economic development. Regions experiencing rapid growth and development are hard pressed to respond quickly to increased demands on transportation infrastructure. FCM believes that provincial/territorial governments and Government of Canada must work together with all stakeholders to develop a regionally sensitive, multi-modal transportation system that meets the needs of both urban and rural communities.

Canada is falling behind our major competitors in investments in highways, local and regional roads, freight and commuter rail, public transit, and cycling and walking infrastructure. The failure to invest adequately in transportation infrastructure reduces productivity, competitiveness, limits choice, and damages the environment and human health. Canada's transportation infrastructure needs are so great that a long-term, stable funding mechanism is necessary to adequately address the shortfall.

According to a 1996 infrastructure analysis by McGill University,[26] investment of at least $9 billion is required to bring municipal road infrastructure to acceptable levels. The national infrastructure program should support the rehabilitation of existing roads, and the construction of new municipal and regional roads where needed (i.e. northern or remote areas with little or no existing roads.)

A 1999 survey by the Canadian Urban Transit Association (CUTA) identified a shortfall of $9.2 billion for capital and infrastructure needs in public transit. The national program should invest in public transit, but can only begin to address this shortfall.

Canadians are well aware of both the enormous revenues derived from fuel taxes by the Government of Canada, and its lack of financial support to Canada's transportation system.

In 1997-98, the Government of Canada collected $4.6 billion in revenues from taxes on fuel; provincial governments collected $2 billion. Taxes per litre for 1999 ranged from 6.2 cents/litre in the Yukon to 16.5 cents in Newfoundland.

Annual federal expenditures on transportation are less than $400 million. Provincial/territorial and municipal governments each spent more than $8 billion on transportation and communication infrastructure in 1997-98.[27]

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[26] Report on the State of Municipal Infrastructure in Canada. McGill University and Federation of Canadian Municipalities. 1996.

[27] All figures from Finances of the Nation, 1999 edition, Canadian Tax Foundation

The Government of Canada has an opportunity to apply nationally, options already in place provincially.

Alberta provides provincial grants to Edmonton and Calgary for transportation infrastructure needs. The amount of funds available is equivalent to five cents/litre for all fuel sold in those cities.

British Columbia allocates[28] a province-wide levy of 1.25 cents/litre that is dedicated to B.C. Ferries; 3 cents/litre to the provincially run B.C. Transportation Financing Authority; 8 cents/litre from fuel sold within the Greater Vancouver Regional District (GVRD) to the Greater Vancouver Transit Authority (GVTA); and 2.5 cents/litre from fuel sold in Victoria.

FCM is also urging the Government of Canada to consider excise tax relief and elimination of the GST for urban and inter-urban transit. In almost all developed economies, national governments contribute to transit. In Canada, the Government of Canada only taxes it.

A NATIONAL AFFORDABLE HOUSING PROGRAM

The Roots of the Problem

Low incomes: Households in housing need comprise mainly low-wage workers and those who must rely on income assistance. The structure and low levels of benefits of welfare programs, exacerbated by cuts to benefits or eligibility are fundamental factors. While recognizing that several provinces are already responding to the need, FCM is calling on all provinces and territories to respond to growing affordability problems by reforming and enhancing welfare programs and by introducing rental assistance for low wage working poor households.

Absolute lack of new rental supply: Private rental production has dramatically fallen. Total rental starts exceeded 25,000 annually in the 1980's but have fallen to less 8,500 units annually in the last half of the 1990's. Vacancy rates have fallen to the lowest level in almost 15 years and rents are increasing at an alarming rate. The poor economics of new private and non-profit sector rental development are affected significantly by the unfavourable tax treatment of rental housing investment and of small-scale landlords.

Declining stock of decent affordable housing: Persistent low levels of new rental construction and loss of the existing stock to demolition and conversion result in shortages to which the private market does not respond, and pushes rents beyond affordable levels. The situation has been exacerbated by the withdrawal of the federal and most provincial governments from funding new social housing in the 1990's.

Finding Solutions: Municipal governments will continue to expand their efforts to assist local initiatives by providing land and capital grants and reducing fees, levies and regulatory barriers to affordable development wherever possible.

Municipal governments, however, lack the resources to enable the larger-scale response that the affordable housing crisis demands. Some municipalities, owing to the immediacy of need, are advancing a limited number of projects under the national infrastructure program, but the program's

28 Provincial-Local Tax Sharing and Transportation, David B. Perry and Karin Treff

cost-sharing formula, inadequate funding and provincial/territorial resistance to housing proposals preclude large-scale participation.

New thinking and flexibility: Consultation and analysis of case studies from large and small communities have resulted in proposals sensitive to the diversity of need and potential solutions across Canada. From consultation with government and industry, we know that we cannot simply propose to return to the old models.

A role for all who wish to act: The core proposal, for a flexible capital grants program, invites the participation of all orders of government, but is oriented primarily to the Government of Canada. It can stand alone, with municipal and private/non-profit partnership, where Provinces or Territories do not wish to participate. However, provinces and territories are strongly encouraged to contribute either through matching capital programs or by providing income and rental assistance to address high rent burdens.

Immediate action and long term plans: FCM proposes a comprehensive response involving the assistance and resources of all orders of government, builders, developers, lenders and non-profit housing organizations. The strategy would significantly address the immediate shortage and upcoming need for more affordable units as well as provide the basis for a sustainable, long-term solution.

The long run: Discussions initiated last year by the non-profit housing sector with the financial services and building industries, and work undertaken this year by the Ontario Housing Supply Working Group and others to consider means to stimulate investment in affordable housing should continue concurrently with an active National Affordable Housing Strategy.

Working together: FCM proposes an advisory group, comprising representatives of federal and provincial/territorial departments, municipal representatives and staff drawn from the FCM National Housing Policy Options Team, the building and development industry and non-profit housing providers to maximize the effectiveness of any capital grants program to be implemented.

Alternatively, FCM is prepared to work with the Government of Canada to provide a foundation-based means of program delivery, nationally, or where provinces and territories cannot or will not participate. FCM further proposes that municipal representatives, industry and the non-profit sector be an integral part of federal/provincial/territorial working groups and discussions on means to assist households in housing need and to facilitate development of affordable housing by the private and non-profit sectors.

Elements of the National Affordable Housing Strategy

1. A flexible federal capital grant program

The program would provide grants to support local initiatives to begin to fill the outstanding need that has mushroomed over the past decade and is expected to grow over the next.

Capital grants would be used, along with municipal contributions and cost reductions, to reduce the amount of financing required for projects, and the associated debt burden. This would reduce the rents at which they are viable to levels affordable to low-income tenants.

Per-unit capital grants would be sufficient to produce mixed-income rental housing developments, where approximately 40 per cent of tenants would pay 30 per cent of the average local core need income, 40 per cent of (core need) tenants would pay 80 per cent of market rent and 20 per cent of tenants would pay market rent.

A well-designed and resourced capital grants program would provide a direct, effective response to a clearly defined need. Moreover, the program would not require the Government of Canada to return to the previous regime of 25 - 30 year funding commitments.

FCM proposes that grants be allocated to proposals developed at the local level, in order to fit the needs of different communities in differing circumstances. Priority would be assigned to proposals bringing significant resources to the table, that would provide affordable housing over extended periods of time, that achieved cost reductions for tenants through energy efficiency and other design features and that integrate well with neighborhoods, services and transportation systems.

In order to ensure access to funds and maximize the effect, municipal governments would participate through such means as: zoning for affordable housing and secondary suites; land contributions by way of ground leases, strata lot leaseholds or conditional transfers; community reinvestment partnerships; gifting programs; and bonus or amenity zoning and density transfers.

Local initiatives would include new development; acquisition and rehabilitation to preserve the existing affordable rental stock; and grants to facilitate assisted home ownership initiatives for low and moderate-income families, where this is the nature of the local need. In assessing the local need, the impact of the development on the local housing market and industry should be considered, in order to avoid serious distortions driving out potential for future private supply. Priority could also be assigned to projects filling special needs, to the extent that they are not covered by existing programs.

If the current federal Affordable Rental Program proposal results in a federal/provincial/territorial capital grants program, FCM proposes a multi-sector advisory body, comprising representatives of federal and provincial/territorial departments, municipal representatives and staff drawn from the FCM National Housing Policy Options Team, the building and development industry and non-profit housing providers to maximize the effectiveness of the program.
Alternatively, a capital grants program could be administered by an arm's-length foundation with a Board of Directors including the federal, provincial/territorial and municipal orders of government, the financial and building industries and the non-profit sector, or through existing departmental structures, using a similar steering mechanism. FCM can by way of an autonomous foundation act as a policy and fiscal broker, and outside of Québec, the Government of Canada may enter into funding agreements directly with municipalities, blocks of municipalities, the FCM on behalf of municipalities, or any combination of these.[29] Such involvement within Québec would require provincial facilitation.

Proposals would be developed at a local level by bodies comprising the municipal government and private/non-profit parties to the project. Local groups could be based on or modeled after those formed under the Supporting Communities Partnership Initiative, using that experience as a guide.[30]

Proposal review and funding recommendations could be made by the national body or by panels from each of the five regions of Canada, to ensure that all key actors, including the provinces and territories, could contribute.

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[29] See "A National Affordable Housing Strategy", FCM, October 2000

[30] See "Building Foundations for the Future: Considerations in the design of a capital grants program to support affordable housing", FCM, January 2001 for a details on creating an affordable housing foundation.

Funding protocols would ensure an equitable distribution of funds and avoid penalizing those jurisdictions which are already devoting resources to the problem. Allocations should also encourage further provincial/territorial financial participation.

Mechanisms to ensure accountability and a protocol for recognition of support are prerequisites for an administrative body. Grant contracts would be subject to scrupulously administered procedures.

Acting as a catalyst and focal point, the administrative body could also effectively disseminate the results of existing research and proposal funding programs in finding new ways to lower barriers to affordable housing, improve quality and environmental design and provide for health and special needs.

2) Measures to attract new investment

These measures would encourage a long-term response to future needs by the private sector and non-profit developers in partnership with government.

A. Tax Measures

Low levels of production have been associated with perceptions of over-regulation and control of rents by the industry as well as the poor economics of new rental development, compared to alternative investments. Over the past decade, most provinces have relaxed rental market regulation to some degree and created improved opportunities. However, tax treatment of rental investment remains the primary barrier to the attractiveness of new development and reinvestment.

The following four proposals involve relatively minor changes in the tax treatment of rental housing and landlords that would motivate increased production and retention of affordable housing.

- **Elimination of the Goods and Services Tax on rental housing**

The GST treatment of residential rental projects is different from that accorded to commercial rental projects. When the GST was introduced, a policy decision was made not to apply the tax to residential rents. As a side-effect, however, residential rental owners cannot claim input tax credits on the GST paid both on initial development value and on the expenses in on-going operations. As a result, these tax costs are either reflected in higher rents or lower production.

Non-residential rental owners (e.g. companies with retail and office portfolios) are able to fully offset the GST paid in developing the property because the input tax credits so-generated can be used against the GST collected on rents charged on that and other properties.

Although the year 2000 federal budget introduced some relief, this was not sufficient to overcome the poor economics of rental housing. FCM recommends that rental housing production and renovation be either fully exempted from GST, or that rebates be provided to fully offset the GST expense.

- **Allowing rental investors to qualify as small businesses**

Most rental properties in Canada are owned by investors with a relatively small portfolio of one or two properties. For most types of small businesses, a lower rate of taxation applies to the first $200,000 of 'active business income' – the small business deduction. However, to qualify for the small business deduction, the Income Tax Act specifies that a company must be a 'principal business corporation' – which, in turn, requires (a) that its principal business be the leasing, rental, sale or development of real estate, and (b) that it have more than six full-time employees.

Few of the small rental landlords in Canada would therefore qualify for the small business corporate tax rate (a combined federal-provincial rate of 18 – 22 per cent, depending on the province).

- **Restoration of Capital Cost Allowance 'pooling' to encourage reinvestment in rental properties**

When a rental property is sold, investors must pay tax on the difference between the sale price and the depreciated value of the project (the original cost of the project less the CCA deductions). 'Recaptured depreciation' is taxed at full income tax rates. Pooling would allow a reduction of this tax cost by transferring the excess CCA across other buildings in a portfolio.

The restoration of pooling would be beneficial to investment in new rental projects since it would allow owners of older, fully depreciated, projects to upgrade their rental property portfolios by replacing older projects with newer ones. Taxes payable on recaptured depreciation would be postponed as long as the investor retained the rental projects. Pooling would therefore help to 'free up' much of the older stock and prevent it from falling out of use. The only impact of this measure on the federal treasury would be to <u>defer</u> taxes in favour of investment in rental housing.

- **Creation of investment pools for affordable housing**

Under existing Canadian legislation, Labour Sponsored Investment Funds offer small individual investors a one-time tax credit of 30 per cent of an investment up to $5,000. Most investors also combine this credit with RRSP deductibility. Investors are attracted to these funds largely on the basis of the tax benefit on the initial investment, plus potential returns on successful venture investments.

Structured to support affordable housing, an Affordable Housing LSIF would be marketed as a more conservative investment – targeting individual investors that wish to balance their portfolio. Funds would then be used to provide mortgage and construction loans. LSIFs could also provide a vehicle for further localized public investment.

An affordable housing LSIF is consistent with the intent of labour sponsored funds, as housing construction generates significant amounts of employment.

FCM recommends a regulatory amendment to add affordable housing mortgage as a qualifying investment for Labour Sponsored Investment Funds.

B. Regulatory enhancements to the role of CMHC in affordable housing

The impact of the preceding tax measures can be extended through a number of complementary regulatory or policy changes, to be implemented at Canada Mortgage and Housing Corporation and, like the tax measures above, would help the private and non-profit sectors to produce more affordable housing. FCM recommends that existing policies should be refocused to encourage, rather than constrain these opportunities.

FCM recognizes the efforts of CMHC in promoting affordable housing through programs like RRAP, high-ratio insurance products, and research. FCM also recognizes the market orientation chosen for NHA mortgage insurance. Nevertheless, the following adjustments related to mortgage insurance would directly assist the development of affordable housing and further demonstrate CMHC's willingness to join in finding solutions.

- **Customized mortgage underwriting for qualifying non-profit developers**

With the curtailment of the federal non-profit housing program, many non-profit organizations have sought to develop affordable housing with no ongoing subsidies but have struggled to secure private financing. Existing CMHC underwriting criteria and valuation procedures tend to unduly limit the loan amount for which non-profits can qualify. While a flexible capital grants program would provide a source of equity and reduce the amount of financing required – the impact of capital grants could be stretched much further if underwriting criteria were modified to allow increased access to the level of financing needed, while remaining within prudent bounds.

- **Reduced cost of CMHC mortgage insurance**

FCM recommends that CMHC increase the maximum to loan to value ratio and reduce the debt coverage ratio specified for non-profit projects. Currently, a significant portion of the shortfall in the capital amounts required to make affordable housing development viable is associated with expenses imposed by the Government of Canada – including particularly GST (even at the rebated Non-profit level) and CMHC mortgage insurance premiums.

FCM, therefore, recommends that the Government of Canada establish an affordable housing fund, capitalized through the annual profits on the CMHC mortgage insurance fund and that this source be used to provide grants against the cost of CMHC mortgage insurance on non-profit and affordable housing development.

- **Establishing Affordable Housing Goals for CMHC**

A central element of the housing finance system in the United States is the existence of institutions created by government to create liquidity in the housing finance market by establishing secondary mortgage markets. Notwithstanding their private status, Congress has established legislated affordable housing goals for these institutions whereby a percentage of the mortgages purchased annually must be for affordable housing, creating incentives for lenders to initiate such loans and support affordable housing initiatives. FCM recommends that similar modest affordable housing targets be established on CMHC's mortgage securitization business.

- **Lever existing equity in social housing**

A social housing stock of more than 600,000 units has been developed over the past 50 years. Over the next decade a number of projects will begin to retire their mortgages and some projects will begin to generate an operating surplus. CMHC has been reluctant to permit existing providers with unrestricted surpluses to either refinance or use their surplus revenues to lever investment.

3. Provincial/territorial shelter and rental assistance initiatives

Many households are adequately housed but pay a large part of their limited income for shelter, and as a result cannot afford other necessities. Adoption of these proposals would enhance income support programs and to provide rental assistance to include the working poor.

While the proposed capital grants program is structured to operate independently of rental assistance, the participation of the provinces and territories in the National Affordable Housing Strategy via incomes-oriented programs would increase the impact of the federal investment.

A) Shelter allowances

The majority of households in core need and paying greater than 50 percent of income for rent are already assisted under provincial welfare programs. These households already receive a form of shelter allowance, but in many cases the shelter maximums do not realistically reflect true rental costs. Working poor households struggle to meet their rent and with long waiting lists for social housing and many face rent arrears, eviction and homelessness.

Shelter allowances are provided to individuals, rather than allocated to specific housing units. Allowances are capable of providing relief against excessive rental costs while leaving an incentive for the household to economize and limit the program costs through a formula that covers part, but not all, of the gap between a specified percentage of income and actual rent, up to a rent maximum. An allowance costing government several thousand dollars per year would leave an assisted working household in a much better financial position than welfare benefits costing far more.

FCM recommends that provinces and territories each implement incremental shelter allowance/rent supplement programs, assisting, in total, additional 40,000 low-wage households each year for ten years.

B) Stacked rent supplements to complement capital grants

A second option proposed to provincial and territorial governments is to use rent supplements to complement capital grants for non-profit development. This would significantly lower the level of capital grant required to produce affordable housing. Stacking rent supplements on properties developed or acquired by non-profit owners also helps to control program cost since operating costs of non-profit projects have typically increased at a slower rate than general rent inflation.