

**Ecological Fiscal Reform and Urban Sustainability**  
**Case Study of the Ontario Provincial Government and Greater Toronto Area**  
**Municipalities**



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## EXECUTIVE SUMMARY

This paper is presented as part of the National Round Table on the Environment and the Economy's (NRTEE's) Urban Sustainability Program. It summarizes a research inquiry into the effects that existing provincial and municipal fiscal policies have on urban environmental quality.

This case study focused on the fiscal policies of the Province of Ontario and those of a group of local and regional municipalities in the Greater Toronto Area. These were the City of Toronto, a mature urban centre; the City of Mississauga, a mature traditional, low-density suburb; the Town of Markham, a rapidly expanding suburb; the Region of York; and the Region of Peel. Interviews were also conducted with key government officials affiliated with the case-study subjects.

Specifically, this project identifies the current tools used by the Province of Ontario and the case-study municipal governments that are relevant to the environmental sustainability of Canadian cities. Special attention is given to measures that have the potential to be used in conjunction with, or are supportive of, federal government initiatives. Where possible, the paper identifies potential measures that may be applied and existing measures that are not yet fully applied.

### The Province of Ontario

Ontario has several programs, such as the **land transfer tax rebate**, that provide an economic incentive for buyers to purchase newly constructed housing rather than existing structures. Such programs could increase residential demand for low-density greenfield developments and decrease demand for existing urbanized and serviced areas. This would counteract local efforts to promote intensification and compact urban form. However, some fiscal policies do encourage the reuse of urban land. Most notably, the province's brownfields legislation gives municipalities the opportunity to use **tax increment financing** as tool for promoting urban redevelopment. The province also uses **property tax reductions** as an incentive for the stewardship of environmentally significant land and for the protection of agricultural land. The province augments these initiatives with purchases of land, such as in the Oak Ridges Moraine area in the Region of York, to protect land from development pressures.

Infrastructure investment through Ontario's **SuperBuild Fund** is not tied to specific sustainability criteria, which could be problematic for the urban environment, given the often large scale of the projects involved. However, several public transit programs have been designed to improve the provision of service in cities across Ontario. To promote energy conservation, the province offers incentives and disincentives that encourage buyers to purchase energy-efficient vehicles.

### The municipalities

Cities and regions are responsible for many policies that shape environmental sustainability. These policies cover urban growth patterns, the protection of environmentally sensitive land, and the provision of infrastructure. However, as the NRTEE report "Early Warning: Will Canadian Cities Compete?" suggests, municipal

actions are constrained by the limited range of revenue options. Municipalities are being asked to deal with complex problems without the proper resources.

One municipal agency with strong ties to environmental sustainability is the **Toronto Atmospheric Fund (TAF)**. Armed with a significant endowment, the TAF funds studies, pilot projects and educational programs that promote reductions in greenhouse-gas production. This organization's flexibility also allows for the creation of partnerships and the pursuit of programs that otherwise might not be considered by a municipal government.

Municipal fiscal decisions often complement local environmental sustainability objectives. From the public acquisition of environmentally sensitive land to the promotion of private stewardship activities, initiatives like the **Greening of York** strategy use local resources to preserve open space and promote healthy ecosystems. The ambitious **Toronto Waterfront Revitalization** initiative is a cooperative intergovernmental effort to restore the local lakefront.

The most common municipal revenue tool is the **property tax**. Case-study municipalities are showing a willingness to reverse biases built into the application of property taxes that work against urban environmental quality. Most notably, low-density residential properties have received favourable treatment, usually at the expense of multi-residential developments. This exclusionary practice promotes sprawl, but the Region of York and the Town of Markham are attempting to level the field, to encourage higher density, compact forms of development.

Additionally, municipalities use **development charges** to finance growth, but these fees tend to be assessed on an average-cost basis, regardless of the existing infrastructure. This tends to support low-density, greenfield development over more efficient, sustainable alternatives. Markham bases its area-specific development charge on the real economic cost of growth by taking the availability of infrastructure into account.

Investments in sustainable transportation are gaining popularity as municipalities seek to implement a network that will move people and goods efficiently and in an environmentally desirable manner. Broad projects such as the **York Region Master Transportation Plan** are linking rapid transit with high-density developments to achieve intensification objectives. Additionally, the Region of York is seeking a private-sector partner to invest in its local transit system, a move to secure the necessary funding to implement the plan.

Municipalities participate in a broad range of sustainable practices related to solid waste collection, recycling, and water and wastewater services, as well as in energy-efficiency initiatives. Overall, the case-study municipalities display flexibility, an ability to innovate, and a willingness to form partnerships, all of which suggest that municipal governments are key actors in urban sustainability.

## **Synergies**

The case study highlights the existence of some beneficial synergies between the federal, provincial and municipal governments. Federal programs do support provincial and local actions, with a classic example being the Toronto Waterfront Revitalization effort.

Similarly, the province and the municipalities display synergies in ecosystem conservation and in the promotion of urban intensification.

### **Cross-purposes**

Intentional and unintentional actions by the federal and provincial governments sometimes work against environmental sustainability objectives. Fiscal practices such as the application of the GST to the renovation of existing homes (but partial rebates for most new housing) increase the cost of achieving sustainability and may discourage renovation. Numerous provincial and municipal programs act at cross-purposes, particularly Ontario programs that offer developers an economic incentive to consume greenfields when municipalities are trying to promote compact urban form.

### **Conclusions**

Urban environmental quality depends on cooperative efforts between all levels of government in Canada. Federal and provincial governments must work to identify revenue and expenditure opportunities that will support sustainability. Once synergies are found, efforts must be made to ensure that proper funding exists, and where potential opportunities exist, steps must be taken to ensure that the link is made. But funding must also be consistent, as one-time federal programs do not create the certainty municipalities need to finance their sustainability agendas. When programs work at cross-purposes, all governments must work to eliminate these conflicts.