

# The Time Is Right - Alternatives to Development Charges

Independent Real Estate Intelligence

**FINAL REPORT**

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# **The Time Is Right - Alternatives to Development Charges**

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## INTRODUCTION

The Canadian Home Builders' Association (CHBA) approached Altus Group Economic Consulting to examine the role of development charges in relation to a housing recovery and the ability of the housing sector to contribute to a meaningful economic recovery in Canada.

In 2008, Altus Group prepared a report for the Association entitled *Urban Infrastructure Challenge in Canada: Perceptions and Realities*, which brought forward the following principal findings:

- Investment in basic urban infrastructure is critical to support growth and economic development in Canada;
- Municipalities bear the greatest responsibility for basic urban infrastructure, but persistently warn that they are not given a wide enough array of revenue sources to fund required infrastructure investments;
- Municipalities have been relying increasingly on the private sector in general and development charges in particular to fund basic urban infrastructure, even though this approach is inefficient and unfair; and
- Municipalities do have a broader array of options, than they typically acknowledge, to fund basic urban infrastructure in an efficient and effective manner. These include making greater use of debt financing, the property tax base and user fees.

Since the release of that study, the Canadian economy has taken a sharp turn for the worse and development charges are clearly having a noticeably negative effect on the health of the Canadian housing market, for both home builders and their customers.

Moreover, as the volume of new housing construction declines, municipalities are finding their development charge revenue is falling dramatically.

Municipalities are limiting the opportunities for economic recovery and making the recession worse by continuing to impose development charges on the cost of new homes.

The federal government is responding to the economic crisis with measures that include fiscal stimulus, additional infrastructure finance and a facility for municipalities to borrow funds from Canada Mortgage and Housing Corporation (CMHC).

In light of this, the time is right for municipalities to consider alternatives to the development charges approach to infrastructure financing. They have the opportunity to consider the broader array of options available to promote, efficiently and effectively, growth and development through public sector investment in basic urban infrastructure.

## **NEW HOUSING CONSTRUCTION – A CRITICAL ECONOMIC SECTOR**

The home building sector is a significant contributor to the Canadian economy. The residential construction sector directly employs some 300,000 men and women in Canada<sup>1</sup>. In addition, residential construction investment also spurs significant spin-off economic effects across a broad array of other sectors through the materials and services used as inputs into the construction process:

- New home building creates spin-off economic activity: the construction of 10,000 new homes leads to a rise of some \$3.3 billion in economic production across a broad array of industries (in addition to housing construction), including some \$727 million in manufacturing output and \$307 million in the wholesale, retail, transportation and warehousing sectors (combined);
- New home building creates jobs both directly within the residential construction sector (both on and off the job site) and indirectly among the array of industries supplying goods and services to the residential construction sector. The construction of 10,000 new homes creates over 19,300 jobs within the Canadian economy<sup>2</sup>. More detail on these jobs is provided in the appendix to this report;
- New home building creates income: the construction of 10,000 homes boosts household income by some \$1.3 billion; and

<sup>1</sup> Statistics Canada, 2006 Census.

<sup>2</sup> Based on direct jobs in the construction industry and indirect jobs connected to the supply chain. Impacts may be larger if a third round of “induced” impacts are also considered.

- New home building contributes to government revenues: construction of 10,000 new homes creates some \$56 million in indirect tax revenue for governments over and above the millions collected through direct taxes such as GST, levies and various municipal charges.

Moreover, the new housing sector is also an important contributor to local community prosperity by fostering new and renewed basic urban infrastructure. A healthy and functional housing market is critical for long-term economic growth and prosperity.

## CURRENT ECONOMIC CONTEXT

The world economy is fast deteriorating. Most of the developed world has already fallen into recession and companies have aggressively cut employment and capital spending. Even the once red-hot economies of developing countries such as China and India have decelerated substantially.

The most recent forecast for world economic growth produced by the International Monetary Fund (IMF) has fallen to just 0.5% in 2009, the slowest pace since World War II. International economic indicators continue to deteriorate, with many of the world's largest industrial economies already in recession.

The consensus is that the Canadian economy is slowing in concert with international conditions. Most economists believe that Canada entered a recession in the fourth quarter of 2008, which could last up to a year or more:

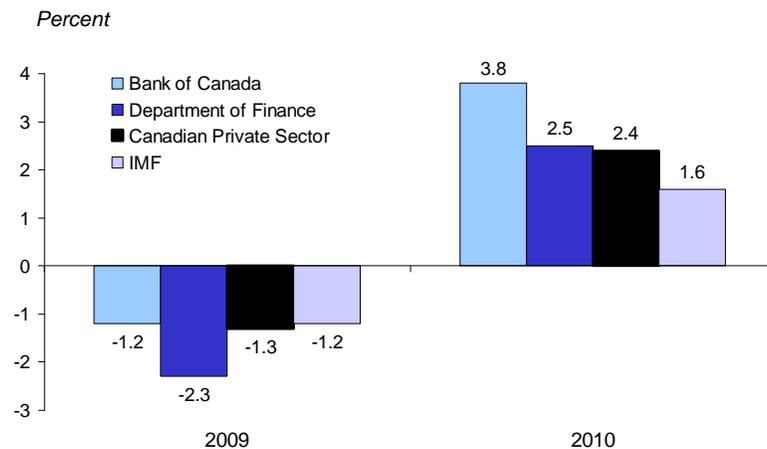
- In the most recent *Monetary Policy Report Update*, the Bank of Canada forecasts the economy to decline by some -1.2% in 2009 before a strong rebound in 2010 (Figure 1).
- In its January 2009 Budget, the federal Department of Finance assumes a drop in economic output in 2009 of some 2.3%<sup>3</sup> - the worst since 1982.
- Based on an average of several private-sector economic forecasters the economy may decline by -1.3% in 2009 and then recover by 2.4% in 2010; and

<sup>3</sup> Based on the -2.7% of Nominal GDP Growth in the Budget 2009 and -0.4% forecasted GDP inflation.

- The IMF's view anticipates a decline of some 1.2% this year and 1.6% next, which is considerably less optimistic about the speed of the economic recovery than either the Bank of Canada (which has confidence in the monetary measures they are employing) or the Department of Finance (which has confidence in the fiscal measures they are employing).

Figure 1

**Economic Forecast for Canada, Various Sources, 2009-2010**



Source: Altus Group Economic Consulting Based on various sources

The broad economic slowdown will certainly hurt the labour market. The labour market has already shown signs of weakness in recent data. According to Statistics Canada, the economy shed 235,000 jobs between October 2008 and January 2009.

Moreover, there is likely more pain to come - economists believe the Canadian economy may lose some 200,000 jobs on an annual basis in 2009, a dramatic reversal of fortune compared to the early years of this decade. This magnitude of job losses has not been seen since 1991, the last major nationwide recession in Canada.

The large number of job losses stands to reduce severely household incomes. This could have a significant negative impact on housing demand across Canada. The risk is that weakness on household balance sheets could lead to weaker housing prices, which would further erode housing demand leading

to a worsening downward spiral. This risk underscores the need for governments to pursue proactive stimulus policies.

Facing these economic challenges, leaders of the G-20 countries met in Washington D.C. in November 2008 and agreed to a range of general principles and specific measures to address the credit crisis and the world economic slowdown. The summit's declaration urged member nations to "Use fiscal measures to stimulate domestic demand to rapid effect, as appropriate, while maintaining a policy framework conducive to fiscal sustainability".

Based on the recent economic data, the Canadian government has responded by introducing a sizable fiscal stimulus plan, alongside other measures, in the new federal budget.

## **NEW HOME BUILDING TYPICALLY SUFFERS DURING RECESSIONS**

For a wide array of reasons, new home sales and ultimately new home building tends to fall sharply during recessions in Canada. Housing sales depend heavily on the willingness and ability of potential homebuyers to make what, for most, is the largest investment in a lifetime. Home buying decisions are influenced by interest rates, consumer confidence, the relative cost and availability of alternatives such as renting, and, importantly, on the price and availability of attractive new housing product in the marketplace.

As markets move into general recessions, new home sales suffer due in part to a loss in consumer confidence in the face of economic uncertainty. New housing is also a heavily taxed product. The sum of government levies, fees, taxes and development charges on a typical entry-level new home can add up to some 18% of the purchase price, according to CMHC<sup>4</sup>. From an economic perspective, taxes of this magnitude cause significant market distortions even in the good times. In recessionary times, they can be devastating.

Consider the last two recessions in Canada: the one that began in the second quarter of 1990 and lasted four quarters, and the one that began in the third

<sup>4</sup> Tomalty, R., Skaburskis, A., *Government-Imposed Charges On New Housing in Canada*, Prepared for CMHC, January 2009.

quarter of 1981 and lasted six quarters. Both of these recessions presaged sharp downturns in new home building that saw housing starts decline by about 50% (on a quarterly basis) or 25% (on an annual basis) before beginning a sustained recovery.

## **DECLINE IN HOUSING CONSTRUCTION IN THIS RECESSION WILL MEAN LOSS OF JOBS AND INCOMES**

It is unknown to what magnitude the current recession will affect the Canadian housing market. There are reasons to believe the impact may be less severe than in these earlier examples. However, if new home building, which last year started some 211,000 new homes, declined by a similar magnitude during this recession, then housing starts could decline by some 50,000 or more units in 2009.

Based on the economic impact measures, a decline of this magnitude would mean the loss of some 100,000 jobs from a variety of sectors across the Canadian economy and some \$6.3 billion from the incomes of Canadian households. Losses to the economy of this magnitude risk spurring further declines in consumer confidence leading to a longer and deeper recession.

## **THE MAGNITUDE AND FOCUS OF THE FISCAL PLAN**

The federal government recently announced a \$40 billion stimulus budget, intended to stem the downward recessionary spiral in the Canadian economy and stimulate a recovery into 2010. Fiscal stimulus plans of this nature have their intellectual origins in the theories of John Maynard Keynes. They assume that countries can halt a recession or depression by increasing government spending by a substantial amount.

The IMF has suggested that an appropriate amount of economic stimulus for G-20 countries in present times should be in the order to 2% of GDP in order to make a sizable difference to the economy. In Canada's case, this would amount to some \$30 billion. Others have suggested different scales of potential stimulus for Canada.

Some of the items that are in the \$40 billion budget are:

- \$8.3 billion for the Canadian Skills and Transition Strategy, including enhancements to Employment Insurance and more funding for skills and training development;

- Personal income tax relief over the 2008–2009 period and the next five fiscal years;
- \$7.8 billion for “action to stimulate housing construction”. Measures include a Home Renovation Tax Credit providing up to \$1,350 in tax relief for homeowners, a new first-time buyer tax credit of up to \$750, investments for social housing, and other measures; and
- \$12 billion “immediate action to build infrastructure” funding over two years, including a total of \$6.4 billion for various infrastructure projects<sup>5</sup>, \$2 billion plan for university repairs and construction, and a \$750 million fund for high-tech infrastructure. Many of the measures in this \$12 billion program are to cover up to 50% of eligible projects, so are expected to be matched by new spending by provincial and municipal government partners.

Importantly, the \$7.8 billion “action to stimulate housing construction” measure above includes providing up to \$2 billion in direct, low-cost loans to municipalities to finance improvements to housing related infrastructure, such as sewers, water lines, etc. The loans are made through CMHC. These low-cost loans should lower the cost of borrowing for municipalities, and can be used to fund the municipal contribution for cost-shared federal infrastructure programming.

Effective government stimulus measures should provide short-term liquidity to the economy, create immediate jobs, provide material income or cash benefits to households, while offering benefits that will boost long-term economic growth.

For the full strength of the stimulus to take effect, it is critical that the provincial and municipal matching assumptions imbedded in the government’s plan be brought forward in a timely and effective manner. Provinces and municipalities that simply shift spending from other programs, or offset the funding from additional taxes or charges, will seriously weaken the stimulus effects and fail to contribute fully to the recovery.

<sup>5</sup> \$4 billion funding to infrastructure renewal (50% cost share); \$1 billion Green Infrastructure Fund; \$500 million community recreation facilities (50% cost share with province, municipality, community organizations, and/or the private sector.); accelerating up to \$1 billion in payments over two years under the Provincial-Territorial Base Funding Initiative; \$500 million for infrastructure projects in small communities.

Municipalities in Canada have the ability to raise new funds through borrowing, even though most do not make effective use of this tool. The new borrowing facility through the CMHC increases the debt options for municipalities and also provides a strong signal to debt-shy municipal politicians to give these tools greater consideration.

The Federal Department of Finance has listed four important criteria in designing effective stimulus policies<sup>6</sup>:

- Timely – stimulus when it is needed;
- Maximum impact – stimulus that delivers;
- Flexible in size and duration – smart stimulus; and
- Consistent with Canada’s long-term economic goals – stimulus that fits the plan.

## **FISCAL AND MONETARY MEASURES ALREADY INTRODUCED ACKNOWLEDGE THE IMPORTANCE OF THE HOUSING SECTOR**

The residential construction sector plays a significant role in the Canadian economy. Poorly performing housing markets are at the heart of the economic meltdown in several countries in the developed world, including the United States, Spain, Britain etc. Canada’s housing market is performing relatively well, in part due to the discipline within the industry to operate on a relatively low-inventory basis and in part due to a stable financial sector and mortgage market.

There remains a distinct risk during times of sharp economic decline that Canadian housing markets could suffer from deflationary pressures.

In recent years, the Canadian household saving rate has been declining, approaching zero percent. This is a further risk factor, as it suggests reduced ability by many marginal households to weather periods of income interruption of the sort that comes from a job loss. The concern from a macroeconomic perspective is that a prolonged period of job losses (or weakness) could quickly evolve into a period of rising foreclosures, and, in turn, asset devaluations in the housing sector. Any significant deflation in housing markets would be devastating for Canada’s economy and the well-being of Canadians both in the short term and for years to come.

<sup>6</sup> Department of Finance, *Canada, Fiscal Stimulus – Budget 2009 Consultations*, 2008.

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To avoid this devastating scenario, both the Government of Canada and Bank of Canada have introduced various measures since the financial storm hit Canada last year, including<sup>7</sup>:

- The Bank of Canada has added some \$40 billion in liquidity to the Canadian financial system to reduce the stress in Canada's financial system;
- The Canada Mortgage Bond (CMB) program has been expanded, including a record \$12.5 billion CMB issue in June, and the introduction of a new 10-year CMB issue of \$10 billion;
- The government introduced a program to purchase up to \$125 billion in insured mortgage pools under the Insured Mortgage Purchase Program (IMPP) as a means of supporting the availability of long-term credit for homebuyers;
- The government has also introduced the Canadian Lenders Assurance Facility, following similar moves in other countries; and
- The government has increased the allowable withdrawal from RRSP savings for the purchase of a first home, and introduced a new first-time homebuyers' tax credit.

The fiscal measures introduced by the federal government in the budget focused on supporting housing development. Effective infrastructure development and the monetary measures discussed here clearly acknowledge that fostering and retaining a healthy housing market is important to the economy.

The greatest challenges to sustaining a healthy housing market include high taxation, in the form of development charges, at the municipal level. Reducing and eliminating development charges will help substantially to improve housing affordability and encourage residential construction activity. Moreover, permanently shifting away from the development charges infrastructure finance approach toward more effective and efficient finance tools will bring greater economic stability to communities in Canada over the longer term.

<sup>7</sup> Department of Finance, *Canada, Fiscal Stimulus – Budget 2009 Consultations*, 2008.

## IT IS APPROPRIATE TO SUPPORT MUNICIPALITIES THROUGH INVESTMENT IN BASIC URBAN INFRASTRUCTURE

Investment in basic urban infrastructure is a clear example of effective government stimulus spending and matches effectiveness goals set out by the Department of Finance:

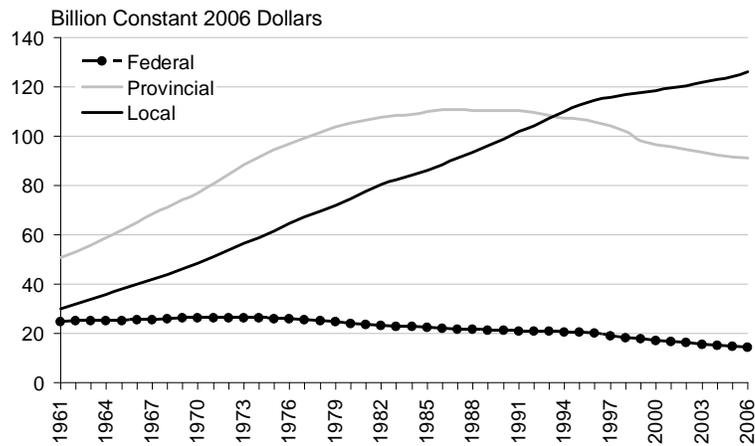
<b>Department of Finance Effective Fiscal Stimulus Criteria</b>	<b>Characteristics of Growth-Supporting Basic Urban Infrastructure</b>
Timely (“Shovel Ready”)	Many basic urban infrastructure structures are relatively small in scale and can get underway right after the financing announcement, providing a timely support to the economy
Maximum impact	Infrastructure has lower economic job impacts than new housing construction, but it still generates jobs directly and through the provision of related materials and services. Infrastructure construction has a relatively low dependence on imported materials, which means that most of the stimulus stays within Canada
Flexible in size and duration	There is a wide array of basic urban infrastructure projects required in municipalities across Canada, ranging from the very large scale to the very small scale, including upgrades and maintenance
Consistent with Canada’s long-term economic goals	Investment in basic urban infrastructure is important for long-term economic development.

	Adequate basic urban infrastructure raises the standard of living, retains talented labour pools and improves productivity
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The value of basic urban infrastructure in public ownership in Canada is some \$240 billion. Local governments control the majority of this infrastructure stock (Figure 2).

Figure 2

**Value of Infrastructure\*, Government Sector by Subsector, 1961-2006**



\* Net of hyperbolic depreciation  
 Source: Altus Group Economic Consulting based on data from Statistics Canada: Fixed Capital Flows and Stocks (Table 031-0002)

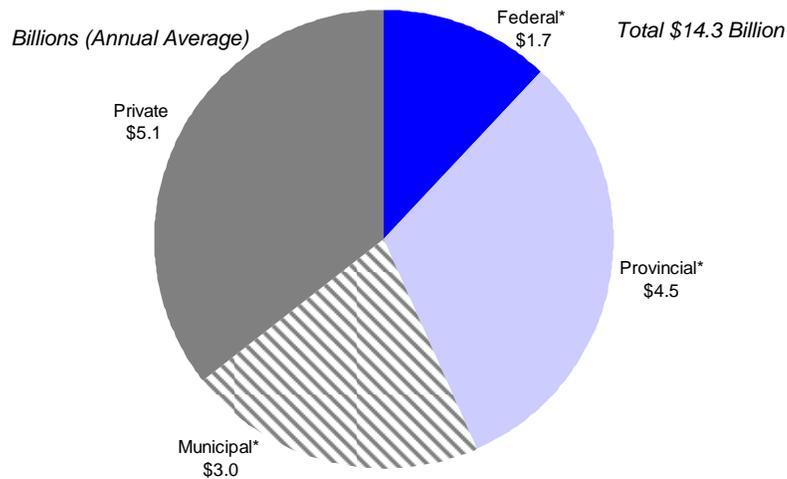
In terms of new infrastructure investment, all orders of government, with a large contribution from the private sector, are involved with providing basic urban infrastructure to Canadians (Figure 3):

- The federal government, on average, provided some \$1.7 billion between 2005 and 2006 to finance basic urban infrastructure (directly or through transfers to other levels of government). The government made commitments in the 2008 budget to provide additional infrastructure spending over the next seven years through the Building Canada fund;

- Provincial governments, on average, financed a net of \$4.5 billion (net of federal transfers) capital investment in basic urban infrastructure;
- Municipal governments provided some \$3 billion (net of transfers) funding to basic urban infrastructure investment each year from general revenue sources (including water and sewer user fees); and
- With funding of \$5.1 billion annually, the private sector is the largest contributor to basic urban infrastructure. This investment happens through direct provision of on-site infrastructure by land developers, and through indirect capital financing by paying development charges and other municipal infrastructure related levies. This funding is ultimately borne by new homebuyers and owners/investors in new industrial/commercial properties.

Figure 3

**Basic Urban Infrastructure Investment by Funding Source, 2005-2006**



Notes: \*Net of Transfers.

Source: Altus Group Economic Consulting based on data from Fixed Capital Flows and Stocks (Cansim 031-0002), Transfer payments by Infrastructure Canada (Public Accounts of Canada) and National Accounts (Cansim 385-0024 and 385-0002), and consultation with Statistics Canada staff

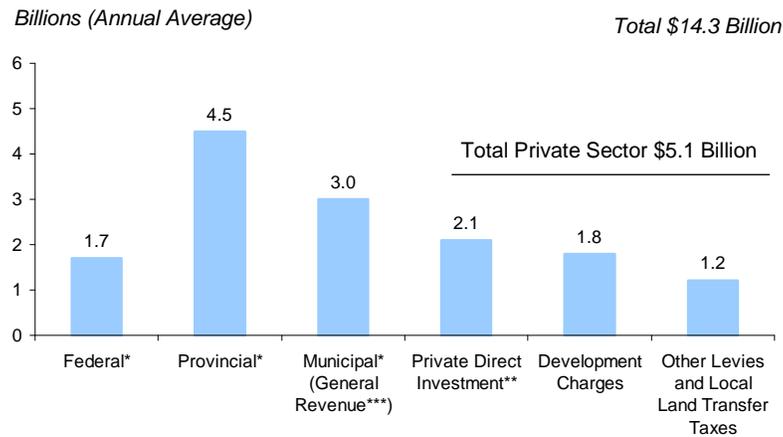
The \$5.1 billion of private sector funding for basic urban infrastructure investment contains the following components (Figure 4):

- The private sector directly invested an estimated \$2.1 billion in on-site infrastructure projects, including sidewalks, roads, lights, and water and sewage systems of new subdivisions;

- The remainder of the private investment accounts for indirect financing via development charges (\$1.8 billion) and local land transfer taxes and other levies (\$1.2 billion) to municipalities; and
- All of those infrastructure assets are ultimately transferred to the public sector and eventually are considered part of the public capital stock.

Figure 4

**Basic Urban Infrastructure Investment by Funding Source, 2005-2006**



Notes: \*Net of Transfers. \*\*On-site infrastructure to be transferred to municipalities. \*\*\*Including water and sewer charges.

Source: Altus Group Economic Consulting based on data from Fixed Capital Flows and Stocks (Cansim 031-0002), Transfer payments by Infrastructure Canada (Public Accounts of Canada) and National Accounts (Cansim 385-0024 and 385-0002), and consultation with StatCan staff

Municipalities that receive federal or provincial “stimulus” funding have the opportunity to work with partners such as residential developers and other orders of government to ensure that new stimulus investments support economic growth and long-term local prosperity. Municipalities that are participating in a stimulus program could use the opportunity to ensure that their broad array of basic urban infrastructure expenditures are funded from appropriate tax sources. Since many cities rely too heavily on the private sector to finance their basic urban infrastructure investment, this as an opportunity to address this issue.

## **THE TIME IS RIGHT FOR MUNICIPALITIES TO CONSIDER ALTERNATIVES TO DEVELOPMENT CHARGES**

Infrastructure benefits both present and future generations and, in general, supports social and economic development and prosperity across the entire community. Municipalities are relying increasingly on development charges, ultimately borne by new home buyers, to finance basic urban infrastructure. This approach to financing basic urban infrastructure is both unfair and inefficient.

### **Development Charges are Unfair**

New and upgraded basic urban infrastructure benefits the entire community and delivers its benefits over a very long time period. Ideally, from an equity standpoint, the costs associated with such an investment should be borne across the entire community and should be spread out over time to match, roughly, the productive life of the infrastructure.

By contrast, asking a narrow segment of the community (the new home buyer) to bear most or all of these costs and to do so “up front”, violate both of these principles.

Asking the new home buyer to pay for infrastructure benefiting the community as a whole is effectively asking the new home buyer to subsidize existing households. This approach is inherently inequitable or unfair. It also reduces affordability for homebuyers and depresses housing demand, especially during downturns in the economy.

Municipalities have the opportunity to improve the fairness in basic urban infrastructure finance by considering seriously alternatives to development charges.

### **Development Charges Transfer Debt from Public Sector to Private Sector**

When municipalities borrow to finance growth-related basic urban infrastructure, they can do so through instruments that match future revenues related to that infrastructure with future debt service requirements. This process is both transparent and efficient.

By contrast, asking the new home buyer to pay for infrastructure that ultimately becomes part of the public capital stock, and keeping in mind that

the buyer is likely to finance much of this obligation with a personal mortgage, effectively means that a portion of the public capital stock in Canada is becoming privately financed through the household mortgage market. Effectively, households are financing up to \$5.1 billion of public infrastructure each year through personal mortgages.

Although municipalities can claim to be debt free, or to keep debt to a minimum, the offloading of this debt to households through the personal mortgage market raises a number of issues:

- Efficiency issues: households may be financing this debt with higher interest rates or other less favourable terms than the municipality would be able to obtain;
- Equity issues: asking households to bear the debt for basic urban infrastructure reduces the borrowing room for potential home buyers – reducing affordability and keeping a number of potential buyers out of the market; and
- Debt burden and innovation issues: asking households to bear the debt of basic urban infrastructure generally increases the debt burden for homeowners. While lenders have historically responded to debt burden by allowing lower-down payment mortgages, longer amortizations and other innovations with insured loans, the current mortgage crisis in the U.S. teaches that caution should be exercised in this area.

The implicit transfer of debt from the public sector to the household sector, through measures such as development charges, brings into question Canada's degree of fiscal prudence. According to the federal Department of Finance, Canada's debt-to-GDP ratio declined from some 69% of GDP in the 1994/95 fiscal year to an estimated 28% in 2007/08<sup>8</sup>. However, over this same period, according to the Bank of Canada, household debt as a share of personal disposable income rose from some 100% to 135%<sup>9</sup>. It is interesting that these two diverging trends take place over a period that governments are making increasing use of development charges to finance additions to the public capital stock. Canada claims a certain degree of fiscal prudence (Canada's 28% debt-to-GDP is significantly lower than the G7 average of

<sup>8</sup> Department of Finance, *Canada's Economic Action Plan*, January 2009, p 207.

<sup>9</sup> Bank of Canada, *Financial System Review*, December 2008, p 21.

57%, says the Department of Finance). There is a risk that this “shell game” is masking the actual underlying degree of fiscal prudence in Canada.

### **Development Charges Distort Real Estate Markets**

New homebuyers are very heavily taxed – much of which goes to support basic urban infrastructure. CMHC finds that levies, fees, charges and taxes on a typical newly-built single-detached home can be up to 18 percent of the purchase price.

Moreover, over the past 10 years – a time when the housing market has been strong – municipalities have been dramatically increasing their reliance on development charges as a source of financing for their basic urban infrastructure.

Between 1996 and 2006 municipalities in Canada have shifted their reliance on development charge revenue as a source of funds for basic urban infrastructure from some \$600 million to \$1.8 billion – representing an increase from about 10% of all basic infrastructure financing to over 25%.

The effect of this move by municipalities can cause two very distinct market problems:

- As new home buyers take on greater financial responsibility for funding a municipality’s basic urban infrastructure, this places upward pressure on housing prices. Housing prices that rise too fast can ultimately be destabilizing to a housing market, as recent events around the world have proven. In this regard, development charges are contributing to housing market risks; and
- The shift in debt burden related to infrastructure from the public sector to the household sector can also cause debt market risks. Households’ exposure to debt becomes a greater concern during times of uncertain housing and other asset prices. The additional debt that the household sector has taken on through its financing of basic urban infrastructure may be exacerbating these risks.

### **Development Charges Create a “Revenue Trap” for Municipalities**

At the same time, by increasing their reliance on development charges as a source of revenue, municipalities have set themselves up for the downside of a cyclical revenue source: the decline of revenues as the housing sector slows

down. Between 2006 and 2007, development charge revenue to municipalities declined by some \$100 million and has likely declined further since 2007, as the slowdown in new housing construction has accelerated. Municipalities have created a revenue trap, by relying on a cyclical revenue source for its infrastructure finance. This approach clearly does not support the federal government's view (and the general consensus amongst economists and policy analysts) that investment in basic urban infrastructure is a key instrument in stimulating the economy out of recessionary times.

### **The Time Is Right for an Alternative Approach**

All of the above risks are eroding economic activity in the residential construction sector during a period of economic uncertainty. Since the residential construction sector plays such an important role in the health of the overall economy, this is an ideal time for municipalities to re-evaluate their approach to financing basic urban infrastructure.

Municipalities can pursue measures that reduce the household sector's share of basic urban infrastructure investment. Such measures will certainly help stabilize the housing sector and bring greater long-term stability to local communities:

- The federal government has gone a long way to acknowledging and promoting the idea that investment in basic urban infrastructure is important both for long-term economic growth and stability (through its \$33 billion existing commitment) and short-term emergency economic stimulus (through its recent budget measures). The federal government has also sent a strong signal to municipalities, which are required to cost share portions of monies through the infrastructure program, that they should be borrowing to invest. It has set up a modest instrument through the CMHC to promote this idea.
- Municipalities have the opportunity to act now and give serious consideration to the many viable alternatives to development charges. They have the opportunity to move toward a more sustainable infrastructure-financing model that is more effective and efficient and helps to support long-term stable growth in the community.

A lot of discussion has taken place recently about stimulus plans. Effective fiscal stimulus should be timely, produce maximum impact on the economy,

be flexible in size and duration, and be consistent with Canada's long-term economic goals. Investment in housing and basic urban infrastructure certainly addresses the immediate need for governments to spend to stimulate the economy, while at the same time investing in future community prosperity. Shifting the burden of infrastructure finance off the homebuyer and onto the taxpayer at large will bring greater equity and efficiency to housing and mortgage markets, enhance housing affordability and support housing activity.

**Appendix**  
**The Residential Construction Industry Supports**  
**Jobs Across the Economy**

The residential construction sector supports jobs across the economy. To the passer-by, the men and women working on building sites represent the 'visible' jobs related to new housing construction, but new home building supports scores of jobs across a broad array of sectors.

Over and above jobs found directly within the home building sector, both on-site and off-site, the types of jobs created when a new housing development is brought to market include:

- **Primary and Utilities:** Jobs in agriculture, mining (commodities), forestry and utilities (electricity, gas, etc.), depend heavily on the home building sector's demand for goods such as stone, gravel, lumber, nursery stock and energy.
- **Manufacturing:** Canadian jobs in companies that manufacture building materials such as engineered wood products, rebar and other steel products, plastic and metal plumbing products, masonry, concrete etc., depend largely on the stability and growth of the home building sector.
- **Trade and Transportation:** A large transportation sector is required to move commodities and manufactured products from origin to factory to job site. Distribution channels such as wholesale and retail businesses play an important role in intermediating between manufacturers and users of building supplies.
- **Private Sector Services:** There is a wide array of services consumed directly by the home building sector and also by the manufacturing and transportation sectors that provide goods to builders. Everybody from the accountants who do the books to the architects and designers who design the homes, to the lunch truck workers who feed the workers on site, depend on new housing starts for their livelihood.
- **Government Services:** The home building sector generates employment for government-sector workers at the municipal, provincial and federal levels, as well as the non-profit and education sectors.

Over and above these direct and indirect jobs, there is a vast array of additional jobs that are also induced by the home building sector. The wages, salaries and other income that accrue to households as a result of the direct

and indirect jobs created from home building will, in turn, generate economic activity as these households spend their incomes in the general economy.

Based on an analysis of Statistics Canada’s Input Output Model of the Canadian Economy, Altus Group Economic Consulting has determined that the incremental addition of some 10,000 net new single-family housing starts provides jobs for some 19,340 persons, directly and indirectly. These jobs are distributed across the economy:

- Construction Sector Jobs: 10,530
- Primary Sector Jobs: 585
- Manufacturing Sector Jobs: 3,090
- Trade & Transportation Sector Jobs: 2,745
- Service Sector Jobs: 2,295
- Government Sector Jobs: 95

This is why the economy of Canada prospers when housing starts rise. It is also why falling housing starts can have an accelerating negative effect on the economy. During economic recessions, home buyers become more price sensitive, and that coupled with the very high degree of taxation on homes, due to development charges and other government-imposed charges, can mean the loss of tens of thousands of housing starts. Many of these losses are directly attributable to high development charges and other government-imposed charges.

So, if a municipality decides to keep development charges high in the face of a recession, that decision can easily lead to the loss of scores of housing starts in that market. If that loss becomes as high as 10,000 housing starts, then the following exhibits illustrate the sort of people who will lose their jobs as a direct result:

<b>Construction Industry Jobs Supported by 10,000 Housing Starts</b>	
Residential Building Construction	10,452.4
Repair Construction	70.8
Other	9.5
<b>Total Construction Industry Jobs Supported by 10,000 Housing Starts</b>	<b>10,532.8</b>

<b>Primary Industry Jobs Supported by 10,000 Housing Starts</b>	
Greenhouse, Nursery and Floriculture Production	207.2
Forestry and Logging	181.0
Electric Power Generation, Transmission and Distribution	39.0
Sand, Gravel, Clay, and Ceramic and Refractory Minerals Mining and Quarrying	26.4
Support Activities for Forestry	20.8
Crop Production	19.6
Stone Mining and Quarrying	17.8
Oil and Gas Extraction	16.1
Support Activities for Crop Production	15.5
Animal Production (except Animal Aquaculture)	13.1
Support Activities for Mining and Oil and Gas Extraction	10.7
Natural Gas Distribution	5.4
Asbestos and Other Non-Metallic Mineral Mining and Quarrying	4.8
Iron Ore Mining	2.2
Copper, Nickel, Lead and Zinc Ore Mining	1.6
Water, Sewage and Other Systems	0.9
Coal Mining	0.8
Other	1.6
<b>Total Primary Industry Jobs Supported by 10,000 Housing Starts</b>	<b>584.7</b>

<b>Trade &amp; Transportation Industry Jobs Supported by 10,000 Housing Starts</b>	
Wholesale Trade	1,346.6
Retail Trade	781.1
Truck Transportation	327.8
Postal Service and Couriers and Messengers	78.6
Support Activities for Transportation	73.7
Rail Transportation	58.9
All Other Warehousing and Storage	24.3
Air Transportation	22.5
Taxi and Limousine Service	14.7
Water Transportation	7.5
Pipeline Transportation of Natural Gas	1.7
Crude Oil and Other Pipeline Transportation	1.5
Urban Transit Systems	1.4
Farm Product Warehousing and Storage	1.3
All Other Transit and Ground Passenger Transportation	1.0
Scenic and Sightseeing Transportation	0.7
Interurban and Rural Bus Transportation	0.3
<b>Total Trade &amp; Transportation Industry Jobs Supported by 10,000 Housing Starts</b>	<b>2,743.7</b>

<b>Manufacturing Industry Jobs Supported by 10,000 Housing Starts</b>			
Ornamental and Architectural Metal Products	356.8	Textile Bag and Canvas Mills	5.4
Wood Kitchen Cabinet and Counter Top	313.0	Other Rubber Product	5.2
Sawmills and Wood Preservation	232.1	Soap and Cleaning Compound	5.2
Miscellaneous Plastic Product	188.8	Paperboard Mills	5.1
Wood Window and Door	170.8	Doll, Toy and Game	4.9
Ready-Mix Concrete	136.0	Support Activities for Printing	4.8
All Other Wood Product	133.1	Tires	4.6
All Other Plate Work and Fabricated Structural Product	127.4	Switchgear, Industrial Control Apparatus	4.0
Other Millwork	121.6	Pump and Compressor	3.7
Concrete Product	93.8	Motor Vehicle Plastic Parts	3.6
Ventilation, Heating, Air-Conditioning, etc.	70.0	Cut and Sew Clothing Contracting	3.5
Plastic Pipe, Pipe Fitting and Unsupported Profile Shape	64.4	Metal Can, Box and Other Metal Container (Light Gauge)	3.5
Veneer and Plywood Mills	60.8	Ferrous Metal Foundries	3.4
Lime and Gypsum Product	52.6	Cutlery and Hand Tool	3.4
Machine Shops	44.6	Newsprint Mills	3.4
Structural Wood Product	42.0	Hardware	3.3
Other Non-Metallic Mineral Product	40.8	Iron and Steel Pipes and Tubes from Purchased Steel	3.3
Printing	40.4	Rubber and Plastic Hose and Belting	3.3
Clay Product and Refractory	38.7	Office Furniture (including Fixtures)	3.3
Iron and Steel Mills and Ferro-Alloy	31.3	Rolling and Drawing of Purchased Steel	3.3
Asphalt Paving, Roofing and Saturated Materials	31.0	Women's and Girls' Cut and Sew Clothing	3.2
Other Fabricated Metal Product	30.5	Semiconductor and Other Electronic Component	3.0
Paint and Coating	25.3	Fabric Mills	3.0
Carpet and Rug Mills	24.4	Sporting and Athletic Goods	2.9
Cement	24.3	Mining and Oil and Gas Field Machinery	2.7
Paperboard Container	23.7	Other Basic Chemical	2.6
Household Furniture	21.1	Plastic Bottle	2.6
Glass and Glass Product	20.3	Medical Equipment and Supplies	2.5
Coating, Engraving, Heat Treating and Allied Activities	19.8	Bread and Bakery Product	2.4
Electric Lighting Equipment	19.4	Men's and Boys' Cut and Sew Clothing	2.3
Household Appliance	18.7	Industrial Gas	2.3
Other Communications Equipment	18.5	Telephone Radio and Wireless Communication Equipment	2.2
Particle Board, Fibreboard, and Waferboard Mills	16.6	Dairy Product	2.2
<i>Continued on next page...</i>			

<b>Manufacturing Industry Jobs Supported by 10,000 Housing Starts (cont'd)</b>			
Polystyrene, Urethane and Other Foam Product	16.5	Other Converted Paper Product	2.1
Paper Bag and Coated and Treated Paper	14.3	Laminated Plastic Plate, Sheet and Shape	2.1
Petroleum Refineries, Petroleum and Coal Products	13.9	Aerospace Product and Parts	2.1
Communication and Energy Wire and Cable	12.4	Non-Ferrous Metal (except Aluminium) Smelting and Refining	2.0
Resin, Synthetic Rubber, Synthetic Fibres and Filaments	11.8	Pulp Mills	2.0
Signs	11.7	Other Furniture-Related Product	1.9
Forging and Stamping	11.4	Boat Building	1.9
Unsupported Plastic Film, Sheet and Bag	10.4	Motor Vehicle	1.7
Other Chemical Product	10.3	Fruit and Vegetable Canning, Pickling and Drying	1.7
Prefabricated Metal Building and Component	9.8	Power, Distribution and Specialty Transformers	1.6
Motor Vehicle Parts	9.7	Construction Machinery	1.6
Navigational, Measuring, Medical and Control Instruments	9.1	Animal (except Poultry) Slaughtering	1.6
Spring and Wire Product	9.1	Clothing Accessories and Other Clothing	1.6
Non-Ferrous Metal Foundries	8.7	Pesticides, Fertilizer and Other Agricultural Chemical	1.6
Power Boiler and Heat Exchanger	7.5	Agricultural Implement	1.5
Turned Product and Screw, Nut and Bolt	7.4	Animal Food	1.5
Pharmaceutical and Medicine	7.4	Motor and Generator	1.4
Wood Container and Pallet	7.4	Breweries	1.4
Metalworking Machinery	7.1	Ship Building and Repairing	1.4
Industrial, Commercial and Service Industry Machinery	6.8	Engine, Turbine and Power Transmission Equipment	1.4
Adhesive	6.8	Curtain and Linen Mills	1.4
Paper (except Newsprint) Mills	6.3	Stationery Product	1.3
Jewellery, Silverware and All Other Miscellaneous	6.2	Other Miscellaneous Food	1.3
Aluminium Rolling, Drawing, Extruding and Alloying	6.2	Rendering and Meat Processing from Carcasses	1.3
Material Handling Equipment	5.9	Motor Vehicle Body and Trailer	1.1
Wiring Devices, Electrical Equipment and Component	5.7	Other Cut and Sew Clothing	1.0
Primary Production of Alumina and Aluminium	5.7	Other Transportation Equipment	1.0
All Other General-Purpose Machinery	5.6	Seafood Product Preparation and Packaging	1.0
Metal Tank (Heavy Gauge)	5.5	Other	15.2
All Other Textile Product Mills	5.4		
<b>Total Manufacturing Industry Jobs Supported by 10,000 Housing Starts</b>			<b>3,087.3</b>

<b>Service Sector Jobs Supported by 10,000 Housing Starts</b>	
Other Administrative and Support Services	241.0
Architectural, Engineering and Related Services	195.3
Legal, Accounting, Tax Preparation, Bookkeeping and Payroll Services	181.4
Other Professional, Scientific and Technical Services	177.9
Banking and Other Depository Credit Intermediation	148.5
Food Services and Drinking Places	121.0
Management of Companies and Enterprises	118.0
Repair and Maintenance (except Automotive Repair and Maintenance)	93.9
Computer Systems Design and Related Services	73.7
Securities, Commodity Contracts, Funds, Etc.,	67.3
Advertising and Related Services	59.5
Services to Buildings and Dwellings	59.3
Newspaper, Periodical, Book and Directory Publishers (except by Internet)	58.1
Traveller Accommodation	55.8
Offices of Real Estate Agents and Brokers and Activities Related to Real Estate	54.5
Telecommunications except Cable and Other Program Distribution	52.1
Investigation and Security Services	48.4
Grant-Making, Civic, and Professional and Similar Organizations	44.7
Automotive Repair and Maintenance	43.7
Rental and leasing and Lessors of Non-Financial Intangible Assets	38.3
Lessors of Real Estate	35.2
Agencies, Brokerages and Other Insurance Related Activities	29.9
Travel Arrangement and Reservation Services	27.9
Insurance Carriers	27.8
Other Schools, Instruction and Educational Support Services	25.9
Local Credit Unions	25.0
Amusement and Recreation Industries	23.9
Non-Depository Credit Intermediation and Activities Related to Credit Intermediation	23.7
Radio and Television Broadcasting (except Internet)	22.0
Performing Arts, Spectator Sports and Related Industries	21.3
Personal Care Services and Other Personal Services	14.4
Automotive Equipment Rental and Leasing	12.1
Motion Picture and Video Production, Distribution, Post-Production, etc.,	11.8
Waste Management and Remediation Services	11.1
Software Publishers	10.0
Data Processing, Hosting, and Related Services	9.3
Dry Cleaning and Laundry Services	6.3
Offices of Physicians	4.6
Miscellaneous Ambulatory Health Care Services	3.3
RV Parks, Recreational Camps, and Rooming and Boarding Houses	2.2

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<b>Service Sector Jobs Supported by 10,000 Housing Starts (cont'd)</b>	
Sound Recording Industries	1.9
Pay and Specialty Television	1.7
Cable and Other Program Distribution	1.6
Other Information Services	1.5
Social Assistance	1.4
Motion Picture and Video Exhibition	1.2
Gambling Industries	1.1
Other	2.1
<b>Total Service Sector Jobs Supported by 10,000 Housing Starts</b>	<b>2,295.0</b>

<b>Government Sector Jobs Supported by 10,000 Housing Starts</b>	
Municipal Government Services	30.4
Federal Government Services including Defence	20.6
Provincial and Territorial Government Services	13.3
Hospitals	10.9
Universities	10.5
Government Community Colleges and C.E.G.E.P.s	3.9
Government Elementary and Secondary Schools	1.4
Other Non-Profit Institutions Serving Households	1.2
Non-Profit Sports and Recreation Clubs	1.0
Government Residential Care Facilities	0.3
Non-Profit Education Services	0.3
<b>Total Government Sector Jobs Supported by 10,000 Housing Starts</b>	<b>93.8</b>