

Ecological Fiscal Reform and Urban Sustainability: An Analysis of Federal Policies

Prepared for the National Round Table on the Environment and
the Economy

August 2002

Metropole Consultants in association with Lisa Salsberg

Table of Contents

Executive Summary	ii
Fiscal policies and environmental priorities	ii
Opportunities for EFR	v
1. Introduction	1
1.1 Background	1
1.2 Federal analysis	1
1.3 Overview of report	2
2. Federal Policy Domains for EFR	3
2.1 Criteria for the selection of policy areas for review	3
2.2 Overview of policy areas	4
3. Key Findings	8
3.1 Spending	8
3.2 Taxation and tax expenditures	9
3.3 Federal fiscal policies affecting urban environmental quality	12
4. Conclusion	21
4.1 Fiscal policy opportunities for EFR	21
4.2 Policy supports	24
Appendix 1 — Key Informants interviewed for federal analysis	25
Appendix 2 — Fact sheets on federal fiscal policies	26
Canada Lands	26
Canada Strategic Infrastructure Fund	27
Canadian Adaptation and Rural Development Fund	28
Capital gains treatment of ecologically sensitive lands	29
Climate Change Action Fund	31
Community Access Program	33
Community Animation Program	34
Community-based investment strategies	36
Community Energy Systems Program	38
EcoAction Community Funding Program	40
Federal fuel tax	41
Government Online	42
Green Municipal Enabling Fund	43
Green Municipal Investment Fund	44
GST and home purchases	45
GST and infrastructure investment	46

Heavy Automobile Tax	47
Homegrown Solutions	48
Infrastructure Canada Program	49
ITS Deployment and Integration Program	51
Mortgage insurance for borrowers.....	53
Moving on Sustainable Transportation	54
<i>National Guide to Sustainable Municipal Infrastructure</i>	55
Procurement, contracting and disposal services	56
Regional watershed rehabilitation programs	57
Renewable Energy Deployment Initiative.....	58
Residential Rehabilitation Assistance Program	59
Smart Communities Program.....	61
Strategic Highway Infrastructure Program	62
Tax treatment of competing energy investments	63
Tax treatment of gifts of lands for recreational, urban heritage and other open-space purposes.....	65
Taxable income treatment of employer-provided transit passes.....	66
Urban Transportation Showcase Program	67
Vial Rail services in urban areas	69

Executive Summary

This report presents initial findings regarding an analysis of federal government fiscal policies and their impact on the environmental quality of Canadian cities. It forms part of the research undertaken by the Urban Sustainability Task Force of the National Round Table on the Environment and the Economy.

The analysis considers the areas of greatest expenditure by the federal government on environmental quality in urban areas, the significant federal tax policies affecting urban environmental quality, and the areas where fiscal policy could assist in mitigating environmental degradation. The policies are reviewed in terms of their impacts on key environmental issues for urban areas, with input derived from interviews with key informants. The report concludes with a list of suggested preliminary opportunities for ecological fiscal reform (EFR).

Fiscal policies and environmental priorities

Urban development patterns

The loss of agricultural or ecologically sensitive lands on the urban fringe is an increasing concern for large cities facing the pressures of urban growth. These lands represent unique environmental assets for food production and biodiversity, which, if lost, could not be replaced. The federal government, while providing a variety of programs to assist farmers across the country, has no specific programs to assist with the unique needs of farmers at the fringe of urban areas. In addition, some tax incentives may even entice farmers to sell a family farm and retire when the price is right.

Fiscal policy regarding the protection of environmentally sensitive lands is centred on a number of taxation issues. The EcoGift Program provides some reductions in the capital gains tax; however, key informants have suggested that these reductions are insufficient to entice many landowners to make donations.

Even when and where the loss of environmentally significant lands on the urban fringe is not a significant issue, continued urban expansion can be. Current federal fiscal policies generally both support urban sprawl and assist in its remediation.

The GST may act as an incentive for development on greenfields in the case of new housing construction. The GST and capital gains are generally applied to both the land and building components of a property, effectively discouraging denser development and reinvestment in existing buildings.

On the other hand, the federal government has recently initiated a number of investments in urban revitalization, including \$500 million for the Toronto waterfront redevelopment, \$321 million for shelter enhancements and residential

rehabilitation as part of the National Homelessness Initiative, and \$680 million in the 2001 budget for affordable rental housing construction.

The supply and price of parking plays a role in influencing the use of land and the car in urban areas. Capital gains taxes may have an unintended impact on the supply of parking in urban areas with rising real estate costs by deterring long-time owners of parking lots from selling their land to developers. As a result, land used for parking may remain underused in urban areas, while greenfields are being developed.

Urban transportation

Most of the key informants interviewed for this research named urban transportation as the key environmental issue for Canadian cities and an important issue to target for EFR. Urban transportation affects energy use and air quality in urban areas and is critical to maximizing the benefits of compact urban form. Again, federal fiscal policies likely both support and inhibit sustainable urban transportation.

Federal initiatives support increased road use by cars. The \$600-million Strategic Highway Infrastructure Program is designed to promote road construction and related improvements, as well as Intelligent Transportation Systems, which may be applied to, for example, improving traffic flow by giving drivers access to real-time information about road conditions. Through the nontaxation of employer-provided free parking and the taxation of employer-provided transit passes, the federal government encourages use of the car over public transit.

In contrast, the federal government also supports transportation demand management through programs to educate commuters on ways to reduce demand for car use. Some of these programs are also being progressively implemented in the government's own departments. Reducing travel demand, however, is also a function of location. In the siting of new federal facilities, the government has failed to consider the impact of location on travel demand.

The federal government's main role in increasing sustainable transportation alternatives to the automobile in urban areas is potentially through infrastructure funding for public transit. The \$2.05-billion Canada Infrastructure Program has labelled "green" infrastructure a priority; however, the criteria for determining what is green are not well defined. Announcements regarding the Canada Strategic Infrastructure Fund have mentioned urban transit as a priority for the fund, but specific initiatives have not yet been put forward.

Energy and climate change

The federal government has taken leadership in developing a number of policies and programs that target reductions in the use of fossil fuels and other greenhouse gas (GHG) emissions. However, some of its key fiscal policies support irresponsible use of fossil fuels at the expense of conservation and the use of renewables. The bulk of

the federal spending programs to reduce GHG emissions are funded through the \$1.1 billion committed in the 2000 and 2001 budgets and form part of the Government of Canada Action Plan 2000 on Climate Change. While the programs target all sectors, in all parts of the country, some have significant urban components.

The federal government supports community energy systems by assisting with the development of plans and projects and conducting research on district heating and cooling, cogeneration and heat recovery systems (among others). The Green Municipal Funds also provide opportunities for municipalities to introduce innovative environmentally supportive technologies. However, it offers no direct tax incentives for investment in the development of community energy systems.

Transportation is the largest single source of GHG emissions in Canada. However, consumers in Canada have few incentives to purchase fuel-efficient vehicles. The GST is uniform for all vehicles, regardless of their fuel efficiency. While the Heavy Automobile Tax is applied to heavy automobiles, vans and station wagons, it is unlikely to act as a deterrent, since it is only significant for the very heaviest vehicles on the market.

The federal excise tax on fuel itself may be considered a deterrent to the purchase of fuel-inefficient vehicles. However, research has shown that the price of gasoline (including the tax effect) in Canada would need to be substantially higher for the deterrent to be effective.

With the release of the *Action 2000 Plan on Climate Change*, the federal government announced a number of new initiatives targeting the industrial sector. The Commercial Building Incentive Program and the Industrial Building Incentive Program provide funding for owners to improve the energy efficiency of their buildings.¹ Other cross-cutting measures specifically for industry, such as benchmarking studies and awareness programs, were also announced.

The adoption of energy efficiency policies no doubt helps to reduce at least per capita energy consumption from fossil fuels. However, to have an impact on reducing overall levels of GHG emissions, Canadians will have to shift away from the use of fossil fuels to renewable forms of energy. Cities, which have more than 80% of the population, create the markets for renewable energy and can thereby play a leading role in shifting the entire population in that direction.

Although the federal government invests in programs to assist with the introduction of renewable energy into the urban marketplace, the Pembina Institute estimates that the federal government subsidizes the fossil fuel industry heavily through tax credits, direct spending, written-off loans and contributions for research and development.² A recent study by Pollution Probe, looking at wind power in other countries, also

¹ <http://cbip.nrcan.gc.ca/cbip.htm>

² <http://pembina.piad.ab.ca/news/press/2001/2001-02-19.php>

concluded that support for renewables was higher in the 1980s (in the aftermath of the oil crisis) than it is today.³ Although new incentives for power generation were introduced in the 2001 budget, the study concluded that the “Canadian Wind Power Production Incentive (WPPI) is unlikely to provide a large enough incentive to deploy wind power capacities similar to those installed in the most successful countries.”⁴

Water quality

The federal government’s main fiscal role in water-quality management is much like its support for local transportation infrastructure. Through the infrastructure programs, it provides financial support for the enhancement of sewage treatment facilities. Through the application of the GST to municipalities, it receives revenue from the municipalities that invest in infrastructure.

Opportunities for EFR

Overwhelmingly, the key informants interviewed for this research said that the greatest opportunities to improve environmental quality in urban areas would be in the coordination of land use and transportation to reduce car use and in the reduction of energy consumption, including energy for transportation, per capita and overall. Policies in these areas would improve air quality, address climate change, and reduce dependence on nonrenewable resources. In addition, they suggested that there would be many opportunities for the federal government to show leadership, not only through policy, but also through its practices as an employer and an organization.

Based on preliminary feedback from experts convened by the NRTEE, the report proposes the following opportunities for EFR to improve environmental quality in Canadian cities:

- Assist with investment in public transit;
- Support transit-oriented land use and reduced energy use by communities;
- Improve infrastructure spending programs to ensure that green is really green; and
- Lead by example as an organization and employer.

³ Pollution Probe 2002. Promoting Green power in Canada. Draft report.

⁴ Ibid. p. 153.

1. Introduction

1.1 Background

This report presents initial findings regarding an analysis of federal government fiscal policies and their impact on the environmental quality of cities in Canada. It summarizes research undertaken under the auspices of the National Round Table on the Environment and the Economy's (NRTEE's) Urban Sustainability Program. The NRTEE is an independent federal agency that provides decision-makers, opinion leaders and the Canadian public with advice and recommendations for promoting sustainable development. Overseen by the multistakeholder Urban Sustainability Task Force, the program has among its specific objectives:

- To determine a continued and expanded role for the federal government in the improvement of environmental quality in Canadian cities;
- To investigate, through innovative research, the potential application of ecological fiscal reform (EFR) to urban issues;
- To identify for implementation by the federal government—and, if possible, provincial and municipal governments—a number of specific policy (e.g., fiscal) measures to support improvements in urban environmental quality while realizing economic and social benefits;
- To encourage the adoption of best practices and processes in urban environmental management and economic development; and
- To raise public awareness of, and broad-based engagement in, urban sustainability issues.

Thus a primary focus of the Urban Sustainability Task Force is to identify and recommend opportunities and measures for the federal government to improve the environmental quality of Canadian cities through EFR. As background research leading to that objective, an analysis of current federal government spending and taxation policies and their impact on urban environmental quality was undertaken. This report summarizes the findings of that federal “state-of-play” analysis. A separate report summarizes research findings from a case study undertaken in the Toronto region, which identified local and provincial fiscal policies affecting urban environmental quality and their interactive effects with federal policies.

1.2 Federal analysis

The objectives of the federal analysis are to:

- Identify and summarize the main federal fiscal policies that contribute to, or work against, improved urban environmental quality;
- Analyze the state of play with respect to the impact of federal fiscal policies on the environmental quality of cities; and
- Contribute to the development of a list of potential spending and taxation measures to enhance urban environmental quality in Canada.

This report examines two types of fiscal policies affecting urban environmental quality, spending and taxation policies. A decision on a spending policy is made to finance a policy objective. One type of taxation policy — called a tax expenditure — involves a decision to forgo a tax to finance a policy objective. Other taxation policies may serve objectives other than those of the environment, but have unintended consequences for environmental quality.

The inventory of fiscal policies was developed through a review of Government of Canada publications and websites and relevant literature. In addition, key informant interviews were conducted with select municipal officials and stakeholder groups to identify the most significant issues and fiscal policies for environmental quality in cities.

1.3 Overview of report

The report has four sections. Section 2 provides an overview of the policy domains covered in this report. It also outlines the criteria used to delineate the policy areas for review. Section 3 presents the key findings of the analysis. It does this in three ways. First, it provides a summary of the areas of greatest expenditure by the federal government for environmental quality in Canadian cities. Second, it summarizes the main areas where (federal) taxation has an impact on environmental quality. Third, it summarizes the ways federal fiscal policies have an impact on the key environmental issues in urban areas.

As part of the Urban Sustainability Program work plan, two meetings of experts were held in the summer of 2002. A range of experts and municipal officials were asked to identify — from a long list of potential EFR measures presented — those measures that they thought held the greatest potential to improve urban environmental quality in the short and medium terms. The input received from these meetings is reflected in the preliminary list of potential measures presented in Section 4.

Section 4 concludes the analysis, with a discussion of key opportunities to implement EFR in Canadian cities.

Finally, Appendix 1 provides a list of those interviewed as part of this research. Appendix 2 presents fact sheets on each of the policies reviewed. Each fact sheet summarizes the policy and its potential impact on urban environmental quality and proposes options for EFR derived from the research on this policy.

2. Federal Policy Domains for EFR

Many federal government policies and programs potentially affect the environmental quality of urban areas. Some of these programs — environmental education, sustainable transportation and energy conservation — were developed specifically to enhance environmental quality. Others were intended to address other policy goals — preservation of agricultural industries, telecommunications, affordable housing — but likely have consequences for environmental quality. The intent of the federal analysis is to review all relevant policies to recommend the policy areas with the greatest ability to improve environmental quality.

2.1 Criteria for the selection of policy areas for review

While all policy areas likely have some impact on environmental quality and all environmental issues are relevant to some extent in urban areas, some criteria were needed to select the most relevant for further analysis. The following criteria were used to select environmental issues and policy remedies affecting, or affected by, urban areas in Canada:

- Does the issue have a significant impact on human health and the environment?
- Is it an issue that has a particular manifestation in urban areas? That is, is the urban situation unique in some way?
- Does the federal government have an existing spending or taxation role in this area?
- Was the issue identified as a priority in an earlier survey by the NRTEE of municipal officials? (An issue would not be eliminated on this basis; it should be considered in some way, even if it does not all meet other criteria.)
- Is NRTEE already addressing this issue through another forum?
- Are the policy areas amenable to EFR (as opposed to regulations and legislation or other interventions)?

Because urban environmental quality is a very broad area, it was broken down into 13 more specific dimensions. This more specific detailing of what is meant by urban environmental quality was outlined in a draft research framework to guide work under the Urban Sustainability Program.⁵ These dimensions were intended to be used as a guide in the federal inventory and case study research to maximize consistency between the two research projects and help identify the relevant fiscal policies.

The dimensions were:

⁵ *Ecological Fiscal Reform and Sustainable Urban Growth: A research framework*, prepared for the NRTEE Urban Sustainability Program by Pamela Blais, Metropole Consultants, preliminary draft, March 6, 2002.

1. Development on undeveloped versus already urbanized land
2. Loss of agricultural and environmentally sensitive lands at the urban fringe
3. Amount of land and building consumed (density of development)
4. New construction versus rehabilitation of buildings
5. Parking availability and land use
6. Energy conservation and efficiency
7. Use of environmentally detrimental versus benign energy sources, as well as nonrenewable versus renewable energy sources
8. Travel demand
9. Use of the automobile versus more energy-efficient and less polluting forms of transportation
10. Fuel efficiency of vehicles
11. Energy efficiency of freight transportation
12. Traffic congestion
13. Treatment of sewage waste

In addition, a number of dimensions that cut across several environmental issues were explored:

1. General programs and impacts
2. Federal infrastructure programs and criteria
3. Interdepartmental coordination of investment in cities and sustainability

2.2 Overview of policy areas

Based on the application of the criteria, the following policy areas have been reviewed for the federal analysis. Table 1 provides a list of all spending and taxation policies summarized in Appendix 2.

Agriculture — This includes policies affecting agricultural development on the fringe of urban areas. These fringe areas are key land-uses for urban regions and their sustainability. They not only provide a source a agricultural production close to large population centres, but also assist in containing sprawl, by providing a buffer of greenspace between the urban and rural areas. However, with the development pressures in and around many urban areas in Canada and the resulting inflation in the price of land, farmers on the fringe are under tremendous pressure to sell their land. Many view their land as their “pension” and await the appropriate time to sell.

Communications — This includes policies to improve Internet access for people living in urban areas and enhance the use of telecommunications to reduce travel. Communications technology can improve environmental quality in urban areas by reducing the need for people to travel to access information, communicate with colleagues, and share information.

Environmental education and community action — This includes programs to educate Canadians on environmental issues, consequences of environmental inaction, options for environmental improvements, and opportunities for individual behaviour

change. This area includes programs to leverage funds for local community action on environmental issues. While education may be a component of many federal policies, this category encompasses only those programs that have education as their primary thrust.

Energy — This includes policies to improve the energy efficiency of transportation, policies to assist with the development and implementation of community energy systems, and policies that act as incentives or disincentives for power generation from alternative sources. The research does not provide a complete review of policies on conservation of energy for heating and cooling buildings or other general energy conservation policies. These areas were not researched extensively because they do not have significant urban aspects other than those already covered in nonurban categories.

Federal activities — This includes policies on buildings and land owned by the federal government and the space it leases. This area includes policies for use of federal government fleets for government operations and employee travel, as well as other transportation demand management programs for employees. The policies in this area are considered important because they give the federal government a potential to lead by example and to demonstrate as a model organization the application of innovative policies. Key informants also stressed the significance of federal leadership, as the federal government has enormous opportunity to demonstrate innovative organizational practices for the improvement of environmental quality and showcase them through the media. The federal government can also build on key successes of these programs to gain leverage into federal incentive programs.

Housing and homelessness — This includes policies to increase affordable and low-cost housing in the urban environment. This area includes policies that act as incentives or disincentives to the use or redevelop land for housing in urban areas versus greenfields. Federal policies to reduce homelessness in urban areas have also been included, if these policies concern the supply or rehabilitation of housing, rather than being focused on providing income supplements for homeless people.

Infrastructure — This includes currently funded national infrastructure programs, as well as tax policies on capital investment in infrastructure.

Preservation of ecologically sensitive lands — This includes policies to increase opportunities for the preservation of ecologically significant lands or other greenspace in and around urban areas.

Transportation — This includes federal policies on urban transportation, including public transit, rail service in and around urban areas, urban traffic management, and research and planning for sustainable urban transportation. This area includes taxation policies on transportation.

The following key policy areas for urban environmental quality were not researched, or not fully researched, as part of the federal analysis:

- ∃ The redevelopment of **brownfields** in urban areas was not examined for this report because NRTEE has established a separate program to deal exclusively with this area, including recommendations regarding EFR.
- ∃ Policies aimed at reducing **emissions from point sources** —emissions from factories into air and water —were not examined because they are generally regulatory rather than fiscal policies and have no specifically urban component. Some key informants, however, did highlight the possibility of directing fiscal incentives to industry, as a means to reduce point source emissions.
- ∃ In addition, issues surrounding **transboundary (Canada–United States) air and water pollution** were not examined because of their political, rather than fiscal, orientation.
- ∃ The issue of **waste management** is covered only briefly in this report because the federal government plays a very limited role in this area. The federal government's role is limited to the capital investments it makes in water and waste management facilities through the various infrastructure programs.

Table 1
Spending and taxation policies summarized in the Appendix

Canada Lands
Canada Strategic Infrastructure Fund
Canadian Adaptation and Rural Development Fund
Capital gains treatment of ecologically sensitive lands
Climate Change Action Fund
Community Access Program
Community Animation Program
Community-based investment strategies
Community Energy Systems Program
EcoAction Community Funding Program
Federal fuel tax
Government Online
Green Municipal Enabling Fund
Green Municipal Investment Fund
GST and home purchases
GST and infrastructure investment
Heavy Automobile Tax
Homegrown Solutions
Infrastructure Canada Program
ITS Deployment and Integration Program
Mortgage insurance for borrowers
Moving on Sustainable Transportation
National Guide to Sustainable Municipal Infrastructure
Procurement, contracting and disposal services
Regional watershed rehabilitation programs
Renewable Energy Deployment Initiative
Residential Rehabilitation Assistance Program
Smart Communities Program
Strategic Highway Infrastructure Program
Tax treatment of competing energy investments
Tax treatment of gifts of lands for recreational, urban heritage and other open-space purposes
Taxable income treatment of employer-provided transit passes
Urban Transportation Showcase Program
Via Rail services in urban areas

3. Key Findings

This section discusses the findings of the analysis in three ways:

- What are the areas of greatest expenditure by the federal government affecting environmental quality in urban areas?
- What are the most significant federal tax policies affecting environmental quality in Canada's urban areas?
- What is the potential impact of spending and tax policies on the environmental quality in urban areas?

3.1 Spending

This section summarizes the areas of greatest expenditure in urban areas by the federal government. Spending is an implicit indicator of priority. While the policy initiatives reviewed have generally been conceived and announced on an individual basis, clearly some areas have been assigned greater prominence through the budget allocation process. Where is the federal government investing the most on the environmental quality in cities? Table 2 presents the program totals for major programs in place in 2002.

Table 2
Spending for major federal programs

Infrastructure

Infrastructure Canada — \$2.05 billion

Strategic infrastructure — \$2 billion

Green Municipal Enabling Fund — \$50 million

Green Municipal Investment Fund — \$200 million

Total: \$4.3 billion

Climate change

\$625 million (in 2000)

\$500 million (in 2001)

Total: \$1.1 billion

Housing and homelessness

National Homelessness Initiative (shelter component) — \$321 million

Affordable rental housing (budget 2001) — \$680 million

Residential Rehabilitation Assistance Program — \$50 million/year

Total: \$1 billion +

It must be noted that these are national totals, that is, not all spending is in urban areas. In addition, not all spending necessarily supports projects with environmental benefits. For example, not all infrastructure funding is green.

It should also be noted that spending is not necessarily an indicator of impact. With the exception of the Green Municipal Funds administered by the Federation of Canadian Municipalities (FCM), there do not appear to be frameworks to evaluate the environmental impacts of the most of these programs. In addition, many of the key informants suggested that small budget items can be as effective as large ones. Spending on education and research and development (R&D), while being low-expenditure items, have some of the greatest potential to influence personal and corporate behaviour, particularly through federal programs uniquely positioned to communicate with all Canadians.

3.2 Taxation and tax expenditures

This section summarizes the main areas where federal taxation policies affect environmental quality in cities. Some policies have been put in place as tax expenditures to enhance environmental quality, while others have been developed or altered over time for other purposes but have unintended or secondary, usually negative, consequences for urban environmental quality. The review of programs and the key informants have flagged several areas of taxation policy as likely to be significant for urban environmental quality.

GST

The GST is a tax applied to the purchase of most goods and services in Canada. In certain areas, the application of the GST likely plays a role in influencing spending in areas that impact on the quality of the urban environment.

Infrastructure spending by municipalities

Municipalities must pay GST on all infrastructure purchases, but available rebates reduce the effective rate to 3%. Provinces are not required to pay GST. The City of Toronto estimates that it pays between \$15 million and \$40 million annually in GST on transit vehicles, which could otherwise be reinvested in improving transit services. GST is also charged on fuel consumed by transit vehicles.

GST and transit services

No GST is due on transit services themselves, because they are designated GST-exempt. The federal government estimates that this tax expenditure will be equivalent to \$90 million of foregone revenue in 2002.

GST and the purchase of new homes

New housing is eligible for a rebate of up to 36% of the GST. “Substantial renovations” are eligible for the same rebate, but in practice they rarely qualify under the strict definition in use. New homes are more likely to be located on greenfields, while renovations would occur on already-urbanized lands, resulting in fiscal policy that appears to favour greenfields development over renovation. The value of this tax

expenditure was estimated at \$520 million in 2000. Resale of homes, in contrast, is not subject to GST.

Taxes on transportation (other than GST)

Two of the most widely discussed areas for EFR are tax measures on transportation. For many years, consumer and nonprofit groups have advocated for a change in the policy, which currently considers transit passes provided by employers to employees a taxable expense, while free parking is not, unless a designated space is assigned. Many studies have shown that free or inexpensive parking encourages driving, including a survey of employees of the former City of Toronto, which found that the most frequently cited reason for driving to work was the availability of free parking.⁶ This unequal treatment of employee transportation benefits likely contributes to increased emissions from vehicles in urban centres, where transit is readily available.

Another widely discussed policy is the fuel tax and the possible application of some portion of it to support ongoing capital investment in public transportation. The fuel tax, as it is currently constituted, does not likely have much of an impact on driving habits.⁷

Perhaps the only transportation tax designed with an environmental goal in mind is the Heavy Automobile Tax. However, its price impact on the majority of vehicles is likely too small to deter consumers from the purchase of SUVs and other large vehicles.

Taxation of energy

Fuel tax

In Canada, energy taxes are applied based on the type of fuel used. In addition to collecting GST, the federal government levies a tax of 10 cents per litre for gasoline and 4 cents for diesel fuel, affecting the price of fuel to consumers. When gasoline is blended with alcohol made from renewable sources, no excise tax is due on the portion of the final product equivalent to the proportion of alcohol.

Diesel fuel used for power generation is generally tax-exempt. This may encourage the production of electricity from diesel, which is more harmful than some other sources. So far, this has not been a concern in most cities, however, since this method of production is still more expensive than the alternatives. It is also important to note that coal is not subject to excise tax either, although it generates more carbon dioxide for the same output than many other fuels.

⁶ City of Toronto Healthy City Office and Planning and Development Department, *Employee Commute Survey*, 1993.

⁷ Hagler Bailly, *Potential for Fuel Taxes to Reduce Greenhouse Gas Emissions in Transportation*. Fuel Tax Policies Report, prepared for the Department of Public Works and Government Services Canada, 1999.

Investments in energy sources

In 2000, the Commissioner for Environment and Sustainable Development reported on whether investments in nonrenewable and renewable energy are on a level playing field with respect to tax treatment in Canada. The Commissioner concluded that “overall, with a few exceptions, federal government support today for energy investments, including support through the tax system, does not particularly favour the non-renewable sector over the renewable sector. The exceptions are investments in oil sands and coal mines, which receive a significant tax concession; nuclear technology investments, which receive substantial direct support; investments in alternative fuels, which receive more favourable excise tax treatment; and provincially owned energy companies, which pay no federal income tax.”⁸

More recently, the 2001 budget proposed a new tax incentive for electricity produced from qualifying wind energy projects, to provide some stable funding for wind production development. The cost of this 15-year program is estimated at \$260 million.⁹

Taxation of land donations

The taxation of donations of lands for conservation has gained prominence over the past few years, as a result of the advocacy efforts of conservation authorities, environmentalists and developers. Many groups have stated that certain tax policies act as disincentives to the donation of land — ecologically sensitive and ecologically not-significant greenspace — for conservation purposes. While the February 2000 budget introduced a number of changes making the donation of land more attractive, many groups continue to lobby for additional changes.

Under the EcoGift Program, gifts of ecologically sensitive land and easements qualify for charitable tax receipts and for a reduction of 50% in the inclusion rate for capital gains taxes. As such, only one third of the value of the capital gains is included in taxable income.¹⁰ This policy, however, does not apply to those who hold land as inventory, primarily developers. As a result, developers have less of an incentive to donate land, although they own or control much of the land around expanding urban areas.

Landowners who sell their land for conservation must pay capital gains taxes based on the fair market value of the land, regardless of the actual sale price. Some owners may want to sell below the market value (“bargain sale”) to make a partial gift of the property. This may discourage the sale of lands to land trusts and render such lands vulnerable to development.

⁸ 2000 report of the Commissioner of Environment and Sustainable Development.

⁹ Department of Finance. Budget 2001 highlights.

¹⁰ Peterson, Paul 2000. Alternative Tools for the Protection of the GTA Countryside. Report prepared for the Greater Toronto Services Board.

Taxes on agricultural land

The conservation of land on the urban fringe is also affected by the ability of farmers to preserve their land for farming. On the tax side, the sale of farm properties is subject to standard capital gains taxes; however, there is a \$500,000 lifetime capital gains exemption available for owners of farmland. This may act as an incentive to sell to developers when the price of land is high.

Capital cost allowance

The capital cost allowance is designed to assist with the cost of financing capital investments. It provides for different rates of depreciation for different classes of assets. Accelerated depreciation can make it easier to invest, by providing a more rapid payback period.

In general, investments that benefit environmental quality are treated no differently than other investments. However, Budget 2001 announced some new policies for accelerated depreciation of investments in smaller hydroelectric projects and equipment used to generate electricity from blast furnace gas.¹¹ Some key informants suggested that additional accelerated depreciation is required to induce investment in new technologies or energy efficiency, waste management, housing construction, or home renovations that have proven environmental benefits but carry greater risk, because they have not been widely tested.

3.3 Federal fiscal policies affecting urban environmental quality

A primary objective of the Urban Sustainability Task Force is to identify fiscal interventions for federal government to use to improve the environmental quality in Canadian cities. It can be argued, therefore, that the most important lens through which the federal analysis should be viewed is that of environmental impact, existing and potential. For this reason, this section summarizes the current state of play of federal fiscal policies with respect to the key environmental issues impacting on urban areas or those they impact on. The key environmental issues described for the relevant policies reflect the dimensions of urban environmental quality outlined above, as well as key issues flagged in the interviews with key informants. The issues are not organized in any order of priority.

Urban development patterns

Loss of agricultural land and ecologically sensitive lands on the urban fringe

The loss of agricultural or ecologically sensitive lands on the urban fringe is of increasing concern to cities experiencing the pressures of urban growth. These lands are unique environmental assets for food production and biodiversity, which, if lost, could not be replaced. As the population in these regions grows, the pressure increases to develop the land, mostly for housing, but also for industrial and

¹¹ Department of Finance. 2001 Budget Highlights.

commercial expansion. The owners of these lands are increasingly faced with a demand to sell their properties; and as the population grows, so do the demand and the price. In some cases, developers have already purchased or optioned properties on the fringe in anticipation of urban expansion. Federal fiscal policies have an impact on this issue in a number of ways.

The federal government, while providing a variety of programs to assist farmers across the country, has no specific programs to assist with the unique needs of farmers at the fringe of urban areas. While these farmers have lower opportunity costs, because they can rely more readily on the value of their property as an investment beyond the business, a national interest in preserving Canada's food supply is at greater risk in these areas. Farmers have many fiscal incentives to help them remain in business. Most notably, the Canadian Adaptation and Rural Development (CARD) fund assists farmers in adapting to change in the global marketplace, new technologies and environmental challenges. As discussed above, however, farmers also have a tax incentive to sell a family farm and retire.

As discussed in the previous section, fiscal policy on the protection of environmentally sensitive lands is centred on a number of taxation issues. The EcoGift Program provides some reductions in the capital gains tax. However, key informants have suggested that these reductions are insufficient to entice most landowners to make donations, because the tax savings stemming from the charitable donations receipt still fail to offset the actual capital gains taxes due. For lands held as inventory, the level of taxation is even higher. In addition, there is little recognition of the donation of greenspace that is not ecologically significant but that has recreational uses and provides environmentally important natural amenities, such as tree cover.

Even where the loss of environmentally significant lands on the urban fringe is not a significant environmental issue, the continued expansion of the urban boundary can be. As demonstrated in the research framework, a cluster of environmental issues is linked to urban form and growth patterns.¹² In addition to the loss of agricultural and environmentally sensitive lands, the issues include local and regional air quality, energy use and global climate change, and water-quality impacts. While some progress has been made in Canada's growing urban regions in slowing down the urban expansion rate, the percentage growth in the urbanized area has increased more rapidly than that of the population.

Current federal fiscal policies generally both support urban sprawl and assist in its remediation.

¹² *Ecological Fiscal Reform and Sustainable Urban Growth: A research framework*, prepared for the NRTEE Urban Sustainability Program by Pamela Blais, Metropole Consultants, preliminary draft, March 6, 2002.

Development on greenfield versus already-urbanized land

As described in the previous section, the GST may act as an incentive to development on greenfields in the case of new housing construction. At the same time, the federal government contributes to the revitalization of the urban areas through commitments such as the \$500 million to Toronto for waterfront regeneration. Although the federal government is the largest landlord in Canada, it lacks an explicit policy to consider the long-term environmental impacts of siting federal facilities on greenfields versus already-urbanized sites.

Density of development

The nature of urban growth is also determined by the amount of land consumed for development, and federal fiscal policies play a role in determining the density of development. Most significantly, the GST and capital gains are generally applied to both the land and building components of a property, effectively discouraging denser development and reinvestment in existing buildings. Federal facilities, for example, have no explicit policy on density of development.

New construction versus rehabilitation of buildings

A related issue affecting growth in urban regions is investment in new construction versus the rehabilitation of existing buildings. While new construction tends to occur in the outer areas of the urban region, rehabilitation generally occurs in areas with higher (and more transit supportive) densities, whether in the central areas, inner suburbs or smaller communities that serve as nodal points within the urban region.

Federal fiscal policies support both new construction — through the GST rebate for new housing — and rehabilitation. Rehabilitation appears to be gaining some prominence as part of a package of measures to assist with affordable housing and homelessness in urban areas.

The \$50-million/year Residential Rehabilitation Assistance Program offers financial assistance, in collaboration with provincial governments, for residential rehabilitation or conversion to provide affordable housing. Some subprograms, however, are only available in Ontario. The program constitutes an incentive to reuse existing buildings in already-urbanized areas. The National Homelessness Initiative recently augmented the program with \$268 million in new funding.

Also, funding for heritage preservation, recently announced by the Minister of Heritage (at the FCM conference in June 2002), may develop into programs for the rehabilitation of buildings generally in already-urbanized areas.

Parking supply and price

The supply and price of parking plays a role in influencing the use of the car in urban areas. Urban centres typically have less parking and at higher costs, whereas suburban areas tend to have more and more free parking. The regulation of the supply and

price of parking has been shown to be an effective tool to regulate car use. The federal government plays a small role in influencing parking supply and price; however, some key areas should be flagged.

Capital gains taxes may have an unintended impact on maintaining a supply of parking in urban areas with rising real estate costs by deterring long-time owners of parking lots from selling their land to developers. As a result, land used for parking may remain underused in urban areas, while greenfields are being developed.

In addition, free parking provided by employers is only considered a taxable benefit if the space is designated, thus excluding all situations in which parking is abundant but provided on a first-come, first-served basis.

In terms of its own facilities in urban areas, the federal government lacks a consistent policy on parking at federal facilities, for example, regarding charging for space, reducing the number of spaces built in new facilities, and building underground instead of surface parking.

Urban transportation

Most of the key informants interviewed for this research named urban transportation as the key environmental issue for Canadian cities and an important issue to target for EFR. Urban transportation affects energy use and air quality in urban areas and is critical to realizing compact urban form and its benefits. Most of the key informants also stressed that the greatest benefit to urban environmental quality could be made through interventions focused on improving public transportation and reducing overall travel. Federal fiscal policies are directed at urban transportation, through both spending and taxation measures.

Traffic congestion

Traffic congestion contributes to environmental degradation by increasing time spent on the road by all motorized vehicles, and hence augmenting the emissions they produce. Many environmentalists, however, have argued that without traffic congestion in urban areas, public transit would be a less attractive alternative to the car. Hence, initiatives to reduce traffic congestion may not necessarily assist in improving the environmental quality in cities.

While the federal government currently plays a limited role in alleviating traffic congestion, the role appears to favour initiatives to support increased road use by cars. The \$600-million Strategic Highway Infrastructure Program (SHIP), is directed at road construction and related improvements. Funding for the Intelligent Transportation Systems Program supports research and strategies to use intelligent systems to solve transportation problems. Intelligent Transportation Systems (ITS) can, for example, be used to improve traffic flow by giving drivers access to real-time information about road conditions. In the same vein, ITS has many applications to transit. In 2001, the federal government allocated \$3.7 million for ITS projects to

municipalities, transit agencies and not-for-profit agencies, with the majority slated for general planning or specific traffic-flow improvement initiatives.

Travel demand management

Reducing the demand for travel is an important way to reduce emissions. The federal government has several programs on telecommunications, in urban areas and elsewhere. These programs could focus — among other things — on substituting telecommunications for travel, but they do not explicitly do so at present.

The Community Access Program brings the Internet to public sites. Government Online aims at promoting and enhancing the federal presence on the Internet. The Smart Communities Program supports projects to increase the penetration of information technology in communities. This program is only available in select pilot communities.

The federal government also has programs to educate commuters on ways to reduce demand for car use. Some of these programs, such as the Transport Canada Green Commute Program, are also being progressively implemented in the government's own departments.

Reducing travel demand is a function of location. The impact of location on travel demand is not considered in the siting of new federal facilities.

Use of sustainable modes of transportation

Modal shift, from the least sustainable single-occupant-driven car to the more sustainable modes of transit, cycling and walking are key to reducing emissions from transportation in urban areas.

The federal government's main role in increasing sustainable transportation alternatives in urban areas is through infrastructure funding for public transit. The \$2.05-billion Infrastructure Canada Program has labelled "green" infrastructure a priority; however, the criteria for determining what is green are not well defined. Of all infrastructure funds committed to July 2002, about half has been dedicated to green municipal infrastructure and another 15% to local transportation infrastructure.¹³ Announcements regarding the Canada Strategic Infrastructure Fund have mentioned urban transit as a priority for the fund; however, specific initiatives have not yet been made public. Federal government investments in transit tend to be ad hoc, such as \$76 million made available for Toronto's transit infrastructure. Other investments will come from the \$35-million Urban Transportation Showcase Program, which will focus on demonstration projects to increase public transit in urban areas.

¹³ Treasury Board Update to NRTEE, July 2002.

Certain tax policies, in contrast, as described above, such as that of making employer-provided transit passes a taxable benefit, discourage a modal shift away from the car.

Energy and climate change

This section reviews the main fiscal policies on energy conservation and energy production in urban areas, as well as other programs that address or have consequences for global climate change. Energy use is a significant issue for air quality and climate change, locally and globally. Since the signing of the Kyoto accord the federal government has taken leadership in developing a number of policies and programs to encourage reductions in the use of fossil fuels and other sources of greenhouse gas (GHG) emissions.

The bulk of the federal spending programs to reduce GHG emissions are funded through the \$1.1 billion committed in the 2000 and 2001 budgets. They form part of the Government of Canada Action Plan 2000 on Climate Change. These actions are estimated to take Canada one third of the way to achieving the emission reduction targets set out in the Kyoto accord.

These programs target all sectors, in all parts of the country, as well as being involved in international efforts. The focus of this section is on policies that have a particular urban component or address a particular issue for Canadian urban regions.

Energy efficiency of cars and trucks

Transportation is the largest source of GHG emissions in Canada, contributing about 25% of the total.¹⁴ There is a significant opportunity to assist with overall reductions by targeting urban transportation. Achieving greater energy efficiency from cars and trucks means reducing the total energy used. This section examines fiscal policies on the energy efficiency (fuel economy) of individual vehicles. Other policies to reduce GHG emissions from vehicle travel were examined above.

Consumers in Canada have few incentives to purchase fuel-efficient vehicles. The GST is uniform for all vehicles, regardless of their fuel efficiency. While the Heavy Automobile Tax is applied to heavy automobiles, vans and station wagons, it is unlikely to act as a deterrent, since it is only significant for the very heaviest vehicles on the market.

The federal excise tax on fuel itself may be considered a deterrent to the purchase of fuel-inefficient vehicles. However, research has shown that the price of gasoline (including the tax effect) would need to be substantially higher for the deterrent to be effective.¹⁵

¹⁴ http://www.climatechange.gc.ca/english/action_plan/na_toc.shtml

¹⁵ Olof Johansson and Lee Schipper, "Measuring the Long-Run Fuel Demand for Cars," *Journal of Transport Economics and Policy*, Vol. 31, No. 3, 1997, p. 290, cited in Todd Litman, Charles Komanoff, Douglas Howell, Esq., "Road Relief Tax and Pricing Shifts for a Fairer, Cleaner, and Less Congested Transportation System in Washington State." A Report by the Energy Outreach Center, 1998.

Energy efficiency of buildings

Buildings — including residential, commercial and institutional buildings — contribute about 10% of Canada's GHG emissions, through heating and cooling with fossil fuels. Electricity use and other activities, such as water use in buildings, also contribute some GHG emissions indirectly through the use of fossil fuels as the source of power.

For many years the federal government's fiscal policies in this area have been mostly limited to research and demonstration of technologies to improve the energy efficiency of buildings. Programs such as the R-2000 home program focuses mainly on research and education on energy-efficient homes. However, the government offers no direct incentives for consumers to adopt these technologies, other than the energy savings that would result.

With the release of the Action 2000 Plan for Climate Change, the federal government announced a number of new initiatives targeting the industrial sector. The Commercial Building Incentive Program and the Industrial Building Incentive Program provide funding for owners to improve the energy efficiency of their buildings.¹⁶ Other cross-cutting measures specifically for industry, such as benchmarking studies and awareness programs, were also announced.

Regarding their own buildings, the federal government's house-in-order initiatives have tended to emphasize conservation in building heating, cooling and lighting systems.

Community energy systems

Community energy systems represent an opportunity to efficiently produce and reuse energy within a local area. Urban regions use a lot of energy, often transported a long distance. Some energy is lost in the transportation from the source of production, and the transportation process itself uses a lot of energy. Community energy systems work to produce energy locally for local use, including the reuse and capture of energy, and recuperate energy from waste materials. Urban areas present opportunities for community energy systems because they offer large local markets for energy and its byproducts; their high density allows efficient delivery; and they have many of the heating facilities that produce waste.

The federal fiscal role in supporting community energy systems is through the Community Energy Systems Program. Through this program, Natural Resources Canada helps develop plans and projects and conducts research on district heating and cooling, cogeneration, and heat recovery systems (among others).

¹⁶ <http://cbip.nrcan.gc.ca/cbip.htm>

In addition, the \$50 million Green Municipal Enabling Fund provides grants to support studies to assess the feasibility of innovative municipal projects, including those on community energy systems.

Since a change in the tax code in the 1990s made investments in community energy systems ineligible for an Accelerated Capital Cost Allowance, municipalities and the private sector have had no tax incentives to invest in the development of community energy systems.

Power generation

The adoption of energy efficiency policies no doubt helps to reduce at least per capita energy consumption from fossil fuels. However, to really reduce overall levels of GHG emissions, Canadians will have to shift away from the use of fossil fuels to renewable forms of energy. Cities, which have more than 80% of the population, create the markets for renewable energy and can thereby play a leading role in shifting the entire population in that direction.

Canada's Action Plan 2000 for Climate Change contains a number of programs to help introduce renewable energy into the urban marketplace. Programs such as the Renewable Energy Deployment Initiative provide incentives for the implementation of alternative energy sources, including solar air and water heating systems and biomass combustion systems. The total budget from 1997 to 2003 is \$24 million. Commercial owners can get a 25% subsidy up to \$80,000. A similar program is available to federal departments and public institutions.

Pembina Institute has stated that, while the federal government has these programs, it also subsidizes the fossil fuel industry heavily through tax credits, direct spending, written-off loans and R&D contributions.¹⁷ Using findings from the Commissioner on Environment and Sustainable Development, the Pembina Institute reported the following estimates:

- Direct federal spending on fossil fuels between 1970 and 1999: \$40.4 billion
- Federal loans to fossil fuel industry written off since 1970, over and above direct spending: \$2.8 billion
- Total subsidies to the nuclear energy industry from the Government of Canada since 1953: \$16.6 billion
- Federal subsidy to the Canadian nuclear industry in 2000: \$156 million
- Fossil fuel R&D expenditures by the federal and provincial governments in 2000: \$55 million
- Total average federal funding for renewable energy each year: \$12 million

¹⁷ <http://pembina.piad.ab.ca/news/press/2001/2001-02-19.php>

A recent study by Pollution Probe, looking at wind power in other countries, concluded that support for renewables was higher in the 1980s (in the aftermath of the oil crisis) than it is today.¹⁸ Although new incentives for power generation were introduced in the 2001 budget, the study concluded that “the Canadian Wind Power Production Incentive (WPPID) is unlikely to provide a large enough incentive to deploy wind power capacities similar to those installed in the most successful countries.”¹⁹

Water quality

Clean drinking water and clean waterways are clearly important for all Canadians, urban residents included. Key issues for urban areas tend to revolve around the treatment of sewage and the quality of effluent, rather than the treatment of drinking water, which in general is likely better supported by technology and infrastructure than in the rural areas.

The federal government’s main fiscal role in water-quality management is much like its support for local transportation infrastructure. Through the infrastructure programs, it provides financial support for the enhancement of sewage treatment facilities. Through the application of the GST to municipalities, it receives revenue from the municipalities that invest in infrastructure.

¹⁸ Pollution Probe, *Promoting Green Power in Canada*. Draft Report, 2002.

¹⁹ *Ibid.* p. 153.

4. Conclusion

Overwhelmingly, the key informants interviewed for this research said that the greatest opportunities to improve environmental quality in urban areas would be through the coordination of land use and transportation to reduce car use and through the reduction of energy consumption, including energy for transportation, per capita and overall. Policies in these areas should improve air quality, address climate change, and reduce dependence on nonrenewable resources. In addition, they suggested that the federal government has many opportunities to show leadership, not only through policy, but also through its own practices as an employer and an organization.

This section concludes the report with a list of opportunities for action to improve the environmental quality in Canadian urban areas through EFR. While the fact sheets in Appendix 2 offer a long list of suggestions for the EFR, the opportunities presented below have been identified by experts convened by the NRTEE. They were asked to identify opportunities with the greatest promise to improve urban environmental quality in the short term.

4.1 Fiscal policy opportunities for EFR

Assist with investment in public transit

The need for investment in public transit is clearly a fiscal priority for urban areas, and key informants and the expert panel workshops clearly expressed a need for the federal government to increase its role in this area. While debate continues as to the most appropriate role for the federal government in funding urban transit, this research and the expert panel workshops have identified certain opportunities with potential to be implemented in the short to medium term.

Eliminate the GST for green municipal infrastructure

Currently municipalities receive only partial rebate of the GST they pay on investments in infrastructure. A full rebate for investment in public transit and other green infrastructure would provide additional resources to municipalities for capital investment.

Create opportunities through federal tax policy for stable capital funding to invest in public transit

The funding shortfall of Canadian transit systems has been growing fast. The Canadian Urban Transit Association has estimated that \$6.8 billion is needed from the provinces and federal government to respond to the growth in demand projected for the period of 2002–2006. Infrastructure needs are greatest in Toronto, Montréal and Vancouver. In fact, these three metropolitan areas account for 73% of all

identified infrastructure needs.²⁰ This shortfall cannot be made up from existing sources. New sources might be had from dedicating a share of the existing fuel tax or other stable revenue source; levying an additional tax, fuel or otherwise, on behalf of the municipalities; or increasing the fuel tax or other tax in select metropolitan areas, specifically for investment in transit. Many of these options have been discussed in other forums; however, further analysis is required to ascertain which option could best meet the goal.

Support transit oriented land use and reduced energy use by communities

While the federal government has not traditionally played a role in land-use planning per se, federal policies could assist in several areas in building urban communities that are more sustainable in their energy use, as well as more supportive of transit development.

Provide incentives for community energy systems

Although the federal government provides much needed research support for the development of district heating and cooling and other community energy systems technologies, it provides no direct incentives for municipalities or the private sector to invest in these systems, which have overall regional, national and global benefits. District heating and cooling initiatives would likely result in long-term energy cost savings, but the required initial capital investment is too large, and the perceived risk of new technologies too great, for many areas to assume.

Develop a framework for Location Efficient Mortgages

Fannie Mae is piloting Location Efficient Mortgages (LEMs) in some urban areas in the United States. LEMs provide improved lending conditions (e.g., rates, down payments, amount of principal loaned) to purchasers for residential housing in transit-oriented areas. A Canadian framework for LEMs — developed by the federal government, in partnership with the private sector — could begin to defray the higher land costs component of housing in already-urbanized areas.

Put fiscal incentives for residential renovations on par with GST rebate for new housing

The GST rebate for new housing likely acts as an incentive for the purchaser. A similar incentive should exist to encourage residential renovations in already-urbanized areas.

Allow for the exemptions or deferrals in the taxation of capital gains from the sale of urban land to encourage urban redevelopment

In every Canadian city, empty parcels of land of all sizes languish undeveloped or underdeveloped. One reason is the well-documented “lock-in” effect of capital gains

²⁰ CUTA. *Report on a Survey of Transit Infrastructure Needs for the Period 2002–2006*. CUTA (2001).

taxes.²¹ Since capital gains taxes are only due on disposal of the land, owners tend to be reluctant to sell their land, for fear of triggering a large tax liability. The deferral of capital gains taxes, if proceeds of the sale of underutilized urban land are rolled over into another urban redevelopment project, could create an incentive for developers.

Improve Infrastructure spending programs to ensure that green is really green

Develop national priorities and criteria for infrastructure spending

While the Infrastructure Canada Program has been labelled “green,” it has few criteria and no national standards or evaluation process to ascertain how much its projects have improved environmental quality. For example, it gives no consideration to whether a project encourages development on greenfields versus already-urbanized land. A set of such criteria could be established for this program, as well as for the others, including the Green Municipal Funds, to ensure priorities are applied consistently and that the government achieves its environmental goals.

Set aside a portion of Infrastructure funding for innovative sustainable community projects

As in the case of community energy systems and new technologies for public transportation, innovative sustainable community projects are often only reluctantly adopted by municipalities or communities if there are few if any incentives for the use of new technologies and they are associated with perceived (or real) risks. For example, a new idea may not be covered by an insurance policy. A portion of the Canada Strategic Infrastructure Fund or Green Municipal Funds could be set aside for innovative sustainable community projects.

Lead by example

The federal government is the country’s largest employer, purchaser and landlord. Its actions, therefore, have vast economic, social and environmental repercussions. In addition, historically, it has led the way in many areas of corporate social responsibility. As such, the federal government is well positioned to act as a model organization in its use of environmentally responsible practices in all domains. This leadership ability should not be underestimated. In response to this call, the federal House-in-Order initiative should be strengthened and clearly articulated for other organizations to follow suit. The Commissioner on Environment and Sustainable Development has provided many insights on the deficiencies of the federal government in meeting its sustainable development goals. New areas for consideration which could be included under a federal House-in-Order initiative might include: adoption of Travel Demand Management Plans for the federal public service; parking policies for all federal workplaces, to discourage car commuting; the purchase of green vehicles for the federal fleet; and adoption of sustainability criteria

²¹ E.g., see Kanemoto, Yoshitsugu. “On the ‘Lock-In’ Effects of Capital Gains Taxation, *Journal of Urban Economics* 40, 303–315 (1996).

for the acquisition, disposal and redevelopment of all federal properties, including properties under Canada Lands Company management.

4.2 Policy supports

Even the best fiscal interventions cannot fulfill their potential without other policy supports. At all levels of government, a financial investment is most successful when it is part of an overall plan to achieve certain goals and has an evaluated implementation framework consistent with other policy goals. The federal analysis identified a number of federal policy supports that could be strengthened to enhance the effectiveness of both new and established fiscal measures.

Establish federal environmental priorities for urban areas

For the federal government to be most effective in improving environmental quality in Canadian cities, it requires a set of agreed-on urban environmental goals, developed in consultation with the other levels of government. Currently, the federal government has some stated environmental priorities for the nation, such as in the area of climate change, but many of the federal programs described in this report could be made to focus on the specific needs of urban areas.

Coordinate across federal government departments

Environmental issues cross many federal departments. To be effective at implementing environmental goals for urban areas, the federal government requires the mechanisms for interdepartmental coordination, including the involvement of regionally based staff, who often have greater ties to the local areas.

Partner with provincial and municipal governments and local nongovernmental organizations

The federal government has a long history of intergovernmental relations with the provinces. And while many of these relationships fall to political squabbles, a framework exists to ensure the involvement of the provinces in federal issues. Because of their constitutional status and their sheer numbers, however, municipalities have often not been consulted or involved directly in negotiations with the federal government, even in key areas affecting the well-being of their residents. Over the past 10 years or more, municipalities and local nongovernmental organizations have shown leadership on local and national environmental initiatives and have built networks to work together and with local communities. They understand their local priorities and the needs of their communities, and for this reason they are the most effective partners for the federal government in Canadian urban areas.

Appendix 1 — Key Informants interviewed for federal analysis

Geoffrey Cape, Executive Director, Evergreen Foundation
Franz Hartmann, Adjunct Professor, Innis College, University of Toronto
Phil Jessup, Executive Director, Toronto Atmospheric Fund
Joan King, former City of Toronto Councillor
Alex Murphy, private consultant
Ken Ogilvie, Executive Director, Pollution Probe
Brenda Sakauye, Environmental Coordinator, City of Mississauga
John Warren, Director, Environmental Services, City of Toronto
Bill Winegard, former CAO, Town of Caledon

Appendix 2 — Fact sheets on federal fiscal policies

Canada Lands

Policy/program description

The Canada Lands Company's (CLC) was formed in 1995 to manage and dispose of strategic federal lands on behalf of the government of Canada to ensure that optimal value is realized from these assets. CLC essentially buys federal lands, at market value, that are no longer required by Government of Canada departments and other Crown corporations and agencies. CLC takes the necessary steps to increase the land value and marketability and then prepares the land for sale, sells it, and makes cash distributions on an annual basis to its shareholder, the Government of Canada.²²

Program administration

CLC is a self-financing crown corporation.

Overall impact on urban sustainability

By managing the disposal of federal surplus lands, the CLC creates an opportunity for the federal government to select disposal and sales options that may enhance the environmental quality of the land and urban areas around them. This includes environmental cleanup, redevelopment for uses that reduce sprawl in urban areas, and the preservation of green space.

CLC has no explicit criteria or mandate to consider environmental quality in its land development and disposal initiatives. However, there are cases where projects have assisted in improving the quality of the local environment. A well-known successful project includes the former Canadian Forces Base Calgary, in which the CLC acted as the developer for a residential development project in an already-urbanized area of the city.

Fiscal impact

CLC has contributed in excess of \$150 million to federal coffers.

More than 50,000 long-term jobs have been created.

CLC has invested about \$30 million in environmental activities aimed at bringing lands back to productive use.²³

Options for EFR

Develop an urban green policy for CLC.

²² Source: CLC website.

²³ Ibid.

Canada Strategic Infrastructure Fund

*Policy/program description*²⁴

In Budget 2001, the government announced its intention to provide at least \$2 billion in funding for large infrastructure projects that can bring lasting economic and social benefits while providing both stimulus and productivity benefits.

The infrastructure areas eligible for the fund include:

- Highway or rail infrastructure;
- Local transportation infrastructure;
- Tourism or urban development infrastructure;
- Sewage treatment infrastructure;
- Water infrastructure; or
- Infrastructure prescribed by regulation.

Policy/program administration

The federal government will establish ad-hoc partnerships with local, provincial and private partners for each large-scale project funded in part by the program. Ministerial accountability will rest with the minister responsible for infrastructure, and the government will report annually on its commitments and expenditures under the fund.

Overall impact on urban sustainability

The funds from this program could potentially be used to improve urban environmental quality. With the exception of highway infrastructure, which would likely increase driving, all other areas could contain initiatives that enhance urban environmental quality.

Fiscal impact

A minimum of \$2 billion has been allocated to the fund.

Options for EFR

Develop criteria for the fund focusing on urban environmental quality.

²⁴ Source: Department of Finance News Release, February 5, 2002.

Canadian Adaptation and Rural Development Fund

Policy/program description

The CARD fund is the government of Canada's initiative to foster the increased long-term growth, employment and competitiveness of Canada's agricultural and agri-food industry. CARD is designed to assist the sector in adapting to structural changes and capturing market opportunities. Specific funding envelopes (called adaptation programs) fund initiatives that are broader in scope than adjustment programs. They are a government investment aimed at strengthening the sector's performance and capacity to adapt.

CARD's six adaptation priorities include research and innovation, human resource capacity-building, capturing market opportunities, environmental sustainability, food safety and quality, and rural development.²⁵

Policy/program administration

Agriculture and Agri-Food Canada provides direction and administration of the fund.

Overall impact on urban sustainability

The CARD fund provides opportunities for the agricultural industry to adapt to changes in the global marketplace, changes in consumer expectations, and changes in environmental conditions, as well as providing opportunities for the sector to adopt more environmentally responsible behaviour. As such, the fund is available to assist farmers on the urban fringe. However, there are no specific CARD initiatives to address the issues of farmers on the fringe of urban areas who are facing rising costs and pressures to sell their land.

Fiscal impact

The CARD fund is a \$240-million 4-year fund (\$60 million per year).

Options for EFR

Develop a CARD program specifically for urban fringe areas.

²⁵Source: http://www.agr.gc.ca/progser/card_e.phtml

Capital gains treatment of ecologically sensitive lands

Policy/program description

Unfortunately for donors of ecologically sensitive land, the disposition of land to government or other nonprofit conservation organizations may trigger capital gains taxation on the accrued increase in the value of the land. Until recently, the tax liability resulting from the deemed capital gain could offset the tax benefits of the charitable gift receipt, even in the case of an owner who had donated the land.

In the 2000 budget, changes were brought to the fiscal treatment of donations of ecologically sensitive land. Specifically, just one half of the taxable capital gain arising from the disposition of the land will now be included in income. At the same time, the general inclusion rate was reduced from three quarters to two thirds. As a result, just one third of the value of the capital gains would now be included in taxable income.²⁶

Not all donations of lands qualify for this special treatment. Lands donated by developers, which are considered inventory lands, do not qualify for the changes announced in 2000.

Policy/program administration

Finance Canada policy administered by the Canada Customs and Revenue Agency.

Overall impact on urban sustainability

The differential treatment of land held as inventory is a disincentive for developers to donate ecologically sensitive lands for preservation. Much of the land on the fringes of urban areas is held by developers awaiting appropriate market conditions to develop the land. A financial incentive to donate of some of this land for permanent conservation may reduce the level of development on the fringe of urban areas — generally low density — and favour somewhat denser development within the remaining piece of land.

In addition, the requirement to pay capital gains may in itself limit the donation of land by some owners who do not believe that they should be taxed at all.

Fiscal impact

The federal government has not yet estimated the value of this recently introduced tax expenditure.

Options for EFR

Provide land held as inventory with the same tax treatment as other landowners in the case of donations of ecologically sensitive lands.

²⁶ Source: Peterson, Paul 2000. *Alternative Tools for the Protection of the GTA Countryside*. Report prepared for the Greater Toronto Services Board.

Eliminate all capital gains on land donated for conservation purposes.

Climate Change Action Fund

Policy/program description

The Climate Change Action Fund (CCAF) was established in 1998 by the federal government to help Canada meet its commitments under the Kyoto Protocol to reduce greenhouse gas (GHG) emissions. It is intended to support early actions to reduce GHG emissions and increase understanding of the impact, the cost and the benefits of the Protocol's implementation and the various implementation options open to Canada. A three-year report entitled *Responding to the Challenge: The Climate Change Action Fund (CCAF) 1998–2001* looks at progress and achievements under the first phase of the CCAF.²⁷

The CCAF now has five components:

- Building for the Future
- International Policy and Related Activities
- Public Education and Outreach
- Science, Impacts and Adaptation
- Technology Early Action Measures.

Policy/program administration

Environment Canada.

Overall impact on urban sustainability

Climate change is a significant issue for the well-being of people everywhere in the world. In Canada, urban areas are responsible for a large share of GHG emissions, particularly carbon dioxide. The resulting impact globally and locally is an increasingly volatile climate, which affects agricultural productivity, water supplies, air quality and quality of life.

Fiscal impact

The original funding assigned to the program was \$30 million in 1998. Budget 2000 extended the highly successful CCAF for 3 more years to 2003–2004 at \$50 million a year.

From 1998 to 2001, in the Public Education and Outreach component, the program provided funding to 99 projects in urban areas, out of a total of 152 projects. The CCAF funding to the those projects was about \$12 million.²⁸

Options for EFR

Establish a program with a longer term to reflect the long-term need to reduce GHG emissions.

²⁷ Source: Environment Canada website.

²⁸ Source: Report from Environment Canada to the Prime Minister's Task Force on Urban Issues.

Establish an urban component to the funding package that recognizes that cities are large contributors of GHG emissions.

Community Access Program

*Policy/program description*²⁹

The Community Access Program (CAP) was launched in 1995 to provide Canadians with universal and affordable public access to the information highway, through support for the establishment of public access sites in rural communities. In 1998, the goal was extended to include urban communities. Under CAP, public locations like schools, libraries and community centres act as “on-ramps” to the Information Highway and provide computer support and training.

In collaboration with provincial, territorial and municipal governments, the private sector and not-for-profit organizations, CAP will help establish as many as 10,000 public access sites in rural, remote and urban communities across Canada. Of these sites, about one third will be in urban areas across Canada.³⁰

The program is a key component of the Connecting Canadians strategy for the Information Highway, which helps Canada create jobs, growth and other benefits of the development of information technology. In addition, CAP is integral to the federal Youth Employment Strategy, as CAP sites help develop job opportunities for young Canadians aged 15 to 30.

Policy/program administration

CAP is administered by Industry Canada.

Overall impact on urban sustainability

Communications technology, such as the Internet, which provides people with access to information from their homes and in their communities, potentially reduces the need for people to travel, although this program has no explicit environmental orientation.

Fiscal impact

The value of the projects in the urban regions is estimated at \$55.9 million.³¹

Options for EFR

Introduce an urban sustainability dimension and objectives.

²⁹ Source: Industry Canada website.

³⁰ Source: Report of Industry Canada to the Prime Minister’s Task Force on Urban Issues.

³¹ Ibid.

Community Animation Program

Policy/program description

The Community Animation Program is a joint Environment Canada and Health Canada program that helps build the capacity of groups to identify links between health and environmental issues and take action to address these links.

The Community Animation Program assists community and local groups in acquiring the services of a professional to help bring groups or communities together to act on issues involving the interaction of health and the environment. For example, the funds might be used to hire the services of a professional to assist community groups to:

- Facilitate an event or a meeting;
- Convene visioning exercises;
- Assess community needs and assets; or
- Develop programs or sustainable development plans.³²

Program administration

The program is regionally based and administered differently in different parts of Canada. In certain cases, such as in Ontario, a nonprofit organization is responsible for the distribution of funds through an existing initiative with similar goals. In other areas, such as in the region for British Columbia and the Yukon, applicants apply directly to Environment Canada on a project-by-project basis.

Overall impact on urban sustainability

Community groups often have insightful ideas and local expertise pertaining to the nature of environment and health problems in their communities. However, they lack either the skills or the support to act on the solutions in an organized fashion. This fund provides the opportunity for a group to use a professional to engage and organize a community into a structure or system that can define local needs and develop ways to act on them. This new organization is then established, and its community members are set up to act on other issues in the future as well. The program, because it builds capacity, is a catalyst for actions with a direct bearing on sustainability.

Fiscal impact

The combined budget for this program is \$1.1 million annually. The maximum value of Community Animation Program support is about \$10,000 per request. Matching funding is preferred, but not a requirement.³³

³² Source: Environment Canada website.

³³ Source: Report from Environment Canada to the Prime Minister's Task Force on Urban Issues.

Options for EFR

Target the specific needs of urban areas, which often relate to interjurisdictional coordination and the coordination of work across various sectors and groups in the community, rather than the need for community engagement services per se.

Community-based investment strategies

Policy/program description

Community-based investment strategies (CBIS) constitute a real property strategic plan for federal investment decision-making at the community level. Investments include capital, operating and lease expenditures for facilities. CBIS combine federal government priorities, tenant plans, and inventory management and investment issues in the context of the portfolio of assets within a given community over a specific period, usually 10 years. CBIS supplement and enhance strategic investment decision-making at the individual asset level and support and facilitate such decision-making at both the regional and national levels.³⁴

Community-based investment strategies have been completed for all major urban areas in Canada, with some under review.

Program administration

Public Works and Government Services Canada (PWGSC).

Overall impact on urban sustainability

CBIS are strategies to assist the government in maximizing its investments in property-related assets. As such, they are the strategies that generally determine where government offices will be located in an urban area and how the Government of Canada will make capital expenditures on properties in urban areas. Given the large holdings of the federal government in this area, through the implementation of the strategies, the federal government makes decisions that may influence how the urban form is shaped in these areas.

Fiscal impact

The federal government real property holdings in urban areas in Canada have been estimated at the following values:

- Holdings in land area: 235,849 hectares, or 3.3% of land area of 10 largest urban centres
- Number of buildings: 11,928
- Floor area: 18,074,888 square metres
- Estimated market value of property under PWGSC custody: \$2,070 million to \$3,468 million.³⁵

Options for EFR

Develop CBIS in partnership with local municipalities and to meet regional environmental goals.

³⁴ Source: Report from Public Works and Government Services Canada to the Prime Minister's Task Force on Urban Issues.

³⁵ Ibid.

Establish specific goals pertaining to urban sustainability.

Community Energy Systems Program

Policy/program description

The Community Energy Systems Group identifies and develops opportunities for the use of district heating and cooling, combined heat and power (cogeneration), waste heat recovery, thermal storage, and local sources of renewable energy, particularly biomass. Interests include planning and implementing projects in both urban centres and remote communities, developing software for system design, improving performance of district cooling systems, and promoting and fostering the adoption of integrated energy systems.

The Group operates a laboratory for testing and developing district energy technologies. This enables systems to be simulated and quick responses to be made to clients' problems.

In addition to all three levels of government, the Group's clients also include engineering firms, energy equipment manufacturers, and utilities.

Clients use the Group's capabilities for:

- Assistance in developing community energy plans;
- Conducting feasibility studies;
- Designing district heating and cooling systems;
- Assistance with project management;
- Trouble-shooting requiring specialized expertise;
- Development of system-design software;
- Innovative enhancements to new and existing equipment;
- Development of new district cooling technologies;
- Writing technical and promotional manuals; and
- Assistance in linking system suppliers with potential adopters.³⁶

Policy/program administration

Natural Resources Canada, through the CANMET Energy Technology Centre.

Overall impact on urban sustainability

About 65% of the energy contained in every unit of fuel burned to produce electricity is emitted as waste heat. We have an opportunity to harness this heat before it is dissipated—and gone forever. Energy sources include industrial waste heat, heat from incineration of solid waste, heat from landfill gases and the use of multiple heat pump systems. Renewable energy sources, such as wood chips from forests, crop residues, or deep lake water, can also be used to provide space heating and cooling to communities.³⁷

³⁶ Source: Natural Resources Canada website.

³⁷ Ibid.

Integrated energy planning in communities and implementation of district heating and cooling systems can capture unused energy sources to replace much of the energy now produced from fossil fuels.

Fiscal impact

An amount of \$609,000 per annum is provided to the Community Energy Systems Program. An additional \$356,000 is provided for research into areas directly targeting the relationship between the energy system and the spatial structure of communities.

Options for EFR

Grants or low interest loans for community energy systems in urban areas to complement current research assistance.

EcoAction Community Funding Program

Policy/program description

The EcoAction Community Funding Program provides financial support to community groups for projects with measurable and positive impacts on the environment. Nonprofit groups and organizations are eligible to apply to the program, but projects require matching funds or in-kind support from other sponsors. Priority for funding is given to projects designed to achieve results in the following areas: clean air and climate change, clean water, and nature.³⁸

Policy/program administration

Environment Canada.

Overall impact on urban sustainability

The EcoAction Community Funding Program targets measurable activities that contribute to positive environmental quality in cities. Each project funded must estimate and evaluate its impact on the specific area of environmental quality it has selected to address.

Fiscal Impact

The EcoAction Community Funding Program has existed since 1995. Similar programs under different names were in existence prior to that time. The total federal government funding for the EcoAction Community Funding Program is \$5 million per year. Since 1995 about \$12 million has been provided to fund 341 EcoAction projects in urban areas across Canada.³⁹

Options for EFR

Establish an urban component to the funding package to recognize the particular needs of Canadian cities.

³⁸ Source: Environment Canada website.

³⁹ Source: Report from Environment Canada to the Prime Minister's Task Force on Urban Issues.

Federal fuel tax

Policy/program description

The *Excise Tax Act* imposes taxes on leaded, unleaded and aviation gasoline, as well as diesel and aviation fuels. These taxes are payable by the manufacturer or producer at the time the goods are delivered to a purchaser or at the time of delivery of the fuel to a retail outlet by a producer or manufacturer. Excise taxes on fuel imports are payable by the importer at the time of importation, and exports are exempt.⁴⁰

There are several exemptions to the tax, including:

- Where gasoline has been blended with alcohol, the tax is not payable on the portion of the gasoline that is equal to the percentage by volume of alcohol in the fuel. This exemption applies to ethanol and methanol (alcohols) produced from biomass or renewable feedstock, but does not apply to ethanol or methanol produced from petroleum, natural gas or coal.
- Diesel fuel used in the generation of electricity is exempt, except where the electricity so generated is used primarily in the operation of a vehicle.
- Aviation gasoline and fuel for use in international flights are exempt.

Policy/program administration

Finance Canada policy administered by the Canada Customs and Revenue Agency.

Overall impact on urban sustainability

The policy of taxation on gasoline may be a disincentive to the use of fossil fuels, while the nontaxation of biomass may have the opposite effect, whenever the product is in fact available. However, environmental groups have often stated that, at least in the case of gasoline used by automobiles, current rates are not high enough to act as a disincentive.

Fiscal impact

- ⊘ \$0.10/litre for unleaded gasoline and unleaded aviation gasoline
- ⊘ \$0.11/litre for leaded gasoline and leaded aviation gasoline
- ⊘ \$0.04/ litre for diesel fuel and aviation fuel (other than aviation gasoline)
- ⊘ Total revenues from energy taxes in 2000/01 are estimated at about \$4.8 billion.

Options for EFR

Increase amount of tax to create a real disincentive to use.

Divert part of existing or additional tax to uses, such as public transit, that are more energy efficient or to efforts to encourage cycling and walking.

⁴⁰ Source: department of Finance Canada 2001. *A Catalogue of federal, Provincial and Territorial Taxes on Energy and Transportation in Canada*.

Government Online

Policy/program description

Through its Government Online (GOL) initiative, the federal government is committed to becoming a “model user of information technology and the Internet.” In addition, its goal is to become “known around the world as the government most connected to its citizens, with Canadians able to access all government information and services on-line at the time and place of their choosing.”⁴¹

The GOL initiative consists of many parts, including making all government publications and communications material available through the Internet; launching of the Government of Canada website, with information and services for Canadians and about Canada for people abroad; developing a secure, fully automated electronic supply chain for the procurement of goods and services by government; and bringing the employment recruitment function for government employees online.⁴²

Program administration

Public Works and Government Services Canada.

Overall impact on urban sustainability

By bringing information and other services to Canadians online, the government of Canada could help reduce the need for travel of people in urban areas (and outside) who either do business with the federal government or use its services. This may contribute to reducing travel demand and as a result reduce harmful emissions from vehicles, although it is not an explicit focus of the policy.

Options for EFR

Introduce an explicit sustainability dimension to the program.

⁴¹ Source: Report from Public Works and Government Services Canada to the Prime Minister’s Task Force on Urban Issues.

⁴² Source: Public Works and Government Services Canada website.

Green Municipal Enabling Fund

*Policy/program description*⁴³

The Green Municipal Enabling Fund (GMEF) is a \$50-million fund that provides grants to support feasibility studies. Operating from 2000 to 2007, it is expected that GMEF will support a large number of studies to assess the technical, environmental or economic feasibility of innovative municipal projects.

Feasibility studies must assess projects intended to improve air, water or soil quality, protect the climate, or promote the use of renewable resources. The projects must also show potential for significant improvements in environmental performance or energy efficiency by taking a systems approach and focusing on reducing pollution and waste at source. Grants cover as much as 50% of eligible costs, to a maximum grant of \$100,000. Applications can be made in the following categories:

- Energy and energy services
- Water
- Solid waste management
- Sustainable transportation services and technologies
- Sustainable community planning.

Policy/program administration

The Federation of Canadian Municipalities administers this program, funded by the federal government.

Overall impact on urban sustainability

These funds are designed to support research and feasibility that will, if implemented, have a positive impact on environmental quality. While they do not target urban areas specifically, projects in urban areas are eligible to apply.

Fiscal impact

An amount of \$50 million over 7 years. There are no targets for spending in urban areas.

Options for EFR

Identify an urban component and allocate a portion of the funds accordingly.

⁴³ Source: Federation of Canadian Municipalities website.

Green Municipal Investment Fund

Policy/program description⁴⁴

The Green Municipal Investment Fund (GMIF) is a \$200-million permanent revolving fund that supports the implementation of highly innovative environmental projects.

Through GMIF, a municipal government can borrow at the preferred interest rate of 1.5% below the Government of Canada bond rate. Public and private-sector partners of municipal governments are also eligible for loans at attractive rates. GMIF finances up to 15% (25% in exceptional circumstances) of the capital costs of a qualifying project and can also provide loan guarantees. Loan payback periods may range from four to ten years.

GMIF is open to Canadian municipalities and their public sector or private-sector partners.

Policy/program administration

The Federation of Canadian Municipalities administers this program, funded by the federal government.

Overall impact on urban sustainability

These funds are designed to support projects to improve environmental quality. Collectively, municipal governments and others in Canada that implement such projects can have a significant impact on environmental performance, particularly in reducing emissions of greenhouse gases. GMIF provides the tools to help realize this potential.

While the funds do not target urban areas specifically, projects in urban areas are eligible to apply.

Fiscal impact

A \$200-million revolving fund that dispenses of loans at attractive rates. No targets for loans to urban areas.

Options for EFR

Identify an urban component and allocate a portion of the funds accordingly.

⁴⁴ Source: Federation of Canadian Municipalities website.

GST and home purchases

*Policy/program description*⁴⁵

Most new home purchases are eligible for a rebate of 36% of GST. This was intended to equate the GST collected with the amount collected under the previous federal sales tax. The rebate is reduced for dwellings valued at more than \$350,000, and there is no rebate for dwellings valued at more than \$450,000.

Owner-builders receive a rebate of 36% of the GST paid on inputs — not the final value of their home. As for substantial renovations, they are eligible for the same rebate as new housing, but very few renovations qualify under the strict definition that is used (effectively a rebuilding of the dwelling).

Until the 2000 federal budget, new rental projects were subject to the full 7% GST. Now the 36% rebate applies to rental housing, as well as resident-owned housing.

Policy/program administration

Finance Department policy administered by the Canada Customs and Revenue Agency.

Overall impact on urban sustainability

While purchasers of resale housing pay no GST on the purchase price, incentives for new housing in greenfields are typically greater than those for renovations of existing dwellings in already-urbanized areas.

Fiscal impact

The projected value of this tax expenditure for 2002 is estimated at \$650 million for new homes and \$45 million for new residential rental properties.

Options for EFR

Eliminate this rebate or implement a similar rebate for renovations of homes.

⁴⁵ Source: Lampert., Greg. *The federal Role in Canada's Housing System*. Prepared for the Canadian Home Builders Association. 2001. Draft.

GST and infrastructure investment

Policy/program description

Currently, the federal government charges GST on all infrastructure purchases made by municipalities. This applies to infrastructure for public transit, water and wastewater, among others. While the municipalities may apply for a rebate, their effective tax rate remains at 3%.⁴⁶ Provincial and territorial governments, in contrast, do not have to pay any GST, as they cannot be taxed by the federal government.

Policy/program administration

Finance Canada policy administered by the Canada Customs and Revenue Agency.

Overall impact on urban sustainability

The taxation of infrastructure purchases reduces the amount of money available to municipalities to invest in infrastructure. In the case of public transit, for example, more money could be invested directly in the purchase of new equipment (to increase ridership and reduce air-quality impacts) if a full GST rebate were made available.

The taxation of road infrastructure construction and repair costs, however, may reduce the amount of road building that a municipality can undertake. But it may also reduce repairs or alterations to existing road infrastructure to assist public transit.

Fiscal impact

The City of Toronto estimates that it pays between, \$15 million and \$40 million annually in GST for purchase such as subway cars and buses.

The federal government estimates that the total value of tax expenditure will be \$620 million in 2002.

Options for EFR

Eliminate the GST for infrastructure purchases that contribute to environmental quality in cities:

- Transit infrastructure
- Water-quality treatment
- Wastewater infrastructure, where it does not contribute to sprawl
- Municipal equipment fleet, in the case of energy efficient, hybrid vehicles, etc.

⁴⁶ Source: Slack and Kitchen 2001 for the National Round Table on the Environment and the Economy.

Heavy Automobile Tax

Policy/program description

The *Excise Tax Act* imposes a tax on heavy automobiles, not including ambulances and hearses. This includes:

- Automobiles other than station wagons and vans designed primarily for use as passenger vehicles, in excess of 2,007 kilograms; and
- Station wagons, vans and SUVs, designed primarily for use as passenger vehicles, in excess of 2,268 kilograms.⁴⁷

The tax does not apply to vehicles that would qualify as zero-rated supply under the GST, such as police or fire-fighting vehicles and vehicles purchased for use by foreign diplomats in Canada.

The tax on goods manufactured or produced and sold in Canada is payable by the manufacturer or producer at the time of delivery of the goods to the purchaser. Tax on imports is payable at the time of importation but may be deferred if imported by a manufacturer of automobiles in Canada.

Policy/program administration

Finance department policy administered by the Canada Customs and Revenue Agency.

Overall impact on urban sustainability:

Heavy automobiles generally consume more fuel than lighter vehicles. The extra fuel adds to the carbon dioxide load in the atmosphere, which contributes to climate change. In addition, the fuel extraction process depletes nonrenewable energy sources and consumes excess energy in itself.

The tax in its current design does not have a significant impact on urban sustainability, since its impact on the price of vehicles, and thus consumer behaviour, is negligible. In addition, the tax is not publicized at all.

Fiscal impact

- ∃ \$30 for the first 45 kilograms in excess of the limit;
- ∃ \$40 for the next 45 kilograms;
- ∃ \$50 for the next 45 kilograms; and
- ∃ \$60 for each additional 45 kilograms.

Options for EFR

Increase the tax load to serve as larger disincentive.

⁴⁷ Source: Department of Finance Canada 2001. *Catalogue of federal, Provincial and Territorial Taxes on Energy Consumption and Transportation in Canada*.

Homegrown Solutions

Policy/program description⁴⁸

Homegrown Solutions is a program designed to support to a wide variety of self-help activities, all of which promote the creation and preservation of affordable housing. Its goal is to support and stimulate interest in affordable housing at the local level, with the objective of identifying new approaches to meeting housing needs that do not require ongoing public subsidies. A parallel objective is to broadly communicate successes or lessons learned from these efforts, so others can benefit from them and expand their range of approaches.

By providing seed grants, with funding from the Canada Mortgage and Housing Corporation (CMHC), Homegrown Solutions gives local groups a kick-start to move them from the idea stage toward implementing their approaches to creating or preserving affordable housing.

Since 1996, Homegrown Solutions has funded a total of 48 community-based organizations. Twenty-one have completed their demonstration project and written how-to documentation to share with other groups.

Policy/program administration

Homegrown Solutions is funded by CMHC and delivered by the Canadian Housing and Renewal Association, with the participation of other stakeholder groups, including the Federation of Canadian Municipalities.

Overall impact on urban sustainability

The majority of projects under this program in urban areas have focused on solutions emphasizing reuse of existing buildings and innovative property financing and rehabilitation solutions to meet the needs of a particular group of residents, such as cooperative housing for artists. These projects contribute to the environmental quality of urban areas, because they focus on developing attractive higher density housing to meet particular needs. The program, however, is not limited to these types of uses, and in some cases it has provided funding to projects that contribute to urban sprawl, by funding projects to make suburban housing more affordable.

Fiscal impact

Grants are available for as much as \$20,000 per project.

Options for EFR

Reorient the program to support solutions that focus on encouraging the reuse of existing buildings in key locations in already-urbanized areas.

⁴⁸ Source: <http://www.hgown.org/eng/indexE.html>

Infrastructure Canada Program

Policy/program description⁴⁹

The Infrastructure Canada Program was confirmed in Budget 2000, when \$2.65 billion in funding for the program over 6 years was announced. The program has two components: municipal infrastructure, called Infrastructure Canada; and a highways component administered by Transport Canada, called the Strategic Highway Infrastructure Program. Up to \$600 million of the \$2.65 billion total may be spent on the highways component.

The program is cost-shared, with the government of Canada contributing, on average, one third of the cost of municipal infrastructure projects.

Phases 1 and 2 of the Canada Infrastructure Works Program were earlier infrastructure programs, using a similar model, but with different criteria.

Policy/program administration

This program is coordinated by the Treasury Board, in partnership with the provinces. Different agencies have been set up to administer funds in different parts of Canada.

Overall impact on urban sustainability

The federal government has named green infrastructure — infrastructure that serves to preserve or enhance the quality of our environment — as a key priority for Infrastructure Canada in this program. By dedicating funds to green infrastructure, the federal government is assisting with local priorities to improve water and sewage treatment facilities, waste management and transportation.

The criteria used to assess what is green, however, are vague, and no priority areas have been clearly assigned. Other priorities of the program include affordable housing, culture, tourism and recreation, rural and remote telecommunications, high-speed access for local public institutions, and local transportation. No division of funds between these priority areas exists, with each project assessed on an individual basis. In addition, each agreement with the provincial agencies has assigned a different percentage of green to its mix.

Fiscal impact

An amount of \$2.05 billion for the nonhighway infrastructure component of the program.

The Treasury Board estimates that about 50% of all infrastructure funding has been spent to July 2002 on green municipal projects, and about 15% has been spent on local transportation infrastructure.

⁴⁹ Source: Infrastructure Canada website.

Options for EFR

Create a set of criteria to ensure that all or most infrastructure funds are spent on projects that enhance environmental quality or that at least do not have negative impacts.

Assign a clear ceiling on funding for various priority areas.

ITS Deployment and Integration Program

*Policy/program description*⁵⁰

Intelligent Transportation Systems (ITS) constitute a broad range of diverse technologies applied to transportation to make systems safer, more efficient, more reliable and more environmentally friendly, without necessarily having to physically alter existing infrastructure. The range of technologies involved includes sensor and control technologies, communications and computer informatics, which cut across disciplines, such as transportation, engineering, telecommunications, computer science, finance, electronic commerce and automobile manufacturing. Canada has been a leading player in the ITS arena for many years and continues to develop its niche in this fast-growing industry.

Funding for the program comes as part of the federal government's ITS plan, *Intelligent Transportation Systems Plan for Canada: En Route to Intelligent Mobility*, which was announced in November 1999.

As part of the program, Transport Canada funds ITS projects and partnerships based in municipalities, transit agencies and not-for-profit organizations.

Policy/program administration

Transport Canada has overall responsibility for the program. It receives assistance from ITS Canada, a public-private sector partnership with a mandate to advance ITS in Canada.

Overall impact on urban sustainability

There are many ways that ITS applications may benefit sustainable transportation in urban areas and assist in improving air quality and reducing greenhouse gas emissions. These include improving the efficiency of public transit systems, improving intermodal transfers and integration, and improving information for public transit users. ITS, however, may also be applied to making improvements in traffic management and driver information to create better driving conditions in urban areas. However, these applications can make automobile driving more attractive and consequently increase the use of the automobile and harmful emissions in urban areas.

Fiscal impact

As much as \$30 million is available for ITS from the \$100-million nonhighway-related component of the Strategic Highway Infrastructure Program (SHIP). (See the SHIP fact sheet for details.)

⁵⁰ Source: http://www.its-sti.gc.ca/en/menu_e.htm

Of the \$3.7 million allocated in early 2002, about \$1.5 million appears to be allocated to projects that potentially benefit urban environmental quality (by assisting in improving technology applications for public transit); \$750,000 was allocated to projects that potentially have negative consequences for urban environmental quality (by improving technologies to improve car and truck traffic management); and about \$500,000 has been allocated to two projects that may create improvements for transit, cars and trucks.

In the first round of projects, proportionately less funding went to those with urban environmental-quality benefits than in the second round.

Options for EFR

Develop criteria for the third round of ITS funding to emphasize urban environmental quality.

Mortgage insurance for borrowers

Policy/program description

Mortgage insurance is designed to assist first-time buyers with the purchase of a new home. Ordinarily, lending institutions in Canada will finance as much as 75% of the purchase of a home, with the purchaser providing the additional 25% as a down payment. With mortgage insurance, the buyer requires a down payment of as little as 5%. Mortgage insurance is available to cover the difference between the low down payment and the 25% required. The Canada Mortgage and Housing Corporation (CMHC) essentially insures that difference, so that the lending institutions can finance the additional amount. Buyers pay a premium for that insurance, but it can be added to the total amount borrowed, and hence paid off over the life of the mortgage.

The other significant program to assist new home buyers in particular is the Home Buyer's Plan Program, which allows RRSP funds to be put toward the purchase of a new home. In this case, each new home buyer may use up to \$20,000 of his or her RRSP toward the down payment on a new home, without penalty. The RRSPs must be repaid over time.

Policy/program administration

CMHC administers the program, in conjunction with the lending institutions.

Overall impact on urban sustainability

While intended to promote home ownership, programs such as mortgage insurance and the Home Buyer's Plan Program can inadvertently contribute to higher levels of demand for new housing on greenfields.

Options for EFR

Adjust the program to provide assistance based on property size, rather than on the cost of the house, that is, mortgage insurance for properties under a certain size.

Extend the program to non-first-time buyers, if they buy in central urban areas, which might encourage home buyers to consider homes located in already-urbanized areas, which already have infrastructure and transit systems.

Moving on Sustainable Transportation

Policy/program description

Transport Canada has established the Moving on Sustainable Transportation Program to support community-based research, education and demonstration projects and the development of tools to promote sustainable transportation.

Examples of projects that might be funded under the program include employee trip reduction programs, walking school bus programs, feasibility studies, and education and outreach campaigns to promote alternatives to the automobile. The projects may or may not be targeted to urban areas.

Community, nonprofit, educational and business organizations are eligible for funding under the program. Municipalities are not, and other government organizations are not.

Policy/program administration

Transport Canada.

Overall impact on urban sustainability

Emissions from transportation are a significant contributor to smog and poor air quality in urban areas. This program aims to shift individuals and organizations away from automobile use to more sustainable forms of transportation, such as transit, walking, cycling and telecommuting. This will decrease the contribution of the transportation sector to air pollution and greenhouse gas emissions.

Fiscal impact

An amount of \$2.5 million, over a 5-year period (fiscal year 2002 to fiscal year 2007), has been allocated for this time-limited program.

Options for EFR

Augment the program to include an urban component.

National Guide to Sustainable Municipal Infrastructure

Policy/program description⁵¹

Infrastructure Canada favours initiatives that adopt innovative approaches, best practices and the use of new technologies. In this spirit, the Infrastructure Canada Program is funding the *National Guide to Sustainable Municipal Infrastructure*.

The Guide will provide municipalities and infrastructure practitioners with a compendium of technical best practices for infrastructure planning, construction, maintenance and repair. The *National Guide to Sustainable Municipal Infrastructure*, although funded by Infrastructure Canada, is implemented by the Federation of Canadian Municipalities (FCM) and the National Research Council (NRC).

Policy/program administration

FCM and NRC will administer this program, including the development of the guide.

Overall impact on urban sustainability

This guide can provide assistance to municipalities and others who invest in infrastructure with high-quality information about ways to maximize the environmental benefits of their investments. It can direct them to new technologies, best practices in other jurisdictions or help them to assess the environmental impacts of their projects.

Fiscal impact

Infrastructure Canada will contribute \$12.5 million toward the project. A \$12.5-million in-kind contribution will come from municipalities, provinces and the private sector and will be coordinated by FCM. An additional \$2 million will come from NRC.

Options for EFR

Develop a focused component of the Guide that pertains to urban environmental quality.

⁵¹ Source: Infrastructure Canada website.

Procurement, contracting and disposal services

Policy/program description

The Supply Operations Services Branch of Public Works and Government Services Canada (PWGSC) manages the supply process for the federal government operations and major Crown projects by assisting client departments with requirements, definition, bid solicitation, evaluation and selection, as well as contract negotiation and administration. It also provides auxiliary services, such as market research to identify what products are available from suppliers, product planning, method-of-supply studies, and the technological infrastructure to support the electronic procurement function.⁵²

Crown Assets Distribution Centres dispose of all movable federal government surplus items and equipment through eight regional offices across Canada by various means, including tender, public, vehicle and cash and carry sales, auction and in some cases destruction.⁵³

Program administration

PWGSC.

Overall impact on urban sustainability

The operations of the federal government in urban areas in Canada are very significant. Each government office has an impact on local environmental quality through the types of items it uses for its operations, including fleets, the practices it brings to the disposal of surplus items, and the selection of appropriate contractors for projects and services that may influence, for example, the energy efficiency of the design for a building.

Options for EFR

Develop and implement a green procurement policy for federal operations.

Develop and implement a green disposal policy for disposal of all movable surplus property.

⁵² Source: Report by PWGSC to the Prime Minister's Task Force on Urban Issues.

⁵³ Ibid

Regional watershed rehabilitation programs

Policy/program description

This heading refers to a series of programs that target watershed rehabilitation around urban areas in Canada. These programs have been specifically designed to meet regional needs and accommodate partnerships with communities and other levels of governments. Programs under this heading include the Great Lakes Sustainability Fund and the Community Interaction Funding Program for the St-Laurence River in Quebec. Such projects may include habitat restoration, contaminated sediment remediation, stewardship, and control of urban and rural runoff.

Program Administration

Environment Canada is the lead department, in cooperation with local and provincial authorities.

Overall impact on urban sustainability

These programs provide positive and usually measurable impacts on water quality and ecosystem conservation in the surrounding areas. They target small areas geographically, but their impacts are widespread in that they improve the environmental quality of the entire basin. In addition, many of these programs involve community members directly in the activities of watershed rehabilitation. As such, they are also education programs that raise local awareness of environmental issues and teach conservation techniques that can be applied to other situations.

Fiscal Impact

The Great Lakes Sustainability Fund is a 5-year, \$30-million fund. The Community Interaction Funding Program is a \$7-million, 5-year fund.

Options for EFR

Extend these types programs to other urban watersheds in Canada.

Renewable Energy Deployment Initiative

Policy/program description

The Renewable Energy Deployment Initiative (REDI) is a program designed to stimulate the demand for renewable energy systems for space and water heating and cooling. These systems include:

- Active solar hot water systems;
- Active solar air heating systems;
- Highly efficient and low-emitting biomass combustion systems; and
- Ground-source heat pumps (also known as earth energy systems, or geothermal or GeoExchange systems).

Under REDI, the federal government undertakes market development activities through Natural Resources Canada (NRCan), in cooperation with renewable energy industry associations and other partners, and provides an incentive for specific renewable energy systems. To encourage the private sector to gain experience with active solar and large biomass combustion systems, it enables businesses to obtain a refund of the purchase and installation costs of a qualifying system, up to a maximum refund of \$80,000. NRCan provides a similar incentive to federal departments and public institutions. Some incentives are also provided to the residential sector for pilot projects delivered by partners.

Remote communities in Canada may be eligible for as much as 40% of the total cost of the purchase and installation of a new system, while businesses and institutions in other communities are only eligible for a 25% incentive.

Policy/program administration

NRCan.

Overall impact on urban sustainability

Renewable energy use contributes to overall environmental sustainability by eliminating the use of, and the emissions from, fossil fuels.

Fiscal impact

REDI is a 6-year, \$24-million program, initiated in 1998.

Options for EFR

Develop a program option that is specifically targeted to urban areas.

Residential Rehabilitation Assistance Program

*Policy/program description*⁵⁴

The Residential Rehabilitation Assistance Program (RRAP) is a partnership with provincial housing departments that, in many cases, cost-share and administer the program. This program provides owners (landlords) with financial assistance to repair or rehabilitate rental or rooming house properties, to a minimum level of health and safety, or to convert nonresidential properties to affordable rental or rooming house accommodation. The tenants of these dwellings must be low income.

There are several versions of this program. Not all are available in all provinces at all times. The Rooming House RRAP offers repair assistance to owners of rooming houses who offer affordable rents to low-income individuals. The Rental Residential Rehabilitation Program (Rental RRAP) offers financial assistance to landlords of affordable housing to pay for mandatory repairs to self-contained units occupied by low-income tenants. Mandatory repairs are those required to bring properties up to minimum levels of health and safety. The latter two programs are available in Ontario only.

The RRAP – Conversion provides assistance to convert nonresidential properties to affordable self-contained rental housing units or bed units. This program is available in all areas.

The RRAP for Persons with Disabilities offers financial assistance to home owners and landlords to undertake accessibility work to modify dwellings occupied by, or intended for occupancy by, persons with disabilities. This program is also available in all areas.

Policy/program administration

The Canada Mortgage and Housing Corporation administers the programs, in conjunction with the provincial housing ministries.

Overall impact on urban sustainability

Housing affordability is a major issue in urban areas. Rental and other affordable housing tend to be concentrated in central areas where there is a larger stock of multiunit buildings. Unlicensed rental housing is also often available in basements of suburban housing. Upgrading the stock of legal units makes them more attractive and makes better use of existing municipal infrastructure and transit.

Improving the condition of housing at the low end also enhances surrounding neighbourhoods, making these more central and denser areas more attractive to all residents.

⁵⁴ Source: Canada Mortgage and Housing Corporation website.

Fiscal impact

RRAP is a \$50-million/year program that also received a one-time injection of \$268 million as part of the National Homelessness Initiative. In the 2003 budget, the government renewed its commitment to the program by committing an additional \$384 million over 3 years, starting when the previous program expires at the end of March 2003.

Options for EFR

Extend these programs to all urban areas in Canada.

Smart Communities Program

*Policy/program description*⁵⁵

The Smart Communities Program works through partnerships with communities and local industries to support projects that use information and telecommunications technology to link people and organizations, stimulate productivity and innovation, foster demand for high-technology goods and services, and address local economic and social needs. The program is a key component of the Connecting Canadians strategy, whose goal is to make Canada the most connected nation in the world.

Twelve communities — one in each province, one in the North and one in an Aboriginal community — have been selected as the project sites. The approximate federal investment in each of the 12 projects is \$4.5 million over a 3-year period. The urban component includes Ottawa, Charlottetown, Calgary, Coquitlam and Yellowknife.

Policy/program administration

The program is administered by Industry Canada.

Overall impact on urban sustainability

Access to the information highway can reduce the need for travel to access information, thereby reducing car travel and emissions in urban areas. However, it can also stimulate demand for travel. Therefore, the program needs an explicit sustainability dimension.

Fiscal impact

The total invested in the urban centres is about \$22.5 million.

Options for EFR

Expand the program to include more urban areas.

Make sustainability an explicit objective.

⁵⁵ Source: Industry Canada submission to the Prime minister's Task Force on Urban Issues.

Strategic Highway Infrastructure Program

Policy/program description

In the February 2000 Budget Speech, the Government of Canada committed to improving the economy and the quality of life for Canadians by investing as much as \$600 million in highway infrastructure across Canada. In April 2001, Transport Canada announced the Strategic Highway Infrastructure Program (SHIP). The program has two components: a \$500-million highway construction component and a \$100-million national system integration component, with as much as \$30 million for Intelligent Transportation Systems across Canada and as much as \$65 million for improvements to border crossings.

Policy/program administration

Transport Canada.

Overall impact on urban sustainability

While the highway infrastructure in Canada may be important to ensuring travel of people and goods from one urban area to the next, any increase in highway road space in urban areas only serves to increase automobile travel.

Fiscal impact

Under the program, \$500 million, including \$15 million for administration costs, will be available to address the needs of Canada's highways over the next 5 years. The program formally begins in fiscal year 2002/03. However, \$30 million is available for projects during the 2001/02 fiscal year. It is too early to estimate what proportion of that money will be spent in urban areas.

Options for EFR

Restrict SHIP funding in urban areas to highway repairs and other improvements that do not increase capacity for private automobile travel.

Dedicate SHIP funding for special projects in urban areas that convert space on highways to high occupancy vehicle lanes and public transit rights-of-way.

Tax treatment of competing energy investments

Policy/program description

In 2000, the Commissioner for Environment and Sustainable Development reported on the issue of whether investments in nonrenewable and renewable energy are on a level playing field with respect to tax treatment in Canada.

The Commissioner's study concluded the following:

Producers of renewable energy report that they face several barriers to financing and marketing their products. Some stakeholders have suggested that hidden tax subsidies for investments in energy from non-renewable sources are one important reason why this is happening. . . . Overall, with a few exceptions, federal government support today for energy investments, including support through the tax system, does not particularly favour the non-renewable sector over the renewable sector. The exceptions are investments in oil sands and coal mines, which receive a significant tax concession; nuclear technology investments, which receive substantial direct support; investments in alternative fuels, which receive more favourable excise tax treatment; and provincially owned energy companies, which pay no federal income tax. Also, the income tax system does not give any preferential treatment to certain energy efficiency investments.

More recently, the 2001 budget proposed a new tax incentive for electricity produced from qualifying wind energy projects, to provide some stable funding for wind production development.

A recent study by Pollution Probe, looking at wind power in other countries, concluded that support for renewables was higher in the 1980s (in the aftermath of the oil crisis) than it is today.⁵⁶ While new incentives for power generation were introduced in the 2001 budget, the study concluded that the "Canadian Wind Power Production Incentive (WPPI) is unlikely to provide a large enough incentive to deploy wind power capacities similar to those installed in the most successful countries."⁵⁷

Policy/program administration

Finance Canada.

Overall impact on urban sustainability

While the quality of the urban environment is less affected by the source of energy used than by the emissions produced, the overall impact of reduced fossil fuel use

⁵⁶ Pollution Probe 2002. Promoting Green power in Canada. Draft report.

⁵⁷ Ibid. p. 153.

within cities is a lower contribution by urban areas to climate change and improvements in overall air quality.

Fiscal impact

With findings from the Commissioner on Environment and Sustainable Development, the Pembina Institute estimates that:

- Direct federal spending on fossil fuels between 1970 and 1999 was \$40.4 billion;
- Federal loans to fossil fuel industry written off since 1970, over and above direct spending, were \$2.8 billion;
- Total subsidies to the nuclear energy industry by the Government of Canada since 1953 were \$16.6 billion;
- The federal subsidy to the Canadian nuclear industry in 2000 was \$156 million;
- Expenditures on fossil fuel research and development by the federal and provincial governments in 2000 were \$55 million; and
- Total average federal funding for renewable energy each year was \$12 million.

The cost of this new 15-year program to assist with the development of wind power is estimated at \$260 million.⁵⁸

Options for EFR

Eliminate the subsidies for investments in nonrenewable energy.

Create incentives for investment in renewable energy that are greater than incentives to invest in other sources.

⁵⁸ Department of Finance. Budget 2001 highlights.

Tax treatment of gifts of lands for recreational, urban heritage and other open-space purposes

Policy/program description

Preferential tax treatment in the form of a charitable tax receipt and a reduction in the capital gains tax payable serve as incentives for landowners with an interest in conservation to make gifts of ecologically sensitive lands. This tax treatment, however, does not apply to gifts of land to be used for other green-space purposes.

Policy/program administration

Finance Canada.

Overall impact on urban sustainability

The presence of green space in urban areas can contribute to reducing the region's contribution to greenhouse gas emissions by absorbing the carbon dioxide emitted in the burning of fossil fuels. If green space can be preserved, whether in the form of recreational land, urban heritage properties, parkland, other open space or conservation areas, the urban areas environmental quality can be improved.

Options for EFR

Allow for the same tax treatment as for ecologically sensitive lands for lands donated for the purposes of recreation, urban heritage and the provision of other open spaces to perpetually preserve green space.

Taxable income treatment of employer-provided transit passes

Policy/program description

When an employer provides a transit pass or a subsidy for public transit use, the employee is obligated to declare the value of the transit pass as an employer-paid benefit, which is then taxable. The policy does not apply to the reimbursement of work-related travel expenses. If, in contrast, an employer provides a parking pass to an employee for purposes of accessing space in a employee parking lot, the value of that pass is not considered a taxable benefit, unless the employee is given a designated parking space.

Policy/program administration

Finance Department policy administered by the Canada Customs and Revenue Agency.

Overall impact on urban sustainability

Employer-paid parking is generally considered one of the greatest incentives for people to drive to work. Particularly in large urban centres, where the cost of parking is high, this incentive distorts the attractiveness of public transit. In the case where the municipality or other public body is also the employer, the taxpayer is in fact subsidizing environmentally harmful behaviour.

Options for EFR

Eliminate this provision of the *Income Tax Act* and make employer-paid transit passes and subsidies tax free.

Urban Transportation Showcase Program

*Policy/program description*⁵⁹

The Urban Transportation Showcase Program is a 5-year program created to demonstrate, evaluate and promote effective strategies to reduce greenhouse gas (GHG) emissions from urban transportation. Through this program, Transport Canada is working in partnership with provinces and municipalities to establish a number of transportation showcases in selected cities, to demonstrate and evaluate a range of urban transportation strategies.

The Showcase Demonstration component of the program provides funding through a nationwide competition, in which at least four multiyear proposals will be selected, to demonstrate and evaluate a range of integrated actions, plans, technologies and strategies aimed at reducing GHG emissions from urban transportation. Selected municipalities will showcase a variety of options appropriate to their local circumstances. The showcases will include strategies to reduce the use of cars and shift passengers toward less GHG-intensive travel alternatives, tests of new road or transit technologies, innovative infrastructure projects, and community outreach initiatives.

Policy/program administration

Transport Canada, in cooperation with the relevant municipal and provincial governments.

Overall impact on urban sustainability

The Urban Transportation Showcase Program is ultimately aimed at increasing the use of public transit in urban areas. Because emissions from transportation are the single largest contributor to smog and GHG emissions in urban areas, the implementation of projects under this program will contribute to reducing these emissions and improving local and global air quality.

Fiscal impact

The Urban Transportation Showcase Program offers as much as \$35 million in showcase funding, with a maximum of \$10 million per showcase. The program will make a nonrepayable contribution to cover one third of the eligible costs of each showcase. The remaining two thirds will represent the combined contributions of provincial, municipal, or other partners.

⁵⁹ Source: Transport Canada website.

Options for EFR

Augment spending and increase duration of program to reflect the longer time commitment required to ensure the sustainability of programs.

Vial Rail services in urban areas

Policy/program description⁶⁰

Currently VIA Rail provides commuter service in communities as far as 150 miles from Montréal, Ottawa and Toronto and has fare integration with GO Transit in the Toronto area. VIA handles about 800 commuters per day, most in communities around Montréal and Toronto. VIA also carries passengers with GO Transit tickets on the Lakeshore West route from Toronto.

Policy/program administration

VIA Rail is part of Transport Canada.

Overall impact on urban sustainability

While intercity in nature, VIA Rail services provide benefits to urban environmental quality by augmenting local rail commuter services. This increases the number of spaces available to passengers on commuter rail lines that might be overloaded in peak periods, although the overall number of commuters transported remains very small.

However, local commuter services are reaching out to communities further beyond the fringes of the urban areas (for example, discussion of the extension of GO service to Barrie). This may have the negative impact of increasing urban sprawl by providing the incentive of better transit access to the core from rural areas on the fringe. Partnerships between VIA and the local commuter services may aggravate this problem.

Fiscal Impact

The Government of Canada provides an annual subsidy of \$170 million to VIA Rail and recently granted it a \$401.9 million envelope for infrastructure enhancements. However, no funds are directly earmarked for commuter services.

Options for EFR

Continue fare integration initiatives in other communities and coordinate schedules with local operators, while continuing to focus on intercity travel.

⁶⁰ Source: Submission of Transport Canada to the Prime Minister's Task Force on Urban Issues.