



FINANCING FUTURE COMMUNITIES

*Innovative Finance for
Urban Spaces and Places*

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An Action Canada Task Force Report
February 2015

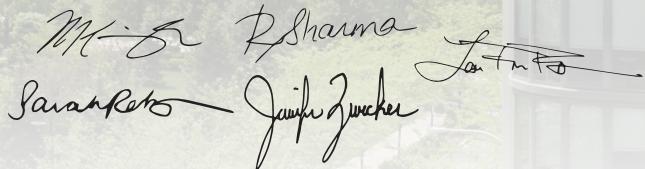


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EXECUTIVE SUMMARY

Urban areas are engines of economic growth. Canada's competitiveness is increasingly linked to its cities' capacity to be innovative, productive and competitive by attracting human capital and investment. A city's competitiveness is intimately linked to urban public spaces that attract people to Canadian cities. These urban spaces and places – such as streets, parks, bike paths, recreation areas, plazas and other publicly-owned spaces – are the 'hubs' around which communities organize. They provide a sense of identity, belonging and inclusion, which can improve physical and mental health, spiritual and cultural well-being, creative expression and overall quality of life.

Today, municipalities face tight budgets and increased pressure for every infrastructure decision they make. Attention to urban spaces and places often takes a backseat to traditional infrastructure needs such as roads, bridges, water and sewers. In Canada, there is an estimated \$15.25 billion deficit in recreational and cultural infrastructure funding.¹

However, new and innovative finance mechanisms for these spaces are emerging, such as crowdfunding, community bonds, municipal bonds and hybrid instruments. There is significant potential to use these innovative finance tools to revitalize and develop urban public spaces. This potential is being realized or explored by numerous stakeholders, including the various levels of government, citizen groups, individual Canadians and private sector partners. Each work within the parameters of multi-jurisdictional rules and regulations. Within this context – citizens' expressed need for urban spaces and places, cities' tight

budgets, and complex rules and regulations – there are two primary barriers that impede the utilization of innovative finance tools:

- Governments and stakeholders lack knowledge about the innovative finance tools that are available, and
- Governments need new policies to guide their engagement with stakeholders about innovative finance tools for the development of urban spaces and places.

Governments need clearly-defined policies to utilize and/or regulate emerging finance tools. Municipal governments need a policy to guide their "on the ground" engagement with emerging finance tools that can be used for urban public space development. This report proposes a framework for such a policy, which may comprise elements of other existing policies and regulations. Provincial governments need to better communicate and adapt regulations to the issuance of small-scale, socially-focused securities, and to explore the possibility of tax exemptions for finance tools such as municipal bonds. The federal government needs to ensure that federal charity laws, which affect municipalities, are adapted to the use of emerging finance technologies. There is also need for a national forum, such as those organized by the Federation of Canadian Municipalities, that focuses on innovative finance so that municipal practitioners, elected officials and decision-makers can exchange ideas and discuss best practices and case studies for using emerging finance tools. Furthermore, the Federation of Canadian Municipalities should monitor and share best practices for using innovative finance methods.

SUMMARY OF RECOMMENDATIONS

RECOMMENDATIONS AT THE LOCAL LEVEL

- 1 Identify an internal "champion" on issues of innovative finance tools.
- 2 Municipal governments need a policy framework to guide their engagement with innovative finance tools that may be used for urban public space development.
 - 2.1 Develop a communications plan.
 - 2.2 State policies around corporate branding and use of city logo.
 - 2.3 Address licensing issues.
 - 2.4 Identify and address potential issues of inequality.
- 3 Engage a variety of stakeholders through user-friendly policies and citizen-centric approaches.

RECOMMENDATIONS AT THE PROVINCIAL LEVEL

- 4 Provincial governments and their Securities Commissions should highlight reporting and compliance exemptions that are available to socially-focused or charitable organizations.
- 5 Provincial governments should explore the opportunity of tax exemption for municipal bonds.

RECOMMENDATIONS AT THE NATIONAL LEVEL

- 6 The federal government should adapt its charity laws to accommodate municipality-approved urban public space projects that are using crowdfunding.
- 7 The Federation of Canadian Municipalities should monitor and share information on best practices for using innovative finance methods.

BACKGROUND

Canada is approaching its 150th birthday, and much has changed since Confederation. Most Canadians now live in urban areas rather than rural ones, increasing cities' density and reducing available living space.

Historically, urban public spaces have been vital to the vibrancy of urban centers. Public parks and squares – such as Queen's Park in Toronto, Canada's first municipal park that opened in 1860 – have been important social, cultural and historical gathering places. These were the sites of military parades, memorial services, political gatherings, markets and public speakers' forums. In 1884, C. Pelham Mulvany described Toronto's parks and public gardens as "the lungs of the city." He declared "the Queen's Park is emphatically the people's park of Toronto."²

As Canada moves into its next 150 years, a critical question arises: how will Canada's cities manage density? With living quarters increasingly shrinking,

urban public spaces, the "new urban living room,"³ are more important than ever.

Public infrastructure has been described as a key driver in Canada's success as a nation.⁴ However, with Canada's municipal infrastructure deficit estimated estimated in the billions,⁵ traditional revenue sources often fail to meet the growing demand for municipal infrastructure. This fiscal reality means that cities face tight budgets and increased public pressure around every infrastructure decision they make. Consequently, and understandably, cities often prioritize investing in traditional infrastructure – such as roads, bridges, water and sewer – rather than investing in urban spaces and places such as parks, bike paths, streetscapes, recreation areas, green spaces, and public squares. As a result, citizens and community organizations are spearheading the development of the urban public spaces they desire, and are increasingly turning to emerging innovative finance tools such as crowdfunding and community bonds to do so.



"Central spaces in urban areas can very much become the lifeblood of a city and define its character and personality."

~ Toronto citizen

"Many everyday spaces that could greatly improve quality of life and help build communities – such as small public spaces and streetscapes – are often underfunded."

~ Vancouver citizen

THE PROBLEM

Innovative finance tools are emerging that are being used or explored by various levels of government, community organizations and private sector partners⁶ to fund the development of urban spaces and places. Each work within the parameters of complex, multi-jurisdictional rules and regulations.

Within the context of citizens' expressed need for urban spaces and places, cities' tight budgets and complex rules and regulations, our research has

uncovered two primary barriers that impede the utilization of innovative finance tools:

- Governments and stakeholders lack knowledge about the innovative finance tools that are emerging, and
- Governments need new policies to guide their engagement with stakeholders about innovative finance tools for the development of urban public space projects.

THE NEED FOR URBAN SPACES AND PLACES

Urban spaces and places are publicly-owned areas such as streets, parks, bike paths, streetscapes, recreation areas, green spaces and public squares. They are key components that enhance quality of life and well-being in Canadian cities.⁷ Public spaces are the 'hubs' around which communities organize. Both historically and currently, public spaces provide a sense of community, identity, belonging and inclusion, which can improve physical and mental health, spiritual and cultural well-being, and creative expression.⁸ For example, an early urban planning effort called the City Beautiful Movement was active in Canada from 1893 to 1930 and recognized the importance of urban public space. It promoted the planned creation of civic beauty through architectural harmony, unified design and visual variety. This

movement ranged from creating civic centres (such as the Wascana Centre in Regina) to tree-lined boulevards, parks and parkway systems.⁹

Urban spaces and places help create strong, attractive, vibrant cities. They enhance a city's quality of life and competitiveness by attracting the skilled workers and investment that fuel economic growth. In a knowledge-based society whose mobile population has global opportunities, a city's capacity to attract human capital and generate revenue is crucial.¹⁰ A city's competitiveness is therefore linked to the quality of life it offers. There are also other economic benefits of urban public spaces, such as increasing nearby property values,¹¹ and attracting and retaining businesses and promoting tourism.¹²



"Spaces and places within the public realm foster strong community ties."

~ Vancouver citizen

"We need more green spaces and places that are attractive for talented people so they will move to Canadian cities."

~ Toronto citizen

MULTI-JURISDICTIONAL FACTORS

Complex, multi-jurisdictional laws, regulations and policies constitute the current framework within which

stakeholders engage with innovative finance tools to develop urban spaces and places.

FEDERAL GOVERNMENT:

Although the Constitution ascribes to the provinces all matters related to municipal affairs, some federal laws, policies and activities affect municipalities. For example, the federal government owns vast waterfront lands in major Canadian cities such as Vancouver, Toronto and Montreal.

Federal spending power, notably through the Community Improvement Fund in Infrastructure Canada's *New Building Canada Plan*, acts as an incentive for municipalities to prioritize projects to which the federal government may contribute.

Federal charity laws provide registered charitable

organizations and municipalities with the authority to issue tax-deductible receipts for donations. By making these types of donations tax-deductible, the federal government encourages citizens to give to charitable organizations and to municipalities. Currently, access to tax-deductible receipts is not possible if a registered charity or municipality is not leading the project being donated to. This acts as a constraint to citizen-led urban public space development projects that seek donations through means such as Internet-based crowdfunding platforms. Citizen-led projects are often short-term and small scale, making it time-consuming to link up with a registered charity or organization.

PROVINCIAL GOVERNMENTS:

Provinces specify the scope of municipal powers and define their capacity to raise revenue.¹³ These governance issues are not addressed within the scope of this report.

From a provincial perspective, the role of Securities Commissions and the power to institute tax credits

is important. Securities legislation currently provides exemptions in the form of reduced reporting and compliance requirements for many charitable organizations and private corporations. These exemptions save small-scale, private securities issuers thousands of dollars in administrative costs, enhancing their ability to issue securities.

MUNICIPAL GOVERNMENTS:

Municipalities adopt policies and plans to regulate the creation, renewal and rehabilitation of urban public spaces. They have development plans¹⁴ and investment strategies to increase the vibrancy of local neighbourhoods. Most have bylaws aimed at regulating and serving citizens with a range of accessible, inclusive and safe urban spaces and places. An example is Edmonton's Great Neighbourhoods Business Investments initiative.¹⁵ Another is the City of Toronto's Strategic Plan¹⁶ for development, coupled with chapter 71 of its

municipal bylaws that regulate donations, prohibit branding and limit the value of individual donations. Stakeholders often find it challenging to engage with cities' complex plans and bylaws, and capacity to do so varies in each municipality. Navigating these policies and communicating with different municipal departments can be a barrier to stakeholder engagement. Municipalities need to streamline and clarify existing policies to better engage with innovative finance tools, and to help citizen-led groups more easily engage with municipal practices.

FUNDING URBAN SPACES AND PLACES

Canadian municipalities typically fund development projects through their consolidated fund with revenue raised from property taxes, borrowed through the issuance of municipal debt, or transferred from provincial and federal governments. These finance methods have been cities' primary fiscal tools since Confederation.

However, these traditional methods are inflexible and can decrease municipal financial sustainability over time.¹⁷ Moreover, federal and provincial governments are downloading ever-higher percentages of capital project costs to municipalities. Figures from Statistics Canada show that the municipal share of total infrastructure costs has increased from 27% in 1955 to 48% in 2003.¹⁸

Inadequate revenues, coupled with federal and provincial downloading, have resulted in a municipal infrastructure deficit. Although the exact figure is contested, in 2007 the Federation of Canadian Municipalities estimated the infrastructure deficit in Canada at approximately \$123 billion, of which \$40.2 billion relates to community, recreational, cultural and social infrastructure.¹⁹ As of 2008, municipal governments spent approximately 12.4% of their budgets on 'recreational and cultural infrastructure,'²⁰ which is the most appropriate approximation for urban public space infrastructure. If we apply this percentage of spending to the overall infrastructure deficit, we arrive at a figure of \$15.25 billion as the deficit related specifically to recreational and cultural infrastructure.

EMERGING INNOVATIVE FINANCE MECHANISMS

New and diverse streams of revenue are helpful for funding the increasing demand for urban public spaces and overcoming some of the constraints of traditional revenue sources. However, in our research and consultations with government entities and stakeholders we discovered that there is a lack of knowledge about these innovative finance mechanisms, as well as their potential implementation. We describe some of these innovative tools below, organized into three suggested categories:

- tools for urban public spaces that can generate revenue
- tools for urban public spaces that will not generate revenue
- hybrid instruments

REVENUE GENERATING PROJECTS

Revenue-generating projects are those in urban spaces and places that can be commercialized in some way, such as allowing for the sale of goods or services, imposing a fee for use or occupancy, or by accepting corporate gifting. A simple example is a public swimming pool that users must pay to use. The goal of creating these kinds of urban public facilities and spaces is to make them self-financing and protected from fluctuations in the economy or public finance. There are two suggested innovative finance mechanisms to consider in these cases: shares (equity) or bonds (debt).

While shares and bonds have been common tools for raising capital in the private sector for centuries, their unique application to the development of urban spaces and places can provide innovative solutions to current municipal financial shortfalls.

SHARES

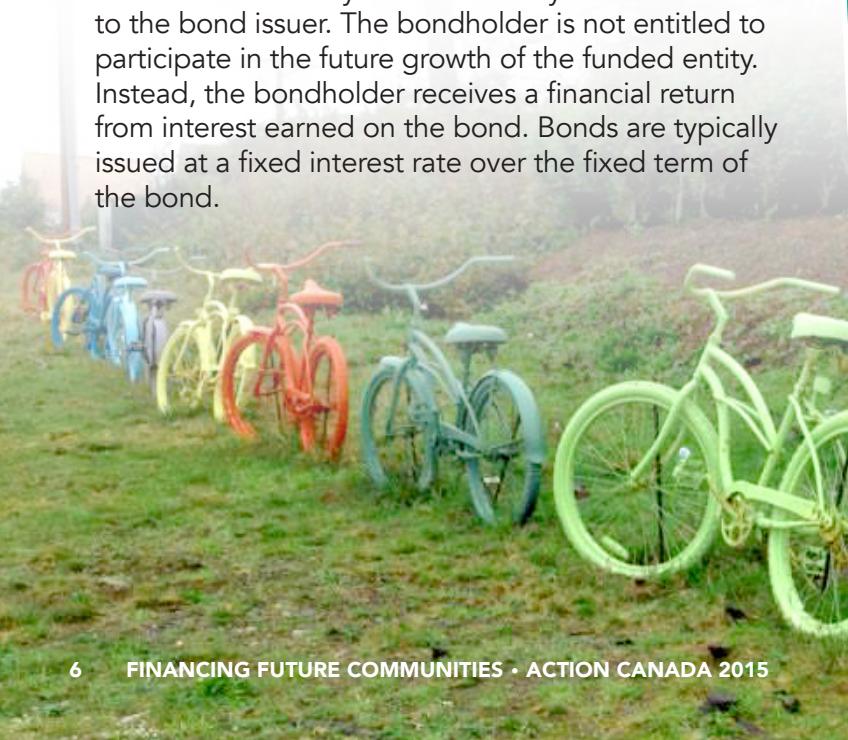
Shares, or equity, provide the shareholder with an ownership interest in an organization or entity. The shareholder is entitled to share in future growth. Financial return is primarily gained from the holder's right to sell their shares at a higher price than they were purchased for.

However, precautions should be taken when using shares as a tool to finance public spaces. Because shares traditionally provide the shareholder with an ownership interest, issuing shares for an entity that is developing a community space may cause controversy about the privatization of public space. Privatization of urban public space undermines the concept of "the commons" and may be seen as reducing diversity of use and access by the public.

When issuing shares, governments, community organizations and other stakeholders must consider the organizational structures used to issue those shares. Corporations or Investment Funds are two such structures that could be created with the particular goal of investing in the development of urban spaces and places. If the space in question contains an acceptable level of retail or commercial development, those revenues could provide financial return to the shareholders. This structure, analogous to certain types of Public-Private Partnerships, would minimize controversy surrounding private ownership of public space, while allowing for individuals to invest in urban spaces and places with an expectation of financial return.

BONDS

A bond is essentially a loan made by the bondholder to the bond issuer. The bondholder is not entitled to participate in the future growth of the funded entity. Instead, the bondholder receives a financial return from interest earned on the bond. Bonds are typically issued at a fixed interest rate over the fixed term of the bond.



COMMUNITY BONDS

Community Bonds are an emerging innovative finance mechanism that offers great potential. These bonds are issued under the same regulatory regime as traditional bonds. They are interest-bearing loans that allow a not-for-profit or charitable organization to leverage its supporters' investment to pursue its mission. Community bonds help the organization obtain needed capital while providing both financial and intangible returns (such as feeling good about investing in a not-for-profit organization) to bondholders. An example is Toronto's Centre for Social Innovation (CSI). The CSI has raised several million dollars by issuing community bonds, and has used those funds to purchase several buildings which house and support social enterprises.¹⁹

MUNICIPAL BONDS

Municipal bonds are another example of a debt finance tool used to fund public projects. While municipalities have long had the authority to issue bonds, some municipal governments have raised significant funds by making small innovations in this existing finance tool. An example is the municipality of Denver, Colorado, which recently issued small-denomination municipal bonds (also called mini-bonds or muni-bonds).

Offering bonds in smaller denominations can provide access to greater levels of capital and engage more citizens in public space development. An online platform, Neighbor.ly (<https://neighbor.ly>), is now building a platform for cities to provide bond issuances in the same manner as Denver has.²³

While most municipal bonds are available in denominations of \$5000, Denver mini-bonds are affordable, general obligation municipal bonds that cost \$500. Only Colorado residents can purchase them. These mini-bonds are being used to complete the final phases of Better Denver projects, particularly improvements to the city's cultural facilities. Since voters approved the bond issue in 2007, the City has invested more than \$538 million in restoring, refurbishing, and replacing city infrastructure.²²

"Being the level of government 'closest to the ground,' municipalities receive the most complaints and pressure about infrastructure."

~ Vancouver citizen

"Infrastructure and public space development can contribute to cities' community development and competitiveness."

~ Montreal citizen

"Many everyday spaces that could greatly improve quality of life and help build communities – such as small public spaces and streetscapes – are often underfunded."

~ Vancouver citizen

NON-REVENUE GENERATING PROJECTS

Projects that do not carry a future revenue stream are difficult to lend against, or invest in, through the tools described above. As such, the suggested innovative methods for financing non-revenue generating projects are crowdfunding, which is an online,

donation-based platform, and opt-out donations. While crowdfunding can offer some form of return, we assume here that it would be donation-based in the context of funding urban spaces and places.

CROWDFUNDING

Despite its recent popularity due to accessible Internet platforms, crowdfunding has been a method of financing urban public spaces for centuries. For example, in 1885 a newspaper's crowdfunding campaign to finance the Statue of Liberty's pedestal resulted in \$100,000 raised from 160,000 donors in five months (a modern-day equivalent of \$2.3 million).²⁴ Crowdfunding enables citizens to contribute money towards the completion of a particular project, most recently through Internet platforms. Various platform models currently exist. For example, the money given may be pure charity, may result in a small symbolic return, may pre-purchase a particular product, or may involve large-scale recognition and branding.

Crowdfunding's contemporary incarnation through Internet platforms has recently received media attention due to their popularity with citizens and community groups. A few civic-focused examples are: *Citizinvestor*, a crowdfunding and civic engagement platform for United States local government projects;²⁵ *IOBY*, a crowd-resourcing platform for citizen-led, neighbour-funded projects in the United States;²⁶ and *Spacehive*, developed in the United Kingdom, the world's first Internet-based crowdfunding platform for civic projects.²⁷

OPT-OUT DONATIONS

Another suggested tool to collect donations for public space projects is opt-out donations. The

opt-out opportunity to donate to a specific project is attached to the purchase of a municipal service. For example, when an individual renews their driver's license, they can be given a checkbox on the form to opt-out of donating \$5 to an urban public space project. Another example is giving citizens the opportunity to opt-out of donating an extra amount when they pay at a parking meter. This requires the citizen to consider what is being proposed and take the initiative to decline.

HYBRID INSTRUMENTS

Hybrid instruments can have characteristics of shares (equity), bonds (debt) and a charitable donation. There can be many variations of a hybrid instrument, depending upon the creativity and ingenuity of its creator. These instruments are inherently innovative, which makes them a most interesting tool for financing the development of urban spaces and places. For example, if an organization issues a community bond and is unable to pay the bondholder the stated amount of interest, the difference between the interest paid and the interest promised could be converted into a charitable donation for which the holder would receive a tax credit. Unique structures such as this may serve to increase the use of innovative finance tools by organizations that might otherwise be concerned with their ability to pay back certain obligations to their bondholders.

STAKEHOLDER ENGAGEMENT

Stakeholder engagement is critical for the successful development of urban spaces and places. Engagement brings together citizens, government, businesses, not-for-profits, community organizations and a variety of stakeholders around a common project. Consultation helps ensure urban public spaces are relevant to and supported by the local community. It can help clarify common goals, pinpoint project barriers, set priorities and identify agents for change (such as by amending municipal policies or persuading key people to support the project).

Stakeholder engagement can be particularly helpful in overcoming resistance to or uncertainty around innovative finance methods.

Since each community and project is different, there is no “one size fits all” approach to stakeholder engagement. Consultation strategies should relate to locally-accepted practices, available opportunities, cultural sensitivities and resources at hand. Municipalities need to consider diverse strategies such as surveys, social media, public dialogues, information sessions and town hall meetings.

Urban public space and advocacy organizations are emerging in many Canadian cities and can be great resources for local research, outreach and new perspectives on the urban spaces and places that a community needs. Grassroots organizations such as the Vancouver Public Space Network and the Toronto Public Space Initiative play a key role in advocacy, education and engagement about public space issues within their respective cities. They also add greatly to the organization of community consultation processes.

The Society for Children and Youth of BC involved children and youth in creating their Child and Youth Friendly Communities project. By getting young people involved, they promote children’s need for safe, healthy communities where they can thrive, and they create habits of civic engagement.²⁸

and funds. Similarly, *JeVoisMtl.com* is an initiative to encourage the involvement and contribution of Montrealers to identify issues and prioritize actions that may add to the city’s prosperity. Both demonstrate a grassroots community-building approach by providing the opportunity and the means to crowd-source ideas.

Some cities such as Ottawa and Hamilton have been using a new budget planning mechanism called ‘participatory budgeting’. This approach enables citizens to directly contribute to the budget planning process with their city’s finance department through means such as meetings, committees, community consultations and voting on certain projects. This gives constituents the power to prioritize certain municipal expenditures.

These strategies encourage citizen engagement, awareness and acceptance of planned expenditures. The success of these mechanisms lie in their multiple and varied approaches to engaging stakeholders.

“Crowdfunding can be a realistic way to demonstrate a community’s support for a project.”

~ Montreal citizen



Online platforms are emerging that facilitate stakeholder engagement and collaborative community building. For example, *RaiseAnAim.org* is designed to help cities convert ideas into projects through civic engagement and the crowdsourcing of ideas

RECOMMENDATIONS

Municipalities often face financial limitations and complex policy and regulatory challenges. However, the need for urban spaces and places remains. In response to this need, emerging innovative finance tools are being used more frequently to fund the development of urban public space projects.

Two primary barriers exist that impede the utilization of these emerging tools: a *lack of knowledge* about innovative finance mechanisms, and *the need for new policies* that enable governments and citizens to engage with the new mechanisms. Within this context, we offer the following recommendations.

RECOMMENDATIONS AT THE LOCAL LEVEL

1 Identify an internal “champion” on issues of innovative finance tools

Innovative finance mechanisms may not be well-known or understood, and may be regarded with uncertainty or discomfort by municipal governments. Resistance to or caution around the adoption of new practices is natural. A lack of information about a new practice being proposed contributes to

resistance and uncertainty. One way for municipal governments to mitigate this is to identify an internal “champion” who understands emerging finance tools. This person can provide information, identify best practices and advocate for necessary change in municipal policies.

2 Municipal governments need a policy framework to guide their engagement with innovative finance tools that may be used for urban public space development

This may simply involve pulling relevant elements from existing policies and regulations into one ‘umbrella policy’ that is relevant to urban public space projects seeking to use innovative finance tools. Such a policy would not only benefit municipal government processes, but would help citizen-led project groups better understand municipal guidelines related to the projects they are leading.

Some boroughs in Montreal have initiated projects to

“green” alleys. Three elements have contributed to the success of these projects. First, these boroughs have a clear policy determining the stakeholders and the process to encourage community buy-in. Second, boroughs make goods (in this case soil, plants, tools, etc.) and small amounts of funding available to kickstart the greening of alleys; local residents typically take over the greening. Third, boroughs have employees who facilitate relations between the city administration and the stakeholders.

2.1 Develop a communications plan to ensure transparency, accountability and open communication

Public perception of how tax dollars are spent is an important consideration for elected officials. Municipalities need to develop a clear communications plan to identify which entity is leading an urban public space development project, and where the funding is coming from. While urban spaces and places are important for the competitiveness and quality of life in a city, tensions can occur between funding these projects

versus funding traditional infrastructure. If a city council worries that it will be perceived as spending tax dollars on ‘non-essential’ projects, such as a public art installation, they may be even less inclined to engage with an innovative funding tool because the project is already seen as potentially controversial for taxpayers. Municipal leaders need to communicate clearly and transparently with taxpayers and other stakeholders.

2.2 State policies around corporate branding and use of city logo

Municipalities need to engage in proactive dialogue with stakeholders to discuss values and lay out rules around corporate branding and/or company endorsement in the public realm. Cities may need to examine their advertising policy, or create one, in light of the declared values they wish to promote.

For example, a project may face corporate

branding considerations such as a company offering to donate an amount of money in exchange for company logos or colours in a public space. Project organizers must consider the values they wish to promote, and a city may have to determine whether what is being proposed is consistent with advertising by-laws. Similarly, if a project offers to acknowledge donors’ names within an urban public space (such as on a

recognition plaque) this may violate a municipality's advertising policy. Cities need to examine their policies to determine how and under what circumstances donor recognition is permissible.

The city may want to include "use of logo" as a section of their communications plan. If a citizen-led project seeks municipal political support, the citizen group may ask to use the city's logo on published material, websites or crowdfunding platforms. Cities need to confirm what their position is regarding the use of their logo for projects they are not leading.

A community group approached a municipality to donate a First Nations art statue that they planned to purchase through crowdfunding. The community group was simply seeking political support, but councilors were worried that constituents might believe they were "spending taxpayers' dollars on art". The municipality had to be very clear that taxpayers' dollars were not used as funding, and that the municipality was not leading the project. This approach made the project a success.



2.3 Address licensing issues

Cities may need to provide their licensing guidelines to partnering organizations. For example, one municipality ran a pilot parklet program for which a local coffee shop applied. The coffee shop paid for the parklet's design, materials and construction, and it was built outside the coffee shop on the street. However, the City remained the parklet's owner and it remained a public space – you need not purchase anything to use it. Due to municipal licensing policies, the coffee shop understood in

advance that they would not be able to provide table service to people sitting on the parklet because it is a public space. However, they agreed to be responsible for the parklet's maintenance.

As in this example, municipalities need to provide their licensing guidelines to partnering organizations in advance so that solutions can be agreed upon before the project begins.

2.4 Identify and address potential issues of inequality

Innovative finance tools may inadvertently provide advantages to wealthy neighbourhoods. Since residents of low-income communities typically have less disposable income than residents of wealthy communities, they are often less able to invest in or contribute to local organizations or projects through the innovative tools we have suggested. For municipal governments to pursue fairness and equity for all city residents, creative solutions are required to ensure that these market-led innovative finance tools – shares, bonds and crowdfunding – do not create inequalities and widen socio-economic gaps.

'Match funding' and 'differential match funding' are such solutions to this problem that cities can commit to, or promote to other donors. This idea

is to fill gaps in available funding for low-income community projects by providing match funding, or matching funds at a higher ratio (1:1, 2:1, 3:1, and so on) than would be provided to projects in wealthier areas. Through this approach, low-income community projects receive greater amounts of financial support to offset challenges in raising funds from within the community itself. Socio-economic neighbourhood profiles (based on household income) could be used to determine a community as low-income. An example of match funding is in the City of Tyler, Texas, which agreed to match donations crowdfunded on Neighborly to the Children's Park of Tyler campaign, an initiative to expand a neighbourhood park.²⁹

3 Engage a variety of stakeholders through user-friendly policies and citizen-centric approaches

Consulting with diverse groups of stakeholders improves the relevance and utility of urban spaces and places. Municipalities should adopt user-friendly practices and policies that encourage a citizen-centric approach to enable the city and

communities to work together on innovative solutions to urban issues. As innovative finance tools may be met with some resistance, engaging stakeholders is essential to facilitating change and mitigating potential issues.

A municipality was working to set up an urban public space that included picnic tables in a busy downtown area. A business improvement association (BIA) approached the city and offered to donate umbrellas for the picnic tables, but the umbrellas had the BIA's logo on them. The city decided it did not want branding featured in the public space, and so declined the offer.

A Vancouver community group led a crowdfunding campaign to raise money for a parklet in Vancouver. The community group would pay for the parklet's design, materials and construction costs, but the City would own it. The City of Vancouver supported the group's efforts to raise money through crowdfunding, but issues of branding, logistics and timing emerged. Setting clear expectations through a communications plan would have helped deal with these concerns.

RECOMMENDATIONS AT THE PROVINCIAL LEVEL

4 Provincial governments and their Securities Commissions should highlight reporting and compliance exemptions that are available to socially-focused or charitable organizations

Securities Commissions should consider expanding and promoting current policies that allow for exemptions through reduced reporting and compliance requirements for organizations that are charitable, socially-focused, or that are leading projects for urban spaces and places in collaboration with

municipal governments. Furthermore, the specific ability of socially-focused organizations to obtain these exemptions must be clarified and publicized as a public service to incentivize social entrepreneurship through securities issuances.

5 Provincial governments should explore the opportunity of tax exemption for municipal bonds

Bonds are tools available to municipalities to finance projects, notably to potentially finance urban public space development. Provincial governments should provide tax exemptions to promote the use of

this tool by municipalities, and to encourage the purchase of municipal bonds by citizens. An example of this practice exists in Ontario with the Ontario opportunity bond.³⁰



RECOMMENDATIONS AT THE NATIONAL LEVEL

6 The federal government should adapt its charity laws to accommodate municipality-approved urban public space projects that are using crowdfunding

Internet-based crowdfunding platforms make it easier than ever for short-term or small-scale urban public space projects to be funded by informal groups of people. Under current charity laws, donations to many of these crowdfunded projects are not eligible for tax receipts because they are citizen-led rather than being led by registered charities or municipalities.

The government of Canada should acknowledge

evolving charitable practices by reviewing and adapting laws and regulations to ensure that municipality-approved, crowdfunded urban public space projects are able to provide tax-deductible receipts to donors, even if the project is not led by a registered charity or municipality. This will encourage community engagement and project financing through the use of crowdfunding platforms, and will help facilitate the development of urban spaces and places.

7 The Federation of Canadian Municipalities should monitor and share best practices for using innovative finance methods

We discovered through our research and consultations that many municipal entities and stakeholders lack knowledge about innovative finance tools and their potential role in developing urban public spaces. More resources and greater efforts are needed to increase awareness among municipal practitioners, elected officials and decision-

makers. A national forum will help address the unique policy challenges involved in the use of innovative finance. The Federation of Canadian Municipalities appears well-situated to take on the task of building awareness within cities about how to engage with these innovative finance mechanisms by sharing best practices and case studies about their use.

CONCLUSION

Innovative finance mechanisms such as shares, community bonds, municipal bonds, hybrid instruments and crowdfunding present great opportunities to develop urban spaces and places. These tools encourage Canadians to contribute ideas and investment to shape their communities. However, they also raise policy challenges that governments have yet to address.

The challenge lies in harnessing the momentum that is created when new links develop between

citizens and municipal governments. Canadians have made it clear that they need and want urban spaces and places that contribute to vibrant, competitive cities. Governments need clear and accessible policies to capitalize on innovative finance tools that can be used to develop these spaces and places. Community-led urban public space projects, and innovative ways to pay for them, will continue to emerge. Will cities get on board or will they be left behind?

ENDNOTES

¹ See Funding Urban Spaces and Places section for a breakdown.

² Mulvany, C. Pelham. *Toronto Past and Present: A Handbook of the City*. Toronto: W.E. Caiger, 1884.

³ Hume, Gord. *Places and Spaces*. 2014. <http://gordhume.com/books/places-and-spaces/>.

⁴ Infrastructure Canada. "Building for Prosperity: Public Infrastructure in Canada." <http://bit.ly/1DlkzDz>.

⁵ Federation of Canadian Municipalities. "Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure." Ottawa, ON: 2007.

⁶ Van Hasselt, Kai and Peter Robinett. "Innovative Urban Finance Instruments Analyzed through the Role of Externalities, Incentives and Collective Action." <http://bit.ly/1A3Wd3F>.

⁷ Focus Consulting, Inc. Infrastructure Canada study. "An Analysis of Social Infrastructure and City Competitiveness – Synthesis and Key Findings." Ottawa: Carleton University, 2009. <http://bit.ly/1y1TBFb>.

⁸ The Design Council. "The Value of Public Space: How high quality parks and public spaces create economic, social and environmental value." 2014. <http://bit.ly/1ptBfqh>.

⁹ The Canadian Encyclopedia Online. <http://bit.ly/1BRjLuw>.

¹⁰ Federation of Canadian Municipalities. "Our Cities, Our Future: Addressing the fiscal imbalance in Canada's cities today." Big City Mayors' Caucus: June 2006.

¹¹ Ernst and Young. "How Smart Parks Investment Pays Its Way." <http://bit.ly/1AEDEs3>. An example is the increase in commercial properties around New York City's Bryant Park. The area was redeveloped in 1992, and by 2002 rent for commercial office space in that area rose between 115% and 225%. Comparatively, rent in surrounding submarkets rose between only 41% and 73%.

¹² City of Toronto. "Parks Plan 2013-2017." <http://bit.ly/1BYf7vn>.

¹³ Federation of Canadian Municipalities. "Assessment of the Municipal Acts of the Provinces And Territories." Vancouver: 2004.

¹⁴ For example, see the City of Edmonton's "The Way We Grow: Municipal Development Plan." <http://bit.ly/1wFwxt3>.

¹⁵ City of Edmonton. "Great Neighbourhoods Business Investments." <http://bit.ly/1w6VpbK>.

¹⁶ City of Toronto. "Strategic Plan 2013-2018." <http://bit.ly/1w6Vxlx>.

¹⁷ Slack, Enid. "Why Canadian Cities Need More Fiscal Autonomy." University of Toronto: 2014.

¹⁸ Columbia Institute. "Who's Picking Up the Tab? Federal and Provincial Downloading Onto Local Governments." Vancouver: 2014.

¹⁹ Federation of Canadian Municipalities. "Danger Ahead: The Coming Collapse of Canada's Municipal Infrastructure." Ottawa, ON: 2007.

²⁰ Statistics Canada. National Economic Accounts. CANSIM Table 385-0024.

²¹ For more information on the Centre for Social Innovation's community bonds, see: <http://socialinnovation.ca/communitybond/faq>

²² For more information on Denver mini-bonds, see <http://bit.ly/1vlMy0d>

²³ It is important to note that, as an American municipality, Denver's issuance of small-scale municipal bonds is subject to different legislative hurdles and requirements than a similar potential issuance by a Canadian municipality.

²⁴ For further examples of historical as well as recent civic crowdfunding efforts, see Rodrigo Davies' master's thesis from the Massachusetts Institute of Technology, "Civic Crowdfunding: Participatory Communities, Entrepreneurs and the Political Economies of Place." <http://bit.ly/1FCAKqO>.

²⁵ <http://www.citizeninvestor.com/about>

²⁶ <http://www.ioby.org/about>

²⁷ <https://spacehive.com/Home/AboutUs>

²⁸ <http://www.scyofbc.org/#!cyfc/cvy8>

²⁹ Davies, Rodrigo. "Civic Crowdfunding: Participatory Communities, Entrepreneurs and the Political Economies of Place." Masters Thesis, Massachusetts Institute of Technology, 2014. <http://bit.ly/1FCAKqO>.

³⁰ For more information on Ontario Opportunity Bonds, see <http://bit.ly/14Flmd2>.

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