

November 1, 2011

House of Commons Standing Committee on Finance

Guyanne L. Desforges, Clerk
Sixth Floor, 131 Queen Street
House of Commons
Ottawa, ON K1A 0A6

Dear Members of the Standing Committee on Finance:

The Association of Municipalities of Ontario (AMO) would like to take this opportunity to comment on Bill C-13, *Keeping Canada's Economy and Jobs Growing Act*. Specifically, we would like to address part nine of the Bill which implements the permanency of the Federal Gas Tax Fund (GTF). As administrators of the Federal Gas Tax Fund in Ontario, AMO has a direct role in ensuring that approximately \$590 million of the current \$2 billion federal funding is being delivered to 443 municipalities across the province each and every year for use in environmentally sustainable municipal infrastructure. Funds in Ontario are distributed on a per capita basis and its flexibility allows municipalities to identify eligible local priorities.

As a result, the Gas Tax Fund has made a significant impact in our communities. Since 2005, over \$1.6 billion in federal funding through the GTF has been put towards 3,100 projects worth over \$5.4 billion. The foundation of this success is a direct municipal-federal relationship. This unique arrangement has created a positive and collaborative process that has allowed Ontario's municipalities, through AMO, to work in partnership with Infrastructure Canada to improve program design and delivery over time. The Ontario model has proven to be efficient and accountable, and a number of third-party evaluations have confirmed this fact.

The federal support provided through the GTF is integral to meeting the infrastructure needs of our municipalities. Much of our infrastructure was first built in the 1950s and 1960s and is now deteriorating, requiring modern upgrades or replacement. A growing population is also increasing the burden and fueling demand for new investments. In 2008, the Province of Ontario, AMO and the City of Toronto together quantified that Ontario's municipalities are facing a 10-year investment gap of \$60 billion in our core infrastructure such as transit, water & wastewater, storm water, solid waste and roads & bridges. The Provincial-Municipal Fiscal and Service Delivery Review also noted that the infrastructure gap is present in all of Ontario's municipalities, with the most pressure being felt in those that are asset rich but face a shrinking assessment base and declining revenues.

Within this context, we are pleased to see the Gas Tax Fund become permanent through Bill C-13. It will ensure that municipalities in Ontario can rely on the Gas Tax Fund as a stable, predictable and long-term source of funding for municipal infrastructure. However, we recommend that the text of the Bill be amended to further strengthen these commitments.



The current text of the Bill leaves the annual payment from the Fund contingent on a requisition from the Minister of Transport. This clause, along with the use of “may” rather than “shall”, leaves the payment open for debate each year. Among the principles of the Gas Tax Fund, stability and predictability are paramount to allow municipalities to plan over the long-term. In keeping with the principles of the Gas Tax Fund, language that would make the payment a certainty would allow municipalities to further develop effective long-term capital plans and asset management strategies.

As such, we recommend that the Bill contain wording that solidifies the commitment. In the face of a \$6 billion a year infrastructure gap, municipalities in Ontario would be comforted in knowing that “the Minister shall” provide funds for municipal infrastructure on an annual basis.

In addition, AMO strongly recommends that the allocation of the Gas Tax Fund be indexed to keep pace with the pressures of economic and population growth. The current text of the Bill sets the payment at “a sum of not more than \$2,000,000,000” meaning that the amount could be decreased in the future. At the very least, this means that the real value of the Fund will erode year after year. For example, an inflation rate of 2% per annum will mean that \$2 billion announced in 2010 will have a real value of \$1.81 billion in 2015, effectively reducing the impact of the investment by almost 10% in 5 years.

This erosion is small compared to the growth in the cost of construction inputs such as wages, materials and equipment, which will certainly reduce eligible recipient purchasing power. For example, Statistics Canada tracks the Infrastructure Construction Price Index, which calculates the cost of municipal infrastructure funded by development charges in the City of Ottawa. Between 2005 and 2009, this has grown by over 21%. Similarly, the Ontario Ministry of Transportation tracks the Tender Price Index which is a weighted calculation of all total costs related to major items involved in road and bridge construction. Since 2005 this index has grown by over 12%.

Other growth rates are as follows:

| Indicator | Growth (2005-2010) ¹ |
|--|---------------------------------|
| Population | 5.8% |
| Gross Domestic Product | 6.1% |
| Consumer Price Index | 9.0% |
| Tender Price Index (Ontario Road construction) | 12.3% |
| Infrastructure Construction Price Index (05-09) | 21.2% |

¹ Sources: GDP - World Bank; Population, CPI & Infrastructure Construction Price Index - Statistics Canada; Tender Price Index - Ontario Ministry of Transportation



With sensitivity to the current fiscal environment, AMO is open to discussions on the form of indexing and the potential for growth to be capped annually or phased in over time. These negotiations can occur within the existing Gas Tax governance framework which has demonstrated its ability to foster a positive working relationship between municipalities and the federal government.

Regardless of the specific mechanism for indexing, the language of the Bill should be amended to state that the payment will be “a sum not less than \$2,000,000,000” a year. A minimum level of funding would provide stability to municipalities while demonstrating a federal commitment to keep up with growth.

As administrators of the Gas Tax Fund in Ontario, we have seen the real impact of federal funding in our communities. Investments since 2005 have improved over 4,500 kilometers of roads and bridges, added over 150 transit buses to municipal fleets, installed over 88,000 metres of new and rehabilitated water, storm and wastewater pipes and diverted over 105,000 tonnes of waste from Ontario’s landfills. As such, AMO and its membership applaud the inclusion of a permanent Gas Tax Fund in part nine of Bill C-13. However, we recommend that this commitment be strengthened with amendments that are in keeping with the principles of the Gas Tax fund being long term and predictable and establish an allocation of no less than \$2 billion a year.

If you should have any further questions please do not hesitate to contact Pat Vanini Executive Director of AMO at 416-971-9856 or pvanini@amo.on.ca.

Yours truly,



Gary McNamara
President

