City of Mississauga
Corporate Report

MISSISSAUGA

Date: June 15, 2021 To: Chair and Members of General Committee From: Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer	Originator's files:
	Meeting date: June 23, 2021

Subject
Potential New Revenue Tools

Recommendation
1. That the report dated June 15, 2021 from the Commissioner of Corporate Services and Chief Financial Officer entitled "Potential New Revenue Tools" be received for information; and
2. That staff continue to work through municipal sector round tables to establish consensus and a joint advocacy position amongst GTHA municipalities on revenue tools and report back to Budget Committee in October with updates.

Executive Summary

- The *Municipal Act* in Ontario limits the ability of municipalities to raise revenue. Outside of property taxes and user fees, Mississauga has few options to raise the revenue it needs to meet the challenges it faces – specifically over $3.5 billion unfunded in the capital program;
- CAO Mitcham requested that staff undertake research on potential revenue tools available to municipalities, and determine which ones are viable within the current legislative framework, and which ones will require advocating for legislative change;
- On March 25, 2021, the City retained the services of Ernst & Young (EY) to research potential revenue tools used by municipalities, and identify the projected funding amount of each for the City of Mississauga;
- This report does not address existing revenue tools the City currently has access to and makes use of, such as general property taxes and user fees, and does not advocate for an increase to either of these revenue generating sources or the addition of new property tax classes. Instead, the review focused on potential new sources of revenue and the process to obtain them;

- Many of the potential revenue tools identified by EY would require changes in legislative powers, similar to those contained in the *City of Toronto Act*;
- While this report is presented as information, if Council were to pursue a specific revenue tool or suite of tools, similar to the *City of Toronto Act*, staff recommend developing a coordinated advocacy campaign with other municipalities in Ontario. To make changes to municipal powers, requires a united front;
- Currently discussions are underway amongst the CAOs and senior staff of the cities in the Greater Toronto and Hamilton Area on topics of housing, sustainable finance, transit, procurement, and digital infrastructure. Reports from each of these committees will be released in the Fall of 2021; and
- This report is meant to provide Council with information. Staff will continue to provide updates on their progress working with other municipalities in the months to come.

Background

Municipalities of all sizes face significant financial pressures. The infrastructure deficit remains a substantial, persistent challenge across all communities in Canada. Under the current legislative framework, municipalities do not have the fiscal capacity to maintain, rehabilitate and expand their core infrastructure while keeping tax increases at inflationary levels. Municipalities also face changing demands for higher standards for services from citizens and new challenges such as population growth, an aging population, and climate change, to name a few. The City of Mississauga is facing a shortfall of $3.5 billion in its capital program, which includes state of good repair and new projects.

To meet these growing challenges, Municipalities need more diverse and growing revenue sources that go beyond the provisions currently found in the *Municipal Act*. The *Municipal Act* in Ontario limits the ability of municipalities to raise revenue. Currently, Ontario municipalities (excluding the City of Toronto) are only able to collect property tax revenues and charge fees for service (user fees). These tools are limiting as they are not linked to economic growth, while a number of significant cost drivers are. The current suite of revenue tools available to municipalities are not sufficient to fund the necessary services municipalities must provide, let alone the additional challenges cities face. It is expected that growth will pay for growth, but this has not happened, leaving Mississauga with an annual infrastructure deficit and capital pressures that must be met to not only achieve a state of good repair, but to build a world-class city.

Early in 2021, staff was asked by CAO Mitcham to examine potential revenue tools and determine which ones are viable within the current legislative framework and which ones will require advocating for legislative change. On March 25, 2021, the City retained the services of Ernst & Young (EY) to research potential revenue tools used by various municipalities. The mandate for this project was to identify potential new revenue tools available to the City of Mississauga, determine which are viable for the City relative to the policies of current governments and agencies, estimate the value to the City, and develop a comprehensive plan to attain and implement any new funding sources.

This report does not address in any detail the existing revenues the city uses today, such as general property taxes and user fees, and does not advocate for an increase to either of these revenue generating sources or the addition of new property tax classes. This report instead focuses on revenue tools not currently available to the City of Mississauga that if possessed, would provide the City with the financial autonomy necessary to raise the revenues it needs to meet the demands it faces, without relying as heavily on other levels of government.

This report has been prepared for information. Staff do not recommend pursuing any tool in particular at this time. If Council opts to pursue an additional revenue tool or a suite of tools, staff recommend that a comprehensive and coordinated advocacy plan be developed that includes working with other municipalities and stakeholders. Pursuing new revenue tools alone is unlikely to be successful.

Comments

Project Scope and Methodology

The research conducted by EY identifies multiple revenue tools that are being used by various municipalities. Appendix 1 provides an Executive Summary of these tools followed by a comprehensive document, which provides a more in-depth analysis of each tool (Appendix 2). In order to scope and manage the number of tools, the project Steering Committee directed EY to classify the revenue tools into three categories:

1. Revenues that the City can implement today with the current authority provided by existing legislation;
2. Revenue tools that the City could implement if provided with the same powers as the City of Toronto; and
3. Tools that would require additional legislative approvals beyond what the City of Toronto Act has.

EY Approach

Six comparator municipalities were chosen out of the ten (10) largest municipalities by population in Canada. Financial Statements were analyzed and normalized (single vs. lower tier) to allow for meaningful comparisons. Benchmarking research was also conducted on municipal revenue tools used by municipalities in Canada, across North America, and globally. In addition, research was accessed from think tanks and academic publications globally. The *Municipal Act* was reviewed to validate current limitations to raise revenues by Ontario municipalities. *The City of Toronto Act* was also reviewed in order to determine revenue raising parameters which are unique and differ from those permitted in other Ontario municipalities.

Revenue Tools were categorized based on ability to implement: Current authority under the existing Municipal Act; powers granted to Toronto under the City of Toronto Act; and tools that would require further legislative or regulatory change (see Appendix 2). EY conducted further review into tools including jurisdictional examples of each tool, potential structure of tools, potential value derived by implementing a tool, and implementation considerations.

The objective of the project was to provide Mississauga with a comprehensive list of potential revenue tools and an analysis of the authority required to use them. Those tools currently within the control of the municipality are evaluated by staff on a regular basis and separate reports will be brought to Council and Budget Committee where appropriate. Those tools the City currently does not have the power to implement will require legislative change at the provincial level.

Findings

Table 1 below outlines the revenue tools the City is currently able to access through the *Municipal Act.* The table identifies which tools are being used, and identifies where appropriate those the city is currently benefitting from.

Table 1

Revenue Tools Currently Available to the COM	Status	Comments
Property Taxes (property classes defined under the Assessment Act)	✔	Currently using
Payments in Lieu of Taxes	✔	Currently using
Special Area Rates	✖	Not using
User Fees and Charges for Services; Local Improvement Charges	✔	Currently using
Fees for Licenses, Permits and Rents	✔	Currently using
Fines and Penalties	✔	Currently using
Development Charges (subject to provincial legislation)	✔	Currently using
Vacant Homes Tax	✔	Working group formed - ongoing review
5G Concessions	✔	Corporate Report in progress
Incremental Property Tax	✔	Capital Infrastructure Levy/Public Safety Levy
Land Value Capture / Tax Increment Financing	✖	Not using
Landfill Levy	✔	Region of Peel using
Ride Sharing Fees	✔	Currently using
Encroachment Tax (TBC)	✖	Not using

City of Toronto Act

In 1998, the province passed the *City of Toronto Act*, to create the new amalgamated City of Toronto. In 2005, the province amended the Act through the *Stronger City of Toronto for a Stronger Ontario Act* to provide the City of Toronto with additional revenue powers beyond those possessed by any other Ontario municipality. At the time, it was thought that given its new size and challenges faced, Toronto would need additional powers to meet its responsibilities and address its challenges. In particular, under the revised *City of Toronto Act*, the city has the ability to levy six (6) taxes, including the Land Transfer Tax (LTT). The LTT in particular has proven to be a substantial revenue generating tool for the city, which has helped Toronto provide for continued infrastructure growth and at the same time keeping property tax increases at a minimum.

Under the Act, the City of Toronto is also permitted to collect a Vehicle Registration Tax however with the exception of a brief period between 2008 and 2010, they have chosen not to use this power. Table 2 below, as provided by EY, estimates the amount of revenue the City of Mississauga could collect if the City were to have the same revenue generating powers as the City of Toronto. The values included in the table are based on some common assumptions, including:

- The ability to use existing collection methods (e.g. Provincial systems for the vehicle registration tax) to minimized implementation and ongoing costs
- No behavioural changes as a result of implementation (i.e. consumers will not cross municipal borders to avoid taxes)
- The City will be able to keep the full revenue raised and not have to share it with the region

The assumptions were developed as a result of examining the experience of other municipalities and discussions between the E&Y project team and the City of Mississauga steering committee.

Table 2

Revenue Tool	COM Estimated Annual Revenue	Shared With Region	Notes	Authority
Land Transfer Tax	$76,142,203	N	1% on all values, exempting first time buyers	COTA
Vehicle Registration Tax	$39,507,712	N	$45 flat fee per vehicle registered	COTA
Alcoholic Beverage Tax	$5,728,870	N	1% tax on alcohol at all points of sale	COTA
Tobacco Tax	$3,258,810	N	1% on each package sold	COTA
Advertising Tax	$2,600,000	N	2015 City of Mississauga estimate	COTA
Amusement Tax	$913,049	N	1% tax on all amusements	COTA

Assumptions
All revenue estimates are net of ongoing costs but do not include start-up fees
Revenue tools can use existing collection (property tax system, provincial tax collection)
Consumption taxes do not have material impact on purchasing patterns
*COTA - City of Toronto Act

Obtaining Revenue Tools

For other Ontario municipalities, including Mississauga, to access the suite of tools available to the City of Toronto would require legislative change from the provincial government, likely through amendments to the *Municipal Act*. At this time, it is unlikely any other city in Ontario will be granted similar powers to Toronto on an individual basis.

It is important to note that the current provincial government has given no signal that they are prepared to extend additional revenue tools to municipalities. In fact, during a debate in the Ontario Legislature in 2015, the current Minister of Municipal Affairs opposed the Land Transfer

Tax and pressured the Minister of the day to publicly commit that cities would not be granted that power. To date, there has been no outreach or discussion by the current provincial government on municipal revenue tools.

To obtain the same powers as those in the *City of Toronto Act* or any additional revenue tools will require a coordinated and comprehensive advocacy campaign, involving other municipalities in Ontario, industry associations like AMO, and other supportive stakeholders. It is highly unlikely that Mississauga would be successful pursuing any revenue tool on its own. If Council decides to pursue a specific revenue tool or a suite of tools like in the *City of Toronto Act*, staff recommend that a detailed advocacy plan be developed, with broad alignment across the municipal sector.

Federation of Canadian Municipalities Big City Mayor's Caucus

Since 2015, the Big City Mayor's Caucus (BCMC) or the Federation of Canadian Municipalities (FCM) has been working to develop a stronger relationship with the federal government and secure new funding and investments for municipalities. The BCMC is comprised of the Mayor's of Canada's 22 largest cities from across the country. Mississauga is a member of BCMC.

In the lead up to the 2015 election, the BCMC mayors joined together to create a common set of requests of the federal government. The mayors and the municipal sector remained united throughout the 2015 campaign and were instrumental in driving a federal agenda that included investments in infrastructure, transit, active transportation, green technologies, and clean water and waste water, affordable housing, and more. Through the "Hometown Proud" campaign, FCM and the BCMC sought to redefine the relationship between the federal and municipal governments, stating that "city building is nation building."

Following the 2015 election, the federal government has since committed over $200 billion to municipal and provincial infrastructure, and put in place dedicated transit and infrastructure programs like the Investing in Canada Infrastructure Program (ICIP), the Public Transit Investment Fund (PTIF), the Clean Water and Waste Water Fund (CWWF), and has committed to doubling the Federal Gas Tax for municipalities in 2019 and 2021. Mississauga has benefited significantly from these investments and will continue to do so for the next decade.

AMO Local Share Campaign

In 2017, in advance of the 2018 provincial election, the Association of Municipalities of Ontario developed the Local Share campaign, which advocated for a 1% sales tax for municipalities. At the time, AMO's research showed that municipalities face a $4.9 billion infrastructure gap over the next 10 years, which would require an average property tax increase of 8% annually. AMO argued that property taxes were not sustainable in the long term to meet the needs of municipalities.

The 1% sales tax idea was similar to previous attempts like the 2007 "One Cent Now" campaign from former Toronto Mayor, David Miller to recoup a portion of the federal GST for municipalities. Like the One Cent Now campaign, AMO's 2017 Local Share campaign did not gather enough momentum or support from Ontario municipalities. It was not a factor during the 2018 provincial election and has not been pursued since.

The AMO example demonstrates the importance of working together with other municipalities around a shared objective.

GTHA Regional Prosperity Alliance

At a staff level, Mississauga's CAO is on the executive committee of the GTHA Regional Prosperity Alliance (RPA), a group of CAOs, led by the City of Toronto, and their senior staff teams. The GTHA RPA is seeking to unite the cities of the GTHA in joint recovery from COVID-19. The RPA has a number of sub committees focused on transit, housing, sustainable finance, procurement, and digital infrastructure. Mississauga is represented by senior staff on each of these committees.

This report and the work done by EY are important elements that will inform the Sustainable Finance Table's recommendations to be released in the fall of 2021. At that time, staff will be in a better position to provide recommendations on how best to proceed on securing new revenue tools and increasing Mississauga's financial autonomy.

Municipal Advocacy

The municipal sector can be successful in advocacy if cities are aligned around a clear objective with a clear message. It is rare for a single municipality to successfully lobby for legislative change or for new powers. Mississauga has been part of FCM efforts for the past 7 years and has garnered a seat at the Federal-Provincial-Territorial (FPT) meetings twice around program design for federal funding programs. Mississauga is also a member of the Ontario Big City Mayor's Caucus (OBCM) and the MOU Table of the Association of Ontario Municipalities. Mayor Crombie is the Vice Chair of the OBCM and attends the MOU table of AMO. Staff recommend that discussions with these groups and the GTHA RPA continue to determine if there is a desire and a consensus to pursue new revenue powers for municipalities.

Financial Impact

There is no immediate financial impact to the City at this time. No detailed analysis has been completed in connection to potential revenue and city needs. Additional revenue generating tools could provide the city with various options for city building and tax mitigation. In the event that these revenues come to fruition they will be included in future budgets Should Council wish to pursue any of these tools further, a full analysis will be undertaken to develop more reliable and stable annual revenue estimates, as well as an advocacy strategy that is in alignment with the broader municipal sector.

Conclusion

This report speaks to numerous revenue tools available to a municipality. Many require legislative change in order to implement. Council will need to identify which tools they would like to pursue, and strong advocacy measures and a cooperative regional approach will be necessary should the City want the same legislative powers as the City of Toronto.

Attachments

Appendix 1: New Revenue Tools Study – Executive Summary
Appendix 2: New Revenue Tools Study – Detailed Report

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