Introduction

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Canadian cities are important drivers of productivity, innovation, and economic growth. To achieve their full economic potential, they need to be able to deliver a wide range of public services -- "hard" services such as water, sewers, and roads but also "soft" services such as cultural facilities, parks, and libraries. These services will not only meet the needs and expectations of constituents, but they are also required to attract high quality businesses and skilled workers and to address the challenges that result from a growing and highly diverse population.

At the same time, Canadian cities are also grappling with the growing need to invest in infrastructure that is being driven by several factors -- population and economic growth; aging infrastructure that is in need of replacement or repair; increasing provincial and federal government service standards; climate concerns that necessitate both mitigative and adaptive infrastructure; changing demographics that bring unique infrastructure demands; and a rising affordability crisis that calls for more affordable housing. Municipalities bear the burden of these demands because the majority of infrastructure is now planned, built, and maintained by municipal governments.

The key challenge for cities is how to raise enough revenue to deliver high quality public services and infrastructure and address the modern challenges they face in ways that will attract and retain businesses and residents but not undermine their competitive advantage. Although many options exist to finance these ever-increasing and shifting municipal expenditures, municipalities in Canada are constitutionally constrained to a limited set of revenue sources: property taxes, user fees and charges, and intergovernmental transfers. Some municipalities have been granted access to other revenue sources such as property transfer taxes and vacant homes taxes but these are not widespread across the country.

Assessing the relative merits and challenges of these various options, against a backdrop of Canada’s diverse cityscapes, is timely. Who should bear the burden for the costs of municipal services and infrastructure? Should it be users (through some form of user charge or special levy), local taxpayers (through property or other taxes), or someone from another jurisdiction who may be using or benefiting from services within the municipality? Of course, the decision of who should pay is not an all or nothing decision -- funding for municipal services and infrastructure can be raised through any combination of these options. These questions are explored in the chapters in this book, followed by a summary of the perspective of practitioners on the ground from large, medium, and small cities in Canada.

Content

The ways of funding municipal services and infrastructure outlined in this book range from property and property-related taxes, to other taxes, to user fees and charges, and to new sources of funding such as foreign buyers' taxes and taxes on the sharing economy (ride sharing and short-term rentals being the focus in this book). Existing funding areas are covered, some of which have been around for a long time such as the property tax, as well as relatively new areas related to the sharing economy, for example. In some cases, taxes are designed solely for the purpose of raising revenues to pay for services (e.g. property taxes); in other cases, they are designed to alter economic behavior (e.g. foreign buyers' taxes designed to discourage housing purchases by non-residents). For some sectors, taxes are welcomed by potential taxpayers because they legitimize what might have been an illegal or unregulated activity, such as ride sharing or short-term rentals.

There is a lot of emphasis in the chapters on the importance of user fees to recover costs of providing municipal services which, at the same time may also alter economic. A number of authors talk about user levies for transportation – transit, roads, and parking – and all agree that greater use of user levies would reduce congestion and provide funds for public transit. The property tax is also considered to be a strong tax for local governments. Indeed, some authors think it is the only tax that local governments need to pay for services but others think it should be limited to those services that provide collective benefits and local governments should have access to other taxes for redistribution and other purposes. Many authors have also written about intergovernmental transfers and conclude that they are an important part of municipal revenues, especially to pay for those services and infrastructure that spill over municipal boundaries. Authors provide cautions about the over-reliance on transfers, however, because they can distort local decision making, discourage proper pricing, and compromise accountability.

Cities are facing new challenges around affordable housing and the sharing economy (home sharing and car sharing). In terms of the perceived housing crisis, foreign buyers' taxes have been introduced in Vancouver and Toronto and vacancy taxes in Vancouver. Although it is too soon to evaluate their impact, some preliminary estimates suggest that they may have had some effect in curbing demand, but also raising revenue that is being used to expand the supply of affordable housing. In terms of the sharing economy, it is suggested that cities take up this challenge and not wait for provincial governments to give them permission. The call to action is particularly noteworthy given the discussion below about the difficulty of implementing new taxes at the local level in the current intergovernmental context.

Another theme that comes through in many of the chapters in this book is the need to find ways to get people to pay for the services and infrastructure they want. Authors offer a number of suggestions including linking taxes to expenditures by earmarking revenues for specific services, only introducing new taxes, fees, or charges when new investments are being made or where there will be visible improvement in services, and designing taxes, fees, and charges in a way that is easy to understand.

Finally, many of the authors and the practitioners stress the lack of sufficiently comparable data on municipal revenues and expenditures for cities across Canada. Statistics Canada data was presented in many of the chapters in this book but is lacking in terms of information on specific cities and also the breakdown of revenues and expenditures into meaningful categories. Few jurisdictions publish detailed municipal finance data (good examples are Quebec, Ontario, Alberta, and B.C.).

Intergovernmental Context in Canada

Urban finance experts (including some of those who have written chapters in this volume) have made the case for some time that Canada's largest cities require access to a broader, more diverse mix of revenue tools in order to fulfill their contemporary role in driving economic prosperity and meeting the social needs of a diverse, cosmopolitan population (see the discussion by Kitchen in Chapter 4, for example). Yet, cities continue to operate under historical legislative frameworks that circumscribe their available revenue sources to a narrow menu of options, which is insufficient to generate the necessary capacity. It is thus timely to consider whether the basic governance architecture for municipal taxation is in need of change, in order for Canada's largest cities to achieve their full potential.

The roles and responsibilities of city government have changed dramatically over the last 150 years while their constitutional and legislative status has remained virtually frozen in time, at least as it relates to taxation. The Constitution Act, 1867 gave comprehensive powers to the federal Parliament to "raise money by any mode or system of taxation", while conferring on the provinces authority to make laws in relation to "direct taxation within the province" to raise revenue for "provincial purposes." Although expressed as "exclusive" to each level of government, these powers are in fact substantially overlapping with both federal and provincial governments imposing income and other direct taxes on the same population of taxpayers. In practice, federal and provincial authorities use a number of mechanisms to coordinate their sharing of the tax base. These include a mixture of administrative arrangements such as the tax collection agreements for personal and corporate income taxes outside of Quebec; joint legislative measures such as the Harmonized Sales Tax now in effect in several provinces; and political negotiation (Johal 2014).

Municipalities, by contrast, have no sovereign constitutional powers and are limited to whatever taxing authority is delegated to them by the provinces, which have exclusive authority to make laws in relation to “municipal institutions in the province” (Constitution Act, s.92(8)). As mere creatures of the provinces, cities have long been restricted to property taxation as their primary revenue source, complemented by user levies. Even these limited powers must be exercised in a way that does not conflict with any provincial law or the exercise of any provincial power. The adoption of so-called City Charters for some of Canada’s larger cities has not significantly expanded their powers of self-government in the area of revenue raising, but has only modestly expanded the traditional menu of revenue options (Kitchen 2016)

Defenders of this so-called “menu” approach cite several perceived advantages. Specifying exactly what taxes cities can raise prevents any overlap with provincial taxes thereby ensuring vertical coordination between the two levels. It also fosters horizontal coordination by ensuring different municipalities impose very similar types of taxes. This is thought to enhance efficiency by reducing transaction costs for firms and individuals who must navigate different local tax regimes, and the possible distorting effects on behaviour if taxes vary across municipal boundaries (Dachis 2012; Shaviro 1992). The menu approach is also thought to counteract incentives for cities to shift taxes disproportionately to non-resident populations who commute into the city as employees, tourists or shoppers, but who are not voters nor the main beneficiaries of city-provided services. The implication is that provincial legislatures are in a position to ensure that each municipality internalizes and is politically accountable for the costs and benefits of its chosen services levels, and that a degree of consistency prevails across different local governments. In theory then, if cities require more revenue tools to finance needed infrastructure or services, the best solution is for provinces to expand judiciously the menu of options available to them. The challenge is that provinces have been notoriously reluctant to do so, leaving large cities especially without the revenue capacity to meet the needs of growing, diverse populations.

This stalemate suggests a need to rethink the fundamental governance paradigm in which provincial approval is a precondition for cities to access any new tax base. One challenge of this model is that the political costs of imposing a new local tax are borne at both the provincial and municipal level. The financial crises faced by many U.S. cities in the early years of this century have prompted a new wave of thinking about the appropriate scope of local taxing powers. A number of U.S. legal scholars have argued that state laws should confer greater fiscal autonomy on large cities, commensurate with their role as drivers of economic development, social policy and democratic governance in a global knowledge economy (Frug and Barron 2008; Gillette 2010; Scharff 2016).

These scholars have challenged the conventional arguments for letting states make the big decisions about local taxation. In particular, they question whether a higher order of government will necessarily do a better job of balancing and coordinating the interests of cities versus suburbs and rural areas. In practice, the legislature may be dominated by suburban and rural constituencies who benefit from city infrastructure and economies, but prefer not to bear its costs. Gillette (2010) also points out the difficulty of validating or quantifying any externalities from municipal taxation as cities also have incentives not to shift taxes to commuting non-residents, who make up much of the work force needed for employers to locate in the urban core.

More fundamentally, Frug and Barron (2008) argue that revenue choices should not be assessed in isolation from how cities spend. The revenue options that are available inform decisions not just about the quantum of spending governments should do, but what they spend on and how they plan and steer development. This argument is also picked up by Slack and Bird (2018) in Chapter 2. Frug and Barron (2008) examined fiscal "home rule" provisions in seven major U.S. cities, comparing those that gave very broad, presumptive powers of taxation (e.g. Chicago), to narrower versions (e.g. Boston) which are essentially limited to heavy reliance on property and property-like taxes, together with state transfers. They found that cities limited to property taxes were biased toward forms of development that will raise private property values, so that they can fund the services the city requires. These cities had less incentive to promote the kinds of public development that make cities liveable for middle class residents. Broader local taxing powers, however, need not be unlimited. Rather, Frug and Barron (2008) highlight the importance of default rules in which cities have presumptive power to decide to impose a wide range of taxes, but can be blocked after the fact by state referendum, as in Illinois. They found this balance of powers resulted less frequently in the rejection of municipal taxes, compared to Massachusetts where winning a referendum was a precondition to imposing new local taxes (at 79). Scharff (2016, p. 308-312) identified a similar effect in Ohio, where cities have presumptive taxing powers that can be vetoed after the fact by the state. Reversing the default decision maker can make a material difference to the outcome, because it empowers city officials politically and tends to legitimate their use of a wider range of taxes, making intervention after the fact less likely.

It is worth considering whether a new, presumptive approach to municipal taxing powers may be appropriate to break the revenue stalemate for Canada's largest cities. Redefining the status of municipal governments and amending the Constitution to recognize municipal governments as separate sovereign orders of government seems farfetched. However, as a thought experiment, provincial legislation could be amended to grant select cities a quasi-sovereign power to raise "direct taxes within the municipality, for municipal purposes", to parallel the revenue powers granted constitutionally to the provinces. A veto power could be given to the province, or other coordination mechanisms could be found to avoid the potential pitfalls of overlapping municipal and provincial taxing powers, as they have between the federal and provincial governments. Alternatively, city residents could have the power to overturn new taxes by referendum. Reversing the fundamental authority structure of revenue raising in this manner could transform the capacity of cities to make real choices not just about taxation, but about the kind of expenditures and patterns of development and service provision they will pursue. Gillette (2010, p. 233) captured this relationship between political process and substance as follows: "In the difficult world of allocating governmental responsibilities among multiple levels of government within a federal system, assignment of the decision making role may ultimately determine the substance of the decision". For the same reason, arguments for greater local fiscal autonomy may be compelling but largely theoretical within the existing governance paradigm. Harry Kitchen returns to this theme of expanding the taxing powers of cities in Chapter 4).

Outline of Chapters

In Chapter 2, Enid Slack and Richard Bird stress the importance of linking the municipal funding decision to the expenditure decision to ensure that public sector actions come close to meeting people's preferences. In particular, they argue that the way to design a local revenue system is to decide first what services to be delivered locally and then put in a place a revenue system (user fees, taxes, and transfers) that will induce local decision makers to finance the services that people want. Doing so would result in a local finance system that is efficient, equitable, and accountable.

The logical framework for municipalities is to determine the best funding tool for different locally provided goods and services. Where the beneficiaries can be easily identified, the benefits of the good or service can be limited only to those who pay for it, and there are no broader societal benefits to the provision of the good or service, user levies are preferred. Good user levies not only bring in revenues but they also promote economic efficiency by making the best use of available resources. Examples where user levies should be applied are water, waste water, refuse collection, and transit. If the beneficiaries are not easily identifiable or if it is difficult to exclude non-payers, property taxes and other taxes are appropriate. Examples include fire and police protection, parks, walkways, and bike paths. For goods and services whose benefits spill over municipal boundaries, intergovernmental grants are appropriate and should match the amount of the spillover benefit. Examples include social services, roads, and cultural facilities. The authors do express concern, however, about the unreliability of grants and the inefficient local revenue decisions they can lead to, a theme picked up by Harry Kitchen in Chapter 4.

Slack and Bird apply this funding model to the case of urban transit. Urban transit is complex not only because present and future transit users are beneficiaries of transit investment, but so are drivers, businesses, property owners, and visitors. Increased urban productivity and lower greenhouse gas emissions (GHGs) may also benefit people across the region and the country. Thus, urban transit should be funded using a number of different funding tools. The chapter describes and evaluates a number of these revenue sources -- user levies (on roads, transit, and parking), taxes (property, sales, and fuel), land value capture, development charges, and intergovernmental transfers. The authors acknowledge that changing the current mix and weight of revenue tools can be challenging for existing services and infrastructure, because beneficiaries like to maintain the status quo. As a result, they suggest that it might be easier to tackle new funding tools when a major new investment is being planned.

In Chapter 3, Bev Dahlby and Mel McMillan show that the property tax generates a significant proportion of municipal revenues in Canada and it has done so since Confederation. The authors make the case that the property tax is a good tax to fund local governments on the following grounds: the base of the tax is immovable; the tax can generate reliable and sufficient revenues and make local governments independent from other orders of government; much of the core goods and service provided by local governments directly benefit property owners (the link that Slack and Bird highlighted in Chapter 2); the tax is visible to property owners; and it is easy to administer. The authors believe that the property tax is an adequate, but under-utilized, sources of revenues for Canadian municipalities. Reducing reliance on property taxes to pay for education, however, should be a priority.

The authors also counter many of the criticisms levied against the property tax. In particular, they show that property taxes do grow with the economy and population even though some authors have suggested that it is inelastic and unresponsive to growth. They posit that perhaps the unresponsiveness of property taxes to growth is more related to the rate setting exercise than to the assessment base. Another argument against property taxes is that they are regressive. Whether or not a specific tax is regressive or not, however, depends on its implementation. Property taxes can be made more equitable through measures such as the property tax deferral programs that many provinces have along with property tax relief delivered through the income tax system, such as in Manitoba, Ontario, and Quebec. Finally, property taxes are often argued to limit growth. Although all taxes do this to some degree, the main way that property taxes do so is when businesses bear a great burden of property taxes, as they do in many provinces. The authors make a strong argument in favour of lower taxation of business properties.

Dahlby and McMillian go on to consider two property-related taxes -- land transfer taxes and land value capture taxes. Although land transfer taxes are typically administered at the provincial level, some Canadian cities do have the authority to levy a land transfer tax (for example, Toronto, Montreal, Quebec City, and Halifax). Should the ability to levy land transfer taxes be extended to other cities? The authors clearly do not think so. Land transfer taxes are very volatile because they depend on housing turnover and its value. The resulting volatility makes it difficult for local governments to cope with the resulting revenue fluctuations. Moreover, a land transfer tax is more distortionary than a property tax and a less cost-effective way to generate tax revenue. The desire to discourage the demand for housing, however, has been the motivation behind recent land transfer surtaxes on non-domestic buyers that have been recently introduced in parts of B.C. and in the City of Toronto. Joshua Gordon tackles this aspect of land transfer taxes in more detail in Chapter 7.

There has been a resurgence of interest in land value capture taxes (including tax increment financing) as a way to pay for infrastructure. A land value capture tax aims to capture the increased value of a property as a result of public investment or a change in land use regulations. Property owners that directly benefit from public policy through windfall gains pay to support those public policy initiatives through this type of tax. Although land value capture taxes exist in other parts of the world, currently few cities in Canada (e.g. Calgary and Edmonton) levy such a tax. The authors provide a number of cautions with the use of tax increment financing such as the financial risks that a project can impose on local governments, the lack of transparency in finances, the bias to high density development, and the diversion of tax revenue from municipal and provincial governments.

Chapter 4 by Harry Kitchen takes on a different view of the property tax than Dahlby and McMillan, suggesting that, although it is a good tax for local governments, it is not sufficient to pay for the increasing and changing needs of municipalities. He makes the case for a mix of taxes at the local level because it would result in greater flexibility and stability in revenues. Moreover, raising revenue through a combination of sources would allow cities to keep the rates on any one tax low, mitigating the negative effects of each tax.

Kitchen divides his discussion into funding for roads, funding for general services, and payments in lieu of taxes. Echoing some of the arguments made in Chapter 2 by Slack and Bird, Kitchen argues that user levies should be used to fund roads instead of the property tax. He also argues that cities should levy their own dedicated fuel tax, rather than relying on federal and provincial fuel taxes that are shared with them. Motor vehicle registration levies are another way to cover at least part of the cost of roads.

In terms of funding for general services, Kitchen reviews additional tax sources (income, sales, fuel, and hotel and motel occupancy taxes), more realistic payments in lieu of taxes from the federal and provincial governments, exemption from the goods and services tax (GST), and intergovernmental transfers. For each of the taxes, Kitchen argues that cities should be responsible for setting local tax rates for local accountability. Cities should piggyback onto existing tax structures as much as possible, however, to reduce administrative burdens. Lastly, taxes should be levied over a fairly large geographic area to minimize efforts to avoid the tax.

Two general types of property are exempt from property taxes in Canada – government property and another group that includes churches, cemeteries, historic sites, libraries, among other property types. Although payments-in-lieu of taxes from the federal and provincial governments are supposed to compensate municipalities for the forgone property tax revenues, these payments have, in many cases, fallen short. For these and other types of exempt properties, the result is that similar properties are treated differently and favourably treated properties are being subsidized by taxpaying properties. Kitchen suggests that the number of exemptions should be reduced and, where they remain, the exemption or reduction and its justification should be made explicit.

Similar to Slack and Bird in Chapter 2, Kitchen provides a rationale for federal and provincial conditional transfers but cautions against them because they often distort local decision making, reduce accountability, and hinder the implementation of efficient pricing. Kitchen also questions the need for the GST refund provided by the federal government, which is similar to an unconditional grant.

In Chapter 5, Lindsay Tedds takes up the call of Slack and Bird for municipalities to charge for services, wherever possible. User levies are different than taxes in that a tax is a payment for the purpose of raising revenue not connected to the activity being taxed whereas a user levy is a payment connected to the activity being charged. Taxes can be earmarked but that is a political choice rather than a legal constitutional requirement.

There are three main legally recognized user levies in Canada: user fees, regulatory charges, and proprietary charges. As established by case law, user fees are levies that are used to recoup the cost of providing a good or service; regulatory charges are levies that are used to recoup the cost of granting a right or privilege; and proprietary charges are levies that are used in relation to a proprietary interest. User fees and regulatory charges are cost recovery levies, whereas proprietary charges can be levied in a commercial, or profitable, way. As user fees and regulatory charges are limited to solely offsetting incurred costs and the size of the fee or charge must be reasonably connected to the costs incurred by providing the good or service to that user, these two user levies less flexible in their ability to achieve a fully efficient outcome and they cannot be used as a general revenue tool.

Data analyzed by Tedds indicates that municipalities are embracing the “wherever possible, charge” mantra. When all three types of user levies are combined, the data indicate that not only do municipal governments rely on user levies more than any other level of government, but that this reliance has grown in the last 18 years. Municipal user levies as a share of own-source revenues increased 70 percent since 1998. Looking at municipal governments by province, Tedds also shows that user levies form a greater share of municipal own-source revenues in Western Canada than in other parts of Canada. What is driving this reliance, however, is not clear. She drills down further by looking at Alberta and considers four key municipal service lines for which user levies can be charged -- public transit, water supply and distribution, waste water treatment and disposal, and waste management. She finds that overall, Albertan municipalities obtain 75 percent of their revenues for all of the four service lines from user levies. The proportion is higher in cities at 77 percent compared to 65 percent in all other types of municipalities. If public transit is excluded, the proportion would be 100 percent in cities.

As noted in Chapter 2 by Slack and Bird the best time to convince users that they should pay for the services is when the initial investment needs to be made or when something has changed to elevate the importance of increased investment in or highlight the pressure on existing infrastructure. To help municipalities take up of various user levies, Tedds considers the use of user levies in three emerging areas, namely; storm water levies, electric vehicle charging levies, and levies on linear property. Since the nature of these user levies is overlapping, she details how user fees, regulatory charges, and proprietary charges could be employed in each of these cases, showing that the blurring simply poses a choice burden on a municipality that can be addressed by being clear about the intention of the levy, the objectives of the levy, and the legislative mandate of the body collecting the levy. She shows that municipalities do have room to expand their use of these three user levies in novel ways.

Chapter 6 by Robin Lindsey provides concrete examples of the application of user levies by looking at road pricing and suggests how pricing not only raises funds for transportation infrastructure but also reduces traffic congestion. He reiterates the points made in other chapters that charging drivers to use the roads is efficient and ensures those who benefit the most from road use, pay the costs.

Using data from a number of studies, he demonstrates that congestion delays are a significant economic problem in a number of Canadian cities, particularly the economic hubs of Toronto, Montreal, Vancouver, and Calgary. The historical approach to traffic congestion in Canada has been to increase capacity (i.e. road space) but, as Lindsey notes, the evidence shows that the new road space quickly fills up and congestion returns. Since supply-side solutions are only a temporary solution to congestion, demand-side policies, in particular road tolling, should be considered. Currently, there are only 20 tolled facilities in all of Canada, the majority of which are bridges or tunnels to the U.S. border. In addition, in all but two cases, the tolls do not vary with the amount of traffic congestion. The lack of road tolls in Canada places it at odds with the rest of the world where road tolls are much more common. There have, however, been a number of studies on implementing congestion tolls in key jurisdictions in Canada (Montreal, Halifax, Vancouver, and Toronto), detailed in the chapter, and these can be used to guide policy makers on moving congestion charges from theory to reality.

Although road tolls are common in other countries, there are only a few examples where the road toll operates as a congestion pricing scheme. In reviewing these various schemes, it is clear that there is not one design that stands above the rest. The design and implementation of any congestion charge regime has to match goals, technology, topography, revenue needs, and political constraints of the considering jurisdiction. One thing that is clear across all jurisdictions is that public acceptability is necessary for the regime to work, but will not happen organically. Lindsey suggests a number of ways to overcome opposition to road pricing – toll only new, expanded, or improved capacity; choose a simple scheme; build in revenue neutrality; dedicate toll revenues; expand public transit; set tolls on the basis of accessibility to public transit; maintain toll-free alternatives; and postpone any referendum until after a trial period.

The chapter finishes by considering the applicability of congestion charges to fund municipalities and municipal infrastructure needs, particularly transportation-related infrastructure. As has been suggested in earlier chapters, municipalities face significant limits on their revenue generating powers. Assuming a municipality is the authority over the roads, bridges, etc. and provided the congestion charge can be designed to meet the criteria outlined for a user levy as outlined by Tedds in Chapter 5, they should be able to proceed.

The final two chapters explore some new areas for municipal taxation – taxes on vacant homes, foreign buyers, and short-term rentals. In both chapters, the authors call for local taxes to cope with special local problems. Although their proposals will potentially bring in revenues to the municipalities, they are primarily aimed at altering economic behaviour.

Chapter 7 by Joshua Gordon focuses on foreign buyers' taxes in B.C. and Ontario and touches briefly on vacancy (or empty home) taxes. The author looks at whether demand-sided policies such as foreign buyers' taxes and empty home taxes are likely to deliver housing affordability and whether they will generate substantial revenues for municipal governments.

Gordon suggests that foreign ownership has played a significant role in the housing affordability problems in both Toronto and Vancouver. Although there is much discussion about the shortage of housing supply in the media, Gordon suggests that the empirical record and academic literature on escalating housing prices do not support these claims. Rather, he believes that forces on the demand side account for recent price escalation. In particular, he provides evidence that the demand surge in recent years resulted from a spike in speculative activity which started with foreign buying and then had a ripple effect throughout the housing inventory.

In response to what was perceived to be an increasing housing affordability crisis, the B.C. government introduced a 15 percent property transfer tax on foreign buyers in July 2016. In April 2017, the Ontario government introduced a weaker version of the foreign buyers' tax, known as the non-resident speculation tax (NRST), along with a number of supply-oriented policies such as incentives to build rental units. It is weaker because it has a variety of exemptions or loopholes. Gordon concluded through his research that the foreign buyers' taxes have achieved many of the desired effects – they curtailed foreign buying, helped to cool housing markets, and in the case of Toronto, shifted expectations. And, they have generated revenues for the provincial government, though not local governments, in the process. The reasons these taxes are being levied provincially is due to the limited revenue authorities that municipalities have, bringing back the theme regarding the problem of the menu approach discussed above. That said, the revenues have been used to investment in local affordable housing, a key municipal priority. Some had hoped that these taxes would result in greater affordability, but this has not happened, in part, because they do not address all of the foreign capital entering the market and some buyers have devised ways to avoid the tax.

The empty homes tax was announced in BC in November 2016. Although it is too early to analyze the impact, Gordon notes that the tax is set at a relatively low level, it only apples to properties in City of Vancouver (which represents only a fraction of housing in the region), and it does not fundamentally challenge the impact of foreign ownership. Nevertheless, the tax can generate modest revenues for municipal governments and encourage some empty units onto the market (rental or otherwise). Unlike the case of the foreign buyers tax which is a provincial tool, in the case of the empty homes tax, it was the City of Vancouver that was granted to authority to charge the tax directly, through a change to it enabling legislation, and full discretionary use of the revenues from the tax.

Chapter 7 concludes with the author's support for a recent speculation tax by the BC government. The tax applies to "satellite families", foreign ownership, and vacant second homes in major urban areas in B.C. Starting in 2019, the tax rate will be 0.5 percent of assessed value on largely vacant second homes owned by British Columbians (with certain exemptions) and an initial $2,000 non-refundable tax credit to offset the tax on the first $400,000 of property value. Out-of-province owners will pay 1 percent, by contrast, while foreign owners and "satellite families" will pay 2 percent annually. This suggestion is broadly in line with Dahlby and McMillan who also support the increase in effective property tax rates with low income taxpaying residents receiving some offsetting credits on the income tax side. Much like with the foreign buyers tax, the revenue will accrue to the province, which has committed to using the funds to further invest in affordable housing in municipalities across the province.

In the final chapter, Chapter 8, Brian Kelcey picks up the theme of the sharing economy. Kelcey suggests that the growth of Airbnb and other short-term rental services in cities across Canada has raised a number of concerns for municipalities such as the supply of rental housing, rental costs, housing affordability, and effective regulation of the short-term market, factors that drove the introduction of the empty homes tax discussed by Gordon. At the same time, the influx of Uber and other ride-sharing and car/bike-sharing services has turned the taxi industry on its head. Municipalities in Canada are struggling to keep pace with the changes and the associated costs which include, for example, drafting new regulations and enforcing them. Municipalities in Canada are at the starting phase of grappling with how to support and regulate the sector, manage disruptions to traditional sectors, and ensure fair taxation across all facets of the economy.

Kelcey argues that Canada's larger jurisdictions have not fully addressed the gap in the application of regulations to the sharing-economy. One reason is that they lack the authority to do so and provincial governments have been slow to delegate that authority to them. The ability to apply a hotel tax to short-term rentals has only been delegated to a few cities, and many provinces have yet to address the gap in their own legislation. In B.C., the province is responsible for regulating the taxi industry, and has yet to pass any ridesharing legislation. Some municipalities have been slow to respond, taking an adversarial approach to the industry operating within its boundaries. Others, however, have been quick to modify their taxi regulations and are generating revenues to offset those regulatory costs.

American cities have not been as constrained as Canadian cities, however. Kelcey outlines three case studies from the US to draw lessons for Canadian jurisdictions. The City of Chicago imposed a US$0.15 per-ride surcharge on every rideshare transactions in the city, raising $179 million in revenues that it is using to upgrade and fund public transit. Interestingly, the rideshare firms eventually agreed with the charge on the basis that its customers were also likely to support and use public transit. San Francisco looked to increase revenues through broad by-law enforcement of home shares based on the notion that someone who is breaking one by-law is likely breaking others. The city used data on home sharing operations to collect unpaid business property taxes from these operations and caused many to reconsider providing home share services. Finally, New Jersey negotiated a deal with Airbnb where the company would collect and remit taxes, a model that has since been followed in more than 300 other jurisdictions, including the provinces of Quebec and British Columbia.

Kelcey suggests that the sharing economy's need for legitimacy could be used as leverage for a regulatory response. In many cases, these sectors have been operating untaxed and against regulations for years and this situation may justify a higher tax burden in lieu of back payment of taxes and fines. Kelcey illustrates his point with examples from Mississauga, Winnipeg, and Ottawa. Finally, Kelcey suggests that municipalities work together and use their collective bargaining power to achieve the goals of regulation of and revenue generation from the sharing economy. Rather than waiting for the province to give permission, he suggests pushing the limits from below, especially when one can get the taxpayers on board by developing a regulatory-tax package with something for everyone – a permissive regulatory structure fitting a business model that generates both revenue and, perhaps, better services to citizens.

The View From the Ground: The Perspective of Practitioners

Although not included as a separate chapter in this book, the symposium ended with some practical perspectives from municipal practitioners in three provinces on the themes that were raised in these chapters. The practitioners included Tanya Garost from District of Lake Country, British Columbia, Mike Jordan from the City of Saskatoon, Saskatchewan, and Bill Hughes from the Regional Municipality of York, Ontario. The practitioners discussed specifically the challenges and opportunities of funding small municipalities (in British Columbia), high-growth municipalities (York Region in Ontario), and resource-reliant municipalities (Saskatoon in Saskatchewan).

Garost noted that small municipalities face special challenges in raising sufficient revenues to meet their expenditure needs and, in particular, councils struggle to balance the property tax and other charges. The issue of the sustainability of small communities was raised, especially those that are dependent on a small number of major taxpayers. If a major taxpayer leaves, for example, the impact on the remaining taxpayers can be quite significant -- dramatic increases in property taxes, major cuts in services, and dwindling of reserves.

Other issues in small communities in B.C. revolve around the foreign buyers' tax and the vacancy tax, issues raised by Joshua Gordon in Chapter 7. Those small municipalities that are located close to larger municipalities feel the effects of policies such as the foreign buyers' tax in Vancouver, which had a ripple effect in communities outside of the city, driving up prices. On the bright side, some communities have been able to use the proceeds of the foreign buyers' tax to implement a strategy of transition housing to deal with homelessness. The vacancy tax was questioned because of its high administrative costs and uncertain revenues. Administrative costs are high because of the need to mail out the bill separately from the property tax process, the auditing function (e.g. is the property really vacant?), the requirements for secure storage, and the complaint process.

One of the success stories for small communities in BC is the establishment of shared services agreements among municipalities or between municipalities and First Nations. These agreements have allowed municipalities achieve economies of scale in service delivery and deliver services to new areas that were difficult to service before.

Mike Jordan provided the view from a medium-sized city (Saskatoon). He highlighted the impact of strong economic growth on property tax revenues, especially from non-residential properties. In Saskatoon, there are challenges with the property tax because of the two-year lag in assessment, however, so that the tax base does not keep up with growth. Declining intergovernmental transfers from the Saskatchewan government have led to an increasing portion of services being funded from property tax revenues. Part of the problem derives from the formula used for provincial-municipal revenue sharing which favours rural municipalities over cities. Declining non-tax revenues has meant that the city has had to manage expenditures more closely, explore new ways of delivering services, earmark appropriate revenue sources to expenditures, and engage the provincial government in discussions around a new fiscal framework.

Bill Hughes then provided the view from a fast growing region. He noted that growth creates an opportunity to take steps towards ensuring financial sustainability. In order to ensure sustainability, York Region council, for example, has committed to annual tax levy increases of no more than 3 percent, based on inflation. The challenge of going beyond 3 percent is difficult politically even where such increases respond to increased demand for quantity and quality of services. There is an obvious disconnect – councils want to improve services but not increase tax rates. York Region council has committed to a reduction in debt, which has been relatively high to finance the infrastructure needs of a growing municipality.

Two big fiscal challenges face the York region – the future cost of asset management and the potential disconnect between actual growth and provincial Growth Plan targets. Asset management has become a significant challenge in part because of the shift of responsibility for infrastructure from federal and provincial governments to local governments. In terms of the Growth Plan, the population growth around Toronto has been slower than expected and the population within Toronto faster than expected. Slower growth than expected means lower than expected development charges resulting in a fiscal gap to pay for infrastructure.

Finally, it was suggested that municipalities consider the opportunities created by the sharing economy – not just for revenues but also for expenditures. For example, municipalities could contract out a big part of their transit system to ride sharing companies to fill service gaps in the future.

At the end of the practitioners' presentations, they were asked how they would respond if there were a recession in the future. The responses of all three practitioners from large, medium, and small communities were very similar. The response from small municipalities would be, in part, to rely on reserves and, in part, to reduce capital investments. From a mid-sized city perspective, the response was similar –rely on reserves as much as possible and tightly manage expenditures. Provincial transfers were not considered to be a reliable source of revenue. Lastly, from a growing municipality, the response was to defer capital spending and rely on fiscal stabilization reserves to protect against shocks. Moreover, given the significance of debt servicing costs, the municipality keeps one year of principal and interest to ward off potential negative effects of a shock.

Conclusion

It is clear that municipalities face many pressures, existing and emerging, and even in the face of rapid growth, finances are an issue. Although many of the pressures faced by municipalities are shared across Canada, such as the need to fund services and infrastructure with a small set of revenue tools, some municipalities face unique pressures – for example, housing unaffordability in Toronto and Vancouver. The objective of this volume is to combine academic research and knowledge with practitioner experience to help inform Canadian municipal policymakers to address current and future challenges. It is hoped that this work spurs further conversation, collaboration, and solutions to these complex problems.

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