INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	April 17, 2024
SUBJECT/REPORT NO:	Revenue Sources to Fund Council Priorities and Ongoing Operating and Capital Works (FCS24022) (City Wide) (Outstanding Business List Item)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Duncan Robertson (905) 546-2424 Ext. 4744 Abdisalam Osman
SUBMITTED BY: **SIGNATURE:**	Kirk Weaver Acting Director, Financial Planning, Administration and Policy Corporate Services Department

COUNCIL DIRECTION

At its meeting on August 18, 2023, City Council approved the following motion regarding revenue tools available to municipalities:

(a) That staff be directed to report back to the General Issues Committee the following information by Q1 2024:

(i) A scan of revenue authorities contained in the *Municipal Act, 2021* or other Provincial legislation that do not require the expressed permission of the Government of Ontario;

(ii) An inventory of revenue sources that are contained in the *City of Toronto Act, 2006* but not contained in the *Municipal Act, 2021*; and,

(iii) A scan of municipal revenue tools in other jurisdictions that may be more progressive and could support in the achievement of this term of Council priorities and ongoing programming needs and any expressed permissions necessary to implement the strategies.

INFORMATION

Purpose

Report FCS24022 provides an analysis of potential revenue sources for the City of Hamilton, informed by a review of legislative frameworks, comparative data with other municipalities and a detailed examination of financial and demographic data. It aims to identify viable strategies for enhancing municipal revenue without requiring provincial approval and in alignment with Council's priority of Sustainable Economic and Ecological Development.

Background

The City of Hamilton, like all municipalities in Ontario, must navigate within the fiscal framework set by provincial legislation which determines the extent and scope of revenue generation tools available. *The Municipal Act, 2001* delineates the standard revenue options for Ontario municipalities, excluding specific provisions for the City of Toronto under the *City of Toronto Act, 2006*.

Revenue Sources Available to all Ontario Municipalities

The *Municipal Act, 2001*, provides Ontario municipalities with various revenue authorities that do not require any additional expressed permission of the Government of Ontario. These include:

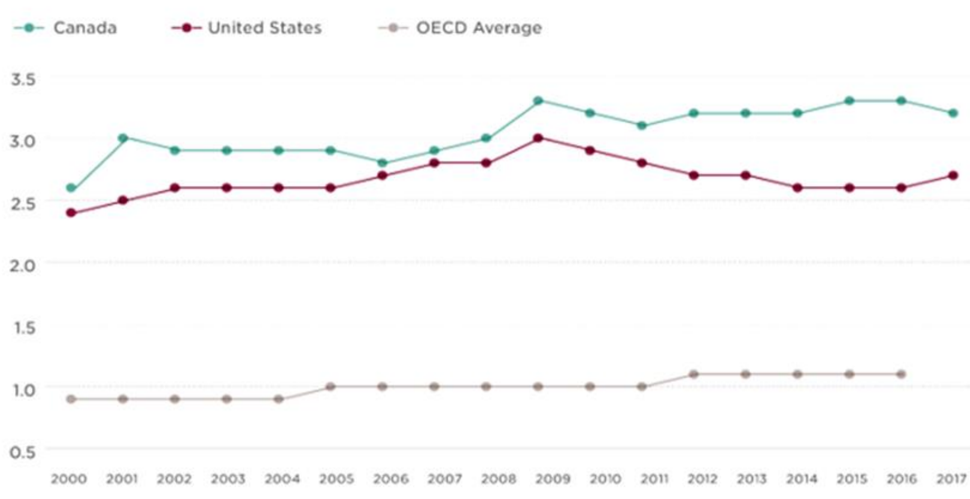
- Property Taxes (*Municipal Act*, Section 75): Municipalities have the authority to levy property taxes on residential, commercial, industrial and other types of properties within their jurisdiction.
- Payment in Lieu of Taxes (*Municipal Act*, Section 382): Payments made by tax-exempt entities, such as non-profits, universities and government agencies to municipal governments. The “Heads in Beds” levy (Section 323) has not increased from the $75 per head or bed since its inception in 1987.
- User Fees and Service Charges (*Municipal Act*, Section 391): Municipalities can impose fees and charges for services they provide, such as recreational programs, public utilities (water, sewer, electricity) and various permits and licenses.
- Impost Fees (*Municipal Act*, Section 391): Fees collected from developers for capital cost related to services on persons not receiving immediate benefit, but who will receive benefit at a later point (i.e., development of public utilities such as water and sewage).
- Fines and Penalties (*Municipal Act*, Section 333): Municipalities can collect fines and penalties from by-law infractions and other offenses within their jurisdiction.

- Investment Income (*Municipal Act*, Section 438): Earnings generated from the investment of municipal funds.
- Grants and Subsidies (*Municipal Act*, Sections 302-303): Transfers from senior governments aimed at supporting local infrastructure projects. The Canada Community-Building Fund (CCBF), for example, provides predictable, long-term funding for public transit and other municipal infrastructure priorities.

Under the *Development Charges Act, 1997*, municipalities also hold the power to levy charges for growth-related capital municipal infrastructure projects for various service areas.

Comparatively, Canadian municipalities (definition of municipality may vary with compared jurisdictions) have a greater dependence on property taxes as a revenue source than their counterparts in the United States and the Organization for Economic Co-operation and Development (OECD) countries, as illustrated in Figure 1. By broadening their revenue bases beyond property taxes, Canadian municipalities could alleviate the fiscal burden on homeowners and, in turn, enhance their revenue streams.

Figure 1 – Property tax revenue of local governments as a share of GDP (2000-2017, percent)



Source: OECD, Revenue Statistics – OECD Countries: Comparative Tables

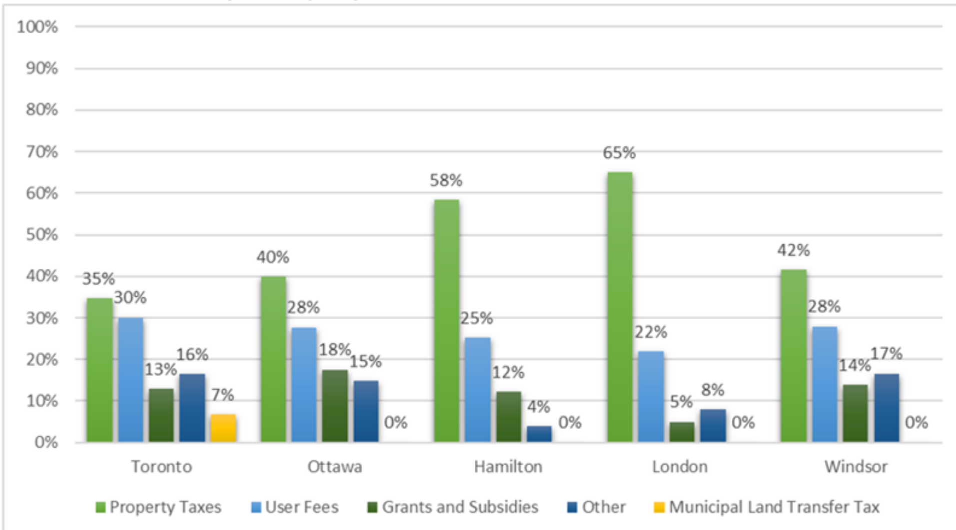
Toronto's Fiscal landscape

Toronto has an array of revenue tools enabled by the *City of Toronto Act (CoTA), 2006*, with property tax representing a significant portion, 35% of its revenue (Figure 2). Toronto relies less on revenue from property taxes, compared to other municipalities, benefiting from its diversified revenue tools. The City of Toronto, like all municipalities, also sources revenue from rate-based programs like Toronto Water, Solid Waste

Management Services and the Toronto Parking Authority, funded by user fees reflective of consumption and usage. Additional revenue is raised through targeted taxes:

- Municipal Land Transfer Tax (MLTT): Represented 10% of revenues in 2023.
- Third Party / Billboard Sign Tax: Imposed on outdoor advertising installations.
- Vacant Home Tax: Increased recently to 3% to combat housing vacancy and affordability issues.

Figure 2 – Revenue sources by municipality, Ontario, 2023



Source: Municipal Budgets 2023

Furthermore, Toronto has seven options that are currently authorized under the CoTA and within the City's control, which include:

- Parking Levy in Downtown Area
  Toronto has the authority to implement targeted taxes like a parking levy, which is not available under the *Municipal Act*. A parking levy in downtown Hamilton could follow Toronto's lead by imposing a fee on parked vehicles, thereby generating revenue from high-traffic areas. The Toronto Parking Authority generated over $142 M (2023 Capital and Operating Budget Notes, City of Toronto). Unlike property taxes, this tool could reduce congestion, promote public transit use and support the City of Hamilton's climate resilience and readiness.
- Revisions to the Municipal Land Transfer Tax (MLTT) First-Time Homebuyer Tax Exemptions
  The City of Toronto has greater autonomy in setting tax exemptions, such as adjustments to the MLTT for first-time homebuyers. Revising these exemptions could stimulate the housing market by making home purchases more attractive for those entering the ownership market for the first-time including newcomers.

- Tiered MLTT
  Toronto recently implemented a tiered MLTT where the tax rate increases with the value of the property transaction. This is seen as a progressive tax structure creating a more equitable system where higher-value transactions incur a greater tax. While this could help align tax contributions with property values, it might also discourage high-value property sales.

- Graduated Tax Rates for Commercial / Industrial Properties
  In Toronto, varied tax rates for different property types are used to balance the tax burden. This option could foster a fairer property tax landscape but potentially dissuade business growth if the rates are seen as punitive.

- Registration Fees for Ride-Sharing Services
  Toronto can levy registration fees on ride-sharing services, a modern revenue source reflecting the changing urban transport landscape. However, these costs might be passed on to consumers, making ride-sharing services more expensive.

- Tax on Foreign Property Purchasers
  The City of Toronto has the authority to consider taxes targeting foreign property investors. Implementation of such a tax could curb speculative investments and ensure contributions to local infrastructure. However, it risks reducing foreign investment, which can be crucial for the City's growth. The use of this tool was recently approved by Mayor Olivia Chow’s Executive committee and will come into effect on January 1, 2025, pending approval from Toronto City Council.

- A Dedicated 911 Levy
  Toronto can implement specific levies to fund emergency services. Ontario and Manitoba are the only provinces that do not currently charge a monthly levy for 911 services. A levy of $1 per cellphone user in Toronto could bring in an estimated $28.8 M a year (Audit of 911 Report - Toronto Auditor General, June 14, 2022).

The City of Toronto has further revenue options that would require a collaborative approach with the province but would not need further changes to the existing CoTA framework:

- Motor Vehicle Registration Tax
- Levies on alcoholic beverages
- Tobacco sales tax
- Taxes on entertainment and amusement venues
- Road pricing strategies, such as cordon charges

- A Building Performance Charge aimed at incentivizing energy efficiency and reducing carbon emissions in the building sector.

Toronto's unique legislative framework under the *City of Toronto Act* allows for a broader range of revenue tools than the standard provisions of the *Municipal Act*. For Hamilton, adopting similar measures would require a departure from traditional revenue sources moving toward a more diversified and potentially equitable revenue system that could include usage-based fees and targeted taxes. However, each option comes with its own set of trade-offs that would need to be carefully evaluated and balanced to meet the City's financial needs without adversely affecting economic growth or affordability.

Revenue sources for the City of Hamilton

Hamilton currently utilizes a variety of revenue tools to support its municipal budget, including:

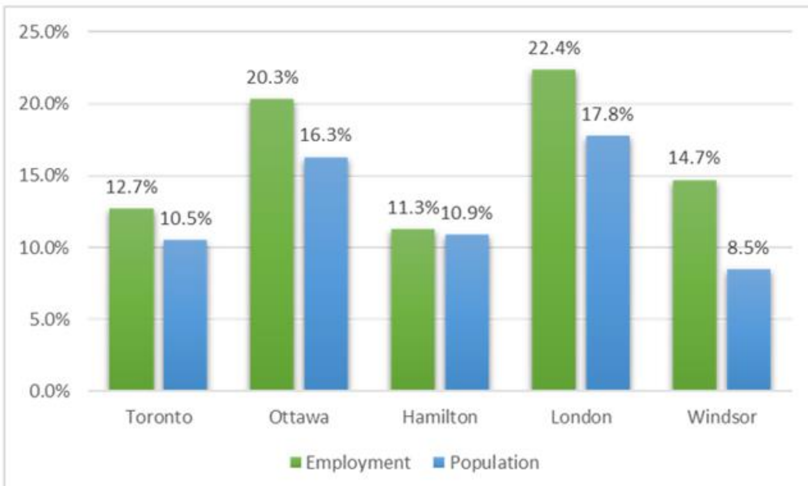
- Property Taxes
- User Fees and Service Charges (including rate revenue sources)
- Grants and Subsidies from senior levels of government
- Fines and Penalties
- Investment Income
- Development Charges
- Vacant Unit Tax (planned for implementation in 2024)
- Municipal Accommodation Tax

The City of Hamilton recently expanded its portfolio of revenue tools with Council's adoption of the implementation of the Vacant Unit Tax (FCS21017(c), January 18, 2023) and Municipal Accommodation Tax (PED20009(c), August 4, 2022). The Province of Ontario has commended the City of Hamilton through introducing the Vacant Unit Tax through Budget 2024 referencing Hamilton as a leader among three other municipalities. This development represents a significant step towards diversifying the City's revenue streams. These new tools not only align with Hamilton's strategic priorities to address housing affordability and promote tourism but also provide an innovative approach to generating additional revenue needed to fund essential municipal services and infrastructure projects.

The City has further potential to improve its financial landscape by examining and adapting some of the revenue tools used by Toronto as authorized by the *City of Toronto Act*. This could include additional analysis on implications of the implementation of taxes on parking, land transfers and alcohol and tobacco sales. Integrating these fiscal tools into Hamilton's financial planning could result in a diverse and robust portfolio of revenue streams easing pressure on the property tax levy.

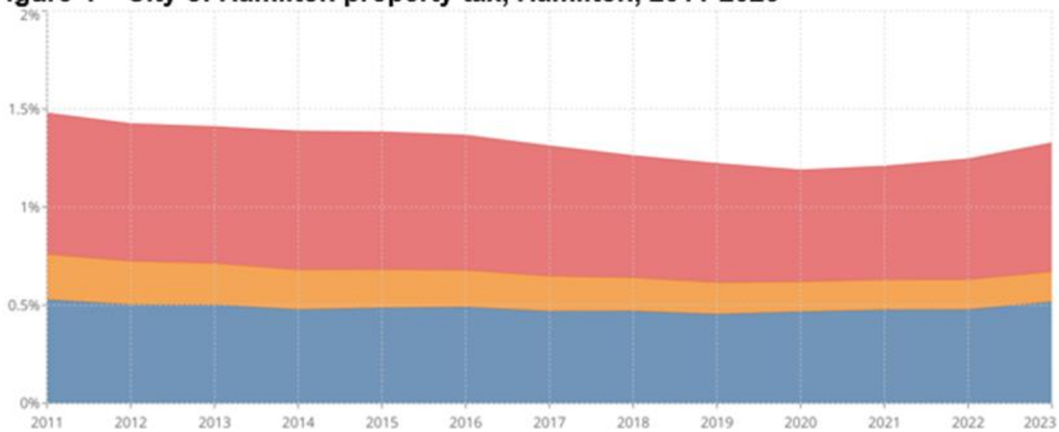
With its position as Ontario's fifth largest city, over the past decade, Hamilton has seen both its employment and population grow by approximately 11% reflecting a parallel expansion in its job market and resident base (see Figure 3). This growth presents both a challenge and an opportunity for Hamilton to leverage its expanding population base to diversify its revenue sources ensuring sustainable economic growth. Despite an over-reliance on property tax revenue, the City of Hamilton's property tax rate has been steady and relatively constant as seen in Figure 4. Fiscal innovation is particularly crucial considering the City's slower rise in property tax revenues from 2013 to 2021.

Figure 3 – Employment and population growth by municipality, Ontario (2012-2022)



Source: Statistics Canada. Population: 17-10-0142-01,
Employment: 14-10-0384-01

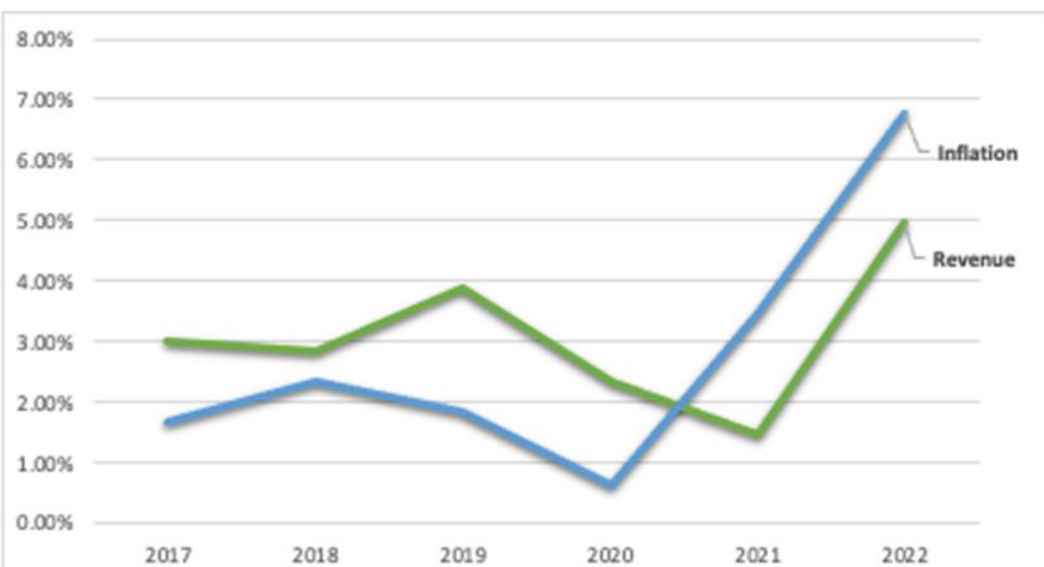
Figure 4 – City of Hamilton property tax, Hamilton, 2011-2023



Source: City of Hamilton

The divergence between Hamilton's revenue growth and inflation rates from 2017 to 2022, as depicted by Figure 5, emphasizes the need for the City of Hamilton to explore alternative sources to bolster revenue. Moreover, user fees and other revenue sources may not adjust automatically with inflation. This delay in adjustment can lead to a real decrease in revenue further straining the City's finances. The City's capacity to fund services and infrastructure may be compromised if revenue fails to align with the escalating costs associated with providing those services.

Figure 5 - Inflation outpacing Revenue Growth for the City of Hamilton (2017-2022)



Source: Statistics Canada, Table: 18-10-0005-01. City of Hamilton Budget

Municipal Revenue Tools Across National and International Jurisdictions

Certain municipalities outside of Ontario have the option to levy a business tax, as seen in Figure 6 which could be an additional revenue source for consideration by municipalities within Ontario, including Hamilton. The incorporation of a business tax could potentially provide Hamilton with a broader fiscal base, diversifying its revenue streams beyond the traditional reliance on property taxes and user fees. This strategy could align Hamilton with other Canadian cities using business taxes for fiscal stability but might burden businesses possibly leading to higher costs for consumers and impacting competitiveness and economic growth in Hamilton.

Figure 6 – Municipal sources of revenue, Canada, 2020

Source	BC	AB	SK	MB*	ON**	QC	NB	NS***	PE	NL****
Tax revenues										
Tax on real property	x	x	x	x	x	x	x	x	x	x
Business tax		x		x		x				x
Accommodation levies and fees				x	x			x	x	x
Land transfer tax				x	x	x		x		
Vehicle registration tax					x					
Billboard tax				x	x					
Electricity and natural gas tax				x						
Poll tax										x
Non-tax revenues										
User fees	x	x	x	x	x	x	x	x	x	x
Licence, franchise, and permit fees	x	x	x	x	x	x	x	x	x	x
Fines and penalties	x	x	x	x	x	x	x	x	x	x
Total number of tools	4	5	4	9	8	6	4	6	5	7

* Only Winnipeg is allowed to levy billboard tax and electricity and gas tax.
** Only Toronto is allowed to levy land transfer tax, vehicle registration tax, and billboard tax.
*** Only Halifax is allowed to levy accommodation tax.
**** Only St. John's is allowed to levy accommodation tax.

Source: Taylor and Dobson (2020), pp. 43–44.

An examination of tax revenue distribution across federal countries in the OECD shows a distinct pattern in the allocation of funds with provincial or state governments receiving varying shares (Figure 7). This highlights the differing financial responsibilities assigned to sub-national governments and illustrates the differences in federal fiscal frameworks among countries in the OECD. In 2021, Canada allocated 39.6% of total tax revenue to its provincial governments, a figure that is markedly higher than the unweighted average of 17.7% for state or regional governments across the examined nations. This suggests that Canada empowers its provinces with a substantial fiscal responsibility in comparison to other OECD countries.

In contrast, the United States and Switzerland demonstrate a different fiscal approach where a larger proportion of tax revenue is allotted to local governments at 14.5% and 15.3%, respectively. This allocation is notably higher than Canada's 9.3% underscoring a system where municipalities have greater fiscal autonomy. These differences reflect the diverse structures within which federal countries operate each allowing for varying degrees of financial independence at the local level.

Figure 7 – Tax revenues of sub-sectors of governments, OECD, 2021 (% of total tax revenue)

	Central/Federal	State/Regional/Provincial	Local/Municipal
Australia	80.4	16.5	3.1
Austria	64.5	2.0	3.0
Belgium	52.4	10.2	4.5
Canada	41.7	39.6	9.3
Germany	28.3	24.7	8.8
Mexico	80.4	4.1	1.8
Switzerland	36.0	24.5	15.3
United States	42.4	20.2	14.5
Unweighted average	53.3	17.7	7.5

Source: OECD: Revenue statistics highlights

Revenue Generation Options for the City of Hamilton

Municipal Land Transfer Tax

A Municipal Land Transfer Tax (MLTT) could help boost municipal revenues as observed in Toronto. In assessing revenue generation for Hamilton, the dynamics of the housing market where the proportion of renters has been increasing, surpassing the growth of homeowners, as shown in Figure 8, adds a layer of complexity, A Municipal Land Transfer Tax could risk exacerbating housing challenges by potentially depressing the real estate market further. The Realtors Association of Hamilton-Burlington (RAHB) noted a decline in housing sales by 11 percent in 2023 compared to the previous year (Figure 9). Notably, the proposal for an MLTT was brought to Council in 2015 for a vote to study its impacts but was defeated.

Jim Dunn, McMaster University professor and director of the Canadian Housing Evidence Collaborative (CHEC), highlights that the previously low interest rates and increased equity allowed homeowners to bid well over asking prices, exacerbating the competition in the housing market. Dunn also points to a lack of coordinated effort to align immigration with housing supply. There was also a hesitation among sellers to reduce prices from the peak seen in 2022, despite rising interest rates and stagnant incomes, contributing to the slow home sales. This context adds another dimension to the challenges facing Hamilton, where a Municipal Land Transfer Tax (MLTT) may further complicate an already tense market. Dunn's insights suggest that, for many, the prospect of homeownership is becoming increasingly elusive underscoring the delicate balance required in implementing new tax measures.

Figure 8 – Renters in Hamilton outpacing homeowners

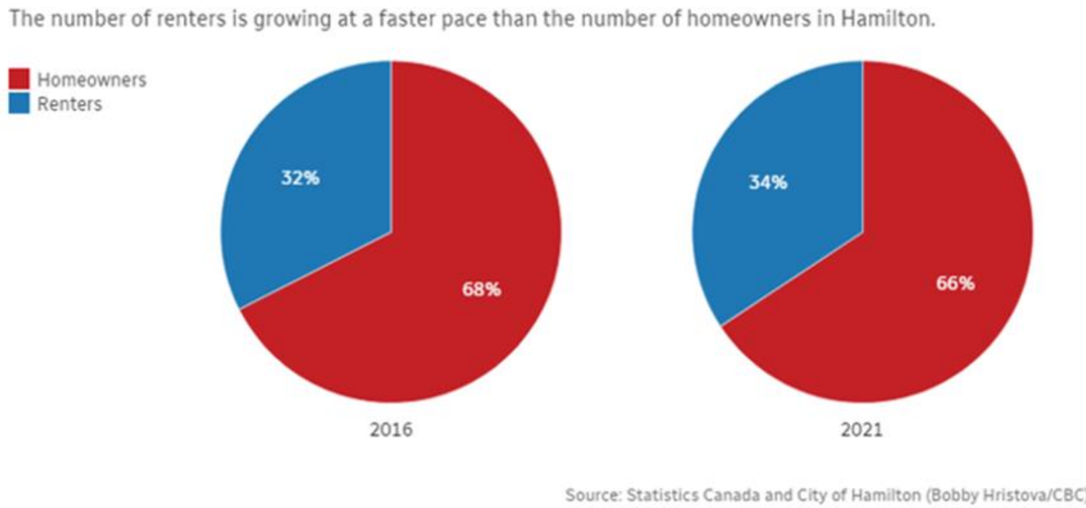
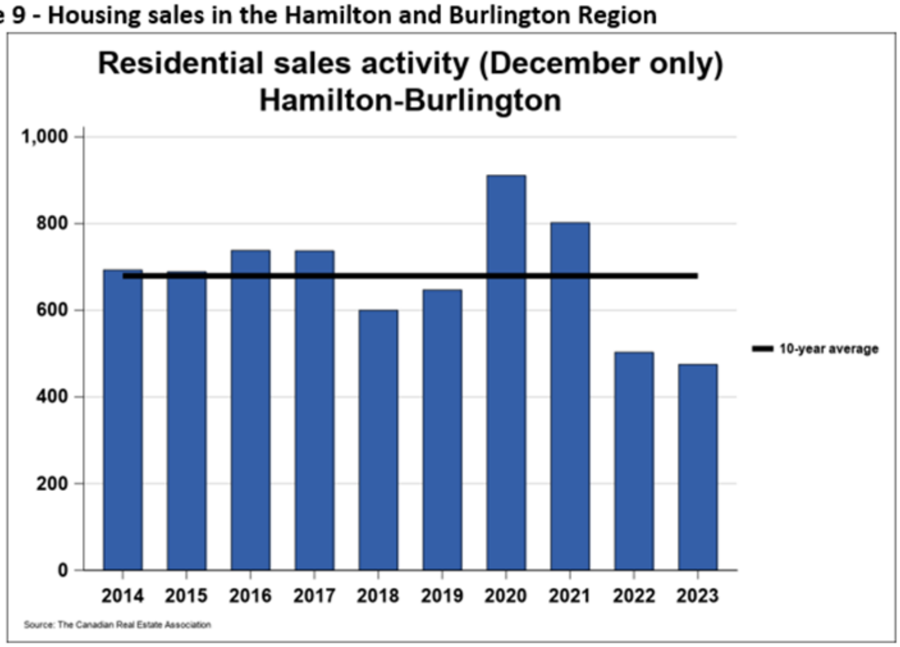


Figure 9 - Housing sales in the Hamilton and Burlington Region



Residential Capital Gains Tax

Steve Pomeroy, Head of Focus Consulting and Senior Research Fellow for the Centre for Urban Research and Education, alternatively suggests a capital gains tax on home values as opposed to the MLTT, a perspective that sheds light on homeowner preferences regarding equity versus taxation, where a minor tax may be more favorable than a significant drop in home value.

In weighing the two tax strategies, the MLTT aligns more closely with Council's priority for Sustainable Economic and Ecological Development. The MLTT operates as a one-off sales tax paid only by property purchasers, contrasting with the recurring nature of a capital gains tax. This approach effectively lessens the ongoing tax obligations for homeowners aligning with Council's objective to reduce the burden on residential taxpayers.

Other revenue options might include:

- Sales Taxes: A municipal sales tax could generate consistent revenue but might discourage spending within Hamilton.
- Entertainment Taxes: These could profit from Hamilton's cultural events, though they risk dampening the local entertainment industry.
- Business Taxes: Implementing a business tax could tap into the economic activities of local enterprises providing a stable revenue source. However, it could also place a financial strain on businesses potentially affecting competitiveness and economic growth within Hamilton.

Each option carries potential benefits and drawbacks necessitating a strategic approach to enhance Hamilton's fiscal resilience without adverse economic impacts.

Advocacy

For municipalities to secure revenue tools similar to those granted under the *City of Toronto Act*, a unified advocacy effort is helpful. This involves collaboration with other Ontario municipalities, industry associations and advocacy bodies like the Association of Municipalities of Ontario (AMO), the Federation of Canadian Municipalities (FCM) and other allied entities. A detailed advocacy strategy, endorsed by a collective municipal front, is essential if Council opts to pursue specific tools akin to Toronto's model. This strategy aligns with the Federation of Canadian Municipalities Big City Mayor’s Caucus' (BCMC) push for a comprehensive review of social and economic prosperity by the province, recognizing the current fiscal arrangements as detrimental to Ontario's economic vitality and living standards.

"As our nation grows, the need for municipalities to confidently meet that growth is clearer than ever. Municipalities are on the frontlines of challenges related to homelessness and mental health, climate change, and more," stated The Federation of Canadian Municipalities (FCM) President Scott Pearce (November 2023) emphasizing the vital role of municipalities in navigating and mitigating issues at the local level and the urgent need to bolster fiscal mechanism to support those efforts.

The Federation of Canadian Municipalities (FCM) is exploring various avenues for municipal revenue enhancement aiming to establish a Municipal Growth Framework. This includes refining existing tools, introducing new ones and augmenting federal or provincial transfers. FCM's consultation process engages multiple stakeholders to define the principles for such a framework, emphasizing the connection of municipal revenue to economic and population growth, equipping municipalities with diverse financial instruments for comprehensive service provision and advocating for a more equitable tax revenue distribution that reflects the actual service delivery responsibilities across government tiers.

Considerations

Aligning the City of Hamilton Revenue Tools with its Priorities

- Sustainable economic and ecological development can be reached by exploring strategic fiscal partnerships, advocating for a new fiscal framework, diversifying revenue streams through innovative models and expanding the commercial tax base to reduce the financial burden on residential taxpayers.
- Enhancing available and affordable housing supply while also reducing chronic homelessness can be supported by synergizing specific revenue tools, such as, implementing a Land Transfer Tax in conjunction with a tax on foreign property investment to discourage speculative buying and support the development of affordable housing.

Strategic Fiscal Partnerships and Frameworks

- Engaging with the Association of Municipalities of Ontario (AMO) and similar bodies could present an opportunity to collectively explore revenue generation tools similar to those utilized by the City of Toronto. A collaborative effort may offer a unified voice in discussions with the provincial government regarding fiscal policies.
- There is a strong advantage in aligning with other municipalities to jointly strategize on advocating for a comprehensive review of fiscal tools by the province or federal government. This could help in achieving a cohesive approach to revenue generation that supports municipal growth and sustainability.

Fostering Sustainable Municipal Revenue

- The Federation of Canadian Municipalities (FCM) is embarking on the development of a Municipal Growth Framework which aims to expand revenue options for municipalities. Supporting this initiative could align with efforts to create a diversified revenue portfolio and participation in the FCM’s consultation process may influence the framework to ensure it includes equitable growth and tax distribution.

Revenue Diversification for Economic Resilience

- A re-evaluation of Hamilton’s fiscal structure may reveal the potential for reducing the City's reliance on property taxes. Additional revenue mechanisms, such as, parking levies, taxes on foreign property purchases and a tiered approach to Municipal Land Transfer Taxes (MLTT) could lead to a more resilient economic base.

Proactive Economic Analysis

- Proactively monitoring the economic impact of newly implemented revenue tools could be instrumental in ensuring they serve the City's financial health.

APPENDICES AND SCHEDULES ATTACHED

None.

DR/AO/dt