Thinking Outside the Box
Financing Mechanisms for the City of Ottawa

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Introduction
Currently the City of Ottawa, like all large Canadian cities, is faced with a dilemma. The increasing costs associated with providing a wide array of services across a vast geographic area necessitates either increasing revenues or cutting services. While federal and provincial downloading in recent years has exacerbated the situation, Canadian cities have long been dealing with the inadequacy of property taxes to fund services that go far beyond the actual servicing of property. In the absence of provincial and federal government willingness to create a long-term, stable funding arrangement, Canadian municipalities must begin to look at more innovative financing mechanisms in order to address their budget shortfalls and necessary future expenditures. This paper will explore two innovative financing tools available to the City of Ottawa that are already being practiced by other jurisdictions. More aggressive ‘Financing Growth’ policies and public land banking, are two revenue-generating tools that are either underutilized or not employed at all in Ottawa. Not only does each source of revenue provide desperately needed funds, but they also reduce municipal costs in the long-term and further City of Ottawa economic and environmental planning goals. After setting the context of municipal finances, this paper will explore these two options and whether they are feasible in the Ottawa context.

Context
Since the 1990s, provincial governments have downloaded services to municipalities, including social housing, social services, and paramedic services, with little or no added funding. As a result, municipalities have been forced to raise property taxes, cut services, increase user fees, and experiment with alternate service delivery, none of which has successfully addressed the inherent fiscal problem. Provincial and federal governments have been provided some funds for projects, but this has been done in an inconsistent and unreliable fashion (Tindal & Tindal, 2004). Despite some major recent initiatives such as the Gas Tax Fund and the Federation of Canadian Municipalities’ Green Municipal Fund, there remains a real deficit when it comes to upper level municipal grants. The failure to institute an adequate and long-term revenue-sharing agreement has led to the current municipal fiscal imbalance. While expensive social services (e.g., affordable housing) may be more appropriately funded by higher levels of government because they entail income redistribution (Tindal & Tindal, 2004), the current fiscal situation at higher levels means any effort to upload services will likely be fruitless. Some argue for local governments to disentangle themselves from providing these services (Vander Ploeg, 2002). Given their importance
however, cities have continued to fund them, primarily through increased user fees and property taxes.

Property taxes and user fees, however, are both inappropriate and insufficient to meet the needs of a large growing city. As Bird and Slack (1993) explain, the municipal property tax in particular is widely loathed:

“It has been called inherently regressive, inelastic, and an inadequate generator of municipal revenues. It has been labeled ‘unfair’ because it is unrelated to ability to pay, ‘unrealistic’ because it is unrelated to benefits, and ‘unsuitable’ because it supports services unrelated to property.” (100)

Property taxes are particularly ill suited when considering the issue of urban sprawl. Property owners are typically taxed at the same rate across geographic areas, meaning revenues are not based on benefits received. Suburban communities often pay the same property taxes as those living in the inner city, despite consuming more municipal resources. User fees, although efficient in an economic sense because they are based on a user pays principle, are not a budgetary panacea, especially considering that they disproportionately affect low-income residents.

The municipal fiscal imbalance, inadequacy of currently employed revenue tools, and mounting responsibilities in the face of rapid growth and climate change raises some serious questions about the future of municipal financing in Ottawa: what other avenues for raising revenue are available, how are other jurisdictions coping, and are they feasible for the City of Ottawa? “With a limited range of revenue sources, many local governments find it difficult to meet their existing obligations, let alone spend their way to environmental sustainability. They need a more diverse range of revenue streams, especially as federal and provincial governments will concentrate in the coming years on restoring their own fiscal situation” (Sustainable Prosperity, 2010, 10). Fortunately, there are proven and viable options for the City of Ottawa to pursue.

Financing Tools

Development Charge Levies and Density-Bonusing

When it comes to using land-use planning and related policy tools to raise funds for city services, Canadian cities have many options: development charge levies, density-bonusing, inclusionary zoning, and performance-based planning (CMHC, 2000). This report, however, will focus on development charge levies (DCLs) and a form of density-bonusing, known as ‘Community Amenity Contributions’ (CACs) and discuss how the City of Ottawa can follow the lead of the City of Vancouver’s Financing Growth strategy as well as initiatives in several other jurisdictions. The discussion around these financing tools demonstrate how municipal financing, economic development, planning, governance, and community engagement must all function in tandem with one another in order to accomplish municipal goals, raise revenue, reduce strain on municipal coffers, and create an environmentally-sustainable city.

Generally speaking, development charge levies (DCLs) are fees charged to developers to help pay for growth-related capital costs, a tool also known as “pay-as-you-grow” (Skaburskis & Tomalty, 2000). New development puts additional strain on infrastructure and city services, and therefore upward pressure on the primary source of municipal financing, the property tax. As a result, cities attempt to recoup some of these added costs from the developers—and future residents of new developments. Development charges are widely used by Canadian municipalities, but the degree to which they are employed varies. The Development Charges Act, 1997 constrains the use of DCLs in Ontario (Government of Ontario, 2007). As such, municipalities cannot legally recoup 100% of growth-related costs through DCLs. Faced with a similar situation, the City of Vancouver has not only aggressively pursued DCLs as a way of raising revenue—for example using city-wide DCLs to construct social housing, child care facilities, and parks in areas outside the neighborhood where fees are initially levied—but they have also initiated a type of mechanism dubbed ‘Community Amenity Contributions (CACs).

In Vancouver, CACs are implemented as a tool to fill the gaps left by inadequate DCLs (City of Vancouver, 2009). Under CACs, the City negotiates financial concessions from developers in exchange for allowing increased density (City of Vancouver, 2011a). This is akin to the practice of ‘density-bonusing,’ commonly used in larger North American cities, including Toronto (CMHC, 2000). Concessions can include cash, where the city takes a certain percentage of the profits resulting from the re-zoning, or on-site community amenities. Interestingly, according to official policy, CACs do not necessarily need to be tied to growth and can also make up for past gaps in services or pressing community needs (City of Vancouver, 2004).

These two instruments fall under the City of Vancouver’s official Financing Growth strategy (City of Vancouver, 2004). Over the last seventeen years, DCLs and CACs have raised hundreds of millions of dollars for the City (City of Vancouver, 2011a, 5), including funds for ‘hard’ services such as roads, sidewalks, and transit, as well as ‘soft’ services, such as child-care, affordable housing, and elderly care. The City aggressively uses these instruments in order to raise revenue, as well as to maintain and improve its physical and social infrastructure. Financing Growth strategies are a step towards not only full financial cost recovery but also towards internalizing some of the social costs of urban growth. This is in line with the recommendations of many municipal affairs commentators as well as the principles of ‘environmental pricing reforms’ (Sustainable Prosperity, 2010).

Many have argued that local governments fail to synergize their development levy charges with their overall planning goals (Tindal & Tindal, 2004; Tomalty & Skaburskis, 2003; Slack, 2002; Skaburskis & Tomalty, 2000). “Despite the evidence of significant repercussions on
development patterns, development charges have not been designed either to minimize the negative aspects of those repercussions from a planning point of view or to exploit their positive potential to reinforce planning goals” (Tomalty & Skaburskis, 2003, 156). A crucial aspect of DCLs and CACs is making sure they are geographically differentiated. This means that inner-city levies should be reduced and suburban levies raised. “Uniform development charges across a municipality, as is often found, subsidizes inefficient uses of land and can contributed to urban sprawl” (Tindal & Tindal, 2004, 235).

Urban sprawl has many negative externalities, highlighted by increased infrastructure costs from extending city services such as water, sewer and roads, increased commute times leading to congestion, pollution, and reduced green space, farmland, and ecosystems. Market failures mean that developers and residents in outlying areas do not pay the full social cost of sprawl—congestion, pollution, road construction, loss of ecosystems and farmland are not priced into the private cost of suburban settlement. As such, it is in the best interest of municipalities to attempt to not only reduce urban sprawl through urban planning, but also to use levers such as development charges as mechanisms to raise revenue and correct price signals. At the same time, higher density urban development costs municipalities less, because provision of services is much more economically efficient (Essiambre-Phillips-Desjardins, 1995). Therefore a Financing Growth policy that encourages higher density housing while raising revenue is a win-win situation for cities.

Ottawa is an excellent example of the failure to coordinate land-use planning and financial levers. The continued expansion of suburbs, helped by City Council’s failure over the last two decades to hold the line on extension of the urban boundary, has strained service provision and put Ottawa on an unsustainable path. It is crucial to note that better long-term planning and implementation of these Financing Growth policies will save money in the future and boost current revenues for spending on both core and social services. The City already uses some planning tools, such as ‘cash in lieu’ of parking or green space (CBC News, 2011), however taking a more activist approach in their DCL policy and using CACs would raise added revenue and be a much more effective way at accomplishing their social, environmental, and economic development goals.

Unfortunately, provincial legislation in Ontario the form of the Development Charges Act, 1997 (DCA) constrains the use of DCLs throughout the province. Limits are set on the amount municipalities can charge, as well as on the type of services they can be used to fund (Slack, 2002). Revenue raised from DCLs, for example, cannot be used to finance several municipal services such as parkland acquisition, museums, or galleries (Government of Ontario, 2007). In addition, the DCLs are calculated based on the average level of service of that area over ten years. Previously, the bar was set at the highest level of service achieved over ten years. Many of these changes came about as a result of lobbying by the development industry, who argued for stricter controls over DCLs (Slack, 2002). However, the DCA does permit DCL funding of many crucial services, including affordable housing, child care, parks development, and public transit. Density-bonusing is also enabled by provincial legislation in Ontario (CMHC, 2000, 5), however the City of Ottawa has not embraced such a practice. Despite the restrictions placed by the DCA, the City can play a much more assertive role within the existing legislative context.

The City of Ottawa’s Official Plan calls for higher-density development, particularly inside the Greenbelt (City of Ottawa, 2007). In order to meet this goal, the City could be strategic in its application of more aggressive DCLs and density-bonusing. Following the lead of other jurisdictions, such as Kelowna or Kitchener, Ottawa could rebate or eliminate DCLs for certain areas where they are attempting to encourage infill or higher densities. In Kitchener, DCLs are 60% higher for suburban developments (City of Kitchener, 2010). Although the City of Ottawa’s DCLs are also set higher for suburban development (City of Ottawa, 2011), given the spatial dimensions of Ottawa’s peripheral development—immense area with suburbs located further from the core than most large cities—the fees are clearly not high enough to discourage urban sprawl or cover municipal costs. Likewise, the discrepancy between fees for development inside and outside the Greenbelt is not substantial enough to encourage higher density development. Higher-density development is also discouraged when DCLs are charged on a per unit basis without regard to the building’s characteristics (Skaburskis & Tomalty, 2000). In Ottawa, the City does differentiate DCLs between multi-unit and single-unit dwellings (City of Ottawa, 2011), but fails to differentiate any further. As such, DCLs are the same per unit regardless of whether a building contains one hundred units or three. As a result of this, the City has one of the highest DCLs for apartment housing in the country (CMHC, 2002, 4). To remedy this, the City of Ottawa should follow the lead of the City of Kelowna, where a density gradient approach is taken—fee schedules decrease as the number of units per dwelling increases (City of Kelowna, 2007).

Perhaps the most significant barrier to implementing Financing Growth policies, is opposition from private sector developers. In Kelowna, developer resistance to their new DCLs resulted in a compromised reduced fee for low-density, peripheral construction (Tomalty, 2007, 24). Concern over higher-priced, single-family suburban dwellings has been identified as the main barrier to implementing this type of policy in Ontario (Tomalty, 2007; Slack, 2002). Of course, more differentiated DCLs will open up new development opportunities inside the Greenbelt in Ottawa. Similarly, CACs yield profit for developers and municipalities, as a result of re-zoning, and therefore is mutually beneficial. The overall application of these policies will need to be done gradually to ensure an orderly and economically feasible transition.

There are also important concerns about the ‘deal-making’ between city officials and developers that occurs as a result of these policies. When DCLs are negotiated on a case-by-case basis, as is done in some jurisdictions, for example the UK (Henneberry & Goodchild, 1996), it creates an administrative, political, and project-budgeting headache. As Clinch and O’Neill (2010) point out, the negotiation proc-
cess may be subject to political manipulation. To ensure transparency and avoid the perception of favoritism, a formalized set of guidelines that dictate levels of DCLs will be crucial. Once carefully set, fee schedules must not be oft changed or negotiated ad hoc, with exceptions for projects that involve social services such as affordable housing. This will also provide stability for developers to budget their projects. As Henneberry & Goodchild (1996) conclude, formalized DCLs are advantageous because they provide clarity, certainty, and equity. CACs, on the other hand, are inherently flexible in their application and use, and involve even more negotiation with the private sector. In this case, all re-zoning applications must be put before council, and given due process, including community consultation.

Community acceptance has been identified as a key condition for the success of density-bonusing in particular. As a result, implementing CACs works best in neighborhoods that are already relatively dense or have experienced rapid growth. In areas undergoing the transition from lower to higher densities, Financing Growth policies must be carried out diligently and with meaningful and constructive negotiation with residents. Recently in Ottawa, higher-density development has ignited a political and public debate. While the City of Ottawa official plan calls for intensification, many are upset over the pace of development, the changing ‘character’ of their neighborhood. Framing this debate is an oft-expressed criticism of the perceived cozy relationship between the City and developers. Using policy levers such as CACs, however, which trade-off increased density for community amenities, would be a big improvement of the current situation. It is common practice in Ottawa to re-zone properties without any concession (Ottawa Citizen, 2011). A successful density-bonusing program in Ottawa would necessitate much better consultation with affected residents, but added community amenities could help build community support for higher density projects.

**Land Banking**

Development charge levies and community amenity contributions are both viable financing and planning tools for the City of Ottawa. On top of this, there is a similar mechanism that raises funds and can promote more socially efficient form of development. Land banking, though less studied and discussed in the literature, is an old technique that remains as viable today as ever, even in the Canadian context. Public land banking is defined as “the process by which a government authority assembles land, usually on the periphery of an urban center, with a view to selling it for development at some future date” (Stoebuck, 1986). At the same time, instead of selling land off directly, local governments can keep land and use it for other purposes, for example development of social housing, or even leasing it out for commercial space.

Land banking is typically a longer-term process, with governments typically waiting around five to ten years before selling or developing it (Stoebuck, 1986). While it can be used to generate profits for local authorities, it can also be used as a planning tool. Municipalities have the choice between reselling land for the most profit, or they can leverage the land to encourage a certain type of development that might better align with municipal priorities, for example higher density, mixed-use development, social housing, or community facilities. Similar to Financing Growth policies, land banking not only raises revenue, but also can be exploited to exact concessions from developers in order to further social, environmental, or economic goals.

Public land banking is popular throughout the world, including the U.S., and is currently practiced by several small to mid-sized municipalities in Western Canada, highlighted by the City of Saskatoon, who operate the largest self-financed land bank in Canada. In operation since the end of WWI, the Saskatoon Land Bank has successfully raised funds and shaped urban growth. It is worth noting that some larger cities engage in the process of land banking tacitly through their property acquisition, planning, and development activities. The City of Vancouver actively acquires properties for medium to long-term strategic purposes, but they do not operate an explicit ‘land bank program’ in the same way that other cities do.

Initially land banks were created partly as a way to ensure a continuous supply of cheap land for residential and industrial development (McFayden, 1978; Carr & Smith, 1975). Today, however, these tools are used in a more progressive revenue-raising and planning-oriented approach. The mandate of Saskatoon's program is to provide an adequate supply of serviced land, initiate creativity and innovation in urban design, yield profits to be allocated to civic projects and programs, and manage urban sprawl (City of Saskatoon, 2011). The City of Saskatoon strategically purchases and sells many residential, commercial, and industrial zoned properties each year. This program is entirely self-financed because of its sound business model. Revenues from land sales flow into a large reserve fund, where it can be used to purchase additional land.

Millions of dollars of profits, accumulated interest, and revenue generated from leases, however, flows directly into general municipal capital and operating budgets (FCM, 2011). This means that every year, the land bank helps finance a variety of crucial municipal services, including affordable housing, operating budgets, urban renewal, and various capital projects. As a result, Saskatoon relies less on its property tax base, and subsequently is able to keep taxes stable and create better conditions for economic development and growth, which in turn ensures the long-term success of the land bank program. Some municipalities have looked to Saskatoon as a model of sustainable economic and municipal financing practice, and Ottawa would benefit from following their lead.

Under provincial legislation in Ontario, land banking is currently permitted and has been used in the past (City of Kingston, 2004). Ottawa’s vast area and the abundance of greenfield, brownfield, and underutilized lots both inside and outside the Greenbelt—for example...
parking lots, vacant buildings, and an annually-replenished stock of properties delinquent on their tax bills—mean there is significant potential to pursue this type of initiative. Economic and population growth in Ottawa mean conditions are suitable for long-term municipal land banking. With this type of program, the City can ensure their land acquisitions turn out to be ‘smart’ buys, because land banks work in tandem with city officials in planning and zoning, to add valued to the land, through re-zoning or servicing (Carr & Smith, 1975). As such, the City can strategically raise the value of certain land, yielding profits once it is sold. At the same time, City of Ottawa land banking and strategic development activities could employ partnerships with the National Capital Commission (NCC). Given their prominent landholdings and political clout in the region, the NCC would be a valuable partner and must be engaged in this particular policy.

This type of policy requires council initiative to establish a land bank, but ongoing proper management requires long-term vision and sound fiscal judgment. Learning from Saskatoon, it would be wise to establish a land bank program under a governance structure that places most decisions at arms length from city council, similar to the provision of social housing through Ottawa Community Housing. This way, council could provide a mandate and strategic direction, but leave some management decisions immune to political manipulation. Accountability could be maintained through a committee comprised of councilors, experts, and stakeholders. Like DCLs and CACs, the process of buying, selling, and using land as leverage in strategic development involves negotiations with various actors in the private sector. Therefore, to assuage the concerns around backroom ‘deal-making,’ major transaction should be subject to committee or council approval.

**Conclusion**

While pressing urban issues go unreported and are ignored by academia and upper level governments alike, known in some circles as a policy ‘black hole’ (Eidelman & Taylor, 2010), cities like Ottawa must begin to be more aggressive in leveraging their options. The City of Ottawa’s lack of interest in fully exploiting financial levers is possibly due to their reluctance to face not only the potential political backlash from developers, but also the accountability entailed by asserting themselves. As Siegel points out, many Canadian cities hesitate to raise revenue or exercise newly granted powers because of the responsibility that comes along with financial and legislative authority. Nevertheless, Ottawa must meet their challenges with ingenuity and capital pride, similar to what transpired in Ottawa’s post-war development, due mainly to the initiative of the National Capital Commission (Gordon & Seasons, 2009).

Aggressive development charge levies and community amenity contributions have already been successfully applied in other Canadian municipalities. As part of the environmental pricing reform movement, they are a step towards internalizing externalities of growth, and could be a possible stepping-stone towards other related policies, such as road pricing. Public and banking is another approach and has a long history of success in Canada. By following the lead of cities like Saskatoon, Ottawa could employ this technique to raise funds and manage growth across their vast geographic area. Of course, all of these policies must be diligently implemented. As Kirwan (1988) concludes, “legally, politically, and socially new methods of financing ... will be acceptable only if the nexus [between development and improved social capital formation] is clear and if the system for the apportionment of costs is equitable” (299). Financing growth policies and land banking are two innovative financial options available to the City of Ottawa that successfully navigate the nexus between municipal finance, long-term sustainability planning, economic development, and provision of hard and soft services. Only by thinking out of the box, will Ottawa ease its reliance on the property tax and achieve its long-term, lofty goals.

**References**


