

# FCM

Federation of Canadian Municipalities

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Submission  
to  
Transport, Infrastructure and  
Communities Canada

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Immediate and Long-term Federal Funding  
Support for Infrastructure

by the

Federation of Canadian Municipalities

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## **INTRODUCTION**

Every day, Canada's mayors and councillors see what needs to be done in our communities, but too often they do not have the resources to do it. They also know this is not just a problem for individual communities; it is a national problem. And they know the need for a solution is urgent.

The Federation of Canadian Municipalities (FCM) welcomes the invitation by Transport, Infrastructure and Communities Minister Cannon to submit comments to him as part of a consultation on Canada's network of public infrastructure. Of particular note, this process marks a significant departure from the old top-down approach to designing federal investments in infrastructure. It is the first step in a process that could drastically change the way municipal infrastructure is financed. We hope it is the first step in defining a more strategic, respectful and robust federal role in Canada's cities and communities.

As this submission will show, municipalities build, own and maintain the majority of this country's infrastructure – infrastructure that supports our global competitiveness and enviable quality of life – but the current approach to funding, supporting and sustaining these investments is broken and must be fixed.

## **THE ROOTS OF THE PROBLEM**

Our cities and communities are central to Canada's prosperity and quality of life. They are where economic wealth is generated; the crucibles of our national identity and the places people call home. Cities and communities are also where many national, regional and local issues intersect. From public safety to immigrant settlement to efficient transportation, municipal governments are on the front lines of a multitude of issues and provide other governments with local delivery capacity and responsiveness.

Whether the issue is environmental stewardship, economic competitiveness or quality of place and life, municipal governments often lead the way, taking innovation and vision and applying it to real problems that affect ordinary Canadians.

But this has come at a price. Canada's municipal governments are providing much more than basic services to property. These additional municipal "responsibilities" include everything from immigrant-settlement programs, to affordable housing, to emergency preparedness and, in some jurisdictions, even day-care.

However, municipal governments lack the resources and fiscal tools they need to meet these other responsibilities. They are largely dependent on the property tax, a regressive and unresponsive revenue source, and user fees. They are facing a fiscal squeeze, caught between a growing range of responsibilities and inadequate financial resources.

This squeeze has caused the deferral of much-needed investments in infrastructure, leading to a physical decay that harms the capacity of our cities and communities to compete in the global economy and contribute to prosperity. And it affects not only urban centres. These rising service expectations also compromise infrastructure investments in

rural and northern communities, where municipal governments face additional challenges, such as small population bases, limited economies of scale, low accessibility and remote locations.

The fiscal squeeze is illustrated clearly by the municipal infrastructure deficit, estimated to be \$60 billion and growing by \$2 billion a year. The consequences of this deficit are evident in every community: potholes and rusting bridges, water treatment and transit systems that cannot keep up with demand, gridlock, poor air quality and a lack of affordable housing.

The infrastructure deficit compromises Canada's competitiveness, lowers the community's quality of life, and hampers the efforts of Canada's cities and communities to attract and retain educated and skilled professionals.

### **Role of Cities and Communities in National Prosperity**

Successful national economies in the 21<sup>st</sup> Century are increasingly measured by their capacity to generate wealth through innovation and to attract labour and capital to support the knowledge economy. Free trade, global markets and high technology define an international context for local economic growth and development.

A key element in this global competition is the capacity to attract and retain human and financial capital. Our success as a nation, therefore, requires our cities and communities to be among the best in the world in which to live and work. We must ensure that they function well, that their transportation infrastructure moves people and goods efficiently, their solid-waste management is sustainable and cost-effective, their water is safe to drink, and their residents have access to recreation and culture.

Opportunities for recreation, culture and learning, for example through the provision of community centres and libraries, are increasingly recognized as critical for achieving social inclusion and community cohesion, in particular by providing positive opportunities for youth. Investments such as these are also linked to other key social and economic development priorities. The provision of parks and green spaces provide critical developmental opportunities for children while improving the urban environment. The redesign of older, distressed neighbourhoods can increase public safety and security. More and better recreational opportunities lead to improved public health and subsequently, lower health care costs.

## INFRASTRUCTURE AND THE ECONOMY

Statistics Canada estimates that a one-dollar net increase in public capital stock generates approximately 17 cents on average in private-sector cost savings.<sup>1</sup> For the transportation sector, each dollar invested in transportation infrastructure is projected to generate a saving of more than 40 cents.<sup>2</sup>

The cost of not investing in infrastructure is equally high.<sup>3</sup> It is estimated that the loss from congestion and shipment delays in the Greater Toronto Area totals \$2 billion annually. Finance Minister Flaherty echoed this concern, stating “infrastructure challenges are more than a daily inconvenience; they pose real risks to the future prosperity of our communities, and to the entire country”.

Canada’s cities and communities have the potential to be among the best in the world. They are clean, safe, diverse and welcoming, but they are struggling to keep up with community needs. Municipal governments recognize the importance of quality of life in ensuring their communities grow in a sustainable way—economically, socially, culturally and environmentally. Leadership at the local level is succeeding in harnessing community resources, planning for strategic infrastructure investments, and building on regional strengths. However, given the scope of the challenge and its implications for our national competitiveness and prosperity, the Government of Canada must lead the way, working with provincial/territorial and municipal governments to put the infrastructure of our cities and communities on a sustainable, globally competitive footing.

## THE MUNICIPAL INFRASTRUCTURE DEFICIT

During the past 20 years, Canadian municipalities have been squeezed by increasing responsibilities and reduced transfer payments from other orders of government, a situation not unlike that faced by provincial governments. This has had direct and negative consequences for Canada’s infrastructure.

Municipal governments, unlike other orders of government, are not allowed to run deficits on their operating budgets. This has put enormous downward pressure on municipal capital expenditures, which are easier to defer than operating expenditures. This has fuelled the creation of a substantial national municipal infrastructure deficit. This deficit has become structural and now requires a structural solution.

The national municipal infrastructure deficit manifests in a number of ways. Municipalities

<sup>1</sup> In *Mind the Gap* (pp. 5–6), the TD Bank argues that if the infrastructure gap had not been allowed to open in the first place, an additional \$100 billion or more in spending would have been required, implying a reduction of nearly \$17 billion in private-sector costs. However, had the money for this spending been borrowed at a rate of 6 per cent, a full \$6–\$9 billion in higher annual debt service payments would have been the result. This is still well below the \$17 billion in private-sector savings.

<sup>2</sup> Tarek M. Harchaoui, Faouzi Tarkhani and Paul Warren, *Public Infrastructure in Canada: Where Do We Stand?* (Ottawa: Statistics Canada, 2003).

<sup>3</sup> TD Bank Financial Group, *Mind the Gap: Finding the Money to Upgrade Canada’s Aging Public Infrastructure*, p. 5.

are finding it extremely difficult to manage current infrastructure demands, let alone address the accumulated backlog of needed infrastructure maintenance and rehabilitation. This is compounded by population growth, which further strains existing infrastructure resources while creating additional demand for more infrastructure. Conversely, population decline limits the revenue to pay for new infrastructure that will revitalize communities.

Across Canada, municipalities are at an infrastructure breaking point. Most of our infrastructure was built during the period of rapid growth between the 1950s and 1970s. Much of it is due for replacement and much of that very soon. Given municipalities' already strained finances, we are rapidly approaching a tipping point on the infrastructure deficit, one that will seriously harm both our quality of life and our competitiveness and productivity.

### **Municipal infrastructure compared to other public infrastructure**

Municipal government is capital intensive. A core responsibility of municipal governments is to provide the physical foundations to support shelter, employment, economic production and trade, and recreation and leisure. This burden is both extensive and growing.

In 1961, during the initial phase of the heavy infrastructure investment period, federal, provincial/territorial and municipal governments controlled, respectively, 23.9, 45.3 and 30.9 per cent of the national capital stock. By 2002, the situation had changed dramatically. The federal government's share dropped from 23.9 per cent to 6.8 per cent. Over the same period, the municipal portion of the national capital stock increased by nearly 70 per cent, from 30.9 to 52.4 per cent of all infrastructure.

Municipal infrastructure, unlike infrastructure administered by other orders of government, is:

- Owned, operated or administered by municipal government;
- Largely funded from the property tax and/or user fees;
- Concurrently serves economic, social, cultural and environmental objectives;<sup>4</sup>
- Complex, interconnected and multi-purpose;<sup>5</sup> and
- Includes the full range of public infrastructure, from roads, bridges and transit, to water, wastewater and solid-waste systems, parks, community and recreation centres and other social infrastructure.

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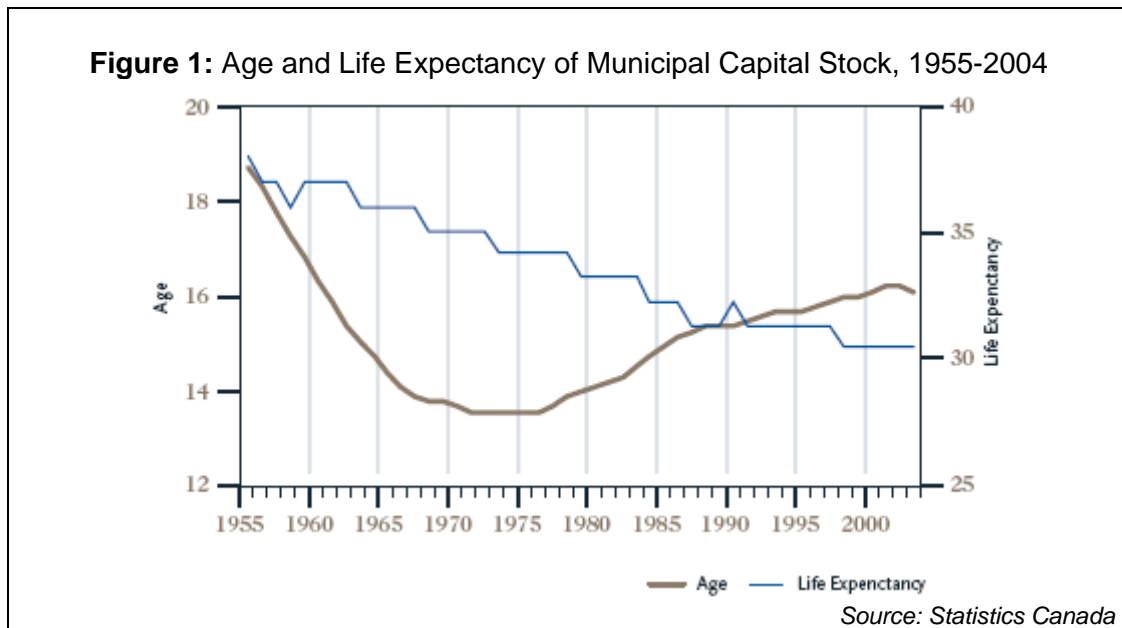
<sup>4</sup> For example, parks are important social and cultural infrastructure but may also attract economic development and reduce storm-water run-off; roads and public transit are important for businesses, but also connect citizens.

<sup>5</sup> For example, city streets also serve as below- and above-grade utility corridors; recreation centres are also used by community and school groups; solid waste, water and waste-water systems often serve more than one municipality in a region; parks and green-spaces are incorporated into storm-water retention plans; walking paths are used by cycle commuters on weekdays; and public transit relies on dedicated rights-of-way as well as municipal and regional roads networks.

## Aging Infrastructure and Declining Investment

Between 1955 and 1977, new investment in infrastructure grew by 4.8 per cent annually. Intense capital investment closely matched Canada's population growth and rate of urbanization. This is in sharp contrast to the 1978 to 2000 period, when new investment grew on average by just 0.1 per cent per year. Although the rate of population growth also declined, this does not account for governments' almost complete withdrawal from capital investment.

The average age of local governments' capital stock has increased since the end of the 1970s, because investment has been insufficient to replace deteriorating stock. Until the mid-1970s, the average age and the life expectancy of the capital stock followed a similar downward trend (see Figure 1).<sup>6</sup> However, a divergence begins around 1977, with the capital stock's age increasing. This is a result of slower growth in capital spending, most of which is dedicated to infrastructure. The average age of local government capital stock rose from 13.7 years in 1976 to 16.2 years in 2000.



## The Infrastructure Challenge

This analysis points to a tremendous fiscal challenge for municipalities. Over the past 40 years, municipalities have assumed a growing (now the largest) portion of Canada's capital stock. This has had to be financed mainly through the property tax, a form of taxation that is (relative to income and sales taxes) the least responsive to economic growth. Predictably, as the responsibility for infrastructure investment has shifted to municipalities (and the municipal property tax) since the late 1970s, there has been a precipitous decline in capital

<sup>6</sup> The average age of the capital stock does not necessarily move in tandem with life expectancy. For example, if a given city invests a significant amount of money to maintain a relatively old bridge or building, the service life of the capital stock will be extended.

stock. As a result, the average age of municipal infrastructure has increased significantly over this period.

This general trend towards decreasing investment has been further compounded by cuts in transfers and the significant offloading of responsibilities since the mid-1990s. These factors have combined with the rapid expansion of municipal capital stock to create a critical backlog in municipal infrastructure investment and a growing municipal infrastructure deficit. Although this deficit is clearly massive, its exact size is difficult to determine. The generally accepted figure is \$60 billion, but estimates vary widely. For example, the Canadian Society of Civil Engineering set the deficit at \$57 billion in 2002.<sup>7</sup> Meanwhile, M. Saeed Mirza and Murtaza Haider believe that the national infrastructure deficit, which includes all infrastructure, stands at \$125 billion.<sup>8</sup> For its part, TD Economics estimated in 2002 that this deficit was growing by approximately \$2 billion per year.<sup>9</sup>

The size of the problem focused government and public attention on the need for solutions. However, the lack of a clear understanding of its scope, or even agreement on a definition of infrastructure, makes finding solutions difficult. Three things must be clarified before any long-term strategy can be developed to deal with the infrastructure deficit:

- a) the scope and size of the infrastructure deficit;
- b) geographic and jurisdictional specificity; and
- c) investment priorities.

Identifying the problem to be solved is the first and key step in developing sound public policy. Defining the size, scope and geographic and jurisdictional characteristics of the infrastructure deficit – essentially, identifying and describing the problem to be solved – should therefore be the first step in developing a long-term policy framework for federal investments in municipal infrastructure. Knowing what problem is to be solved and how the problem looks in each region supports a more accurate identification of investment priorities. This will provide the grounding for a more rational intergovernmental strategy for infrastructure investment. It is also necessary to lay the foundation of a robust accountability framework.

This information will allow all three orders of government to develop key elements of the plan, such as:

- Planning for the total investment required and its timing, which is key for federal, provincial/territorial and municipal budgeting;
- Tailoring and prioritizing the plan to fit unique regional, demographic or geographic needs, rather than relying on national, one-size-fits-all approaches; and
- Setting accountability measures, such as interim progress milestones, and the outcomes of the plan (the elimination of the infrastructure deficit).

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<sup>7</sup> The Canadian Society for Civil Engineering, *Critical Condition—Canada's Infrastructure at the Crossroads*, 2002.

<sup>8</sup> M. Saeed Mirza and Murtaza Haider, *The State of Infrastructure Policy in Canada*, a report submitted to Infrastructure Canada, March 2003.

<sup>9</sup> TD Bank Financial Group, *A choice Between Investing in Canada's Cities and Disinvesting in Canada's Future*, p. 12, April 2002

## Public Transit: Failing Links, Faltering Competitiveness

The current state of Canada’s public transit systems illustrates the infrastructure challenge. Public transit plays a central role in the quality of life, environment and economic competitiveness of our urban regions. Its use contributes to cleaner air (and lower greenhouse gas emissions), less congestion and therefore less pressure for more roads. In addition, public transit is the only universally accessible form of urban transport, providing everyone with access to employment, education, health care and recreation.

An analysis of data from 250 cities around the world, including Montreal, Toronto, Ottawa, Vancouver and Calgary, has found that public transit in large cities in Canada is always more efficient than the automobile. Public transit in Canada consumes three times less energy per passenger kilometre than the automobile, making it three times more efficient in its use of resources.<sup>10</sup>

Transit is growing in importance as more cities reach the size and level of traffic demand that requires greater reliance on public transit. Various combinations of an aging population, traffic congestion and environmental concerns are making transit more attractive. Many previously suburban areas are becoming more urbanized and experiencing increased congestion. Trends toward smaller households, more elderly people, and the rising popularity of downtown living all support increased urbanization and the growing need for an alternative to the automobile.

However, Canada’s transit systems are not keeping up with the demand. The Canadian Urban Transit Association has estimated that transit systems across the country need \$20.7 billion for infrastructure between 2006 and 2010, which covers rehabilitating and replacing existing systems, as well as expansion plans to accommodate increasing ridership. This figure includes both currently financed plans and those plans contingent on external funding.

Of the \$20.7 billion required, 44 per cent is needed to rehabilitate or renew existing infrastructure, while 56 per cent is needed to expand service capacity to serve more riders (see Table 1). These figures speak to the dual need to maintain infrastructure and respond to transit’s growth potential. We must restore transit infrastructure and respond to the increasing transportation needs of Canada’s growing urban population.

**Table 1:** CUTA Estimates of Transit Infrastructure Deficit

Infrastructure	Planned expenditures	Contingent on new external funding	Total
Rehabilitation	\$7,305,520,431	\$1,807,576,297	\$9,113,096,728
Expansion	\$8,031,184,817	\$3,571,637,520	\$11,602,822,337
Total	\$15,336,705,248	\$5,379,213,817	\$20,715,919,065

*Source: CUTA Infrastructure Needs Report 2006-2010*

<sup>10</sup> Transit Means Business: The Economic Case for Public Transit in Canada.

Equally notable is the split between projects: 79 per cent of the funding is for current plans, while 21 per cent is contingent on external funding. This suggests a significant shortfall in funding for the period from 2006 to 2010.

Transit systems estimate they will need almost \$9.1 billion during this period just to maintain their equipment. Although the average age of Canadian transit buses has decreased from 11 years to 10 years since 2005, it is still well above the recommended vehicle age of six to nine years. Rehabilitation and replacement projects totalling \$7.3 billion are currently planned, but many of these investments have not been budgeted for by municipalities and local authorities and may not be approved.

Transit systems estimate they will need to invest \$11.6 billion to meet projected expansion demands between 2006 and 2010. While there are tentative plans to invest \$8 billion, much of the work that needs to be done cannot proceed without the assistance of the federal and provincial governments. Canada's three largest census metropolitan areas (CMAs) need more than 68 per cent of this \$11.6 billion, and their populations are growing, adding extra transit pressure in these urban centres and surrounding suburbs.

The challenges are significant, but progress is being made, and the benefits of earlier transit investments are now being realized. Recent trends show that total transit infrastructure needs are stabilizing, after rising steadily since the late 1990s (from \$8.5 billion in 1999 to \$20.7 billion in 2006). Furthermore, the proportion of these needs that can be dealt with through existing funding programs has increased from half to three quarters, largely because the federal government has invested more in infrastructure in recent years. Examples of this investment are the transfer of a portion of the federal gas tax to municipal governments; the Canada Strategic Infrastructure Fund (CSIF); and the recently announced three-year \$900 million Public Transit Capital Trust.

These first steps are a sound beginning to a permanent national transit program. However, the remaining estimated needs are enormous. The fiscal limitations of municipalities and the opportunity cost of not addressing the problem argue for a nationally coordinated approach to the problem--a true, national transit plan. Such a plan would allow the federal government to coordinate its diverse transit-related programs, which include the recently announced transit-pass tax credit, as well as public awareness programs, to maximize value for money and focus on the highest priority initiatives. A national plan would also engage municipal and provincial/territorial governments in jointly identifying needs and priorities and coordinating their available resources. The first step in this plan is to commit a long-stream of funding that will give transit authorities the certainty they need to plan for the future.

To capture all the social, economic and environmental benefits that public transit can provide, federal and provincial governments must provide long-term reliable funding, so that transit systems have the financial certainty they need to meet the needs of Canadians now and in the future.

## THE NEED FOR A LONG-TERM APPROACH

In 1993, the federal government began investing in municipal infrastructure. Between 1993 and 2011, the federal government invested or plans to invest \$20.17 billion in infrastructure, slightly less than \$1 billion a year over the period. The federal government estimates that 70 per cent of its infrastructure expenditures have been directed to municipal governments.

This has been complemented by the gas tax transfer. Between 2005/6 and 2009/10, the federal government will directly transfer \$5 billion in federal gas tax revenues to municipal governments. Combined, these investments represent an important contribution to addressing the municipal infrastructure deficit.

However, as the federal government itself points out in *Restoring Fiscal Balance in Canada: Focusing on Priorities*, a companion document to its 2006 Budget:

*“federal investments in infrastructure are significant, but this funding needs to be put on a long-term track to allow for long-term planning, especially given the time spans involved in planning and building major infrastructure projects.”*

This comment goes to the core of the infrastructure problem.

### Municipal experiences of federal infrastructure funding programs

In mid-August 2006, FCM surveyed a representative sample of 28 municipalities, from every jurisdiction, as well as the provincial/territorial municipal associations to solicit their views on current infrastructure programs, including the gas tax transfer. An advisory describing the federal consultation process and posing three discussion questions was also sent to all 1,341 FCM municipal members, inviting comments and responses. The survey and member advisory were designed to collect “front-line” perspectives on what works, what doesn’t, and what improvements need to be made.

A total of 24 survey responses, either through telephone interviews or in writing, were received, while responses from provincial/territorial municipal associations were collected during a conference call discussion and in writing. More than 60 other municipalities and municipal associations provided comments to FCM in response to our member advisory. An executive summary of the report on the survey is in Annex 1. Survey and member advisory respondents are listed in the acknowledgements section at the end of the report.

#### *Summary of findings*

1. **Local input:** Input from municipal and provincial/territorial governments to program design, administration and accountability frameworks improves satisfaction with and outcomes of federal programs. For example, jurisdictions that included municipal associations in the application processes (e.g. British Columbia, Manitoba and Ontario) reported greater satisfaction with funding allocations. Most provinces/territories already have well established and accepted accountability and reporting process, yet federal

programs often imposed different processes, without local input, which were not as well understood or as applicable to conditions in that jurisdiction.

2. **Long-term planning:** Almost all respondents agreed that they would develop longer-range capital plans if federal funding were to be put on a longer-term track. Most said that they would like to do longer-range planning now, but that short-term, ad-hoc funding and transfer programs do not provide the certainty of future revenue flows required to make useful or realistic long-range capital plans.
3. **Projects versus plans:** Project support, which now characterizes all federal programs except for the gas tax transfer, clearly provides the highest political visibility and most easily targeted and accountable funding. Plan support allows funding to be used where need is greatest, that is, in accordance with locally identified priorities. Most of those surveyed considered the federal gas tax transfer “plan-based” model to be a far superior infrastructure program from the standpoint of administration, eligibility requirements, and consistency with locally determined priorities.
4. **Small communities:** Respondents from small and remote communities, often characterized by limited staff and governance capacities, almost universally reported that existing application, administration and accountability processes are too burdensome. The Municipal-Rural Infrastructure Fund was singled out as a program without the flexibility and respect for local capacities, conditions and priorities needed to be a truly “rural” infrastructure fund.
5. **Construction costs:** Respondents from almost every jurisdiction commented on the recent and unusual inflationary pressures on construction costs, and the limited ability for existing application-based federal programs to avoid, mitigate or respond to these new pressures. It was reported that lengthy application and project-approval processes led to construction costs increases well beyond estimates, leaving the municipality to cover the overage. Another analysis, provided by the construction industry to one respondent, noted that the construction industry’s ability to adjust capacity to meet municipal needs is constrained by short-term federal and provincial/territorial funding commitments. With greater certainty over a longer-term, the construction industry would be better able to adjust to increased demand, and thus keep costs lower.
6. **Multiple programs:** The profusion of federal infrastructure programs over the past decade, each with unique application processes, project eligibility criteria and reporting requirements, have left many municipalities confused and pulled in multiple, often conflicting directions. Almost all respondents recommended that federal funding be delivered by more than one vehicle to improve flexibility and local responsiveness. However, most respondents felt that the existing approach, with multiple, short-term programs with overlapping, sometimes conflicting project criteria, should be replaced with a streamlined, coordinated suite of funding vehicles that provide funding commitments over a much longer time frame.

## **Long-term planning needs require long-term investments**

Infrastructure financing is a long-term undertaking, an investment with a 30-, 50- or 70-year time horizon. Furthermore, infrastructure investments are a basic foundation and required precursor for all economic activity. As a consequence, while ad hoc contributions from the federal government have been useful, they have not provided the long-term structural solution needed to fix the infrastructure deficit permanently.

Municipal infrastructure investments must respond to and support the economic potential and physical form of the community. Sustainable community development--across all four pillars of sustainability--requires extensive public consultation and support, and complex, intertwined planning and infrastructure decisions. The results affect a community's basic physical form and its economic competitiveness. Decisions made in haste or in response to distorted priorities will leave a lasting footprint. Therefore, financing must reflect the long-term nature of infrastructure investments and will require an undertaking on the part of all orders of government to commit to and develop a long-term investment strategy with agreed-upon priorities. Long-term community planning approaches, such as the Integrated Community Sustainability Plan concept, have a place when paired with long-term investments.

This long-term plan must bring long-term certainty to infrastructure funding, which will promote new efficiencies, technologies and best practices to the field of infrastructure delivery. It must also be inclusive, incorporating flexibility with predictability to ensure Canada's smallest and most isolated communities can participate fully.

## **ACCOUNTABILITY**

Municipal leaders certainly understand the Government's concerns about accountability, as they are on the front lines providing essential services in Canada's communities. They are accountable every day for how well they deliver these.

Accountability is not a one-way street. All governments involved in a program have to be accountable for how the money is spent. Nor does more paperwork necessarily improve accountability, it just increases compliance costs. We have to fight the simple reflex of throwing more reporting requirements into the mix.

The results of our survey show very strong views on the administrative burden posed by existing accountability requirements. This tells us that, at a minimum, these have to be streamlined and basic efficacy tests applied to new approaches:

- Municipal and provincial/territorial input to program design, administration and reporting frameworks will improve accountability without needlessly increasing paperwork.
- Most provinces/territories already have a well-established and accepted accountability and reporting process for municipalities, yet federal programs often impose different processes, without local input, which are not as well understood or as applicable to conditions in that jurisdiction, and are often confusing or overlapping with provincial/territorial requirements.

- Short-term, ad hoc funding and transfer programs do not provide the certainty of future revenue flows required to make useful or realistic long-range capital plans, which are also important and efficient accountability mechanisms

A robust accountability framework can only be accomplished with clear and agreed-upon policy objectives – in this case, eliminating the municipal infrastructure deficit within 20 years. We have to be clear with Canadians on what we are trying to achieve as much as on what we have done to get there. In other words, a true accountability framework can only be developed when the national policy objectives are clearly spelled out and mechanisms to measure how well they are being implemented locally are put into place. Otherwise municipal governments run the risk of never being able to meet shifting accountability expectations.

It is essential that a long-term plan, along with its accountability framework, be developed cooperatively with provincial, territorial and municipal governments. That will allow all orders of government, from the municipalities through the provinces and territories to the Government of Canada, to answer to Canadians on how well each is living up to its commitments.

## **CONFRONTING THE INFRASTRUCTURE CHALLENGE**

For Canada, the consequences of not investing adequately in our infrastructure are immense. If we continue to invest at current levels, we will not realize our full economic potential. Our infrastructure will continue to deteriorate and the infrastructure deficit will continue to balloon, diminishing our long-term economic prospects.

Even investing at a level sufficient to maintain our current capital stock and accommodate future population growth will not meet the challenge. In the absence of a national plan to address the municipal infrastructure deficit, municipal governments will continue to use most of their revenue to meet their operating expenditures, investing the remainder in capital improvements. Given current projections of municipal revenue growth, this approach will not reduce the infrastructure deficit or meet current and future needs.

### **Paying down the infrastructure debt**

As every borrower knows, paying down debt saves money, and paying down Canada's national municipal infrastructure deficit is no exception. That conclusion is borne out by the various financial scenarios for paying down the national municipal infrastructure deficit developed by Richard C. Zuker for FCM. In his 2004 report, *Closing the Municipal Infrastructure Gap in Canada*, Zuker looks at a range of approaches for dealing with the municipal infrastructure deficit. The scenarios were developed to promote discussion among federal, municipal and provincial/territorial governments on how best to eliminate Canada's national municipal infrastructure deficit.

As his report demonstrates, many scenarios and approaches are possible, with different levels of investment affecting the time taken to eliminate the deficit.

The total cost in 2004 dollars required to eliminate the deficit decreases the earlier it is achieved. In the most expensive scenario, eliminating the infrastructure deficit will cost \$80.6 billion and will take until 2038-39. In the least costly scenario, eliminating the infrastructure deficit will cost \$69.5 billion and will be completed by 2017-18. The difference between the two represents a savings of \$11 billion to Canadian taxpayers.

The municipal sector's tight fiscal circumstances and its limited access to adequate revenue means significant financial support from the federal and provincial/territorial governments, as well as additional municipal revenues, will be required for full financing and elimination of the infrastructure deficit. In Zuker's recommended scenario, eliminating the municipal infrastructure deficit by 2020 will require additional investment rising from \$3.5 billion in 2005 to \$4 billion in 2006 and thereafter, with amounts growing with the economy given the pressures of economic growth on existing infrastructure.

Greater municipal access to debt financing will not be sufficient to eliminate the infrastructure deficit. The key challenge is not more access to borrowing but more access to revenue sources to fund infrastructure investment and possibly debt servicing.

Municipal governments can and have taken aggressive steps to deal with this deficit. Today they invest close to \$11 billion yearly on local infrastructure. Concrete steps taken include: allocating 100 per cent of their GST refund to infrastructure; increasing their revenues from existing sources, primarily by shifting from property taxes to a variety of user charges for services (water, wastewater, transit, roads); and increasing development charges to reflect full costs as far as possible. However, while those efforts will help to reduce the infrastructure deficit, they will not be sufficient to eliminate it. The scope of the problem is such that significant federal and provincial/territorial contributions will be required.

## PRINCIPLES FOR OUR PREFERRED APPROACH

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During the past 40 years, Canada's municipal governments have become the primary deliverers of economic infrastructure. Roughly 53 per cent of all infrastructure is now vested with municipalities, and this is expected to grow. Based on current trends, projected municipal revenue growth will not be sufficient to rehabilitate and expand capital stock or deal with the estimated \$60-billion infrastructure backlog.

Municipal governments lack the range of revenue sources needed to meet this responsibility. Municipal capital stock is critical to maintaining both our productivity and quality of life. It is also a precondition for continued economic growth. Canadian municipalities face a serious structural imbalance between their fiscal capacity and their need to repair, replace and expand infrastructure.

Given their projected needs and anticipated revenue growth, municipal governments cannot meet this challenge alone. All orders of government have a central economic and social interest in seeing the infrastructure deficit eliminated. Only then will Canada be positioned to compete globally and succeed. The following principles are presented as FCM's preferred approach to meet this challenge.

### 1. Develop long-term plan to eliminate the infrastructure deficit

Estimates place the municipal infrastructure deficit at approximately \$60 billion. This is the principal barrier to structural reform and it must be redressed. As we have shown, the size of this deficit, coupled with inadequate municipal revenue sources and growing responsibilities, have pushed it beyond the scope of what municipal governments can finance alone. What is needed is a long-term plan to provide a strategic decision and financing framework for infrastructure investments in municipal infrastructure. Given the scope of the problem and its implications for our national competitiveness and prosperity, the Government of Canada must lead the way, working with provincial/territorial and municipal governments to measure the size, scope, as well as jurisdictional and geographic characteristics of the municipal infrastructure deficit.

This plan must be based on a real commitment to eliminate the infrastructure deficit and on agreed-upon investment priorities and strategies. It must include a new longer-term legislative framework for sharing federal gas tax or other revenue; long-term funding for targeted infrastructure programs; and the development of new municipal efficiencies as well as intergovernmental accountabilities notably through the development of transparent performance indicators.

#### ***Specific principles:***

- a. The federal government, in cooperation with provincial and territorial governments, liaising with municipal governments through FCM, should:
  - Identify and implement a methodology to measure the size and scope, and jurisdictional and geographic characteristics of the municipal infrastructure deficit;
  - Introduce legislation to deliver new policy and funding initiatives built on a sound and clear intergovernmental accountability framework, to eliminate the municipal infrastructure deficit within 20 years.

- b. In Budget 2007, as the first step to a long-term framework for infrastructure funding, commit to a long-term extension of federal investment in municipal infrastructure at an annual minimum based on 2009 investments, for the period 2010-2025. Specific annual allocations are to be identified during the development of the long-term plan to eliminate the municipal infrastructure deficit.

## **2. Transitioning to long-term**

The development and negotiation of a long-term plan to eliminate the municipal infrastructure deficit, which will form the foundation of the government's policy framework for its investments in municipal infrastructure, will likely take several years to complete. Until then, it is critical that municipalities not fall further behind, and that the conditions are set for a smooth transition into a long-term framework.

For this reason, it is critical that existing commitments are extended into the long-term through a clear Infrastructure policy statement in Budget 2007. This commitment to a long-term stream of funding will act as an incentive for all orders of government to collaborate quickly and efficiently in the development of the long-term plan. It will also allow municipalities and the construction industry to start preparing for continued and enhanced investments.

Existing infrastructure programs require adjustments in design and administration to improve efficiency and effectiveness. When well run, these programs may offer a model to build into the long-term plan as a funding-delivery mechanism. In particular, it is critical that the existing, ad hoc and overlapping suite of infrastructure programs be rationalized and streamlined to increase the certainty of funding among municipalities.

With the creation of the Highways and Border Infrastructure Fund (HBIF), which focuses almost exclusively on provincially/territorially owned infrastructure, there is an opportunity to refocus the Canada Strategic Infrastructure Fund (CSIF) on municipally owned infrastructure, and to refocus the Municipal Rural Infrastructure Fund (MRIF) on truly small, rural and remote communities, to act as companion funds to HBIF, to reduce fund overlap and confusion, and to increase certainty and effectiveness.

### ***Specific principles:***

- c. We expect to see the federal gas tax transfer continue and, where appropriate, expanded to provide project eligibility criteria that include municipal initiatives for regional economic development. This could include parks, recreation, cultural and other social infrastructure. Immediately putting the gas tax transfer on a longer term, legislated framework would not only allow for better strategic planning and investments but would give municipal government a predictable revenue stream against which to borrow to finance investments. This would, as an added benefit, be a simple way to stimulate borrowing for infrastructure spending.
- d. Restructure the existing suite of municipally targeted application-based infrastructure funding:

- Ensure that program design and administration (either of existing programs or in a new, dedicated rural fund) is adapted specifically with consideration of the unique needs and limited capacities of extremely small, rural and isolated communities. Project eligibility criteria, application and reporting procedures, and matching requirements are key elements to consider.
  - Streamline the suite of infrastructure funds to ensure that project-eligibility criteria of each do not overlap or contradict those of the others.
  - Collaborate earlier and more closely with provinces and territories and, where possible, municipalities or municipal associations in the design and administration of programs within each jurisdiction, considering the following key elements:
    - Broader project criteria that include the full range of municipal infrastructure, including economic development, recreation, social and cultural infrastructure;
    - Mitigation of construction-cost inflation, through streamlined application approval cycles and escalators tied to local inflation pressures..
- e. Retain the discretion to fund special, one-time, large-scale infrastructure projects that support nationally significant and exceptional policies or events such as the Olympics Games. In order to safeguard the integrity of an infrastructure-investment plan, these should not be financed using existing program funding.

### 3. Transit plan

Canada is the only G-8 country without a national transportation program. This is affecting our global competitiveness. Recent measures by the Government of Canada, such as recent transit-funding announcements, gas-tax sharing, and the introduction of a transit-user tax credit are all important. What is required now is the development of a permanent plan to support transit.

***Specific principles:***

- f. In Budget 2007, commit to the development of a permanent National Transit Plan, to be implemented in time for the expiry of existing public transit funding in 2007/08. This plan must respond to the capital, expansion and operating requirements of public transit authorities; provide funding to support education and incentives to increase ridership; and coordinate and integrate related, supportive federal initiatives in industrial, environmental and social policy. Intercity rail links should be also be considered in the plan. The allocation of funds should take into account existing and widely supported mechanisms, which includes ridership as well as population.

### 4. Accountability

The foundation for a robust accountability framework will primarily reside in clear and agreed-upon milestones and targets tied to the elimination of the municipal infrastructure deficit. With a clear rationale for these investments – to eliminate the municipal infrastructure deficit by 2025 – creating a relevant, practical accountability

framework is possible. Accountability requires the capacity to measure performance against agreed-upon policy targets and objectives. Prevailing federal policy priorities can and will still be reflected in this framework, but the overall framework principles will be developed cooperatively with provincial, territorial and municipal governments as part of the process of developing the long-term plan. Only a cooperatively developed accountability framework will ensure that results are measured and reported on in a manner that is relevant to Canadians and to each order of government.

## **THE WAY FORWARD**

The link between healthy cities and communities and national prosperity and competitiveness is well understood. Our cities and communities are competing against the best in the world, but they are ill-equipped to compete. If they fail, Canada will fail, and our standard of living and quality of life will suffer.

We must ensure that our cities and communities are great places to live and work, with safe streets, clean air and water, efficient transportation for people and goods, sustainable waste-management, and access to housing, recreation and culture. We can debate how best to achieve this, but no one can deny it must be a key national goal. If we do not move quickly to fix the problems hampering our cities and communities, we may well lose our position in the front rank of nations and never get it back.

The Federation of Canadian Municipalities is ready to do its part to mobilize the resources of the municipal sector to find solutions, build partnerships and effect real change. But this is a national project. It remains for the Government of Canada to take the lead and set Canada on a course that will stand as a model of how smart, practical government, working in the service of people, can build cities and communities that create prosperity while preserving quality of life for everyone.

## ACKNOWLEDGEMENTS

FCM thanks Richard Soberman for providing his advice and analysis on the survey and submission, as well as Alex Josza who assisted during survey data collection.

A graduate of Dalhousie University and MIT, Richard Soberman is the former Chair of Civil Engineering at the University of Toronto. He has held previous positions as Director of Research in the Canadian Transport Commission and Senior Vice President of the Urban Transportation Development Corporation. He was principal author of the Canada Infrastructure Works Program review presented to Parliament and has acted as an advisor to the World Bank and government agencies in Latin America, the Middle East, and Africa. He also directed the Toronto Commuter Rail Study and the Metropolitan Toronto Transportation Plan Review. Over the last few years he completed major studies on the future of the TTC and GO Transit and was responsible for the transportation component of the City of Toronto’s new Official Plan.

Also, FCM would like to thank the following members for contributing their comments, either through our survey or in response to a member advisory, on the issues discussed in the submission. Their perspectives are those of the “front-line,” where policies and programs are implemented, and were invaluable in grounding this submission in municipal reality.

### ***Survey respondents:***

Birtle, MB	Montreal, QC	Summerside, PEI
Bromont, QC	Mount Pearl, NL	Toronto, ON
Cambridge Bay, NU	New Glasgow, NS	Vancouver, ON
Edmonton, AB	Regina, SK	Whitehorse, YT
Guelph, ON	Regional District of Central Kootenay, BC	Winnipeg, MB
Halifax, NS	Saanich, BC	Yellowknife, NT
Lanark Highlands and Lanark County, ON	Sherbrooke, QC	Union of BC Municipalities Association of Municipalities of Ontario
London, ON	St. John’s, NL	
Moncton, NB	St. Stephen, NB	

### ***Comments from other municipalities:***

<b>Northwest Territories</b>	North Cowichan	County of Newell No. 4
Aklavik	Peace River Regional District	St. Albert
<b>Yukon</b>	Powell River	Spruce Grove
Haines Junction	Rossland	Sundre
<b>British Columbia</b>	Saanich	Whitecourt
Cache Creek	Salmo	<b>Saskatchewan</b>
Cowichan Valley Regional District	Smithers	Assiniboia
Esquimalt	Telkwa	Carrot River
Fruitvale	Valemount	Hudson Bay
Gibbins	Williams Lake	Langenburg
Hope	<b>Alberta</b>	Meadow Lake
Langley	Beaver County	Prince Albert
Montrose	Drayton Valley	Saskatoon
Nanaimo	Grande Prairie	
	Leduc County	

**Manitoba**

Rural Municipality of Ochre  
River  
Regional Municipality of St.  
Andrews  
Dauphin

**Ontario**

Centre Hastings

Hamilton

United Townships of Head,  
Clara and Maria  
Kitchener  
Owen Sound  
Peel Region  
Renfrew County  
Scugog  
Windsor

**Quebec**

Laval  
Paquetville

**Nova Scotia**

Region of Queens