

# Executive Summary



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*This State of the Debate report addresses the emerging importance of cities, as well as their increasing environmental challenges. It is the culmination of the work of the National Round Table on the Environment and the Economy's Urban Sustainability Program. The program was launched in December 2001 primarily to identify federal fiscal policies to improve the quality of Canada's urban environments.*

## THE STATE OF THE URBAN ENVIRONMENT

The quality of the urban environment affects more and more Canadians as they continue to concentrate in cities. The 2001 census revealed that 80% of Canadians live in urban centres and that over half of them live in the four largest urban regions—the extended Golden Horseshoe, the Montréal region, the Lower Mainland of British Columbia and the Calgary–Edmonton corridor—where virtually all of Canada's population growth occurred in the five preceding years.<sup>1</sup>

Yet the recent environmental performance of Canada's cities has been patchy at best. Despite improvements in areas such as the fuel efficiency of passenger vehicles (with the notable exception of SUVs and light trucks), most key indicators suggest negative trends: the use of cars is on the rise, urban transit ridership is down and cities are using land less efficiently. Concentrations of ground-level ozone—which is linked to childhood asthma, respiratory illnesses and a range of other health issues—are also increasing.

The effects of poor urban environmental quality are also often felt beyond a city's borders. Urban centres contribute a significant amount of greenhouse gas emissions, and are therefore major players in meeting Canada's commitments under the Kyoto Protocol. Urban expansion can lead to the loss of prime agricultural land and sensitive environmental areas. And the links between urban environmental quality and a healthy knowledge-based economy are becoming more pronounced—the increasingly severe

economic impacts of traffic congestion on trade, for example, or the key role urban environmental quality plays in attracting and retaining the talent that drives wealth creation.

## THE ROLE OF FEDERAL FISCAL POLICY

Given these and other factors, the federal government—through initiatives such as the Prime Minister's Caucus Task Force on Urban Issues and recent speeches from the Throne—has recognized the need for a more strategic, comprehensive approach to urban environmental quality. Indeed, the federal government, even within its envelope of constitutional responsibilities, has an opportunity to demonstrate leadership in this area.

An approach based solely on regulation, however, is bound to fail. Although it is an effective and a preferred option for addressing many environmental issues, regulation cannot address the most quintessentially urban environmental challenges: where people choose to live (e.g., in already-urbanized centres or new suburbs that encroach on agricultural land), where businesses choose to locate (e.g., in areas well-served by urban transit or areas easily accessible only by car), and where and how governments decide to invest in infrastructure (e.g., whether they invest in “green” or less sustainable infrastructure). These choices are, however, highly influenced by price; fiscal policy may therefore be able to have an effect where regulation cannot.

In fact, research commissioned by the Round Table—including a comprehensive analysis of federal fiscal

policies and programs and a case study of the Greater Toronto Area—confirms earlier findings that government fiscal policies already have a significant impact on the environmental quality of Canadian cities. Fiscal policies at all levels of government shape transportation choices, location decisions and regional real estate markets. Most of this government influence is unintentional, however, and runs counter to sustainability objectives.

There is, in other words, a pronounced lack of synergy among fiscal and other policies as they relate to urban environmental quality. Also lacking are horizontal synergies within a given level of government, as well as vertical synergies among governments. The result is misdirected government resources and programs that underperform.

## THE RECOMMENDATIONS

After more than a year of research and consultations, members of the Urban Sustainability Task Force—and the experts and stakeholders they consulted—concluded that urban environmental quality can be greatly improved through federal fiscal policies that address the interrelated issues of urban form,<sup>2</sup> transportation and energy use. The Round Table has identified 11 high-priority fiscal measures, as well as five areas that warrant further exploration.

The first three high-priority recommendations call on the federal government to demonstrate leadership on urban environmental quality by taking immediate and comprehensive action to put its own house in order. Recommendations 4 to 7 encourage the federal government to improve its collaboration with other levels of government on urban environmental issues by facilitating more strategic investments in urban transit and municipal infrastructure. The final four high-priority recommendations set out how the federal government can encourage the private sector and individual citizens to make more efficient use of energy and land.

The five medium-term recommendations include introducing a range of additional tax measures to increase the energy efficiency of dwellings, vehicles and renewable fuels; researching the impact of freight transportation on urban environmental quality; and establishing a more coherent federal approach to urban sustainability.

The Round Table hopes that this report draws attention to and encourages more research and debate on urban environmental quality, and particularly the role of fiscal policy in improving the sustainability of Canada's cities.



## SUMMARY OF RECOMMENDATIONS

### Getting the federal house in order

**Recommendation 1:** That the federal government, through Public Works and Government Services Canada and its Good Neighbour Policy, further develop and adopt comprehensive sustainable development guidelines governing the location and site design of its urban facilities.

**Recommendation 2:** That the federal government, through Public Works and Government Services Canada, place additional emphasis on developing and implementing transportation demand management strategies, and adopt a more ambitious, targeted approach to greening its vehicle fleet.

**Recommendation 3:** That the Canada Lands Company (CLC) develop a Sustainable Development Code of Practice, which would provide a clear framework for ensuring that lands managed or disposed of by CLC are developed according to principles of sustainable development. The NRTEE also recommends that CLC consider working with research organizations to monitor and evaluate the performance of CLC projects, and disseminating this information.

### Supporting the use of urban transit

**Recommendation 4:** That the federal government invest \$1 billion per year for 10 years in transit in Canada's cities. This investment should target growing urban regions where there are opportunities to discourage land use that does not support transit and to significantly increase the net number of transit riders. Federal funding should be allocated according to a basic yet effective set of criteria, such that project proponents:

a) show how the proposed transit investment fits into a comprehensive, longer-term plan to support transit ridership and, specifically,

increase the share of trips taken by urban transit;

- b) estimate the net number of new transit riders who will be attracted from cars as a result of the investment;
- c) indicate how the attractiveness of transit will be improved relative to the automobile (e.g., traveller cost, travel times, convenience);
- d) quantify investment in transit versus investment in automobile-related travel;
- e) document a comprehensive approach to achieving land use patterns that will support transit ridership, including area-wide planning policies; transit node and corridor-specific land use policies; and area-wide, transit node and corridor-specific municipal pricing policies (e.g., development charges, property taxes, user fees);
- f) create a transportation demand management plan;
- g) quantify the net cost of the investment per new transit rider;
- h) indicate the financial contributions and roles of other partners, including provincial and municipal governments, other agencies, and the private sector;
- i) document the environmental and economic benefits of the investment (e.g., reductions in greenhouse gas emissions, road infrastructure investments averted, congestion costs averted); and
- j) monitor the results (e.g., actual net number of new transit riders, development in identified transit nodes and corridors).

**Recommendation 5:** That the Income Tax Act be amended to make employer-provided transit passes a tax-exempt benefit, given the myriad benefits associated with increasing urban transit ridership.





## Promoting sustainable infrastructure

**Recommendation 6:** That the granting of federal infrastructure funding be subject to a practical, performance-based set of criteria that ensures funded projects make substantial contributions to improved environmental quality in a cost-effective manner. Proponents should be required to submit a Sustainable Community Investment Plan, outlining the needs to be addressed by the infrastructure investment and demonstrating:

- a) how the proposed infrastructure investment fits into a comprehensive, longer-term investment plan for improving urban environmental quality;
- b) how existing infrastructure capacities have been or will be fully exploited;
- c) how all options for jointly addressing infrastructure needs with surrounding municipalities or other relevant entities have been explored and fully exploited;
- d) a comprehensive approach to managing the demand for the infrastructure (for example, for transportation infrastructure, a transportation demand management plan is required; for water-related projects, a metering program);
- e) that a range of alternative options for solving infrastructure needs—including other types of infrastructure—have been explored;
- f) a life-cycle costing analysis of the proposed project and alternatives;
- g) financial contributions and roles of other partners, including provincial government, municipal government, other agencies and the private sector; and
- h) a quantification of the expected environmental improvements in terms of air, water or soil quality of the proposed project and the alternatives.

**Recommendation 7:** That the municipal GST rebate be increased from 57.14% to 100% for expenditures by municipalities and municipal agencies on infrastructure that improves urban environmental quality. Infrastructure expenditures eligible for the 100% rebate would be specified, and should include investments in:

- transit vehicles and their maintenance and repair;
- water and wastewater infrastructure;
- renewable energy infrastructure (e.g., wind power);
- community energy systems; and
- infrastructure purchased by municipalities as part of projects funded under federal–municipal infrastructure or transit investment programs.

## Encouraging the efficient use of energy and land

**Recommendation 8:** That the federal government amend Class 43.1 of the Income Tax Regulations to make capital investments in community energy systems (including investments in generation equipment, underground pipes and thermal host systems) eligible for the accelerated capital cost allowance.

**Recommendation 9:** That the federal government amend the Excise Tax Act to rebate 36% of the GST on the cost of renovations to homes that improve their energy efficiency. This should be accompanied by a premium energy performance labelling program, such as the EnergyStar program; only the most energy-efficient products would be eligible for the GST rebate. In addition, the Excise Tax Act should provide for a rebate of 36% of the GST paid on purchases associated with the creation of legal accessory units in existing houses.



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**Recommendation 10:** That an additional GST rebate of one percentage point (or 14% of the GST) be provided for new R-2000 homes, in addition to the existing 36% new housing rebate, bringing the total GST rebate to 50% for R-2000 homes. Alternatively, or concurrently, the existing 36% new housing GST rebate could be gradually redirected solely to R-2000 homes.

**Recommendation 11:** That the federal government, through the Canada Mortgage and Housing Corporation, conduct research on the potential contribution of eco-efficient mortgages to the more efficient use of land in Canada. If research results warrant, this would lead to a pilot project. Then, if pilot project results warrant, a wider eco-efficient mortgage program involving the financial sector would be pursued.

### Areas for further exploration

**Recommendation 12:** That the federal government explore a number of potential fiscal measures to assess their contribution to improving environmental quality in Canada's urban centres and, if warranted, refine these measures for implementation in the next one to three years. These measures include:

- establishing an R-2000 standard and incentives for retrofits of residential buildings;
- restructuring tax on passenger vehicles to reflect emission levels;
- exploring more rigorous mechanisms to address the increasing contribution of SUVs and light trucks to energy use and emissions;
- providing tax incentives to promote demand for energy from renewable sources; and
- developing environmental performance standards for municipal infrastructure.

**Recommendation 13:** That the federal government undertake research on the role of freight transportation in urban environmental quality; the relationship between freight transportation and urban land use patterns; current and future trends; key drivers of related environmental outcomes; and potential fiscal, regulatory or program responses by government.

**Recommendation 14:** That the federal government develop a national urban strategy that outlines its role, intentions and actions for improving the sustainability of Canada's cities. This strategy should include a comprehensive framework for using fiscal policy to improve environmental quality in Canada's cities.

**Recommendation 15:** That the federal government investigate the usefulness of a mechanism or mechanisms for coordinating and advocating action to improve urban sustainability across federal departments and agencies.

**Recommendation 16:** That the federal government, after additional research, introduce a mechanism or mechanisms to promote better alignment among federal, provincial and municipal fiscal and other policies affecting urban sustainability.

