



Policy Paper

Infrastructure Independence: Empowering Municipalities to Deliver Local Infrastructure

Residents count on municipal infrastructure daily to get to and from work via safe roads, bike paths or public transit systems, to have a reliable source of clean water, to enjoy quality recreational facilities, and so much more.

Municipalities carry too much of the burden of maintaining and investing in infrastructure relative to their fiscal capacity. When investment lags it becomes problematic to catch up. For example, spending \$1 on infrastructure repair while roads are still in fair condition can delay or remove the need to spend \$6-\$10 in rehabilitation or new construction when they enter a state of disrepair.¹

The solution is to permanently improve the way we fund infrastructure development:

1. **Stable, long-term funding:** Adopt a permanent and steady state funding framework for municipal infrastructure investments. Adopt permanent funding for municipal infrastructure investments.
2. **A Fair Allocation Formula:** Convene a provincial- municipal working group to develop a set of fair funding criteria that provides municipalities with a yearly infrastructure formula to address communities' unique needs.
3. **Cut the Red Tape:** Replace the existing applications-based reporting structure with annual municipal reporting for infrastructure investments. Task provincial and federal infrastructure experts with developing innovative and effective infrastructure solutions, not red tape.

In addition, special policy approaches are needed to deal with the reality of COVID on municipal finances.

4. **Stimulus funding, not more access to debt, is needed to spur municipal infrastructure investment:** There needs to be special attention given to using smart and strategic investments in infrastructure with support from the provincial and federal governments.

¹ <http://canadianinfrastructure.ca/downloads/canadian-infrastructure-report-card-2019.pdf>

Municipalities carry too much of the burden of maintaining and investing in infrastructure, relative to our fiscal capacity.

- Municipalities carry the double burden of ensuring infrastructure is kept in a state of good repair while also expanding to meet the needs of growing populations.
- Local governments own approximately 60 per cent of the public infrastructure that supports our economy and quality of life².
- FCM's recent *Building Back Better Together* report highlighted that, '[e]very dollar invested in local infrastructure boosts Canada's real Gross Domestic Product by \$1.20–1.60.'

After falling behind, both Ontario and Canada have begun to increase rates of infrastructure spending. With the number of public infrastructure assets in poor condition growing³, provincial and federal governments' increases to investments in municipal infrastructure have come at the right time.

But is it not enough. Municipalities need continued, consistent support from higher orders of government to maintain infrastructure that is the responsibility of the municipal tax base.

1. Long-term, stable infrastructure funding

OBCM recommends that the provincial government adopt a long-term, stable framework for infrastructure funding, to provide municipalities with a steady flow of infrastructure dollars to municipally identified priority projects and work with the federal government to cost share this funding transfer.

- Without a permanent and steady stream of funding from the federal and provincial governments, municipalities have no realistic way of planning infrastructure projects or upgrades.
- Instead of delivering funding incrementally, municipalities would receive a set amount of funding each year to be used towards infrastructure. This will further support municipal infrastructure and budgetary planning processes by providing a consistent flow of funding appropriate to their unique circumstances.
- This type of block funding will give municipalities the funding certainty to invest in their asset management plans and make progress to repair and renew aging infrastructure.

2. Move from application-based funding to a fair allocation formula

OBCM recommends convening a working group to gather feedback, conduct research and develop a set of criteria that considers the varying needs across municipalities to be used to fairly distribute annual funding allocations.

- Federal and provincial governments should reform the cumbersome funding allocation processes and provide municipalities with a yearly infrastructure formula based on a set of agreed upon criteria.
- The current, applications-based infrastructure funding process requires significant staff time and resources to complete multiple applications for various projects.
- Every municipality has different infrastructure needs depending on their location, existing infrastructure and demographic profile. The work to develop a fair, and flexible program, will be complex and take commitment from all orders of government.

² <https://fcm.ca/en/focus-areas/infrastructure>

³ <http://canadianinfrastructure.ca/downloads/canadian-infrastructure-report-card-2019.pdf>

3. Reduce the red tape in reporting, approving projects and reprioritize innovation.

OBCM recommends replacing existing reporting structures with an annual municipal reporting framework that includes results-based reporting on infrastructure funding from both levels of government.

- Current provincial and federal reporting requirements are cumbersome and time consuming.
- A formula based, annual infrastructure fund should be accompanied by more efficient reporting requirements
- Transitioning to an annual reporting structure would:
 - allow municipalities to consolidate reporting efforts and provide more comprehensive updates on funding allotments.
 - support detailed reporting on infrastructure spending that accounts for how investments resulted in federal and provincial priorities, including energy efficiency and accessibility.
 - release municipalities from their obligation to report back on a project-by-project basis will reduce unnecessary administrative burdens and make the process more efficient.
- Provincial and federal resources can then be repurposed to support innovation and efficiency in infrastructure delivery. For example,
 - Bundling construction or repair of similar projects across the province to help reduce procurement and construction costs.
 - Procurement support from Infrastructure Ontario to ensure municipalities are securing low cost/high quality bids on their projects.
 - Innovative funding mechanisms such as Limited Dividend Companies can help get more municipal infrastructure built.

4. Empowering Municipalities to Build Back Better: special measures to address COVID recovery

Municipal infrastructure investment can be a powerful tool to restart the economy and “build-back-better.” Every dollar of public sector investment in infrastructure in Canada:

- Returned \$0.44 in taxes
- in the short-term, increased GDP by \$1.43 and,
- in the long term, increased GDP by \$2.46-\$3.83.

As well, every million dollars spent created 9.4 short-term jobs.⁴

Investment in Infrastructure can help power the COVID Recovery. But while this spending can offer a real return for investment as a stimulus activity, municipalities face budget shortfalls due to COVID-19. Many municipalities are not in a position to increase debt levels for infrastructure investment because of constraints on the municipal tax base and limited alternative revenue tools. In current economic conditions, municipalities are struggling to balance operating budgets while maintaining service levels. They need funding commitments, not easier terms for borrowing.

Ensuring infrastructure program models are based on funding, rather than financing, will allow municipalities to plan for priority infrastructure projects that meet their needs while also contributing to federal and provincial policy goals like long-term care home expansion and increased energy efficiency.

⁴ The Economic Benefits of Public Infrastructure Spending in Canada, Broadbent Institute, September 2015

Conclusion

True economic recovery will take a long-term, collaborative approach from all three levels of government as well as new approaches to existing protocols. As one of the most important aspects of recovery, infrastructure is the most logical area to focus government efforts and implement practical changes.

The OBCM puts forward the following recommendations to facilitate the speedier and more effective roll out of infrastructure funding to accelerate Ontario's, and ultimately Canada's economic recovery.

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