MAKING CANADA'S GROWTH A SUCCESS:

The case for a Municipal Growth Framework

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Executive summary

It's time for a new Municipal Growth Framework

Canada's communities are experiencing record growth—so how do we ensure they remain great places to live for all residents?

Municipalities are responsible for maintaining and delivering most of the infrastructure and services that support Canadians in their daily lives, including roads, water, public transit and essential community services.

However, in light of the historic population growth our country is experiencing, municipalities are struggling to fund these services under a 19th century revenue framework that was never designed for the realities of the 21st century.

To ensure that Canada's growth is successful, **FCM** is urging the federal government to bring together all orders of government to discuss and develop a **Municipal Growth Framework**: a new, more equitable way to fund local governments.

It's time to link municipal funding with national population and economic growth—and equip municipalities with diverse, adequate and predictable sources of revenue that can support the quality of life that Canadians rightfully expect in their communities.

A Municipal Growth Framework can act as a key to unlock communities' full potential and address our most pressing national challenges, including housing and homelessness, climate change, infrastructure renewal and public safety.

Document overview and recommendations

Drawing on input from municipalities, provincial and territorial municipal associations (PTAs) and public finance experts, this paper outlines the fiscal context that municipalities are currently operating within and highlights how this structure is limiting Canada's progress. This paper concludes by offering concrete recommendations for a renewed partnership between orders of government that would enable Canada's long-term growth and work towards ending chronic homelessness.

"By reforming municipal taxation, provinces and territories can provide municipalities with a greater degree of autonomy and long-term financial sustainability, reduce reliance on transfers from federal, provincial and territorial governments, and enable municipalities to better meet residents' needs."

1. Municipal finance reform

FCM is calling on the federal government to modernize municipal funding by:

- Increasing direct annual transfers to municipalities by $2.6 billion. Paired with the existing Canada Community-Building Fund allocations, this would bring total annual federal transfers to $5 billion.[1]
- Linking federal transfers to economic growth by indexing them to Gross Domestic Product (GDP).
- Broadening eligible expenses under federal transfers to include operating costs as well as capital costs (infrastructure), enabling municipalities to direct funding towards local priorities that enable population growth and economic development—recognizing that municipalities are in the best position to identify and respond to local needs.

Under a Municipal Growth Framework, **provincial and territorial governments (PTs) would agree to match the level of funding provided to municipalities by the federal government, contributing an equivalent of $5 billion per year in new PT funding to municipalities at the national level**. This could be facilitated by provinces/territories choosing to reform municipal finance in their jurisdictions, allocating a portion of provincial sales or income taxes to municipalities, reducing some or all of the provincial portion of the property tax, uploading some responsibilities to the PT or granting municipalities powers to levy new taxes or user fees.

2. Comprehensive plan towards ending chronic homelessness

The second element of the Municipal Growth Framework is a comprehensive plan involving all orders of government to work towards ending chronic homelessness. Municipalities have had immense responsibilities downloaded to them to address homelessness in their communities. The human cost and financial burden of Canada's homelessness crisis make it one of the most acute policy challenges facing Canada today. While the federal government's most recent budget made considerable investments in combatting homelessness and addressing the lack of deeply affordable housing, the current status quo does not facilitate municipalities' goal of ending chronic homelessness. Instead, it is creating additional costs for all orders of government in responding to the effects, rather than the root causes, of homelessness. A comprehensive plan to end chronic homelessness must identify the roles and responsibilities of each order of government, present a timeline with clear milestones, and include:

- **Coordinated investment and policy measures to increase the supply of non-market housing and prevent the flow of individuals into homelessness.**
- **New investment in supportive housing through a Housing First-based approach cost-shared between federal, provincial and territorial governments.**

1 $5 billion represents a doubling of the Canada Community-Building Fund in 2025-26 or approximately half a point of the federal Goods and Services Tax (GST) revenue generated annually since 2021. According to the 2023 Fall Economic Statement, table A1.5, GST revenues are forecast to generate between $52 and $61 billion per year over the 2023-24 to 2028-29 period. See: Annex 1 - Details of Economic and Fiscal Projections, 2023 Fall Economic Statement: budget.canada.ca/fes-eea/2023/report-rapport/anx1-en.html

“Despite being the order of government closest to people’s daily lives, municipalities are not explicitly provided authorities within the Constitution.”

Part 1: Municipal finances 101

Division of powers under the Constitution

In Canada, three orders of government are primarily responsible for providing public services—the federal government, provinces and territories and municipalities.

The Canadian Constitution (*the Constitution Act, 1867*) dictates the powers of both the federal government and provincial governments. The Territories, on the other hand, are under the legislative jurisdiction of Parliament, but many powers have been devolved to them. While Canada has fundamentally changed since Confederation, the division of responsibilities and powers between the three orders of government has largely remained the same.

Despite being the order of government closest to people’s daily lives, municipalities are not explicitly provided authorities within the Constitution. **“Municipal Institutions” are listed as an exclusive power of provinces under Article 92 of the Constitution**.

Additionally, First Nations, Métis and Inuit governments are integral to Canada’s governance structure as self-determining representatives of Indigenous Peoples across the country. FCM fully supports the needs and financial frameworks required by First Nation, Métis and Inuit communities, as identified by them, to advance the well-being and public services for Indigenous Peoples across Canada. While linking the implications of the Municipal Growth Framework on municipal-Indigenous relations is beyond the scope of this paper, municipal governments are committed to advancing reconciliation through relationship-building and partnership development with Indigenous leaders and institutions. FCM, through our Board of Directors, has made an Anti-Racism and Equity Commitment to challenge issues of race and correct inequities to reflect and improve lives in communities across Canada. We acknowledge that we are at the beginning of the journey to understand the anti-racism and equity implications of our municipal finance work.

Municipalities: The order of government closest to Canadians

There are currently about 3,500 municipal governments in Canada providing essential local services that Canadians rely on in their daily lives.

These include water delivery and treatment, road maintenance, waste removal and management, snow removal, parks and recreational facilities, cultural and community programming, land use planning, law enforcement, environmental protection and countless other social services.

Figure 1: Examples of services that are rendered by municipalities in Canada

The services provided by Canadian municipalities are essential to supporting a high quality of life. However, with municipalities being constitutionally overshadowed by provinces and territories, they are directed to provide specific services through provincial and territorial legislation. This has resulted in municipal governments across Canada having similar (but sometimes diverging) responsibilities across different provinces and territories. The size and type of the community are factors in determining what services are provided, with urban municipalities often responsible for a larger suite of services than rural ones.

Over the years, municipal responsibilities have expanded. This is due in part to an ongoing transfer of responsibilities from the provincial, territorial and federal orders of government, which land squarely on the shoulders of municipalities. It is also partly due to increased expectations from residents, and an expansion in the type and complexity of services that municipalities must provide in areas such as policing, economic development, infrastructure and environmental protection.

Concerns have been raised in recent years about the impact of downloading services and the lack of commensurate funding. In 2019, mayors across Ontario raised the alarm that provincial cuts in public health, policing, library services, childcare, tourism and flood management would result in additional services being taken up by municipalities.

More recently, a report from the City of Calgary identified that recent provincial downloading affecting social housing, waste and wastewater, arts and culture, social assistance and transportation, among others is estimated to result in an average annual cost of $311 million in additional expenses due to the cuts of $76 million in operational funding and $235 million in capital provincial transfers.[2]

These are just some examples of municipalities highlighting the growing gap in municipal financing across Canada.

The current state of municipal revenue

For Canadian municipalities, a balanced budget is not a true indicator of financial health.

Municipalities are required through legislation to have a balanced operating budget. They cannot run a deficit and generally maintain and fund separate capital and operating budgets.[3] An annual municipal budget presents a program and service-based view of what is approved to be done in the fiscal year. However, budget documents are generally a statement of "what *will* be done" and not necessarily an indication of "what *should* be done."

They regularly omit what was left undone and/or deferred to later years to achieve a fiscal balance.

2 City of Calgary. *Municipal Fiscal Gap*. 2023: calgary.ca/content/dam/www/cfod/finance/documents/plans-budgets-and-financial-reports/Municipal-Fiscal-Gap-Report-2023.pdf

3 Taylor, Z. and Dobson, A. *Power and Purpose: Canadian Municipal Law in Transition. Institute on Municipal Finance and Governance*. 2020: tspace.library.utoronto.ca/bitstream/1807/99226/1/imfgpaper_no47_Power_and_Purpose_Taylor_Dobson.pdf

While reserve funds can make it seem like municipalities have a strong balance sheet, these cash assets are part of an overall strategy for funding programs and infrastructure projects. They are not a suitable indicator of local government fiscal health and there is a measurable risk to both the credit rating and the emergency preparedness of a municipality if these budget lines are eliminated.

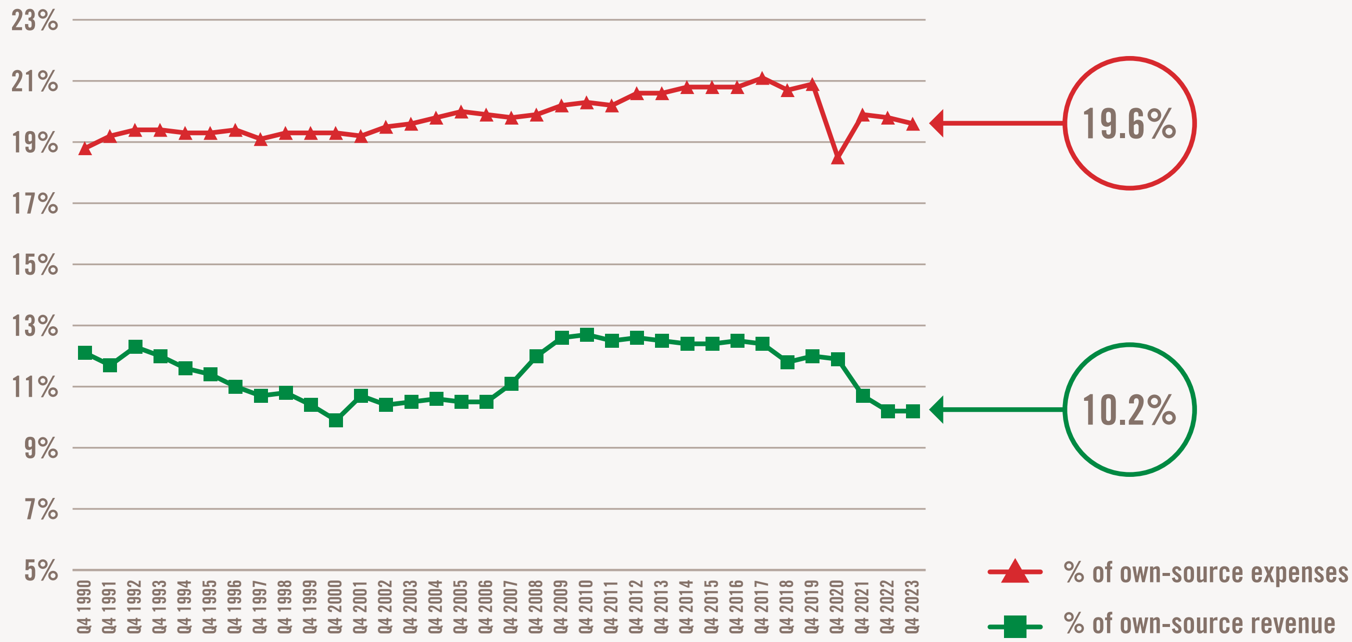
As municipalities generally cannot run deficits, reserve funds are established to offset unexpected expenses or revenue shortfalls. Setting money aside for emergency events (like floods) and earmarked capital projects (like road repairs) reduces the need for long-term borrowing or imposing sudden tax increases on current or future taxpayers. Provincial and territorial legislation can also require municipalities to establish reserves for specific purposes. According to the Municipal Finance Officers' Association, in Ontario, 45 percent of the value of municipal reserve funds is subject to provincial requirements.

As an alternative, asset management and long-term financial plans are often better indicators of the bigger picture of municipal financial sustainability because they account for budgeted and un-budgeted items alike.

Some municipalities can take on debt, but they are constrained by provincial rules on the amount that can be borrowed and how the funds can be spent. For example, municipalities in Ontario can only use debt to fund capital projects and may not exceed 25 percent of own-source revenues. In Prince Edward Island, most municipalities can only borrow for capital projects to a limit of 10 sales of the current assessed value of real property within the municipality, unless the funding is part of a contribution agreement with either the provincial or federal government.

Achieving a fiscal balance has become increasingly challenging as local governments across Canada are delegated responsibility for an ever-growing share of public services, despite drawing from a stagnant share of **own-source revenue**—that is, all revenue minus intergovernmental transfers. This has made balanced budgets an annual challenge, as demonstrated in Figure 2, which shows how municipal **own-source expenditures** (red line) have consistently been higher compared to municipal own-source revenue (green line).

Figure 2: Local government share of general government own-source revenue (all revenue minus grants received) and own-source expenditure (all expenditure minus grants paid out), in Q4 of given year, 1990 to 2023.



Note: From Statistics Canada (Table: 10-10-0015-01).

The COVID-19 pandemic has worsened the situation. The fragile state of municipal finances was exacerbated during the pandemic with massive losses in user fees, particularly in larger cities with transit systems. This created a significant financial gap that many municipalities are still struggling to recover from. In response, the federal government, provinces and territories came together through the Safe Restart Agreements[4] to provide emergency funding for municipalities and municipal transit agencies.

Despite the return of more normal economic activity since the pandemic, the impact of inflation, interest rates and increasingly complex policy challenges like homelessness and climate change have combined to increase the magnitude of this continuing financial gap.

4 Intergovernmental Affairs Secretariat. *Safe Restart Agreement*. 2020.

The problem: An outdated fiscal framework

The main issue with the current municipal fiscal framework is that while the responsibilities of all orders of government and especially municipalities have expanded significantly since 1867, municipal revenue has not.

Being subordinates of provinces and territories, Canada's municipalities are limited in their revenue options by provincial/territorial legislation. Generally, they lack the autonomy they need to be able to match revenue to the level of services they are expected to provide.

The current framework governing municipal funding has not been updated since the reign of Queen Victoria.

In all provinces and territories, there is a standard set of own-source revenue options for operational expenses. These include:

- **Taxes on property** (residential, commercial, payments in lieu of taxes, etc.),
- **User fees** (for programs and services, or that make use of municipal property),
- **Fines** (parking, noise violations, etc.),
- **Licence and permit fees,**
- **Sales revenue and investment income.**

Other revenue sources, such as land transfer taxes, accommodation levies, development charges, business taxes and vehicle registration taxes vary depending on the province or territory.

Before the Second World War, municipalities in every province could levy local income taxes. However, provinces rescinded these powers as part of their wartime tax rental agreements with the federal government in 1941[5] and did not return them to municipalities at the end of the war. Since then, no municipality has been able to level an income tax, even though they could serve as a sustainable alternative to fund local service delivery.[6]

In the absence of alternative own-source revenue options, municipalities are heavily reliant on the tools listed above—which are generally inflexible with limited materiality—as well as government transfers.

5 Kitchen, H. and Slack, E. *Special Study: New Finance Options for Municipal Governments*. 2003: imfg.munkschool.utoronto.ca/uploads/139/kitchenslack_new_finance_for_municipal_governments_2003.pdf

6 McDonald, D. *A Modest Proposal: A plan to give municipalities access to personal income taxes*. 2024: policyalternatives.ca/sites/default/files/uploads/publications/National%20Office/2024/03/Modest%20proposal.pdf

"Among OECD members, Canada has one of the highest dependencies on property tax as a share of all public sector taxation revenue (10.5 percent, fifth highest in 2022) and as a share of gross domestic product."

Although transfers from other orders of government represent vital sources of revenue for capital projects, they are limited in their ability to address municipal fiscal challenges. Most government transfers only apply to capital projects and do not cover operations and maintenance costs. The funds often have limited application periods and onerous reporting requirements which impose significant barriers for smaller municipalities.

The root of the problem: Over-reliance on the property tax

In Canada, property taxes generally account for around half of all municipal revenue and nearly 90 percent of revenue derived from taxation.

In Quebec and Atlantic Canada, municipalities rely on property taxes for over 95 percent of taxation revenue. In some provinces, municipalities collect an increased share of alternatives to property taxes, such as development charges, user fees, excise taxes and revenue/royalties from natural resource sectors, but these other sources of revenue rarely exceed more than 20 percent of tax-based revenue.

Canada and its local governments have become outliers in their approach to fiscal federalism. Among OECD members, Canada has one of the highest dependencies on property tax as a share of all public sector taxation revenue (10.5 percent, fifth highest in 2022) and as a share of gross domestic product (3.5 percent, sixth highest in 2022). Only the United Kingdom, South Korea and Israel ranked higher than Canada in both of these categories.[7]

Canada can draw inspiration from alternative funding examples from around the world. In Chicago, less than 15 percent of budgeted revenue came from property tax in 2018. Most municipal revenues came from grant funding, local taxes on income, utilities, goods and services and other non-tax revenue sources (e.g. fines and service sales). Municipal income taxes have become an important way for Swedish local governments to fund social welfare services, and Brazilian municipalities like Sao Paolo have seen some positive economic benefits following the implementation of land value capture (i.e., revenue generated as a result of public investments to increase the value of land in a community). There are several pathways for local revenue diversification in Canada, but most would require provincial and territorial legislative changes.

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7 Organisation for Economic Co-operation and Development. *Tax on property: Total, % of GDP, 2000 to 2022.* Retrieved in 2024: data.oecd.org/chart/7jKx

Limitations of the property tax

Property taxes have been the dominant source of funding for municipalities for over a century because they have a simple and predictable way for provinces and territories to allow local governments to generate revenue without legislating additional fiscal tools.

Traditionally, property taxes were an effective way to fund local services which have *public good* characteristics, such as police and fire protection, neighbourhood parks, local streets and street lighting—things that benefit the community as a whole.

Today, municipalities are playing an increasing role in funding services with *private good* characteristics (water, wastewater, garbage collection, recreation) and redistributive services like social housing.[8] The absence of robust own-source revenue alternatives has made municipalities increasingly reliant on a property tax that was not originally intended for those purposes.

"In the absence of alternatives, increasing property taxes and development charges risk contributing to higher housing costs at a time when Canadians are struggling to find affordable housing."

Property taxes have remained the main revenue source for municipalities. However, municipalities are often constrained in their ability to set differential rates based on assessed property values,[9] meaning that all residential properties within the same municipality are taxed at the same flat rate. There are alternative approaches to property tax revenue that could address some of these limitations, such as the flexibility to implement either a progressive tax structure or a land value tax. These alternatives often require provincial or territorial legislative changes.

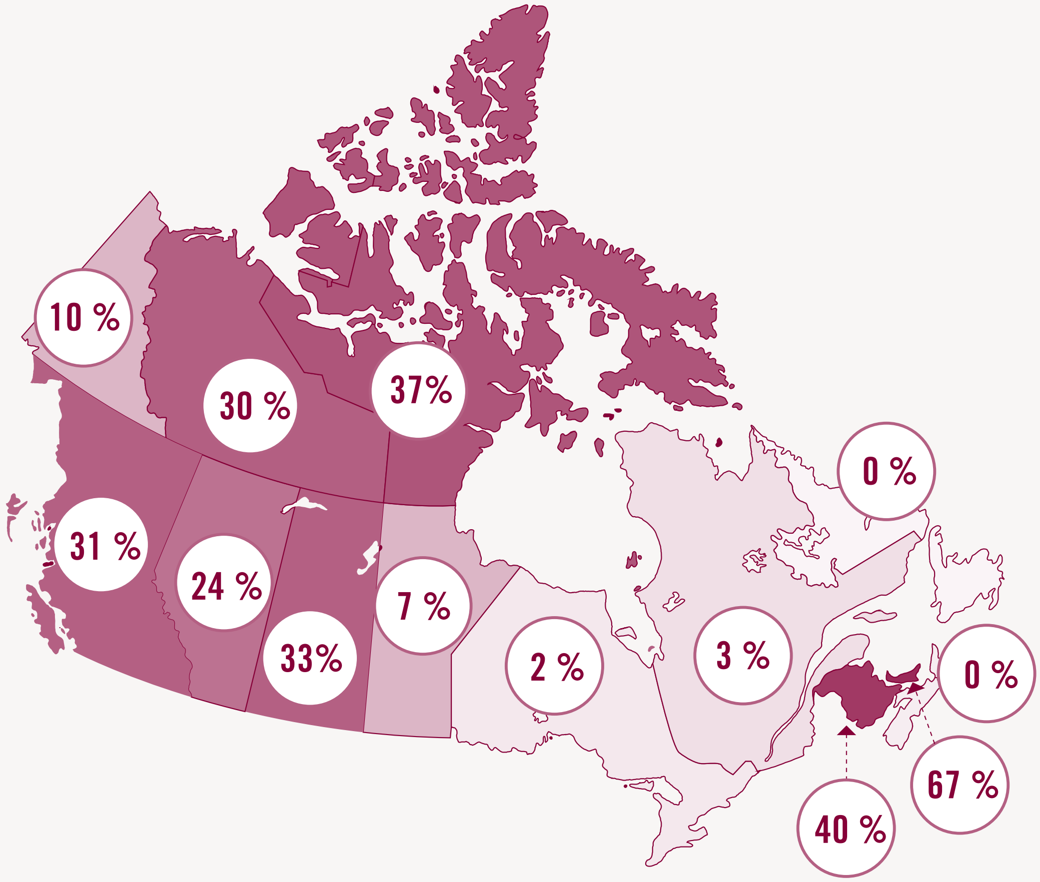
Municipalities are also not the only order of government which collects property tax. Provincial and territorial governments often set their own separate rates for property taxpayers to pay for services including education and healthcare, though this varies by province and territory.

While provinces and territories can collect revenue sources other than property taxes, municipalities generally cannot. Local governments have limited fiscal and political room to raise additional revenue from property taxes as a result of other orders of government drawing from the same source. The provincial/territorial share of real property taxes collected has grown to over 11 percent in 2022. The growth of the provincial/territorial share effectively reduces municipalities' fiscal room by limiting their ability to raise property taxes. Figure 3 shows the provincial and territorial share of property taxation.

8 Kitchen, H., Slack, E. and Hachard, T. *Property Taxes in Canada: Current Issues and Future Prospects*. 2019. https://tspace.library.utoronto.ca/bitstream/1807/98034/1/Perspectives-27-Kitchen-Slack-Hachard-Property-Tax-Issues-Prospects.pdf

9 Kitchen, H. and Slack, E. *Special Study: New Finance Options for Municipal Governments*. 2003: imfg.munkschool.utoronto.ca/uploads/139/kitchenslack_new_finance_for_municipal_governments_2003.pdf

Figure 3: Provincial and Territorial Share of Property Tax Collection (2022)



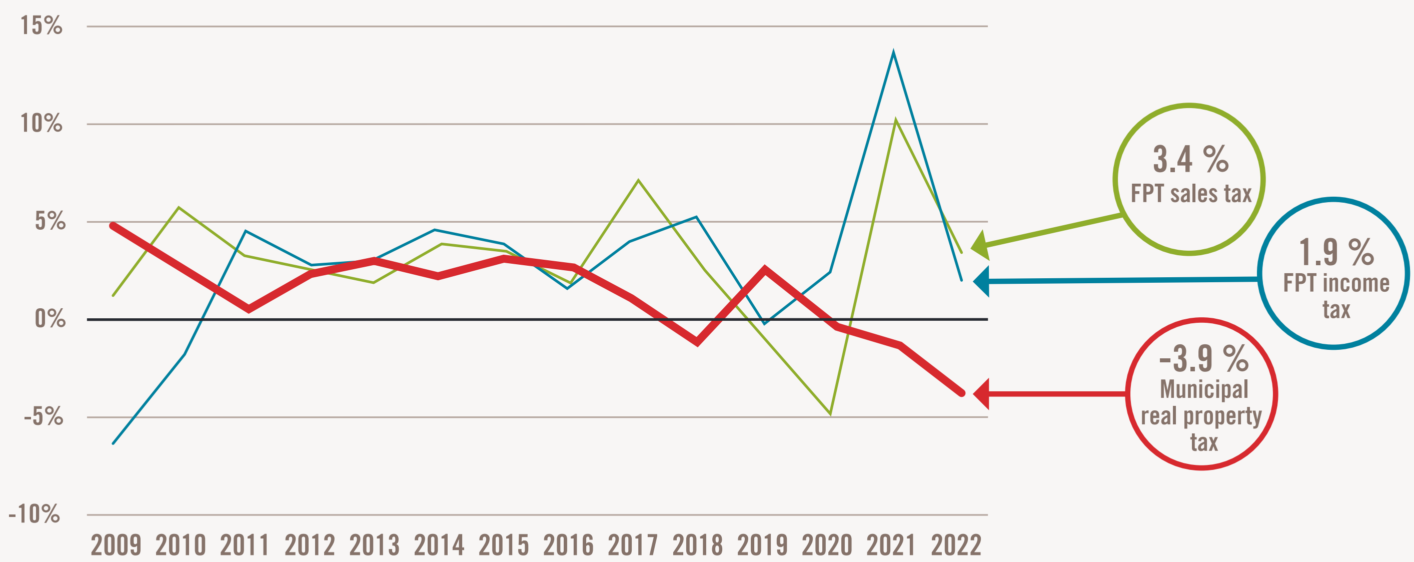
Note: From Statistics Canada (Table: [36-10-0450-01]) Provincial and municipal property taxes in Nova Scotia are collected by individual municipalities on behalf of the province and then later remitted to the provincial government. Based on a [sample property tax bill], the provincial share of property taxes collected in the Halifax Regional Municipality in 2022 was approximately 28 percent.

The other main issue with the property tax is that it does not grow directly with the economy. As demonstrated in Figure 4, the inflation-adjusted percent growth in municipal real property tax revenue has been either stagnant or negative. This could be due to several factors including prolonged/delayed residential property assessment cycles, council-adjusted rates and volatility in the non-residential property sector. Conversely, other orders of government have seen revenues increase since the pandemic as a result of collecting taxes that grow alongside the economy, such as taxes on incomes, capital gains and goods and services.

The over-dependence on property taxes and the lack of growth-oriented revenue sources mean local governments have been receiving an ever-decreasing share of the Canadian tax dollar since 1990. This also means that municipalities often do not directly or immediately benefit from the actions they take to stimulate local and regional economic development. Since the pandemic, municipal budgets have been squeezed by the impact of inflation, especially on infrastructure projects, while municipal revenue has been stagnant.

As part of the 2024 municipal budget cycle, municipalities across the country debated and approved property tax increases that were higher than the rate of inflation or economic growth. In the absence of alternatives, making significant increases to property taxes and development charges alike risks contributing to higher shelter costs at a time when Canadians are struggling to find affordable housing.[10]

Figure 4: Year-over-year change in revenue from selected revenue sources, adjusted for inflation, 2009 to 2022



Note: From Statistics Canada (Table: 36-10-0477-01 and 18-10-0004-01).

Development charges are fees that municipalities collect from developers to help pay for the cost of the infrastructure required to enable new development, such as roads, transit, water and sewer infrastructure, community centres and emergency service facilities. While municipalities have been increasingly turning to development charges to help fund new growth, overall, they remain a small share of municipal own-source revenue at the national level. Development charges only represent around 6 percent of municipal own-source revenue, but the role they play varies by province. In Quebec, development charges account for less than 1 percent of local government own-source revenue, while they account for around 8 percent of local own-source revenue in Ontario and 11 percent in British Columbia.[11]

10 Bueckert, K. Municipalities can't solve homelessness without more federal and provincial aid, experts say. 2023: cbc.ca/news/canada/kitchener-waterloo/homelessness-reports-waterloo-region-guelph-municipalities-fix-1.6968280

11 Statistics Canada. *General governments, provincial and territorial economic accounts*. 2023. Table: 36-10-0450-01. Please note, these figures were adjusted for inflation using annual Consumer Price Index data (see Table: 18-10-0005-01)

There are advantages and disadvantages to development charges. One advantage is that that they reflect a "growth pays for growth" approach where the cost of infrastructure for new development does not fall entirely on existing taxpayers. Another advantage is that they are generally earmarked for public works that support a specific project or development.[12]

The downside is that, at a time of acute housing shortages, development charges can potentially add to the overall cost of development and to the cost of purchasing or renting some types of housing, resulting in municipalities coming under increased pressure from the federal government and some provinces to freeze or limit the scope of development charges.[13] However, these charges remain a critical source of revenue for municipalities in some provinces and are needed to build the underlying infrastructure that supports growth. Faced with rapid population growth, municipalities must choose between a limited set of revenue tools (primarily property taxes and development charges) to pay for the infrastructure that growth requires. Without alternatives, municipalities will be forced to raise property taxes to pay for the cost of growth at a time when most families can least afford it.

FCM is calling on federal, provincial and territorial governments to come to the table to develop a sustainable funding model that will enable the housing development that is needed.

Recently, municipalities have been under increased pressure from the federal government and some provinces to freeze or limit the scope of development charges. The debate over development charges and how to pay for growth is a prime example of the need for a formal conversation between all orders of government on a Municipal Growth Framework.

12 Found, A. *Development Charges and Housing Affordability: A False Dichotomy?* 2021: tspace.library.utoronto.ca/bitstream/1807/108068/1/imfgpaper_no56_developmentcharges_adamfound_november_9_2021.pdf

13 Sancton, A. *Reassessing the Case for Development Charges in Canadian Municipalities*. 2021: ir.lib.uwo.ca/urbancentre-reports/8/

What does an outdated fiscal framework mean for Canadians?

As outlined in the previous section, the current municipal fiscal framework is outdated and ineffective.

An outdated fiscal framework means that municipalities are providing more public services to growing Canadian communities with less public funding. This makes municipalities more reliant on federal and PT transfers to advance community projects and address today's national challenges, which include housing supply, infrastructure deficits, public safety and climate change.

What municipalities need to effectively address these issues is **predictable funding sources** that sustain and improve long-term planning.

Overall, Canada's communities, big and small, simply cannot address today's challenges with a revenue system designed in the 1800s.

MUNICIPAL RESOURCES SPENT APPLYING FOR FUNDING

In Kamloops, BC, for example, the city has determined that for every $3 in funding applications submitted, the city receives about $1 in actual funding. Most recently, with skyrocketing inflation since 2020, many municipalities are now facing difficult decisions because projects that were costed two or three years ago and awarded funding are no longer financially viable due to inflated construction material and labour costs. In these instances, municipalities must either change the scope of the project, find the funds elsewhere in their budget or cancel the project altogether.

In Windsor, ON, a 2018 application to the federal Disaster Mitigation and Adaptation Fund (DMAF) for flood mitigation projects was approved. However, the original cost has nearly doubled in 2023 due to unforeseen inflationary pressures. Without additional funding, the project will have to be spread out over a longer period, putting residents at greater risk of flooding.

"As the largest owner of core public infrastructure in Canada, the municipal order of government is responsible for maintaining, upgrading and acquiring the majority of public assets that support a good quality of life for Canadians."

Part 2: Public policy impacts and opportunities

The way we fund cities and municipal governments today is severely limiting our ability to address the most pressing public policy challenges we are currently facing as a country, such as:

- Housing and infrastructure
- Homelessness
- Public safety
- Climate change
- Public transit
- Supporting our rural, northern and remote communities

The following sections provide a high-level overview of the impact of the current municipal fiscal framework on the ability of local governments to make progress in tackling these national challenges, and how a new Municipal Growth Framework could create opportunities for improvement.

Housing and Infrastructure

Policy challenge:
Canada's housing challenge is also an infrastructure challenge.

As our country grows rapidly, housing affordability and chronic homelessness are becoming increasingly urgent concerns. To restore housing affordability to levels that were last observed in 2004 and to support future population growth, the Canada Mortgage and Housing Corporation (CMHC) has estimated that we need to build 5.8 million new housing units by 2030—3.5 million above the 2.3 million units projected based on current rates of construction.[14]

14 Canada Mortgage and Housing Corporation. *Canada's Housing Supply Shortages: Estimating what is needed to solve Canada's housing affordability crisis by 2030*. 2022: cmhc-schl.gc.ca/blog/2022/canadas-housing-supply-shortage-restoring-affordability-2030

The challenge is that for every home built, there is a corresponding infrastructure need that must be met. All new housing is dependent on municipal infrastructure like roads, water and wastewater facilities, community amenities, public transit and more. Some assets have the capacity to support growth, but investments are needed to both build and maintain infrastructure that can enable the housing Canada needs.

However, municipalities are already contending with the serious pressure of maintaining existing infrastructure assets under the current fiscal framework. According to Statistics Canada's 2020 Core Public Infrastructure Survey,[15] 14 percent of municipal waste and water infrastructure and 14 percent of municipal transportation assets are currently in "poor" or "very poor" condition and require immediate repair or replacement. Data from the CCPI survey highlights that the cost of renewing or rehabilitating all municipal assets currently in "poor" and "very poor" condition was in the range of $170 billion in 2020.

Understanding the true cost of municipal infrastructure

To build an additional 5.8 million housing units, old infrastructure will need to be renewed and additional infrastructure will need to be built.

At a local level, the cost of providing infrastructure to support a new housing unit depends on many factors, including the type of dwelling unit (e.g., single-detached, row, or apartment unit) and whether the development is taking place in an existing neighbourhood or a new community (infill or greenfield development). It also depends on local factors such as geography and construction costs, with municipal infrastructure costs in rural regions being nearly double those in urban regions on a household basis.

In 2023, FCM conducted research to determine the level of investment in municipal infrastructure that could be required to unlock 5.8 million new housing units. **FCM determined that a housing unit requires an average investment of around $107,000 in municipally owned capital assets.**

This average cost of infrastructure per dwelling unit was calculated by dividing the total replacement value of municipally-owned infrastructure (see Table 1) from Statistics Canada's 2020 Core Public Infrastructure (CCPI) Survey by the number of private dwelling units in Q2 2020 (16,107,003 units, according to Statistics Canada GDP data). This average unit cost was then indexed to 2023 construction prices based on the non-residential Building Construction Price Index. If we assume that the 5.8 million net new housing units will be built to the same standard as today's existing housing stock, we can therefore estimate that the level of investment in new and existing local infrastructure to support those units is equivalent to about $600 billion.

15 Infrastructure Canada. *Canada's Core Public Infrastructure Survey*. 2022: infrastructure.gc.ca/plan/ccpi-ipec-eng.html

Table 1: Infrastructure Replacement Cost by Asset Category

Asset class	Total replacement value of municipally-owned core public infrastructure
Road assets	$439,505,400,000
Bridge and tunnel assets	$45,258,200,000
Public transit assets	$33,564,000,000
Active transportation	$29,972,900,000
Potable water assets	$226,373,900,000
Wastewater assets	$256,925,000,000
Stormwater assets	$181,694,300,000
Solid waste assets	$7,504,400,000
Culture, rec, sports assets	$107,729,600,000
Total replacement cost of municipally owned core public infrastructure, 2020	**$1,328,527,700,000**
Total adjusted for construction cost inflation, Q3 2023	**$1,724,428,955,000**
Replacement cost in 2023, per dwelling (16.1 million dwelling units)	**$107,061**

Note: From Statistics Canada (Tables: 34-10-0284-01, 18-10-0276-01 and 36-10-0688-01).

The estimated cost per dwelling unit does not factor in several critical aspects of a complete community in the 21st century. For instance, the costs to adapt local infrastructure to the impacts of climate change are not included. FCM has previously estimated the cost to adapt local infrastructure to be about $5.3 billion annually until at least 2030. Further analysis of the per-unit cost may be able to account for the variability of capacity utilization rates, the additional costs related to operations and maintenance, and the replacement values for municipally owned assets not currently publicized by Infrastructure Canada.

Municipalities bearing the load, federal programs fully subscribed

Municipalities own and operate 60 percent of all public infrastructure assets.

In 2022, municipalities were responsible for nearly 45 percent of all public sector expenditure on housing and community assets, recreation and cultural services. Most local spending on these assets has focused on recreation, water infrastructure and services relating to development.[16]

As the largest owner of core public infrastructure in Canada, the municipal order of government is responsible for maintaining, upgrading and acquiring the majority of public assets that support a good quality of life for Canadians.

However, as outlined in Part 1, municipalities do not have the fiscal capacity to support the level of infrastructure investment required to address the housing affordability challenge on their own. They are unable to raise additional revenue to cover major infrastructure projects that are needed to serve a growing population and economy. As a result, local governments are increasingly reliant on federal, provincial and territorial grants and transfers.

Together, municipalities and federal, provincial and territorial governments are making progress on reducing the infrastructure deficit. Recent federal infrastructure funding programs have been instrumental in supporting community growth. Funding programs such as the Canada Housing Infrastructure Fund, the Canada Infrastructure Bank's Infrastructure for Housing Initiative, and the recently-announced Canada's Housing Plan can and are delivering housing-enabling infrastructure that is badly needed.

However, in the absence of a comprehensive, long-term federal-provincial/territorial-municipal infrastructure plan, and without the support of a Municipal Growth Framework that provides municipalities with diverse and predictable revenue, our communities do not have the resources required to meet the scale of anticipated population growth and to effectively plan for the capital projects many communities need.

EXAMPLE: NIAGARA REGION

In Ontario, the Regional Municipality of Niagara is planning to introduce a South Niagara Wastewater Treatment Solutions Project, which will support flexibility in development servicing, enable economic growth along the Queen Elizabeth Way and provide servicing for a forthcoming South Niagara Hospital. This new treatment plant represents one of the most significant capital investments ever made in this region. Once finalized the project will introduce a new wastewater treatment plant as well as upgrades to existing Regional infrastructure, resulting in increased servicing capacity that has the potential to support 115,950 new housing units and 9,200 new jobs. However, without a one-third investment from each of the federal and provincial governments it cannot move forward.

16 Statistics Canada. *Canadian classification of functions of government, by general government component*. 2023. Table: 10-10-0024-01.

Municipalities: making the changes needed to zoning rules

Unlocking the housing supply that Canada needs means reforming land-use rules.

Municipalities across the country are taking steps to increase housing supply, lower infrastructure servicing costs and encourage sustainable land use practices by increasing density and allowing for more types of housing in residential and mixed-use areas. Some notable examples include:

- The city of Kelowna, BC's Infill Challenge aimed to promote and encourage new forms of infill development on laneway access urban lots. When the pilot program was launched in 2017, 800 single-detached use properties were rezoned. Since then, 20 percent of those initial lots have been redeveloped resulting in 400 new housing units previously not permitted. The city is now expanding the project to a much larger area. The impact of the Challenge allowed for the initiative to be identified as an example of a municipal best practice by the Canadian Home Builders' Association in 2022.
- In March 2022, Yellowknife, NWT's city council passed a new zoning bylaw which allowed for multi-family units on all residential lots, with the majority of lots now permitting up to six units to be built on residentially zoned parcels of land.
- In May 2023, Toronto, ON's city council approved multiplexes city-wide, thereby allowing up to four units on any residential lot.
- In October 2023, Edmonton, AB's city council approved a new Zoning Bylaw which allows a variety of housing types up to three storeys in height in the small-scale residential zones, including small apartments, row housing, cluster housing and semi-detached housing.

MUNICIPAL ACTION ON RE-ZONING

The Government of Canada and the City of Summerside, PEI will invest nearly $5.8 million to fast-track 132 housing units in Summerside communities over the next three years.[17] Summerside's Action Plan commits to fourteen initiatives that will implement zoning changes for increased density such as allowing four units per residential lot as-of-right, reducing barriers for accessory dwelling units, incentivizing multi-unit and missing middle development, and establishing a new east-west growth node.

17 City of Summerside. *Accelerated Housing in Summerside*. 2024: summerside.ca/news/what_s_new/accelerated_housing_in_summerside

The Government of Canada and the City of Winnipeg, MB have reached an agreement on $122 million in funding to fast-track the development of over 3,100 new housing units over the next three years, including over 900 affordable housing units.[18] The funding will support seven specific housing initiatives intended to modernize zoning rules, increase density near major transit and transportation routes and incentivize the construction of more housing, with a focus on affordable housing and projects to help residents experiencing homelessness.

18 City of Winnipeg. *Government of Canada and City of Winnipeg reach agreement on $122 million for new housing as part of Housing Accelerator Fund*. 2023: winnipeg.ca/news/2023-12-20-government-canada-and-city-winnipeg-reach-agreement-122-million-new-housing-part-housing-accelerator

Almost 200 communities have partnered with the federal government through the Housing Accelerator Fund (HAF) to increase the pace of housing development and build local capacity for growth. HAF funding is supporting municipalities to modernize land-use regulations, improve planning and approval processes and upgrade/expand infrastructure to unlock new housing supply. The $400 million top-up to HAF announced in Budget 2024 will allow more communities to partner with the federal government on building more homes faster.

While funding programs such as the Housing Accelerator Fund are providing investments in municipalities that reform land-use planning and address this capacity limitation, the pace of growth across Canadian communities points to a scale of need that is far greater than any single program. Changes to zoning laws are a step in the right direction but more needs to be done to meet the historic level of demand being placed on Canadian housing and infrastructure.

Housing and infrastructure: what a modernized Municipal Growth Framework can deliver

As municipalities push ahead with land-use reforms to support the delivery of more housing, it remains clear that there is an imbalance between the public services that municipalities provide and the share of public revenue that all three orders of government collect.

A properly formulated Municipal Growth Framework would help to equip municipalities with that crucial infrastructure funding so that homes are built with the service backbone that Canadians rightfully expect and need in the 21st century. By ensuring that investments into housing-enabling infrastructure are geared to more sustainable land use practices, communities can achieve reductions in both infrastructure servicing costs and greenhouse gas emissions.[19]

The successful upward growth of Canadian communities hinges on infrastructure keeping pace with housing and economic growth. Unlocking that challenge will deeply influence the capability of Canadians in those communities to thrive and take their place in a more prosperous nation.

There must also be a rebalancing of existing fiscal tools. As previously discussed, property taxes are a stable and predictable source of revenue to support local public services, but they cannot pay for the scale of new development required to support a growing and changing population facing critical challenges.

Increasingly, there is a recognition that investing in infrastructure and housing is crucial both to tackling the issue of housing and homelessness and essential to the successful growth of this country.

19 Smart Prosperity Institute. *Less is More: Where We Build 5.8 Million Homes Matters*. 2023: placecentre.smartprosperity.ca/wp-content/uploads/2023/11/Less-is-More-Where-We-Build-5.8-Million-Homes-Matters-1.pdf

FCM will continue to advocate consistently for the federal government to convene with provinces, territories and municipalities to negotiate a modernized permanent funding model, which would empower our growing communities to deliver the quality of life Canadians need and deserve.

Homelessness

In the face of a lack of affordable housing supply, as well as rapid inflation and the lingering impact of the COVID-19 pandemic, homelessness is a critical and urgent issue across Canada and is on the rise:

Policy challenge:
Homelessness requires upstream investment, not downstream response.

- Data from the Canadian Alliance to End Homelessness showed that in a sample of 14 communities, 79% saw an increase in homelessness since 2020 at an average rate of a 34%.[20]
- Quebec has experienced a 44% surge in homelessness since 2018, with over 60% concentrated in Montreal, QC.[21]
- London, ON's homeless population doubled from 1000 to 2000 during the COVID-19 pandemic.[22]
- In Halifax, NS, between 2018 and 2022, the number of unhoused people has doubled, and the number of people forced to shelter outside, mostly in municipal parks, has increased by 500%.[23]

The causes of homelessness, and particularly these significant increases, are complex and varied. However, at the core of the issue is a lack of safe, deeply affordable and appropriate housing—in particular, non-market rental and supportive housing options. For instance, a recent report examining Canada's housing supply shortages with a population and needs-based lens concluded that there is a deficit of at least three million homes that are affordable to very low- and low-income households.[24]

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20 Canadian Alliance to End Homelessness. *Budget 2023 ignores Canada's worsening housing and homelessness crises, fails to support those in greatest need*. 2023: caeh.ca/budget-2023-ignores-canadas-worsening-housing-and-homelessness-crises-fails-to-support-those-in-greatest-need/

21 Canadian Press. *Homelessness up 44 per cent in Quebec since 2018*. 2023: montreal.citynews.ca/2023/09/14/homelessness-up-44-per-cent-in-quebec-since-2018/

22 Butler, C. *London's Homeless Winter Response Was Well Used but Need Has Doubled, Says City Hall Report*. 2023: cbc.ca/news/canada/london/london-ontairo-homeless-winter-response-1.6847731

23 Halifax Regional Municipality. *Framework for Addressing Homelessness*. 2023: cdn.halifax.ca/sites/default/files/documents/city-hall/regional-council/230221rc1515.pdf

24 Whitzman, C. *A Human Rights-Based Calculation of Canada's Housing Supply Shortages*. 2023: https://www.homelesshub.ca/sites/default/files/attachments/Whitzman-Human_Rights_Based_Supply_Report-EN_1.pdf

"In the face of rapid inflation, rising rental costs, the effects of the COVID-19 pandemic, a lack of affordable housing supply, and an absence of government coordination, homelessness is a crisis impacting people across the country."

Canada's current non-market, affordable and social housing stock makes up only 3.5% of the country's overall supply – only about half of the OECD average.[25] For those experiencing chronic homelessness[26] and/or those with complex needs, deeply affordable rent and wraparound supports in the form of supportive housing are proven solutions.

Unfortunately, the way we are responding to homelessness currently is to spend considerably more on downstream responses to the consequences of homelessness, rather than making more cost-effective upstream investments in non-market and supportive housing. In the context of constrained financial resources as outlined in Part 1 of this document, municipalities have limited bandwidth to invest in those upstream solutions and are currently allocating limited resources towards frontline services to manage the homelessness crisis.

"...homelessness disproportionately affects marginalized populations, especially Indigenous people living in municipalities across Canada."

Research has demonstrated the positive impact and cost-effectiveness of supportive housing. The BC Housing Research Centre showed that the cost of providing supportive housing based on a Housing First approach is less than the cost of providing health and public safety services for homeless populations. Their report concluded that a person with addictions and/or mental health issues experiencing homelessness costs $55,000 per year in healthcare and/or corrections services, while a similar person in supportive housing used $37,000 per year in similar services, to a total cost savings of $18,000 per year per individual.[27] According to BC Housing, every dollar invested in supportive housing generates up to $5 in social and economic value and 94% of supportive housing residents remained housed after six months.[28]

25 Young, R. Canadian Housing Affordability Hurts. 2023: scotiabank.com/ca/en/about/economics/economics-publications/post.other-publications.insights-views.social-housing--january-18--2023-.html Whitzman-Human_Rights_Based_Supply_Report-EN_1.pdf

26 Chronic homelessness is defined as having experienced at least six months (180 days) of homelessness over the past year or having recurrent experiences of homelessness over the past three years, with a cumulative duration of at least 18 months (546 days).

27 Patterson M. et al. Housing and Support for Adults with Severe Addictions and/or Mental Illness in British Columbia. 2008; sfu.ca/content/dam/sfu/carmha/resources/hsami/Housing-SAMI-BC-FINAL-PD.pdf

28 BC Housing Research Centre. *Community Benefits of Supportive Housing*. 2020: toronto.ca/wp-content/uploads/2020/06/8fa9-BC-Community-Benefits-Supportive-Housing.pdf

CRITICAL CONSIDERATIONS IN ADDRESSING CHRONIC HOMELESSNESS

Rural and Remote Homelessness

Homelessness is not limited to large urban centres. Rural and remote communities face distinct homelessness challenges across the country. These challenges require rural and remote-specific solutions that consider the limited visibility, lack of social infrastructure, large geographical areas and limited availability of homelessness data.

Indigenous Homelessness

Homelessness disproportionately affects marginalized populations, especially Indigenous People living in municipalities across Canada. Research has shown that Indigenous People make up 20-50% of the homeless population in many major urban areas in Canada. In some Canadian cities, Indigenous People make up 90% of the homeless population. In Toronto, Indigenous People make up 23% of those experiencing homelessness, even though they make up 0.8% of the total population in the city.[29] Similarly, Indigenous People make up a sizeable percentage of rural homeless populations.[30]

The disproportionate impact of the housing crisis on Indigenous People can be traced back to historical structures and policies that have continually disenfranchised Indigenous Peoples in Canada. Any homelessness strategy must consider this reality through dedicated and targeted investments in Indigenous housing in municipalities across Canada and investment in dedicated culture-based supports for Indigenous residents in supportive and transitional housing. Investments in Indigenous housing and homelessness should also be 'For-Indigenous-By-Indigenous,' and led by Indigenous housing providers and social service organizations who are already taking up the responsibility to directly address Indigenous community needs.

Governments' role in tackling homelessness

Municipalities play a pivotal role in responding to homelessness and are on the front lines of responding to the needs of the homeless population.

However, the efficacy of municipal initiatives aimed at mitigating homelessness is limited by the current lack of federal and provincial leadership, including dedicated long-term funding for non-market and supportive housing, as well as the lack of a coordinated plan where each order of government's respective roles and responsibilities are outlined. All orders of government have a role to play and need to contribute within their own capacities: working together to change how they advance homelessness prevention and services.

29 Homeless Hub. *Indigenous Peoples*. 2012: homelesshub.ca/about-homelessness/population-specific/indigenous-peoples

30 Two Row Times. *Rural Indigenous People More Likely to Be Homeless than Urban Indigenous Populations*. 2023: tworowtimes.com/news/local/rural-indigenous-people-more-likely-to-be-homeless-than-urban-indigenous-populations

Federal

In response to the current homelessness crisis, the federal government has made important strides toward addressing homelessness across Canada through the National Housing Strategy (NHS). This includes doubling the funding for the Reaching Home program in 2021 amid the COVID-19 pandemic and further investments in Reaching Home in Budget 2024, including funding earmarked for encampment response. It also includes the creation and implementation of the Rapid Housing Initiative, which saw municipalities empowered to rapidly build new units of permanent affordable housing for the most vulnerable populations in Canada. To build on this success, in Budget 2024, an additional $1 billion was announced for a Rapid Housing stream of the NHS's Affordable Housing Fund. Additionally, the federal government has created the Office of the Federal Housing Advocate, an independent nonpartisan body driving meaningful advocacy to address the housing and homelessness crises in Canada.

These initiatives have had a positive impact on communities across Canada and should continue to be leveraged as key tools for all orders of government to tackle homelessness.

A growing problem demands action and a new model for coordination between orders of government

However, as demonstrated by the marked increase in homelessness rates in cities across Canada, more still needs to be done urgently.

The federal government needs to take a leadership role to bring together all orders of government to develop and lead a long-term plan to address this crisis. Critically, this plan must ensure there is an adequate supply of affordable, non-market housing. Political leadership from the federal government is also necessary to empower municipalities to address the root causes of homelessness in an environment where public opinion on visible encampments and public safety puts massive pressure on municipal governments. Most importantly, the federal government, in partnership with the provinces and territories, needs to fund the creation and operation of non-market, deeply affordable and supportive housing options for homeless communities and people transitioning out of homelessness looking for permanent housing.

Provincial and territorial

The provinces and territories have an integral role to play in homelessness prevention. Any comprehensive plan to end chronic homelessness in Canada must recognize the role of the provinces/territories in providing the housing, health and social services people require to transition out of homelessness into permanent, accessible housing. It should prevent the flow of individuals out of PT institutions (e.g. healthcare and criminal justice) into homelessness; ensure income security programs provide sufficient benefits to enable marginalized communities to afford adequate housing; and preserve the affordability of Canada's limited rental housing by regulating rental increases and protecting tenants' rights.

Municipal

Outside of Ontario, municipalities do not typically have a legislated mandate to deliver social housing or health and social services. However, many local governments are quickly responding to homeless community needs in the absence of adequate provincial and federal support. Given the lack of municipal fiscal capacity to provide housing and services, municipalities need more support from provincial/territorial and federal counterparts to continue implementing solutions and to address the upstream causes of homelessness.

Municipal Growth Framework: facilitating action on homelessness by moving beyond an outdated fiscal system

Despite increased federal funding for affordable housing through 2017's National Housing Strategy, homelessness is on the rise, and we are not on track to meet the federal government's goal of reducing chronic homelessness by 50 percent by 2027–28.

More so than in any area of public policy, municipalities are being called upon to take responsibility in their communities to address homelessness. The rise in homelessness is putting increasing pressure on municipal finances. Additionally, municipalities are under immense pressure from their residents as a result of public opinion towards unhoused community members and homeless encampments as well as equity and human rights considerations.

As part of a Municipal Growth Framework, FCM is calling for a comprehensive federal-provincial/territorial-municipal plan to end chronic homelessness. By clearly identifying roles and responsibilities, this plan will lead to better outcomes for Canadians, reduce overall public spending on homelessness and reduce financial pressure on municipal governments.

Through a new Municipal Growth Framework, the federal government, provinces and territories and municipalities would work more closely together to reverse the alarming rise in homelessness and, in the long term, end chronic homelessness. This new framework would clearly identify roles and responsibilities for each order of government through a coordinated approach. Significant investments in affordable non-market housing, interventions to prevent the flow of individuals into homelessness and supportive housing to support chronically homeless individuals are all required. As a foundation for a comprehensive plan to end chronic homelessness, FCM is calling for significant new federal-provincial/territorial (FPT) investment in a Housing First-based approach, cost-shared between federal, provincial and territorial governments.

Costing an FPT Investment in Housing First

With a new Municipal Growth Framework in place, communities would be better empowered to make the most of effective upstream investment in Housing First initiatives. In this section, FCM outlines the costing, the key factors to be considered, as well as the dollar savings that investing in this kind of supportive housing can deliver.

Need

Chronically homeless populations are in the most acute need of supportive housing with wraparound supports to meet and address their complex needs. According to Infrastructure Canada, in 2021, an estimated 28,631 people (30.6 percent of the total homeless population) experienced chronic homelessness, as measured through shelter use patterns.[31]

This is likely a conservative estimate because it excludes experiences of homelessness outside of the shelter system, such as in encampments and "hidden homelessness" settings.

However, any investment in supportive housing based on numbers from the shelter system, even if underestimated, will still relieve tremendous pressure on municipal shelter systems and significantly free up municipal resources to address chronic homelessness outside the shelter system.

Capital Costs

To better understand the capital cost per unit of supportive housing required, FCM considered the total investment by the federal government in the Rapid Housing Initiative (RHI) and the subsequent total number of units created. RHI has demonstrated success in rapidly allocating funding and creating deeply affordable and supportive units directly to homeless populations across Canada. Additionally, the federal government has, through RHI, demonstrated the commitment to a delivery model that directly empowers municipalities to create and build housing that reflects and meets their community's homelessness needs.

To understand the average cost per unit for a supportive housing program, FCM considered the RHI costs per unit in 10 municipalities across Canada. This includes funding from the federal RHI program and further top-ups by provincial, territorial and municipal orders of government. FCM has found that units built through the RHI program have ranged between approximately $350,000 to $500,000. FCM considered this range in subsequent calculations of the capital required to build the supportive housing needed to reduce chronic homelessness in Canada.

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31 Infrastructure Canada. *Homelessness data snapshot: Analysis of chronic homelessness among shelter users in Canada 2017 – 2021*. 2023: infrastructure.gc.ca/homelessness-sans-abri/reports-rapports/chronic-homelessness-2017-2021-litinerance-chronique-eng.html

Operational Costs

To provide the basis of FCM's estimates on supportive housing operating costs and savings, FCM used the findings from a 2017 report based on the 2008 At Home/Chez Soi pilot project[32] which compared almost 1,000 individuals receiving Housing First to those receiving "treatment as usual" (shelters, hospitalization, etc.). Without a Housing First model, expenses included court appearances, municipal detention cells, police arrests, ER visits, ambulance transport, psychiatric in-hospital care and physical in-hospital care. Aggregated and averaged across the study's five municipalities, the cost through a Housing First supportive housing model averaged $14,599 per person, while "treatment as usual" cost $23,849 per person. High system users (who often overlapped with people who are chronically homeless) cost $30,216 with Housing First support compared to $56,431 with "treatment as usual". The result is a significant return on investment—for every $1 invested in a Housing First operational approach, there is $1.54 in savings equating to 54% cost savings simply by providing wraparound services for homeless populations.

Total Costs Required

Under a Housing First model for chronically homeless populations, the cost to develop one unit of supportive housing ranges between $350,000 and $500,000 per unit, while the cost of providing wraparound supports for one program user is $14,599 per year, and up to $30,216 per person per year for high system users, who often overlap with people who are chronically homeless. Adjusting for inflation using the change in Consumer Price Index between 2016 (the year the study adjusts their costing to) and 2023,[33] the cost of providing wraparound supports for one program user today ranges between $17,904 and $36,969 based on the acuity and level of need.

"All orders of government have a role to play and need to contribute in their own capacities: working together to change how they advance homelessness prevention and services."

FCM estimates that to create 28,000 permanently supportive housing units would require an investment, cost-shared between federal, provincial and territorial governments, in the range of:

- **Between $10 and $14 billion in federal investment to build 28,000 new permanently supportive housing units.**
- **Between $800 million and $1 billion per year in ongoing funding from provincial and territorial governments for the wraparound health and social services these units require.**

32 Mental Health Commission of Canada. *At Home/Chez Soi Interim Report*. 2012: mentalhealthcommission.ca/wp-content/uploads/drupal/Housing_At_Home_Interim_Report_ENG_0.pdf

33 Statistics Canada. Consumer Price Index, annual average, not seasonally adjusted. 2023. Table: 18-10-0005-01.

Savings

The 2017 At Home/Chez Soi study found that every $1 invested in wraparound services through a Housing First approach results in a $1.54 return on investment and the costs of a Housing First approach to wraparound services are offset by an average of 54 percent in cost savings for governments and taxpayers. Based on this return on investment, FCM's recommended $800 million to $1 billion per year investment in wraparound health and social services can be expected to result in between **$432 and $540 million in cost savings per year**. This further highlights the need to step away from a model of responding to homelessness that invests in the downstream effects of homelessness, towards a Housing First supportive housing model that secures residents with the wraparound health and social services they need to thrive.

Climate change adaptation

In recent years, Canadians have been confronted with record-breaking heatwaves, flooding, hurricanes and wildfires that have severely damaged homes, businesses and communities.

In 2022 alone, insured losses from extreme weather and climate change-related disasters have amounted to $3.1 billion, making it the third worst year for insured losses in Canadian history.[34] Average annual losses in this country now regularly exceed $5 billion. By early August of 2023, Canada had already experienced the most extreme wildfire season ever recorded with over 5,500 fires and more than 13.4 million acres burned. These fires have released more than 1 billion tons of carbon dioxide emissions into the atmosphere, equivalent to the annual emissions of the global airline industry. In 2025, Canada is expected to experience $25 billion in losses relative to a stable climate scenario, which is equal to 50 percent of that year's projected GDP growth.[35]

Municipalities are facing the climate challenge on two fronts. On one front, they are dealing with the chronic impacts of climate change (e.g., the increased cost of maintaining existing infrastructure) and on the other, they are protecting Canadians from more frequent and intense climate disasters (e.g., flooding, wildfires, extreme heat). The challenge is that municipalities do not have the financial capacity to address either the impacts that climate change is having on municipal infrastructure or the climate change-related disasters that are putting Canadians at risk. In 2022, municipalities were responsible for nearly a third of all public sector expenditure on environmental protection, with most local spending being directed to the management of water and wastewater and the protection of biodiversity and habitats.[36]

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34 Insurance Bureau of Canada. *Severe Weather in 2022 Caused $3.1 Billion in Insured Damage -- making it the 3rd Worst Year for Insured Damage in Canadian History*. 2023: ibc.ca/news-insights/news/severe-weather-in-2022-caused-3-1-billion-in-insured-damage-making-it-the-3rd-worst-year-for-insured-damage-in-canadian-history

35 Government of Canada. *Adaptation Action Plan*. 2023: publications.gc.ca/collections/collection_2023/eccc/En4-529-2023-eng.pdf

36 Statistics Canada. *Canadian classification of functions of government, by general government component*. 2023. Table: 10-10-0024-01.

In 2020, FCM estimated that it would cost approximately $5.3 billion per year across all orders of government to adapt local infrastructure to the impacts of climate change. The Financial Accountability Office of Ontario also recently estimated that climate change will add $4.1 billion per year on average to the cost of maintaining Ontario's $708 billion public asset portfolio, where municipalities bear the majority of those costs.[37]

Federal programs such as the **Disaster Mitigation and Adaptation Fund (DMAF)** and the **Disaster Financial Assistance Arrangements (DFAA)** program are critical to protecting Canada's communities and fighting climate change. However, they fall short of the full investment needed to tackle the climate crisis. As of February 2024, $2.4 billion of the $2.5 billion DMAF pool of funding had been assigned, with more requests submitted than there was funding available. Furthermore, DFAA claims are growing at an unsustainable pace. Since the DFAA program was established in 1970, the Government of Canada has contributed over $7.9 billion in post-disaster assistance to help provinces and territories with the costs of response and of returning infrastructure and personal property to pre-disaster condition. 73 percent of this total was paid out over the last 10 years alone.

The National Adaptation Strategy (NAS), finalized in June 2023, sets a foundation for a more resilient future. The NAS included a federal investment of $530 million in FCM's Green Municipal Fund (GMF) to establish the Local Leadership in Climate Adaptation (LLCA) program. This new FCM program will provide funding and capacity development support to local governments to help them better assess and respond to local climate risks, including by integrating climate risk data into municipal asset management plans. LLCA's goal is to fund over 1,400 municipal activities by 2031, which will contribute to long-term climate resilience. However, municipalities will require adequate and predictable sources of revenue to be able to manage weather-related impacts on municipal infrastructure and invest in mitigation measures—including green and grey infrastructure—while protecting Canadians from the greatest impacts of climate change.

37 Fiscal Accountability Office of Ontario. *CIPI: Summary Report - Estimating the budgetary impacts of changing climate hazards on public infrastructure in Ontario*. 2023: fao-on.org/en/Blog/Publications/cipi-summary

Climate action

Local governments are also addressing climate change through efforts to reduce greenhouse gas emissions. Municipalities have influence over roughly 50 percent of greenhouse gas (GHG) emissions in Canada. About 5 percent of emissions are directly related to municipal operations – in solid waste, municipal buildings, fleet vehicles and land-use planning. Indirect emissions represent another 45 percent of Canadian emissions that can be attributed to things like housing and commercial buildings, personal vehicle emissions and energy generation.

By adopting practices that reduce, remove or avoid GHG emissions (including transit-oriented development) and pursuing meaningful ways to adapt to changing climate realities, municipalities can improve their residents' quality of life, increase community resiliency and help achieve national climate change targets. Most municipalities have demonstrated a desire to act on climate change, but face barriers when it comes to fully implementing their climate action plans. Over 70 percent of Canadians live in communities that have joined the Partners for Climate Protection (PCP) program, a joint initiative between ICLEI—Local Governments for Sustainability (ICLEI Canada) and the Federation of Canadian Municipalities. PCP has over 500 participating municipalities and 46 percent of Canadians live in PCP member municipalities that have set very ambitious GHG reduction targets of 80 percent or higher. Municipalities can have the greatest impact in reducing emissions in the transportation, buildings, electricity, land use and waste sectors.

Federal and provincial/territorial funding for climate action is typically spread across multiple departments that deal with these different sectors. Programs are typically short-term with unpredictable intake windows and complicated application processes.

Significant human resources are needed at the local level to submit applications, often with little to no assurances of an application being successful. Municipal decision-making is often shaped by which funding opportunities are available, not by which projects will result in the greatest greenhouse gas emission reductions or provide the greatest community benefits. Climate action in Canada will not be able to scale to the level needed to reach Canada's targets if every viable project needs to wait until federal funding is available and their project is selected. Local leaders need to be empowered with the appropriate financial tools to be able to advance climate action based on the opportunities available in their community.

CLIMATE ACTION CASE STUDY

10 rural Quebec municipalities received a grant from FCM's Municipalities for Climate Innovation Program to introduce one electric vehicle each into their respective fleet. On evenings and weekends, when not being used by municipal staff, the electric vehicles are available to community members through a new car-sharing system. The municipalities have set up charging stations, with the aim of creating a "green route" so that electric vehicles can travel longer distances and be charged at multiple stations along the route. The new car-sharing program provides access to an affordable form of transportation in communities underserved by public transit and taxis.[38]

38 Regional Electric Car-Sharing System: The SAUVér Project | Green Municipal Fund

Public transit

The transportation sector accounts for 22 percent of Canada's GHG emissions and over half of those emissions come from passenger cars and light trucks.[39] Canada's 2030 Emissions Reduction Plan commits to an 11 percent reduction in GHG emissions from the transportation sector from 2005 levels by 2030. This will be challenging, as transportation sector emissions continue to rise. Shifting commuting patterns to more sustainable modes of transportation (such as public and active transportation) will play a critical role in helping Canada reduce GHG emissions and achieve its national climate change targets. According to research by Environmental Defence, Équiterre and Dunsky Energy + Climate Advisors, Canada could see a 65 million tonne reduction in transport-related greenhouse gas emissions if transit ridership in Canada is doubled by 2035. To reach these outcomes, total public transit service levels across Canada must increase by 109 percent by 2035, requiring a total average operating cost of $7.4 billion annually until 2035, which could be cost-shared between all orders of government, in addition to existing public transit funding commitments.

"A new Municipal Growth Framework is needed to chart a new route and ensure that a modal shift in transportation can be achieved, delivering higher levels of service to all community members"

The COVID-19 pandemic highlighted the vulnerability of the current public transit financing model when the federal, provincial and territorial governments stepped in to provide emergency operating funds to keep the systems up and running due to a significant drop in passenger fare revenue. However, changes in how people work, and a growing population, have meant that transit revenue has still not recovered to pre-pandemic levels, making it difficult for municipalities to improve service delivery and expand services to growing communities because of their dependency on user fee revenue. Even before the pandemic, Canada's service levels were lagging with 1 in 4 Canadians not living within 500m of public transit.[40]

Funding public transit in Canada is mainly the responsibility of municipalities that are already working to transition to zero-emission vehicles, improve transit services and increase transit ridership. While ridership continues to recover from pandemic-induced shifts in transportation demand, investments in both capital and operational expenses are essential for transit to play a role in fighting climate change.

39 Government of Canada. *Greenhouse gas emissions*. 2023: www.canada.ca/en/environment-climate-change/services/environmental-indicators/greenhouse-gas-emissions.%20%20html#transport

40 Statistics Canada. *Convenient access to public transport by geography*. 2023. Table: 23-10-0309-01.

Operating costs for transit systems are generally covered by municipalities through user fees (passenger fares) and other municipal revenue, while provincial and federal contributions tend to cover capital expenses.[41] FCM has welcomed transit programs such as the Rural Transit Solutions Fund and the federal government's commitment to establish the Permanent Public Transit Fund.

The latter fund will provide $3 billion in annual federal funding starting in 2026, providing critical capital funding for municipal transit agencies, including funding to maintain and renew existing infrastructure and expand transit services. However, the Permanent Public Transit Fund is purely an infrastructure program, and does not, on its own, address the structural operating funding gap that municipal transit agencies are facing, nor does it address the service level increases required to achieve GHG emissions reductions as identified above.

Reliance on the existing funding model where passenger fares provide the majority of transit operating revenue is not working. Increasing transit service levels by increasing transit revenue from user fees means that current riders will bear those costs, creating an inequitable situation.

As an essential public service, mass transit and para-transit services provide low-cost transportation options for low-income people, people with disabilities, youth, students, seniors and other groups with limited income or mobility challenges. Additionally, the need for operating support is particularly acute in rural Canada where travel costs are higher, yet ridership is lower for this essential public service.[42] However, if transit revenues are not increased, service levels will have to be reduced and riders will choose alternative modes of transportation, creating a downward spiral in transit services and increased emissions. Shifting drivers to public transit and other sustainable transportation options will require a new model for operating funding to increase service levels.

A new Municipal Growth Framework is needed to chart a new route and ensure that a modal shift in transportation can be achieved by delivering higher levels of service to all community members, and ensuring that service cost burdens are shared more equitably.

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41 Canadian Urban Transit Association. *Alternative funding for Canadian transit systems*. 2015: cutaactu.ca/wp-content/uploads/2021/01/cuta_alternative_funding_report_may_2015.pdf

42 Federation of Canadian Municipalities. Resolution: Rural Transit Operating Funding. 2023: fcmresolutions.powerappsportals.com/en-US/ResolutionDetails/?id=0763db57-d47c-ee11-8179-000d3a09ecaf&return=%2Fen-US%2FResolutions%2F%3Fkeyword%3Drural

Rural, northern and remote

From coast to coast to coast, rural and northern innovation and resiliency influences everything from the food on our tables to the materials that are used to build our homes.

Rural economies make significant contributions to Canada's GDP. In 2023, agriculture, fishing, utilities, resource and energy sectors contributed almost $200 billion to Canada's GDP or nine percent of all economic output last year.[43] Resource development and tourism in our northern communities help strengthen Canada's growth, resiliency and sovereignty.[44]

However, there is a problem. As noted previously, municipalities do not directly or immediately benefit from the actions they take to stimulate local and regional economic development. This is felt acutely in rural and northern communities where local economic activity results in tax revenue that is collected by the provincial and territorial capitals and Ottawa.

Given that nearly 50 percent of First Nations, Métis and Inuit (FNMI) individuals reside in non-urban areas[45], Indigenous Peoples are important contributors to rural and northern economies.[46] However, it is difficult to sustain and diversify economic activity, as well as advance economic reconciliation in partnership with Indigenous Peoples, when rural and northern communities struggle to provide essential services such as municipal roads, bridges and water infrastructure, broadband connectivity and transportation linkages between communities.

By supporting the ability of rural and northern communities to provide these essential services, municipalities will be better positioned to support and partner with others to provide greater equitable economic access for everyone. This is especially important for FNMI populations that historically and systemically have been disenfranchised from contributing to economic activity across Canada, but especially in rural and northern areas.

As outlined earlier, municipalities own and operate 60 percent of all public infrastructure assets. And it is these assets that create the foundation for supporting the social and economic growth of communities big and small. However, there are distinctions in rural and northern areas that need to be acknowledged so that a new Municipal Growth Framework can best support all communities going forward.

43 Statistics Canada. *Gross domestic product (GDP) at basic prices, by industry, annual average (x 1,000,000)*. 2024. Table: 36-10-0434-03.

44 Canadian Northern Economic Development Agency. *About the North*. 2020: cannor.gc.ca/eng/1368816431440/1368816444319

45 Statistics Canada. *Indigenous identity population by gender and age: Canada, provinces and territories, census metropolitan areas and census agglomerations*. 2023. Table: 98-10-0292-01

46 Krawchenko. T. *Supporting Rural and Remote Economies: What Canada Must Do Now*. 2023: thefutureeconomy.ca/op-eds/rural-remote-economies-tamara-krawchenko-university-victoria/

For example, while accounting for nearly a fifth of Canada's population, rural communities accounted for nearly one-third of the replacement value of municipally owned core public infrastructure.[47] One key infrastructure asset class for rural and northern communities is roads and highways. However, with small tax bases, these communities are unable to fully address the maintenance of these vital networks. In fact, roads were responsible for up to 58 percent of the total replacement value of core public infrastructure in rural communities in 2020. This was 22 percent in urban communities.

On top of this, rural, northern and remote municipalities are seeing pressures on their infrastructure assets due to climate change. With temperatures in northern Canada projected to rise at a faster rate than in southern Canada, the impact of permafrost thaw is a significant threat as it puts the structural integrity of buildings, basic infrastructure and other assets at risk. Without adaptation measures taken, total damage costs to buildings in northern Canada are projected to be between $30 to $38 million per year by the mid-century due to permafrost thaw.[48]

Our rural and northern communities are also at greater risk from extreme weather events such as wildfires and floods. The devastating fires in 2023 and previous years have numerous implications for communities such as mental and physical health effects[49], a rise in more catastrophic damage and a financial burden on communities that need to house evacuees. Adapting to the impacts of climate change requires significant investment in resilient infrastructure that is often beyond the scope of small community resources.

The population of rural and northern Canada is also changing. Rural Canada, for example, experienced positive population growth between 2018 and 2022, and in recent years, much of this growth has been due to intra-provincial and inter-provincial migration, with a jump in immigration in 2021/2022.[50] Additionally, two out of the three Territories have grown since the last census, with variation in what is driving changes in their population.[51] And to this last point, while we are seeing positive trends overall, the experiences in rural and northern communities are diverse. Growth rates differ and the factors influencing this change also vary. This will influence the types of services and assets that communities will need to provide.

47 Statistics Canada. *Canada's Core Public Infrastructure Survey: Replacement values*, 2020. 2023. statcan.gc.ca/n1/daily-quotidien/230320/dq230320a-eng.htm

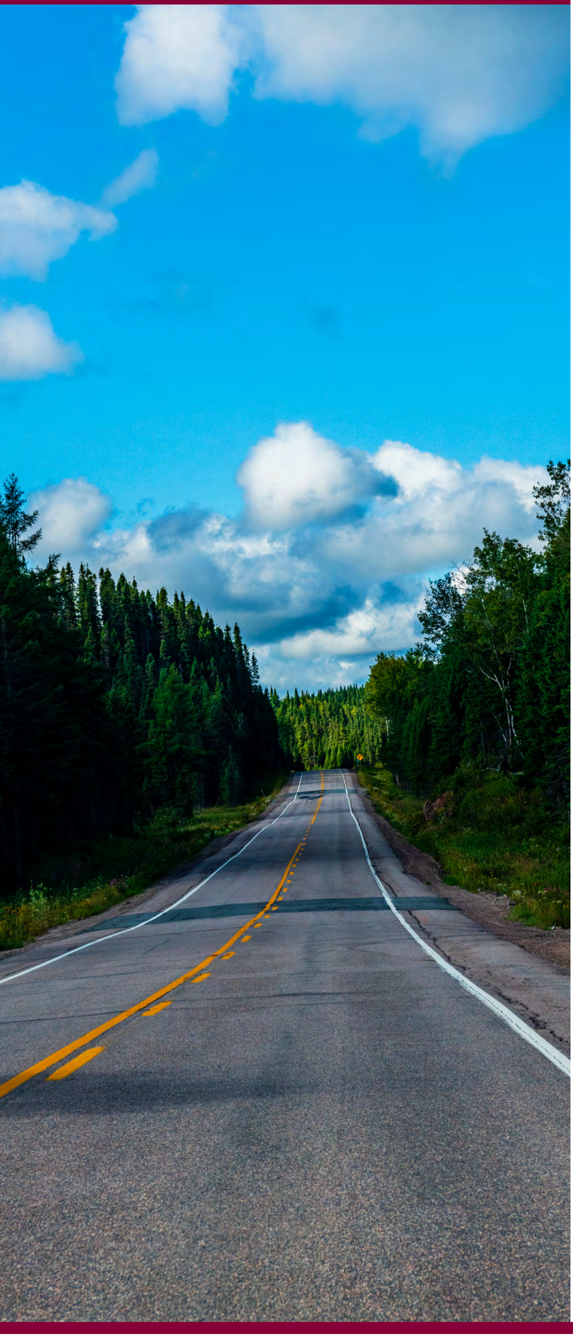
48 Canadian Climate Institute. *Due North: Facing the costs of climate change for northern infrastructure*. 2022: climateinstitute.ca/wp-content/uploads/2022/06/Due-North.pdf

49 Humphreys et al. *What can we do when the smoke rolls in? An exploratory qualitative analysis of the impacts of rural wildfire smoke on mental health and wellbeing, and opportunities for adaptation*. 2022: bmcpublichealth.biomedcentral.com/articles/10.1186/s12889-021-12411-2

50 Statistics Canada. *Components of population change by census metropolitan area and census agglomeration, 2016 boundaries*. 2023. Table: 17-10-0136-01.

51 Statistics Canada. *Estimates of the components of demographic growth, annual.* 2023. Table: 17-10-0008-01.

"Adapting to the impacts of climate change requires significant investment in resilient infrastructure that is often beyond the scope of small community budgets."



However, with limited budgets and staff resources, rural, northern and remote communities are constrained in their ability to apply continually and effectively for federal or PT funding programs to support community growth and well-being. Previous FCM research has found that around 60 percent of Canada's 3,500 municipalities have five staff members or fewer.[52] And in a similar vein, there are also operational costs to consider. One clear illustration of this is in transit where smaller communities face challenges in their ability to provide adequate public transit services.[53] The economies of scale work against these communities in this respect.[54]

- **To ensure all communities are supported equitably, a Municipal Growth Framework must respect and account for rural and northern community realities**. Many of these communities have small tax bases but must maintain extensive and vital public infrastructure portfolios, which are often heavily used by industry. This underlines the importance of considering factors beyond simple population calculation. For example, when the new Local Government Fiscal Framework (LGFF) in Alberta was introduced, population accounted for 65 percent of the allocation formula. However, it was identified that overweighting this factor carries several risks, one of which is that it does not allow for equitable distribution of funds given that the drivers of infrastructure maintenance and construction costs differ across communities.[55]

52 Federation of Canadian Municipalities. *Rural challenges, national opportunity*. 2018: fcm.ca/sites/default/files/documents/resources/report/rural-challenges-national-opportunities.pdf

53 Institute for Research on Public Policy. *Rural Recognition: Affordable and Safe Transportation Options for Remote Communities*. 2024: irpp.org/research-studies/affordable-safe-transportation-options-remote-communities/

54 Breen, S. and Sutherland, C. *Not In Service: A Typology of Barriers Facing Rural Transit Systems*. 2022. ojs.library.queensu.ca/index.php/cpp/article/view/15783

55 Rural Municipalities of Alberta. *Local Government Fiscal Framework: RMA Allocation Formula Reaction*. 2024: rmalberta.com/wp-content/uploads/2024/01/01-19-24-RMA-Reaction-LGFF-Allocation-Formula.pdf.

- **Rural and northern municipalities make considerable economic contributions to Canada as a whole**. A new Municipal Growth Framework must be able to address the disconnect between municipal revenue generation and economic growth.

- **Municipalities are the governments of proximity and know the needs of their communities best. Flexibility should thus be built in any framework so that rural and northern municipalities can effectively direct investment into urgent local issues.** This is an important principle given the variations that exist between communities in rural, northern and urban Canada. Additionally, it should be noted that combining rural and northern under the same 'rural' umbrella risks creating a Framework that does not address the complexity and diversity of these communities.

Overall, a new Municipal Growth Framework can help rural, northern and remote communities address some of these challenges as well as the others that have been noted in this paper such as public safety, housing and homelessness—but municipal finance reforms must be developed by and for rural and northern municipalities to ensure that they meet their unique needs, capacity and pressures.

Public safety

Keeping Canadians safe is a top priority for municipalities. Municipally-funded police services and first responders face a growing list of public safety challenges. They work in communities that are dealing with demanding, often-growing issues, ranging from increasing rates of violent crime and property theft to the impacts of the opioid and mental health crises. Every new challenge strains already limited local resources, and with ballooning costs many communities are struggling to keep up.

In 2022, municipalities were responsible for over a third of all public sector expenditure on public order safety, with most local spending being directed to police and fire protection services. Policing is typically the largest operational cost for a city with a municipal police force. For example, in 2023 in the City of Calgary, 19.69% of property taxes were allocated to Bylaws and Public Safety. Policing alone accounts for 11.35% of property taxes in Calgary.[56]

And those costs are rising.

56 City of Calgary. *Municipal Fiscal Gap*. 2023: calgary.ca/content/dam/www/cfod/finance/documents/plans-budgets-and-financial-reports/Municipal-Fiscal-Gap-Report-2023.pdf

"A new Municipal Growth Framework can provide municipalities with the proper tools to plan for emergencies, respond quickly to incidents, and foster collaboration among orders of government to protect communities and keep Canadians safe."

A Municipal Growth Framework would help equip municipalities with the resources to fulfill their public safety mandate. This reality is nowhere clearer than with the police, whether it be municipal police forces or RCMP detachments that provide police services to municipalities on a contract basis. Between 2010-2021, police budgets increased an average of 24% in Canada's 20 most populous municipalities, ranging from 36% in Winnipeg, MB, 41% in York Region in Ontario, and 55% in Quebec City, QC.[57] Today, with inflationary pressures and a more complex post-pandemic social environment, costs have further increased. Yet police budgets come directly from municipal budgets, which are largely financed by property taxes, a limited revenue source. Between 2010-2021, revenue from property taxes across Canada grew by 16% in inflation-adjusted terms.[58]

Yearly increases in the cost of policing stem from multiple factors including inflation, population growth and negotiated salary increases for RCMP personnel linked to collective bargaining, all of which fall largely beyond the direct control of municipalities. A continuous pipeline of equipment expenses, including procurement, maintenance, and modernization of items such as firearms, tactical gear, body-worn cameras, vehicles and emerging technologies, also significantly impacts costs.

57 Seabrook, S. et al. *Police Funding and Crime Rates in 20 of Canada's Largest Municipalities: A Longitudinal Study*. 2023. utpjournals.press/doi/full/10.3138/cpp.2022-050?journalCode=cpp

58 Statistics Canada. *General governments, provincial and territorial economic accounts*. 2023. Table: 36-10-0450-01.

Pressure on policing is acute in rural, northern and urban municipalities alike. In urban municipalities, police are increasingly tasked with managing complex social issues without the tools to make change. Municipal police are increasingly responding to calls that involve residents who are experiencing a mental health crisis or drug overdose. For example, the Saint John Police Force saw a 40% increase in calls related to mental health between 2018 and 2023; more dramatically, mental health calls to the Charlottetown Police Services in Prince Edward Island increased 95%. These incidents require specialized interventions. The root causes of these health and social issues are beyond the capacity of the police, or municipalities, to address on their own.

Compounded by population growth, police resources are being stretched thin, increasing response times, which has an overall impact on public safety. Similarly, federal, provincial and territorial policies and the administration of the criminal justice system can also strain police resources, impacting the return on investment for municipalities. For example, when repeat offenders are released back into communities, this can consume valuable police resources as officers are forced to spend a disproportionate amount of time on repeat cases rather than addressing broader community needs.

In rural municipalities, which, outside of Ontario and Quebec, are typically policed by the RCMP, issues follow similar but distinct patterns. Due to large geographical sizes, rural populations frequently wait long periods for emergency responses to property crime as well as violent incidents. Likewise, the high cost of policing these areas, along with recruitment and retention difficulties, means that rural residents are often under-policed compared to their urban counterparts. More recently, entire property tax increases in some rural areas have been implemented just to keep up with costs related to RCMP contracts. This is of particular concern for RCMP-policed municipalities, as municipalities have limited input into contract negotiations between the federal government and the RCMP yet must bear the costs of the resulting decisions. Therefore, giving municipalities a seat at the table and ensuring that they are meaningfully consulted prior to negotiations is essential. Consequently, overall, little can be allocated for other pressing priorities due to skyrocketing policing costs, for which municipalities largely foot the bill.

Ultimately, the issue is not that municipalities lack the expertise or ambition to address new and complex public safety challenges. Rather, municipalities lack the fiscal framework to tackle these challenges with adequately resourced responses. The result is stretched budgets, exhausted front-line workers and costly equipment upgrades passed onto the level of government with the fewest resources.

A new Municipal Growth Framework can provide municipalities with the proper tools to plan for emergencies, respond quickly to incidents and foster collaboration among orders of government to protect communities and keep Canadians safe.

"The advocacy currently taking place at the provincial level demonstrates the kind of progress that can be made when the municipal sector partners with other orders of government to improve quality of life for their residents."

Part 3: Building the foundation for a Municipal Growth Framework

The call for a modernized fiscal framework is not new—municipalities in Canada have been grappling with an outdated system for decades and work has been ongoing in many provinces and territories to better match municipal service responsibilities with revenue options. What is new is the rate of population growth that the country is experiencing and the resulting pressure that municipalities are under. The following section outlines how a new Municipal Growth Framework can be built on the shoulders of previous strong partnerships with the federal government and recent 'best practice' work being undertaken by provinces and territories.

Building on previous federal partnerships

A strengthened model of direct, flexible transfers tied to growth

The federal government has been a strong infrastructure funding partner to municipalities, provinces and territories, and this partnership is helping to reduce the infrastructure deficit and build more resilient, sustainable, prosperous and equitable communities. Recent federal infrastructure funding programs include the 2007 Building Canada Fund, the 2018 Investing in Canada Infrastructure Program (ICIP) and the $2.4 billion per year Canada Community-Building Fund (CCBF). Funding programs such as the Canada Housing Infrastructure Fund, the Canada Infrastructure Bank's Infrastructure for Housing Initiative, and the recently-announced Canada's Housing Plan can and are delivering housing-enabling infrastructure that is badly needed. The Permanent Public Transit Fund is set to begin in 2026, providing $3 billion per year in capital funding for municipal transit systems.

These federally led programs represent a strong funding commitment from the federal government.

However, for many municipalities, especially small, rural, remote and northern communities that have limited staff resources, the application process associated with government grants and transfers is often a significant barrier to applying for funding.

Allocation-based programs, like the CCBF, offer a model of intergovernmental transfers to municipalities based on permanent, predictable and flexible funding. Although the CCBF could be improved by increasing the total volume of the fund and the annual indexation rate, and by modernizing how program partners report on the outcomes the program is achieving for Canadians, the fund offers a strong proof of concept for how different orders of government can approach transfers as part of a larger suite of municipal fiscal reforms.

Building on this strong partnership, a new Municipal Growth Framework would increase direct transfer amounts over and above current budgeted programs, including a new 10-year CCBF agreement and the PPTF, with an additional $2.6 billion a year. Municipal revenue would be tied to both population and economic growth through an index linked to GDP. To enable local governments to take action where it's needed most, the new framework would be flexible to enable both operations and capital spending.

While most Canadian taxpayers don't distinguish which order of government provides which services, they do want all governments to be accountable for how they are spending their hard-earned tax dollars. To that end, a Municipal Growth Framework must include clear outcomes with accountability mechanisms to ensure that outcomes are being achieved.

Models for potential emulation

The following sections outline recent work by provinces and territories across Canada, largely by provincial and territorial associations (PTAs), including "best practice" municipal finance models in place in Saskatchewan and Quebec.

Quebec: Sales Tax revenue sharing and Bill 39

Over the past few years, the municipal sector in Quebec has made progress in diversifying municipal revenue sources and reducing their dependence on property taxes.

In September 2023, the Mayor of Montreal, Valérie Plante, hosted a summit with the Union des municipalités du Québec (UMQ)'s *Caucus des grandes villes du Québec*, to call for a new fiscal pact to review municipal taxation in Quebec. Montreal's advocacy emphasized the increasing costs that cities are facing to adapt to climate change, expand public transit service, improve housing affordability and respond to an increasingly complex homelessness crisis.

On December 13, 2023, the Quebec government signed a new fiscal deal with La Fédération québécoise des municipalités (FQM), l'UMQ and individual Quebec municipalities that will provide access to hundreds of millions of dollars to help pay for local services. The National Assembly unanimously passed Bill 39, which enacts certain provisions of the agreement into legislation and creates additional revenue options for Quebec municipalities.

Most significantly, Bill 39 legislates a consolidated dedicated share of the annual growth in the Quebec Sales Tax (QST) as a direct transfer to municipalities. In 2023, the amount transferred to Quebec municipalities reached a total of $135 million. This value is expected to grow to $1 billion by 2029. Bill 39 also enables municipalities to levy different residential property tax rates, grants municipalities new powers to tax vacant dwellings and, in municipalities with public transit systems, grants them the ability to tax vehicle registrations.

Saskatchewan: Municipal Revenue Sharing

Municipal Revenue Sharing (MRS) began in Saskatchewan in 1978 as a yearly unconditional operating grant to municipalities set by the province. In 1978, the fund was $34 million. Between 1978 and 2008, the fund varied from a high in the 1980s at $67 million to a low of $27 million in 1997.

While an important financial tool for municipalities in Saskatchewan, the original MRS did not grow with the economy and municipalities felt that the agreement could be strengthened. Following a few years of significant research and collaboration alongside provincial staff, a new Municipal Operating Grant was announced at the 2009 Saskatchewan Urban Municipalities Association (SUMA) Convention. Through this grant, Saskatchewan's municipalities would receive revenue sharing equivalent to one point of the PST. The MRS is distributed by pools (per capita), based on municipal status as follows: nearly half the fund is distributed to cities while towns and villages receive 16.2 percent, rural municipalities receive 28.5 percent, and northern communities receive 7.4 percent.

Since 2009, the grant has been curtailed. In the 2010-11 fiscal year, revenue sharing was frozen at 2009-10 levels, even though it was expected to grow that year from $167 million to $221 million. The fund was also reduced in 2017 to 75 percent of one point of PST. Although this change coincided with the introduction of additional PST exemptions, the removal of the construction labour exemption in 2017 has cost municipalities approximately $29 million annually.

Efforts underway in other jurisdictions

City of Toronto

- In September 2023, after an 8-month analysis of all available revenue options, Toronto City Council debated and approved increases to the land transfer tax on luxury homes and parking fees, and further called on the provincial government to provide access to revenue tools which grow with the economy.
- On November 27, 2023, Toronto and the Ontario government signed a "New Deal" that will help the city achieve long-term financial sustainability, where Ontario has agreed to provide the city with up to $1.2 billion in provincial operating support over three years and significant capital relief.[59] As part of the deal, Toronto also agreed to meet or exceed the province's housing targets, identify and make available surplus city lands for building homes, increase density near transit and find efficiencies in service delivery and procurement.

Federation of Prince Edward Island Municipalities (FPEIM)

- While speaking before the PEI Legislature's Standing Committee on Education and Economic Growth in October 2023, the Federation of Prince Edward Island Municipalities (FPEIM) pointed out that PEI municipal taxes only account for 2 cents of every tax dollar. FPEIM has advocated for an increased municipal share, emphasizing the elevated cost of supporting and providing services to a growing population. During the 2023 provincial election, FPEIM recommended that the province "substantially reduce the provincial non-commercial property tax rate within municipalities to provide tax room for municipal governments, and provide a half-percent property transfer tax."

Alberta Municipalities

- Alberta Municipalities has embarked on a multi-year project on the Future of Municipal Government that includes research on topics such as municipal finance, infrastructure transfers, growth and collaboration. The first phase of the project involved academic researchers associated with the University of Calgary's School of Public Policy.

Rural Municipalities of Alberta (RMA)

- In 2022, the RMA developed an Allocation Formula Proposal for municipalities ahead of that province's Local Government Fiscal Framework that would begin to take effect in 2024/25. RMA's allocation approach included components such as municipal asset management plan data, the use of a funding minimum and a fiscal capacity modifier, which considers the different fiscal capacities of municipalities in the region. RMA also proposed formula factors intended to capture the costs of non-residential growth, which often drive capital costs in rural municipalities, to better balance the use of population as a proxy of residential growth pressures.

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59 Government of Ontario. *Ontario and Toronto Reach a New Deal*. 2023. news.ontario.ca/en/release/1003888/ontario-and-toronto-reach-a-new-deal

Association of Municipalities of Ontario (AMO)

AMO has released its 2024 pre-budget submission Social and Economic Prosperity Review, calling on the Ontario government to work together with municipalities on a joint review of municipal finance, including a detailed analysis of Ontario's infrastructure investment and service delivery needs. The pre-budget submission builds on the ongoing discussions AMO has been leading across the province around the stability and sustainability of municipal finances.

Union of the Municipalities of New Brunswick (UMNB) / Association francophone des municipalités du Nouveau-Brunswick (AFMNB)

- UMNB and AMFNB are urging the government to act on a much-needed fiscal reform following the publication of a report from the Minister of Local Government on the state of municipal finances after the restructuring that took place in 2023. The report concluded that the current framework is not sustainable and that the provincial government must establish alternate sources of financing to support municipalities.

Union of BC Municipalities (UBCM)

- In January 2022, the Province of BC and the UBCM signed a Memorandum of Understanding (MOU) on Local Government Financial Resiliency, committing to work together to review the local government finance system in BC. The implementation of the MOU included the formation of the Local Government Financial Review Working Group, represented by the Ministry of Finance, Ministry of Municipal Affairs and UBCM, and the development of a 3-year work plan to address the 20 recommendations outlined in the 2021 report: Local Government Finance Resiliency—Today's Recovery and Tomorrow's New Economy.

The Association of Yukon Communities (AYC)

- The AYC is encouraging the Government of Yukon to improve the Comprehensive Municipal Grant (CMG). The CMG was created in 1991 and is an unconditional block of funding for municipalities. It has been revised twice since then. In 2013, the CMG switched from a fixed sum to an open sum formula, which utilized municipal statistics. The intent was that the funding for a community would be a reflection of how much their population grew or declined. In 2017, some of the factors were revised as the grant was not fully capturing community activity and growth. Overall, while the CMG has increased since 2013, issues remain, with AYC's 2023 report noting that "increasing demands and inability to connect all the pieces together creates a disconnect in the grant."
- In AYC's 2023 report on the CMG, they identified several areas that are impacting municipal finances: "peripheral users, increasing government regulations, core program service provision, additional service provision and impacts from climate change." The report also includes recommendations such as increasing the asset maintenance factor percentage of the CMG formula to better reflect the cost of aging infrastructure and new capital projects as well as better alignment with the CPI over time. Additionally, it recommended adjusting the base funding towards being reflective of municipal size and active participation in discussions with FCM and the Yukon Government on the Municipal Growth Framework.

Summary

The advocacy currently taking place at the provincial and territorial level demonstrates the kind of progress that can be made when the municipal sector partners with other orders of government to improve the quality of life for their residents.

What is clear is that the need for a new fiscal framework is an issue for municipalities across the country, and so a solution is required that is similarly ambitious in its scale. A Municipal Growth Framework would weave these disparate efforts at municipal finance reform into a pan-Canadian approach. Designed with the input of all orders of government, this new framework will contribute to the financial sustainability of all Canadian communities regardless of size or location.

Part 4: Municipal Growth Framework Summary of recommendations

This report has outlined how municipalities are providing more and more public services for a growing population without a corresponding growth in revenue.

Municipalities are not currently able to meet their full potential to contribute to Canada's growth and prosperity. In particular, they have limited options to raise revenue to cover the cost of the infrastructure required to build new housing, increase transit service to help meet climate goals, ensure that infrastructure is resilient to the impacts of climate change and address the alarming increase in homelessness.

That is why FCM is calling for a Municipal Growth Framework. A new fiscal framework for municipalities is not a single tool nor is it a single commitment from one order of government. It is an acknowledgement that the delivery of public services and the distribution of public funds need to evolve to meet today's challenges, through a partnership between orders of government.

Guiding objectives

The first step is for the federal government to convene provinces, territories and municipalities to negotiate a "Municipal Growth Framework" that results in an accord between the three orders of government to enable Canada's long-term growth. A federal-provincial/territorial-municipal (FPTM) negotiation should be guided by the following objectives:

- **Municipal revenue is linked to national population and economic growth.**
- **Municipalities have diverse, adequate and predictable sources of revenue that increase their autonomy** and enable them to respond to priority public policy challenges, including housing affordability, homelessness, public safety and climate change.
- Municipalities have revenue tools that support the full range of services they provide **including capital and operating costs.**
- **Existing tax revenue is more evenly redistributed between orders of government** relative to expenditures and service delivery.
- **Rural, northern and remote community needs** are considered in the redistribution of existing tax revenue to ensure all communities are supported equitably.
- **Anti-racism, equity and inclusion** objectives are considered in the design of the framework.

As part of the collaboration on a Municipal Growth Framework, FCM is calling on federal, provincial and territorial governments to reform municipal finance so that it better conforms to the six objectives listed above, including the commitment to a long-term FPTM partnership toward ending chronic homelessness through investments in nonmarket affordable and supportive housing.

Targeted recommendations

1. Municipal finance reform

FCM is calling on the **federal government** to modernize municipal funding by:

- Increasing direct annual transfers to municipalities by $2.6 billion. Paired with the existing Canada Community-Building Fund allocations, this would bring total annual federal transfers to $5 billion.[60]
- Linking federal transfers to economic growth by indexing them to Gross Domestic Product (GDP).[61]
- Broadening eligible expenses under federal transfers to include operating costs as well as capital (infrastructure) to enable municipalities to direct funding toward local priorities that enable population growth and economic development—recognizing that municipalities are in the best position to identify and respond to local needs.

Under the Municipal Growth Framework, **provincial and territorial governments (PTs)** would agree to match the level of funding provided to municipalities by the federal government, providing an equivalent of $5 billion per year in new PT funding, tax room or taxation power to municipalities at the national level.

- PTs could choose to meet their contribution by reforming municipal finance in their jurisdiction. Examples include:
  - Allocating a portion of provincial sales or income taxes to municipalities (for example, following the models in place in Saskatchewan and Quebec where the provincial governments allocate a portion of the annual growth of the provincial sales tax to municipalities – see pages 43-44).
  - Reassessing municipal responsibilities and committing, in partnership with municipalities, to either a) upload certain responsibilities back to provincial governments, or b) agree to a new funding model to adequately resource municipalities to deliver provincially-mandated services.
  - Modernizing municipal taxation, including property taxes, development charges and user fees. For example, allowing municipalities to set indexed property tax rates so that they can establish higher rates for higher-value homes, thereby establishing a more progressive property tax rate structure.

60 $5 billion represents a doubling of the Canada Community-Building Fund in 2025-26 or approximately half a point of the federal Goods and Services Tax (GST) revenue generated annually since 2021. According to the 2023 Fall Economic Statement, table A1.5, GST revenues are forecast to generate between $52 and $61 billion per year over the 2023-24 to 2028-29 period. See: Annex 1 - Details of Economic and Fiscal Projections, 2023 Fall Economic Statement: budget.canada.ca/fes-eea/2023/report-rapport/anx1-en.html

61 FCM recommends the formula used to determine the Canada Health Transfer (CHT). Since 2017-18, total CHT funding has been legislated to grow in line with a three-year moving average of nominal gross domestic product (GDP), with total funding guaranteed to increase by at least 3 percent per year. See: canada.ca/en/department-finance/programs/federal-transfers/canada-health-transfer.html

- Creating more property taxation room for municipalities by reducing some or all of the provincial (e.g., education) portion of the property tax.
- Granting municipalities new powers to levy new taxes or user fees.

Provincial and territorial governments could choose to increase municipal funding by cost-matching the Canada Community-Building Fund (CCBF).

Reforms at the provincial level would take place through negotiations between each provincial and territorial government and their municipalities. It is expected that municipal finance reforms, while complying with a set of criteria established through a Municipal Growth Framework accord, will look different in each province and territory in recognition of the different fiscal capacity of each PT as well as recent commitments by some PT governments, including the Government of Quebec, to increase municipal funding.

By reforming municipal taxation, provinces and territories can provide municipalities with a greater degree of autonomy and long-term financial sustainability, reducing municipalities' reliance on transfers from federal and PT governments and enabling municipalities to better meet residents' needs by adjusting revenue tools over which they have control.

2. Comprehensive plan to end chronic homelessness

The second element of the Municipal Growth Framework is a comprehensive FPTM plan to end chronic homelessness, including:

- Identification of roles and responsibilities for each order of government through a coordinated approach.
- A timeline with clear milestones and measurable objectives to achieve our shared goal of ending chronic homelessness.
- Coordinated investment and policy measures to increase the supply of non-market housing and prevent the flow of individuals into homelessness.
- New investment in supportive housing through a Housing First-based approach cost-shared between federal, provincial and territorial governments.

Conclusion: A new partnership for growth

Canada's population surpassed 41 million people. This historic growth brings with it both immense opportunity and pressing challenges.

Every day, Canadian workers, families and businesses rely on municipalities to support the core pillars of a good quality of life. Municipalities maintain our roads, bridges, transit services, water and wastewater infrastructure and provide our policing, emergency services, recreational and cultural facilities, public events and much more. Municipalities continue to manage and maintain more than 60 percent of Canada's public infrastructure yet receive only between 8 and 10 cents on each tax dollar collected.

Canadians are looking to local leaders to rise to the challenge and address pressing on-the-ground issues, including homelessness, housing, mental health and addiction, adapting to the impacts of climate change and setting their communities on a path to reducing GHG emissions.

Municipalities are facing these challenges with leadership and innovation but are constrained by a nineteenth-century framework never designed for the realities of the twenty-first century. The status quo is just not working.

Canadians need all orders of government to work together—no matter the circumstances or jurisdiction—to address modern challenges and protect the quality of life for citizens.

There is room to innovate, whether it's through enhancing proven funding tools like the Canada Community-Building Fund, reforming existing forms of municipal taxation or through tripartite agreements between orders of government on specific policy priorities such as affordable housing.

Our country's successful growth is intrinsically linked with our cities, towns and communities. That's why Canada's municipalities, through FCM, are calling for a new Municipal Growth Framework that empowers local governments with revenue tools that grow with Canada's national population and economy.

This framework would ensure a future where Canadians see their communities growing confidently, with scale and ambition that delivers what Canadians need now: more affordable housing, support for the most vulnerable, core infrastructure that can support generations of residents and reliable, efficient transit we can rely on into the future.

A new fiscal framework is essential to ensuring that municipalities can keep supporting Canada's continued growth and prosperity.