Addressing Urban Canada's Infrastructure Challenges through a Long-Term Infrastructure Plan

A joint statement from Canada's Major City-Region Chambers of Commerce and Boards of Trade

December 2012

Addressing Urban Canada's Infrastructure Challenges through a Long-Term Infrastructure Plan

Position Statement

- Renew Building Canada Fund to Support Infrastructure Priorities of Urban Canada and Reflect Unique Local Needs
- Maintain Value of Gas Tax Fund to Keep Up with Rising Costs and Growth
- Fiscal Capacity - Create Permanent Funding Streams for Infrastructure
- Ensure Accountability, Sustainability and Visibility of LTIP Funding Mechanisms

Context

The Hub-City Chambers of Commerce Caucus works with a coalition of partners including the Federation of Canadian Municipalities (FCM) who believe there must be a national focus on improving Canada's urban infrastructure. As economic research amply demonstrates, solid infrastructure is critical to business competitiveness and the success of our national and urban economies. For example:

- A **$1 investment** in public infrastructure lowers business costs by an average of **11 cents** in Canada and increases Canada's real GDP by as much **$1.20.**[1]
- A robust national, long-term infrastructure investment plan creates quality jobs in multiple sectors including Canada's design, technology and construction industries and builds-up our capacity to compete in high-growth international infrastructure markets such as Latin America and Asia.
- Effective transportation and road infrastructure allows workers to better connect with employment centres within our urban regions, thereby improving the performance of labour markets through more effective matching of jobs with skilled labour.
- Internationally, Canada's urban regions compete with cities from across the globe to attract people and businesses. Smart public infrastructure investment attracts talented migrants and investment by improving the quality of urban amenities, standard living and consequently the overall attractiveness of our country's cities. It is thus one of the key criteria that global cities use in marketing themselves and that businesses use when making decisions about where to locate their operations.

We commend the Federal government for recent infrastructure investments - the Federal Gas Tax fund, Economic Action Plan, Building Canada Plan and making the Gas Tax Fund permanent – all of which have strengthened Canada's infrastructure and economy. We strongly support Budget 2011's commitment to develop a new long-term infrastructure plan and welcome the invitation to work alongside the government in its development.

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[1] http://suma.org/cmsupload/fckeditor/Research/10-144_EcomomicImpactPublicInfrastructure_WEB.pdf
http://www.acec.ca/source/2012/SourceExpress/PreBudget/pdf/eng.pdf

Our largest urban centres are where most of our population resides, with over **80%**[2] of Canadians living in these locations and the main drivers of economic prosperity. In view of the well documented positive links between levels of urbanization and productivity, they are thus vital in providing the necessary environment needed for sustained economic growth nationally.

Despite the progress made in addressing urban Canada's infrastructure deficit many challenges remain, whether it's public transit or physical infrastructure like roads and sewage:

- FCM Canadian Infrastructure Report Card shows that a significant amount of municipal infrastructure ranks between **"fair"** and **"very poor"**—on average about **30%**. The replacement cost of these assets alone totals **$171.8 billion**, nationally. [3]
- According to CUTA, transit systems estimate they need to invest **$38.9 billion** on expansion between 2012 and 2016 to meet projected demand. Of this, only **$27.7 billion** is possible within existing funding programs, the remainder ($**11.2 billion),** is dependent on new commitments.[4]
- The Federation of Canadian Municipalities estimates water and wastewater infrastructure in urban Canada requires **$39 billion** in upgrades, while investments of at least **$91.1 billion** are required on roads and bridges over the next 10 years.[5]

In recent years, the federal government has provided unprecedented levels of funding to municipalities of all sizes across Canada through Canada's Economic Action Plan, the GST Rebate, the Building Canada Fund and the Gas Tax Fund (made permanent in 2007 and which has grown from **$600-million** in 2005-2006 to **$2-billion** annually as of 2009-2010)[6]. As fiscal conditions have permitted, provincial governments have also provided significant support to municipalities through various transfer programs.

Looking Forward

Federal infrastructure funding must play an important role in financing the infrastructure challenges of Canada's urban hub cities combining the need for on-going maintenance of existing assets with requirements for new infrastructure. However, it should allow for flexibility in delivery so that infrastructure development plans are consistent with local needs. With this in mind, the business communities of Canada's large urban centres (hub cities) have identified four key policy areas, for consideration by the Federal government. These four public policy recommendations could easily form the foundation of a sustainable funding framework that would allow large urban municipalities, and the businesses within them, to responsibly allocate and deploy the resources

[2] http://www.statcan.gc.ca/pub/11-008-x/2007004/10313-eng.htm

[3] http://www.fcm.ca/Documents/reports/Canadian_Infrastructure_Report_Card_EN.pdf

[4] http://www.cutaactu.ca/en/publicationsandresearch/resources/Issue_Paper_38_E.pdf

[5] http://www.fcm.ca/Documents/reports/Canadian_Infrastructure_Report_Card_EN.pdf

[6] http://www.cutaactu.ca/en/publicationsandresearch/resources/IssuePaperNo.27_AnEvolvingPicture_FederalTransitInvestmentsAcrossCanada.pdf

required to continue to drive the Canadian economy forward and realize an optimal return on public investment.

Renew Building Canada Fund

Renewal of the Building Canada Fund must be at the core of the Federal Government's infrastructure plan. The fund should provide reliable, predictable and long-term federal infrastructure investment, in conjunction with provincial, municipal and private sector financing. A balanced and collaborative approach which brings together all levels of government and the private sector will ensure continued progress in addressing the unique infrastructure needs of our city-regions.

Maintain Value of Gas-Tax Fund

The Federal Government should work with provincial and municipal partners in protecting the long-term value of the Gas Tax Fund, which invests **$2 billion per year** in municipal roads, bridges, water treatment, and public transit.[7] A variety of mechanisms should be considered to achieve this objective including, allocating a fixed percentage of the gas tax to cities or indexing the fund to some measure of inflation. Without such adjustments for population growth and costs (e.g., construction), the value of the fund could drop by up to **50%**.[8]

Fiscal Capacity - Create Permanent Funding Streams for Infrastructure

Undoubtedly, if Canada's major cities are to meet their growing infrastructure needs, they require the fiscal capacity to do so. Municipalities require long-lasting funding streams that ensure infrastructure is built, financed and maintained over a longer-term horizon of decades, not just years. It requires a robust partnership amongst the Federal Government, municipalities and the private sector. Among the funding mechanisms that should be considered as part of the LTIP include:

- **Public Private Partnerships (P3's):** P3's are one proven financing vehicle to address the country's infrastructure deficit and utilize private sector expertise and capital. Value-for-money studies comparing the projected costs of P3s and conventional contracts show that the Canadian P3s initiated from 2004 onwards have so far delivered important efficiency gains for the public sector (i.e., taxpayers), ranging from a few million dollars to over $750 million per project.[9] The current P3 Canada Fund should continue be part of the federal government's LTIP, but should work with Municipal partners to ensure there is more awareness about the program and improved ability to assess and deliver P3 opportunities.

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[7] http://www.fcm.ca/home/media/news-releases/2012/cities-need-fair-share-of-growth-revenues-from-new-infrastructure-plan-say-big-city-mayors.htm

[8] http://www.fcm.ca/home/media/news-releases/2012/cities-need-fair-share-of-growth-revenues-from-new-infrastructure-plan-say-big-city-mayors.htm

[9] http://www.fengatecapital.com/DispellingTheMythsRpt_WEB1.pdf

- **Dedicated Funding Stream to fund Core Infrastructure (i.e., public transit, roads, bridges, sewage and water):** Canada's large urban centres face daunting challenges in meeting the core infrastructure needs of their communities. This includes the over **$20 billion** cost of meeting new federal wastewater standards[10]; inadequate public transit; and adapting municipal roads, bridges and water systems to extreme weather caused by climate change; creating an earmarked funding stream for this purpose will help municipalities better plan and undertake these economically vital investments.

- **Strengthening municipal role in infrastructure financing:** Although municipalities are responsible for much of the ownership and maintenance of core infrastructure they collect just **8 cents of each tax dollar** paid by Canadians, with the other **92 cents** collected by federal and provincial-territorial governments.[11] Although recognizing and respecting the provincial jurisdiction over municipalities, raising more revenues locally would greatly assist municipalities in paying for needed infrastructure investments. At the same time, governments at all levels need to ensure this revenue generating capacity does not increase the burden on taxpayers, but rather secures the tax revenues needed sustain municipal infrastructure.

Ensure Accountability, Sustainability and Visibility of LTIP Funding Mechanisms

We recommend that mechanisms for municipal infrastructure investment include a prerequisite for a federally and provincially approved fiscal transparency and accountability structure. This should be consistent with national public-sector audit and budget reporting standards to ensure value for money and support for economic growth objectives.

Implementing prudent asset management practices and utmost transparency in project selection and prioritization process will provide long-term benefits in terms of maintenance and sustainability of infrastructure development. Furthermore, we believe that all infrastructure investments considered must be subject to rigorous cost-benefit analyses which evaluate all potential economic, social and environmental implications.

Additionally, the LTIP accountability framework needs to provide effective and visible performance reporting systems. This will ensure taxpayers that are fully aware of how different levels of government contribute to the program, what are its objectives and how that money is being spent in communities across the country.

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[10] http://www.fcm.ca/home/media/news-releases/2012/national-funding-plan-needed-to-meet-new-federal-wastewater-regulations.htm

[11] http://www.fcm.ca/Documents/corporate-resources/policy-statements/2012_Municipal_Finance_and_Intergovernmental_Arrangements_Policy_Statement_EN.pdf

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