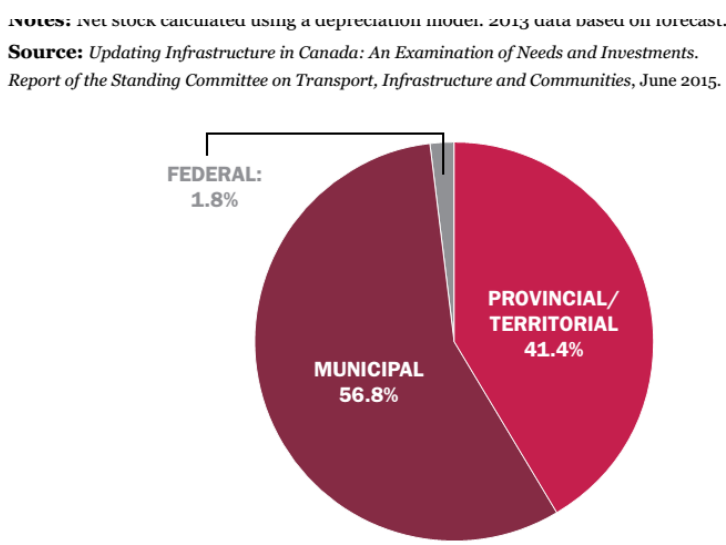
44. Protecting Our Infrastructure (Asset Management)

Issue
Canadian businesses need the federal government to ensure funding continues in a sustainable consistent manner that accrues to communities for infrastructure improvements and upgrades.

Background
According to a 2016 survey completed by the Canadian Federation of Municipalities (FCM), municipal governments own nearly 60 percent of Canada's core public infrastructure[1]. The value of these core municipal infrastructure assets is estimated at $1.1 trillion[2].

Net Stock of Core Public Infrastructure by Level of Government, (2013)[3]



Municipally owned infrastructure assets include but are not limited to[4]:

- water systems,
- roads and bridges,
- buildings,
- sport and recreation facilities, and
- public transit.

FCM estimates that the backlog of upgrade and expenditure of the existing municipally owned infrastructure in Canada to exceed $123 billon[5].

In 2007, the Government of Canada launched the Building Canada Plan (BCP) which included a $33 billion investment plan for federal, provincial/territorial and municipal infrastructure before 2014[6].

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[1] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 5
[2] Federation of Canadian Municipalities (2016) Informing the Future: Key Messages, page 2
[3] *Figure 1* - Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 6
[4] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 5
[5] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 2
[6] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1

Spending was accelerated under the Government of Canada's stimulus program in 2009 and 2010. In the 2011 budget, the federal government announced a process to develop a new long-term infrastructure plan to replace the BCP, which resulted in the New Building Canada Plan (NBCP), a 10 year plan for federal investments in building and maintaining Canada[7].

The NBCP was a federal government commitment to invest over $53 billion in infrastructure across the country over the next 10 years (2014-2024)[8].

Two key components of the NBCP included[9]:

1. the New Building Canada Fund (NBCF) – a $14 billion-dollar fund to support projects of national, regional and local significance that promote economic growth, job creation and productivity and;

2. the Federal Gas Tax Fund (GTF) – to date $13 billion funding for local infrastructure projects, with close to $22 billion anticipated to flow over the next 10 years.

The permanent and indexed federal GTF was a step toward that goal, laying the groundwork for a national plan to eliminate the municipal infrastructure deficit[10].

The federal government's Economic Action Plan 2013, renewed the federal GTF, indexing it at two percent per year, to be applied in $100 million dollar increments, which means that it will grow by $1.8 billion over the next decade[11].

For the provinces the NBCP contribute is significant. For example, for British Columbia, the NBCP represents almost $3.9 billion in dedicated federal funding, including almost $1.1 billion under the NBCF and an estimated $2.76 billion under the GTF[12].

In the 2016 Federal Budget, the new federal government updated the NBCP numbers, increasing their commitment to asset management by an additional $50 million. There will now be an additional $60 billion over 10 years, split evenly between public transit, green infrastructure, and social infrastructure. This is in addition to the $65 billion promised by the previous government for traditional infrastructure such as roads, bridges, and transportation.

Federal funding is provided up front, twice-a-year, to provinces and territories, who in turn flow this funding to their municipalities to support local infrastructure priorities. Municipalities can pool, bank and borrow against this funding which provides financial flexibility[13].

With aging infrastructure and limited resources, communities face huge challenges in financing the necessary repair, replacement and upgrade of public infrastructure. Communities, industry and businesses rely on utilities, transportation and power system to sustain business. Business interruptions due to broken water mains, poor roads, inadequate transit and other disruption causes economic loss to businesses and limits our ability to attract new businesses to communities.

Communities also face financial challenges from increasing standards and regulations without adequate financial mechanisms to pay for them. The primary resources at the municipal level are property tax.

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[7] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1
[8] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html
[9] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html
[10] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 1
[11] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html
[12] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html
[13] www.infrastructure.gc.ca/regions/bc/bc-nbcp-npcc-eng.html

Canadian businesses pay a much higher tax rate than residential taxpayers. Significant increases in property taxes are not affordable either for Canadian businesses or for residents. Senior levels of government need to be more involved in renewing the basic fabric of communities. Today communities receive only eight cents on every tax dollar collected by all levels of government, significantly down from 24 cents a decade ago.

Our built environment or infrastructure is critical to the economic capacity and livability of communities and the viability of Canadian businesses within them. Many communities are struggling with competing financial pressures and aging, failing infrastructure. Municipal budgeting processes currently fail to require accounting for future demands for infrastructure upgrades and replacement. Government support at all levels is required to renew public infrastructure as well as assist with paying for new and increased regulations and standards[14].

While funding infrastructure remains a priority of the current federal government, the emphasis continues to be on new infrastructure when communities cannot reasonably cope with existing infrastructure. A core direction of current and new funding programs needs to be directed to upgrade and replacement of existing infrastructure especially in medium and smaller communities with very limited tax bases.

A new report by the Canadian Centre for Economic Analysis (CANCEA) shows that the economic importance of public infrastructure investment is vastly greater than previously found using traditional economic models. Using unique agent-based modelling, CANCEA found that public infrastructure investments generate an economic return on real GDP that is almost eight times as large as the impact predicted by traditional economic models[15].

A recent report entitled 'Investing in Ontario's Public Infrastructure: A Prosperity at Risk Perspective' uses Ontario big data/big analytics approach to assess infrastructure impacts. The CANCEA team examined the long-term economic impact of Ontario's 10-year, $130 billion infrastructure plan using its unique research platform called Prosperity at Risk. The research found that for every $1 billion invested in infrastructure as part of the Ontario $130 billion 10 year plan, $1.7 billion in provincial tax revenue will be generated relative to not making the infrastructure investment[16].

The power industry estimates their backlog is in excess of $300 billion for the renewal of the power grid plus unknown generation renewal costs[17]. There is also demand by school boards, health care facilities and universities and colleges for public funds for upgrades and replacement along with billions of dollars of assets owed directly by provincial, territorial and federal governments. However, for every dollar municipalities invest in local infrastructure, federal, provincial and territorial governments receive a combined 35 cents, mainly through new income and sales taxes – 18 cents going to Ottawa and 17 cents to provincial or territorial governments[18]. There are benefits to investing in infrastructure for all levels of government.

Municipal governments are essential to identifying and implementing projects that respond to local needs, while contributing to regional, provincial and federal prosperity. However, municipal governments often lack the resources and expertise to deliver productive and sustainable infrastructure in a cost-effective and timely fashion. The cost and complexity of maintaining public infrastructure introduces significant risk to the effective use of taxpayer dollars. To alleviate this risk, funding programs

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[14] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 6
[15] www.cancea.ca
[16] www.cancea.ca
[17] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card
[18] Canada 2020 – "Setting the New Progressive Agenda" June 2015
http://canada2020.ca/crisis-opportunity-time-national-infrastructure-plan-canada/

should require criteria for project selection that will ensure value for money and continuity of high paying jobs in communities.

All levels of government need to work together to prioritize investments to support trade-enabling infrastructure investment while building capacity of cities and communities to plan, build, and maintain their infrastructure over the long term.

Recommendations

That the federal government:

1. Execute as quickly as possible upon notice of Federal funding, the necessary Provincial-Federal agreements to ensure funding continues in a sustainable consistent manner.
2. Provide increased support for communities to report on the condition and replacement needs of infrastructure.
3. Establish criteria for project selection that considers infrastructure funding requests based on criteria such as national economic interest, return-on investment, and job creation.