

## **Altus Clayton Research Challenges Common Assumptions About Local Infrastructure Funding in Canada**

Prepared by the Canadian Home Builders' Association

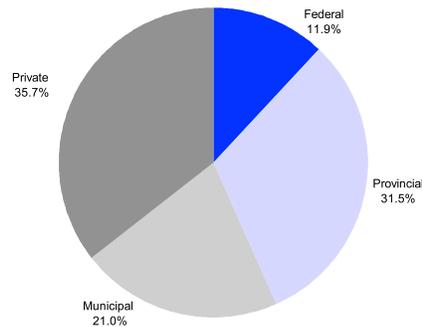
According to a recently-completed research by Altus Clayton for the Canadian Home Builders' Association, some of the most common beliefs about how urban infrastructure in Canada is funded are open to serious question. It has become “conventional wisdom”, for example, that there is a “shortage of funds” for basic urban infrastructure across Canada such as roads, bridges, transit, water and sewers. There is also an oft-stated assumption that the main brunt of funding municipal infrastructure currently falls on local property tax payers.

These assumptions lead directly to calls for a combination of the federal and provincial levels of government and the private sector development industry to address any shortfalls or gaps in municipal infrastructure investment. Property taxpayers are held to be overburdened, and the property tax to be an inappropriate tool for raising the necessary funds to build, renovate and maintain local infrastructure.

Based on the evidence assembled and analyzed by Altus Clayton, *it appears that all of these contentions are suspect. At a minimum, they represent a very narrow perspective on the realities of the situation.* Specifically:

- Effective property tax rates *have been falling* over the past decade, while the values of residential properties *have been rising* at least as fast as household incomes and sales upon which consumption taxes are based.
- Municipal governments with revenues from local property tax payers, plus user fees, plus transfers and other sources are in fact the smallest contributors to meeting the costs of local infrastructure at 21%. The private sector is the largest (36%), followed by provincial governments (31%). The federal government is also a significant contributor.

**Basic Urban Infrastructure Investment by Funding Source, 2005-2006 (Annual Average)**



Source: Altus Clayton based on Figures 7&8

- Without appropriate user-pay and debt financing arrangements, any “infrastructure gap” at the local level is likely to grow in the future, since mechanisms to match benefits received with costs will be weak. Pushing all the costs of infrastructure for new development onto new home buyers is not an adequate response and creates other unwanted effects.
- Finally, the property tax is actually quite appropriate for funding services to property such as local infrastructure. What is not appropriate is using this tax for income support or other social programs.

An important implication of the Altus Clayton report is that provincial governments should take over the full costs of social services and programs from municipalities. If this happens, then local property tax revenues should be able to cover much more of the cost of building and maintaining services to property, including basic urban infrastructure. The provincial and federal governments have the kind of progressive tax base that should be used to pay for income support programs.

In addition, the Altus Clayton report signals the need for municipalities to engage the home building industry more fully in long-term planning and budgeting for infrastructure since it is funding so much already. (Services provided within subdivisions and off-site infrastructure to support new residential growth are both covered in whole or in large part by the private sector. The resulting works are being transferred to municipal control upon completion in most cases.)

According to the Altus Clayton research, the overall quality, service life and performance of basic urban infrastructure can be increased over time if annual and long-term investment are better aligned with requirements on the ground, and if this type of infrastructure receives the priority attention it deserves.

For a copy of the Altus Clayton report, please contact David Crenna via: [crenna@chba.ca](mailto:crenna@chba.ca).

