



Towards a new Federal Long-Term Infrastructure Plan

AMO's Submission to Infrastructure Canada

August, 2012

Association of
Municipalities
of Ontario

200 University Avenue, Suite 801
Toronto, ON M5H 3C6 Canada
Tel: 416-971-9856 Fax: 416-971-6191
email: amo@amo.on.ca
website: www.amo.on.ca

Introduction

The building of Canada's infrastructure, including that owned by municipalities, has long relied on partnerships between governments. From the confederation era construction of public works such as railways and water works, to the recent investments under the Economic Action Plan, governments of all stripes have recognized that local infrastructure development plays a key role in nation building and thus must benefit from administrative and financial partnership from all orders of government.

Indeed, our recent gains in creating jobs and growing the economy demonstrate that mutual respect and co-operation between municipalities, provinces, territories and the Government of Canada can lead to the achievement of shared goals. These principles are further demonstrated in Ontario through Canada's Gas Tax Fund, which transfers federal funding directly to municipalities and leaves decision making and administration at the local level. It provides an example of what municipalities can do when they are given infrastructure funding for local priorities; over \$2.1 billion in federal funding has been invested in 3500 local priority projects since 2005, all while meeting federal terms and conditions for investment and accountability. These funds have also leveraged additional municipal funding several times the amount disbursed.

Municipal governments are thankful that the flexible Gas Tax Fund is now permanent in federal legislation. However once other federal funding expires in 2014, it will be the only source of stable, predictable and long-term funding that is available for municipal infrastructure. Municipalities require long-term planning horizons to ensure their assets are well maintained, community needs are met, and that fiscal balance sheets remain sustainable. As such, federal efforts to develop a long-term plan for public infrastructure after 2014 are welcome.

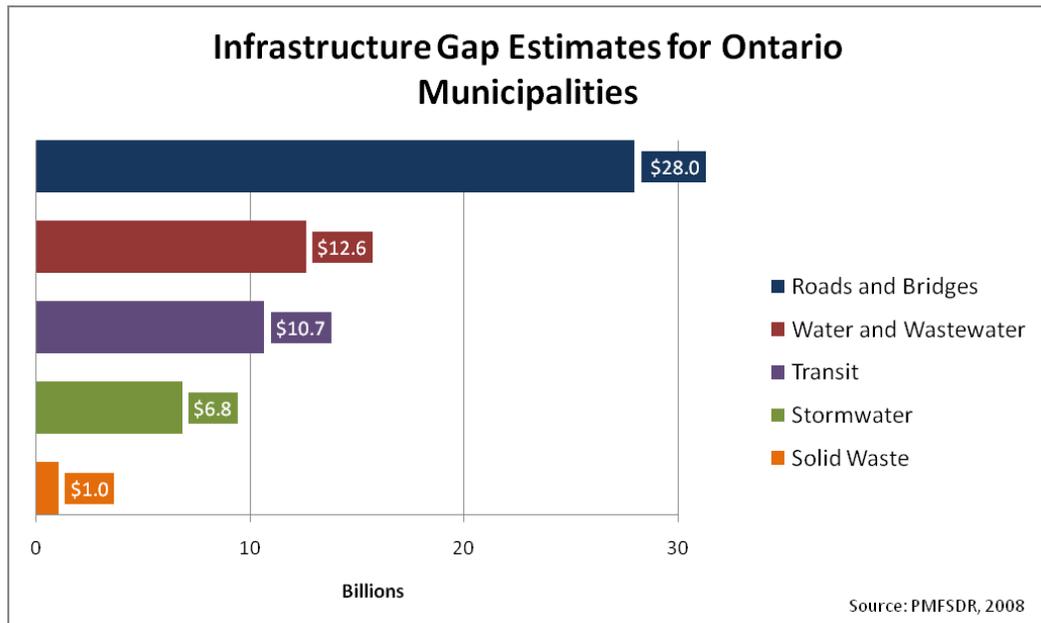
The Association of Municipalities of Ontario (AMO) is pleased to take this opportunity to provide input into this important process, which signifies a crucial first step in building infrastructure that will set the stage for gains in productivity for generations to come. Municipal infrastructure provides the foundation for social and cultural development, environmental protection, and economic growth. A sustained commitment from the Government of Canada will lead to a strong, robust and resilient national economy over the long-term.

To develop this submission, AMO conducted a survey of its membership in July 2012 to gather information on their infrastructure priorities. Of our 421 members, 171 municipalities responded. These are municipalities of all types, from all parts of the province, and represent over 50% of Ontario's population. The priorities, needs and challenges of our members are contained in this submission.

Ontario's Municipal Infrastructure Context

Municipalities in Ontario face an infrastructure gap of at least \$60 billion that will take 10 years to close, leaving municipal governments with a bill of \$6 billion each and every year (Figure 1).¹ Almost half of this gap exists within road and bridge infrastructure, with the remaining amounts occurring in other core infrastructure categories such as water & wastewater, storm water, public transit and solid waste. The true gap is even larger, as this amount does not account for some of our other infrastructure systems that support quality of life in our communities.

Figure 1



For example social housing, which is a municipal responsibility in Ontario, has an estimated replacement value of \$40 billion with an infrastructure gap of \$1.2 billion, as many housing units are 30 years or older and in need of repair or replacement.² In addition, the gap does not include municipal infrastructure in parks and recreation, tourism, libraries or culture which serve to attract the residents, businesses and visitors that are needed to grow local economies.

The gap is largely reflective of ownership levels, as well as the ebbs and flows of provincial and federal support for infrastructure. Municipalities own more infrastructure than any other order of government in Ontario. Much of it was built in the 1950s and 1960s thanks to funding from the provincial and federal governments during times of rapid population and economic growth. Yet much of it now requires modern upgrades or replacement. Moreover, a growing population is also increasing the burden on existing

¹ Province of Ontario, AMO and the City of Toronto, Provincial Municipal Fiscal and Service Delivery Review (Toronto: Queens Printer for Ontario, 2008) 19.

² Social Housing Services Corporation, Closing the Gap (Toronto: Social Housing Services Corporation, 2009) 9.

infrastructure and fueling the demand for new investments.

The magnitude of this gap means that no order of government has the fiscal capacity to address it alone. None less than the municipal sector, which receives only 9 cents of every tax dollar collected in the province. Diversity is also a factor, with municipalities in certain regions under additional pressure thanks to high levels of asset ownership (both in quantity and value) and/or declining populations and assessment levels, which limits local ability to raise taxes and user fees.

Despite such limitations, municipalities are doing their part. They collect development charges for infrastructure needed to service growth, work with private and non-profit partners when feasible, are implementing user fees where they make sense, and in some cases, have dedicated property tax increases to fund infrastructure renewal and replacement.

User fees partially cover the cost of a municipal service such as recreation and public transit where the benefits are shared between an individual user and the community as a whole. In other cases, such as water, wastewater and storm water infrastructure, municipalities are implementing user fees to move towards full cost recovery so that users pay for their contribution to local operating and capital costs. Finally, municipalities as diverse as the City of Mississauga and the Municipality of Marmora and Lake have added special infrastructure levies to their local property tax base to fund specific infrastructure and to move themselves towards asset sustainability.

Municipalities have also demonstrated that they are prepared to take on debt when necessary. Debt capacity however could be reaching a ceiling thanks to recent infrastructure programs. Our recent survey of municipalities noted that over 74% had debt financed to pay for infrastructure in the last five years, with 42% noting that it was necessary in order to access those cost shared programs. In addition, 71% have noted that debt is included within their long-term capital forecasts and will add an additional burden to their local tax base. With provincial legislation limiting municipalities on the amount of debt they can assume, other sources of financing will be required to continue the re-building of our aging capital infrastructure.

The limited capacity of the property tax and user fee base means that additional resources are necessary to tackle the large infrastructure deficit that currently exists. Within this context, **municipalities require flexible, dedicated, long-term, stable pools of funding that can help them plan better**. Federal programs must address municipal needs, and dollars must flow to municipal governments. Canada's Gas Tax Fund, administered in Ontario by AMO, provides an example of what municipalities can do when they are given stable, predictable infrastructure funding for local priorities. The cost of ignoring the gap is larger than addressing it, with infrastructure becoming more expensive to fix as its useful life is consumed. Federal funding would demonstrate that the Government of Canada is a partner as we tackle the infrastructure gap now, and lay the foundations for future job creation, economic growth and prosperity in our communities.

Municipal Infrastructure & the Economy

Infrastructure is a key input into local economies. It provides the foundation that allows businesses to improve productivity and create jobs over the long term by reducing input costs and removing barriers to investment. Despite Canada's economic resilience, there is a consensus that increased investment in our capital is necessary in order to lay the foundations for future improvements in productivity and growth.

These foundational investments must occur in municipalities, as there is no Ontario or Canadian economy without local economies and the infrastructure needed to support them. Municipalities in Ontario host economic activity that comprises almost 40% of Canada's real GDP and 48% of all of Canada's international trade (2011).³ Municipalities in Ontario are also home of some of the country's largest borders and gateways with the United States which is crucial to Canada's trade dependent economy.

Local governments know that investments in core infrastructure such as roads, bridges, transit and water have a direct impact on the economy. Such investments also produce positive spinoffs by reducing travel times, improving health outcomes and leading to cleaner air, water and an improved environment. A recent report by the Conference Board of Canada acknowledged these benefits by stating: "there is a high degree of interdependence between the quality and quantity of public infrastructure, the performance of a society's business sector and, ultimately, the quality of life of its citizens."⁴

Municipal governments understand this link well due to the assets they own and the services they provide. Quality of life infrastructure such as libraries, cultural facilities, parks and arenas attract the residents and businesses needed for local economic development. In addition, such facilities provide positive spillovers in terms of health outcomes and social capital which further contribute to improved productivity and positive economic outcomes.

Municipalities recognize that infrastructure investments must respond to shifts in the Canadian economy and help to meet the challenges of the future. For example, municipal investments in broadband, such as the Eastern Ontario Regional Network, will support rural economies by facilitating connectivity and the movement of information. In addition, municipal investments in climate change mitigation and adaptation will address risks and create local economies that are resilient in the face of uncertainty and significant disruption. Federal investments in municipalities should anticipate these needs as they are essential to helping our local economies grow and prosper over the long term.

³ Statistics from the Ontario Ministry of Finance, Ontario Ministry of Economic Development and Innovation & Statistics Canada.

⁴ Conference Board of Canada, *The Economic Impact of Public Infrastructure in Ontario* (Ottawa: Conference Board of Canada, 2010) 29.

Whether it is built for cars, people, businesses, or information, **municipal infrastructure provides the supports to social, cultural and commercial activity that leads to a dynamic economy.** Investments in our communities support the local residents and businesses that create prosperity for Ontario and Canada.

Municipal Infrastructure Priorities & Asset Management

As noted earlier, **municipalities are facing a 10-year infrastructure gap of over \$60 billion.** Core infrastructure such as roads and bridges, waste, drinking and storm water, public transit and solid waste make up this amount, with an additional gap coming from essential quality of life infrastructure such as social housing, parks, recreation, tourism, libraries and cultural facilities.

The gap remains the first priority of Ontario's municipalities, but it is important to note that the need is deep, broad and depends on local circumstances, priorities and community needs. AMO's recent infrastructure survey noted that virtually all municipal respondents have roads and bridges, and water and wastewater infrastructure listed as key priorities for investment. Over three quarters of municipal respondents noted that quality of life infrastructure is a part of their top five priorities going forward, as it is necessary to attract and retain residents, businesses and economic activity. Many communities, especially smaller ones who depend on tourism and the natural environment to attract visitors, noted that these asset categories as essential to economic growth. **The specific investment priorities of Ontario's municipal infrastructure needs are as diverse as its municipalities: rural or urban, Northern or Southern, growing in population or stable.**

These diverse needs are established by municipalities through robust planning activities that occur in the public forum. Municipalities in Ontario have been working hard at accounting for their tangible capital assets, and are ahead of their peers across the country with respect to implementing Public Sector Accounting Board standards for full accrual accounting. This includes obtaining book values, condition ratings, and current levels of amortization. In fact, municipalities in Ontario are required to include these in their financial statements, resulting in budgeting and reporting systems that are fully accountable and transparent.

With this first step completed, municipal efforts have been directed to developing long-term Asset Management Plans that take into account desired service levels and lifecycle costs of infrastructure rehabilitation and replacement. These plans are typically 10-plus years and cover all types of infrastructure categories, from drinking water and roads, to recreation and libraries. This work will result in comprehensive understanding of replacement costs, future challenges facing infrastructure and expected service levels in order to ensure projects are prioritized in an efficient manner.

There is wide recognition within the municipal sector that Asset Management is important work that must be undertaken. However, our member survey indicates that only 21% of

municipalities in Ontario have a comprehensive Asset Management Plan, with 53% noting that this work has been started with full completion expected within the next five years. There remain significant barriers to implementation, with 83% and 95% of respondents pointing to limited human resources and fiscal constraints respectively.

The need to ensure good stewardship was noted in the province's long-term infrastructure plan *Building Together*. As part of this strategy, the province will require asset management plans as a pre-requisite to provincial funding. While AMO supports the need for Asset Management Plans in principle, there is a need to recognize the varying capacity of smaller communities to put these plans in place. Building asset management capacity of the municipal sector in Ontario, and ensuring municipal asset management planning is comprehensively adopted is a necessary first step to ensuring that federal, provincial and local investments are made in the right places at the right times.

AMO is working with the Province of Ontario to help municipalities meet these challenges. The province's new Municipal Infrastructure Strategy includes nearly \$9 million in funding for asset management plan development by small, rural and Northern municipalities. With Ontario's new requirement of asset management plans for organizations seeking provincial capital funding, AMO believes that no municipalities should be excluded due to their capacity to complete asset management plans. Provincial funding for asset management in these communities will help.

Similarly the **federal government should provide support to municipalities for asset management where needed**. Funding is required to enhance municipal administrative capacity to better manage infrastructure assets. The federal government can also ensure that the proper incentives are in place to encourage long-term planning. **A federal long-term infrastructure plan that is a minimum of 10 years will provide a planning horizon that ensures stability for recipients**. Through Canada's Gas Tax Fund, municipalities have proven that long-term, predictable funding works since the municipal sector can use federal commitments to plan ahead and leverage funding into additional dollars for infrastructure.

However, the need for strong planning practices for managing our infrastructure should not take priority over investments that are critical to health, safety and economic well-being. Support for these needs is necessary while asset management planning is being carried out.

Funding Models & Program Design

Beyond a long-term planning horizon, **municipalities require program conditions that can support development and implementation of Asset Management Plans**. In this case, we can highlight federal requirements for incrementality which acts as a barrier. Incrementality, which requires municipalities to direct federal funding into projects that would not have otherwise occurred, distorts local priorities and can limit municipalities from meeting their most critical needs as identified in long-term Asset Management Plans.

This flexibility should include an expanded list of the asset categories that are eligible for federal funding. Holistic planning means that municipal asset management plans encompass all types of assets, including infrastructure from cultural, community, or other “non-core” asset categories. **Increased flexibility would empower municipalities to fund the projects that their local economies need the most; whether it is a new library or arena, the rehabilitation of a bridge or a local road.**

Enabling municipalities to implement their Asset Management Plans is good public policy as it rewards best practices. However the barriers identified above mean that programs must also be sensitive to the diversity of Ontario’s municipalities and helpful to those that are still striving towards these benchmarks. It should not penalize municipalities through administrative delays or the withholding of funds.

A municipally focused federal Long-Term Infrastructure Plan includes...

- Respect for local decision making & priorities
- Long-term planning horizon (10 years+)
- Separate pools of funding, dedicated for and accessible to all municipalities
- Investments to support local Asset Management
- Flexibility to fund local priorities
- Streamlined implementation and administration

Instead, we should recognize those that have Asset Management Plans with immediate funding for implementation, but must support the others to get there with funding for capacity building. In between these two extremes, there should be a transitional period with a level base of funding. The flexibility in this model would respect local decision making and ensure that projects prioritized in comprehensive Asset Management Plans would happen first. If libraries are first in a municipality’s infrastructure queue, then it should be funded first. **Local governments are best suited to determine local priorities and the long-term infrastructure plan should allow for flexibility when there is a comprehensive local asset management plan in place.** Municipalities in Ontario have demonstrated that investment in local priorities leverages additional funding; for every \$1 from Canada’s Gas Tax Fund that has been invested since 2005, an additional \$2.14 has been invested by Ontario’s municipalities from all other sources.⁵

The long-term infrastructure plan should take note of the successes of previous federal programs and incorporate best practices where they make sense. As noted above, the principles of local decision making and long-term stability are present in Canada’s Gas Tax Fund and should be replicated in new funding programs. A ten year plan with funding provides municipalities with a sufficient planning horizon for capital work on the assets they own, and sets a clear timeline for the development of their next set of priorities to feed into the next provincial and federal long-term plans.

⁵ AMO, 2011 Interim Gas Tax Annual Expenditure Report (Toronto: Association of Municipalities of Ontario, 2012) 6.

The stimulus period demonstrates the merits of a streamlined application and approvals process. Its quick turnaround time led to considerable successes both at the local and national levels; however the new LTIP should not discriminate against projects that have begun the planning stages and those that are totally new. Respect for local priorities means accepting that local councils are in the best position to determine local needs in their communities. Accountability provisions should be designed to allow for this.

Funding should recognize the significance of Ontario's municipalities within Canada's economy. As noted earlier, municipalities in Ontario host almost 40% of Canada's economic activity (real GDP in 2011) and are home to export oriented businesses and major borders and gateways that contribute to international trade. In addition, municipalities in Ontario are hosts to robust resource industries focused on mining and mineral resources that are dependent on local infrastructure to bring their goods to market. Finally, over 38% of the country's population calls Ontario home. This is a substantial driver of municipal infrastructure needs, as our significant labour force requires essential investments to help them contribute to our local economies. **Federal investment at the provincial/territorial level should be allocated appropriately based on Ontario's population base and economic productivity which provides a significant contribution to the health of Canada's economy.**

Within Ontario, the long-term infrastructure plan should be balanced with separate funding pools to be accessed directly by municipalities. This would ensure all municipalities have direct access to federal funding, including base funding allocated on a per-capita basis which respects the equality of municipalities across Ontario. Multiple pools based on project size, scope and category of infrastructure would make the plan relevant to all of Ontario's diverse municipalities. This was seen through the Building Canada Plan which had pools for strategic infrastructure and borders and gateways as well as funding for smaller municipalities through the Communities Component.

Beyond the implementation of best practices found in previous infrastructure programs, municipalities require a long-term plan that remains agnostic to methods of project delivery. Public Private Partnerships (P3s) can be a helpful tool to build and maintain Ontario's infrastructure. However, the LTIP should recognize that P3s are one of many tools that can be used to facilitate investment in municipal infrastructure. The choice to pursue an alternative financing arrangement should reside at the local level and councils should be able to decide in the best interests of their residents.

Conclusion

Municipalities, the Province of Ontario, and the Government of Canada have successfully partnered together to address the infrastructure deficit and stimulate the country's economy. The average age of infrastructure has declined and our economy has remained resilient despite worldwide uncertainty. We must build on our progress to ensure our country has the foundation to succeed.

The infrastructure gap continues to be a large challenge for municipalities in Ontario. It is too large for any government on its own, and we must tackle it together. Investments must be made to improve asset management, and municipalities must have the long-term planning horizons and flexibility to implement these plans once they are in place. These investments are critical to support economic development and quality of life. Without local economies, provincial and national economies would not exist. Separate funding for municipal infrastructure is essential to ensure the economic progress of Canada.