FEDERATION OF CANADIAN MUNICIPALITIES
FÉDÉRATION CANADIENNE DES MUNICIPALITÉS

FCM ANALYSIS OF BUDGET 2013

March 21, 2013

Finance Minister Jim Flaherty introduced the 2013-14 federal budget ("Budget 2013") in Ottawa on March 21, 2013, at 4:00PM EDT. The main points of interest to FCM and its members are highlighted below. This staff analysis will be enhanced and updated as the budget bill moves through Parliament, and as our questions are clarified by officials. Please note that our analysis of the budget confines itself to items related to or of interest to municipal governments only.

The full text of Budget 2013 is available online at: www.fin.gc.ca.

See www.fcm.ca for the statement FCM's President released immediately following the budget, as well as our submissions and letters to the pre-budget and long-term infrastructure planning processes. Annex 1 provides some key facts and figures related to our budget priorities.

Key themes of Budget 2013:

1. **Jobs and the economy:** Skills, infrastructure and manufacturing are the three major themes in today's federal budget, branded the "Economic Action Plan 2013." These themes are designed to create jobs and strengthen the economy.
2. **Balanced budget:** Less explicit but no less important is the government's continued focus on bringing the federal budget back to balance as quickly as reasonable. The government is still targeting 2015-16 for a balanced budget, to be achieved mainly through expenditure control.

Budget highlights for FCM:

- ✓ Permanent Gas Tax Fund indexed at 2% – will deliver 21% more funding over 20 years
- ✓ Building Canada Fund renewed at existing levels for 10 years (with a 5 year review)
- ✓ Social housing programs renewed at existing levels for another 5 years
- ✓ Federal-municipal partnership strengthened

BUDGET 2013 COMMITMENTS TO MUNICIPALITIES:

1. **Gas Tax Fund (GTF):**
   - GTF indexed at 2% annually, which will increase the value of GTF by 8% in 5 years, 20% in 10 years and by almost 50% in 20 years when the annual national GTF program will be almost $1 billion more than today (see Annex 2 for more information on the GTF index, and see www.fcm.ca for an online tool to calculate the value of the GTF index in your community).
   - GTF's eligible project categories expanded to include almost all municipal infrastructure, including sport and recreation.
   - Municipalities will be encouraged to conduct life-cycle assessments and asset management plans, but this will not be a requirement.

- Note that the Gas Tax Fund and the GST Rebate have been combined, mainly for communications purposes, as the Community Improvement Fund, worth $32 billion over 10 years. This does not change how either program works now.

2. **Building Canada Fund (BCF):**
   - BCF renewed and extended from current 7 year program to a new 10 year program
   - BCF projects worth more than $100 million must be screened for P3 financing opportunities.
   - National allocation on a “base plus population” formula.

3. **Length of infrastructure plan:**
   - BCF renewed for 10 years.
   - Programs to be reviewed and if necessary improved or expanded in 5 years.
   - GTF and GST rebate are permanent, which together account for 75% of all federal investments in municipal infrastructure.

4. **P3 Fund (P3F):**
   - P3 Fund renewed at $1.25 billion over 5 years – a higher amount than delivered now.
   - Funding will now be available to pay up to 50% of the cost of developing municipal P3 business plans and managing a P3 project for P3 Fund projects.
   - P3 Canada will focus on supporting and building municipal capacity to consider and manage P3 projects.

5. **Affordable housing and homelessness:**
   - 5 year renewal of the three expiring programs, at existing funding levels.
   - “Housing First” principles to be emphasized in the Homelessness Partnership Strategy
   - Explicit role for FCM in implementation of Housing First principles in HPS.

6. **Federal-municipal partnership:**
   - FCM identified as a partner in the government’s design and review process for new infrastructure and housing programs.

FCM ANALYSIS:

Infrastructure

Today’s budget delivers significant gains for Canada’s cities and communities. This budget entrenches the principle of long-term sustainable infrastructure funding, reaffirms the federal role in addressing the challenges of housing affordability and homelessness and recognizes the importance of a continued partnership with the municipal sector.

Given the recent softening in the global economic outlook, and the Finance Minister’s commitment to eliminate the deficit by 2015, we understand this budget will not, on its own, solve all of Canada’s infrastructure challenges. However, it does lay the foundation for continued collaboration towards a lasting solution to the infrastructure deficit as economic conditions improve.

We support a balanced approach: one that combines short-term restraint with a commitment to continue working together to solve the municipal infrastructure deficit as fiscal conditions improve.

In particular, we welcome Budget 2013's commitments to:

- ✓ Protect core investments and renew expiring programs, including expiring infrastructure and housing programs that have been worth a total of $10 billion over the last seven years.
- ✓ Help communities plan more effectively for the future by providing predictable, long-term funding
- ✓ Keep our partnership strong so we can do more to improve public transit and repair our roads, bridges and water systems once the federal government has balanced its books.

Housing

The budget's 5 year commitment to federal investments in affordable housing programs will provide needed certainty to municipalities and other housing providers that are working to deliver affordable housing solutions for Canadians.

Housing has a significant impact on Canada's prosperity, either for better or for worse, depending on how well we manage the housing challenges ahead of us. Stable investments in affordable housing will protect and enhance affordable housing and keep the pressure off an already tight rental housing market that 1/3 of Canadians relies on.

There are still holes in our housing system. Canadians are carrying record levels of household debt while a growing number are being priced out of the housing market, including the workers urgently needed to drive industry in fast growing regions. Demand will continue to outstrip supply in our slow growing and underdeveloped rental market as more Canadians look for new housing options they can afford.

All orders of government must work together to fix these holes in our housing system and build the foundations for future economic growth.

FCM's Pre-Budget Expectations Vs. Deliverables:

FCM's pre-budget expectations	What Budget 2013 delivers for municipalities
1. Protect & expand existing infrastructure and housing programs	☑ Existing infrastructure and housing programs renewed at current levels; ☑ Gas Tax Fund (GTF) indexed at 2%
2. Predictable, long term investments	☑ Permanent Gas Tax Fund is now indexed ☑ 100% rebate of the GST made permanent ☑ Building Canada Fund (BCF) funded for 10 years (an increase from 7 years currently) ☑ Infrastructure programs to be reviewed and if necessary improved or expanded in 5 years ☑ 75% of Budget 2013 infrastructure investments are long term (Gas Tax Fund & GST rebate) ☒ Existing housing programs renewed for another 5 years – a longer timeframe is needed.

FCM’s pre-budget expectations	What Budget 2013 delivers for municipalities
3. Simplify & improve program design	? FCM identified as a partner in the government’s design and review of new infrastructure and housing programs, which will allow us to continue to advocate for more streamlined, transparent programs.
4. Recognize unique needs of small & northern communities, and transit	? No specific references to rural or northern communities, although these elements are typically addressed when the programs are designed following the budget; FCM’s role in program design will allow us to continue to advocate for rural and northern needs. ☒ No dedicated transit funding, although historically, 50% of GTF and more than 30% of BCF have been invested in transit projects.
5. Support for improved asset management and other municipal capacity building needs	? FCM named as partner in program design, where capacity building initiatives are incorporated into new programs ☑ Significant new capacity building funding available to support municipalities in planning P3 projects
6. Long-term infrastructure plan process a model for federal-municipal relations in other areas	☑ FCM named a partner in infrastructure and affordable housing programs ☑
7. Improve the visibility of federal infrastructure programs	? FCM named as a partner in the design of renewed infrastructure programs, which will allow us to improve the communications protocols especially of GTF.

ANNEX 1

KEY FACTS AND FIGURES

Existing federal investments in public infrastructure

- The federal government invests approximately $4.4 billion[1] annually through the following existing programs:

Full refund of the GST	$700 million
Gas Tax Fund (GTF)	$2 billion
Building Canada Fund (BCF)	$1.25 billion
P3 Fund	$175 million
Green Infrastructure Fund (GIF)	$200 million
Community Infra. Investment Fund (CIIF)	$75 million
Total	**$4.4 billion**

- These existing federal programs leverage an additional $3.4 billion in matching funds from provincial, territorial and municipal governments.
- These funds are in addition to the $12 billion to $15 billion municipalities spend from their own revenues on infrastructure, and tens of billions more invested by the federal, provincial and territorial governments on major highways and bridges, hospitals, schools, ports and defence assets.

Key Infrastructure Facts

A jobs creator
- Each $1 billion invested in new infrastructure creates more than 11,000 total jobs, including 5,500 new jobs in the slowing construction sector.
- Infrastructure investments were responsible for creating over half of the 220,000 jobs created under the Economic Action Plan in 2009-11.
- For each dollar they invest, federal and provincial/territorial governments receive a total of 35 cents in increased income and sales tax revenues and related savings.

Longer-term benefits
- Accelerated infrastructure investments not only create economic stimulus, but improve roads, bridges and other infrastructure vital to economic performance.
- Traffic congestion alone costs the Canadian economy well over $5 billion per year in delays.
- Statistics Canada estimates that a $1 net increase in public capital stock generates 17 cents on average in private-sector cost savings. The cost of not investing in infrastructure is equally high.
- Continued under-investment in public infrastructure will slow economic growth, costing new workers an average of $50,000 in lost income over their careers. It also means that the average business will see profits reduced by 20 per cent.

[1] The federal government also invested an average of $300 million to $400 million in dedicated funding for public transit between 2005 and 2010. The last of these programs, the Public Transit Capital Trust, expired in 2009-10.

Key Housing Facts

Housing and the economy

- Housing activity is an important contributor to economic performance. Each dollar spent on housing contributed to a $1.40 increase in GDP.
- Compared to much of the past decade, current and forecast housing construction levels are 25,000-30,000 below previous averages.
- The gap in new housing starts has resulted in the loss of 50,000 construction jobs, and a serious impact on both the construction sector and the economy.
- For both new construction and housing renovations, an expenditure of $1 million generates roughly three full-time-equivalent jobs, and a further 10 indirect and ancillary jobs.

The rental housing market

- 32 per cent of Canadians are renters living in Canada’s 3.9 million rental units.
- Canada Mortgage and Housing Corporation recorded an overall decline of 18,000 rental units from 2000 to 2010, meaning a net loss of 140,000 older existing rental units. Most of these were likely lower-rent units.
- 1.5 million Canadians pay more than 30 per cent of their income on housing.
- New economic realities and changing demographics mean we can no longer rely solely on home ownership to meet Canadians housing needs.
- A shift in focus to the rental component of Canada’s housing system can sustain important economic stimulus effects generated from the housing sector.
- Protecting and enhancing rental housing will increase overall housing stock and ease the pressure of growing waiting lists for affordable housing.
- Canada’s affordable rental housing is eroding through demolition and conversion to condominiums while construction starts for purpose built rental units has remained low over the last 20 years.

ANNEX 2

BUDGET 2013: NEW MUNICIPAL INFRASTRUCTURE FUNDING

1. *Value of a 2% index on the Gas Tax Fund*

	Current value of GTF*	GTF + index in 5 years (2018)	…in 10 years (2023)	…in 10 years (2033)	Cumulative new funding from index (2014-33)
Canada Total	$2,000,000,000	$2,164,000,000 (8% increase)	$2,390,000,000 (20% increase)	$2,913,000,000 (46% increase)	$8,594,000,000
Canada Per capita	$59.74	$64.67	$71.40	$87.03	n/a
Toronto, ON (pop. 2,615,000)	$156,231,704	$169,110,220	$186,711,348	$227,600,091	$671,385,405
Edmonton, AB (pop. 812,000)	$48,523,378	$52,523,265	$57,989,929	$70,689,400	$208,522,901
Fredericton, NB (pop. 56,000)	$3,345,612	$3,621,398	$3,998,316	$4,873,925	$14,377,331
Yorkton, SK (pop. 15,000)	$896,146	$970,017	$1,070,977	$1,305,516	$3,851,071

*** Note:** GTF allocations are an estimate only, based on an equal per capita formula. For exact figures, please check with Infrastructure Canada or the municipality.

2. *Gas Tax Fund, 2005-2023 (in millions $)*