



## Increasing Cost Pressures for Municipalities Infrastructure Deficits and Beyond

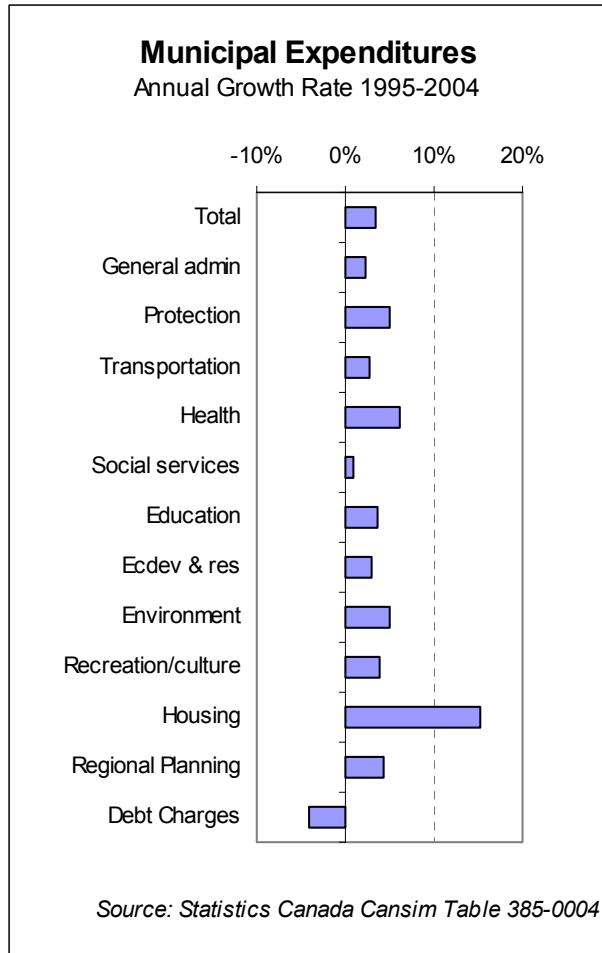
Canadians look to their cities and communities to provide high quality of life that they need to grow, learn, work, play and experience different cultures. Cities are also increasingly being recognized as the long-term engines of growth for our economy.

contain the cost of social services, which are especially significant in Ontario. But with interest rates rising and employment growth expected to slow, the need for spending in these areas may increase in the coming years.

Thanks to very effective work done by the FCM and other organizations the magnitude of the infrastructure deficit and its negative impacts are now well accepted – and they are finally starting to be addressed by federal and provincial governments. However, infrastructure needs are just one element of the growing cost pressures affecting municipalities.

Local governments are facing increased pressures to provide services in immigrant settlement, environment, emergency and protective services, housing, economic development, and in other areas to improve the overall quality of life in their communities.

Lower interest rates have helped municipalities reduce the cost of their debt charges, while strong employment growth has helped to



## Infrastructure Needs

While estimates of its level can vary, few deny that Canada has a large infrastructure deficit. A recent study by Infrastructure Canada has pegged the total infrastructure deficit at anywhere from \$23 billion to \$126 billion<sup>1</sup> and growing by \$2 billion a year.

Canadians feel the impacts of this deficit all around them in terms of inadequate public transit, crowded roads, deteriorating facilities and cutbacks to community services. Equally troubling are looming problems with aging infrastructure – combined with short-term planning. The ongoing costs of emergency repair to deteriorating pipes and other infrastructure add up to a lot more than the costs of well-planned replacement and rehabilitation.

The benefits of public infrastructure are immediate to residents through better roads, parks, public transit, and community facilities – and less time spent commuting. The value of quality infrastructure is also reflected in higher property values in areas adjacent to good community facilities.

Investments in public infrastructure also provide a very big payoff for businesses. A recent study by Statistics Canada estimated that every additional dollar of investment in public infrastructure provides businesses with approximately

17 cents in cost savings per year<sup>2</sup>. This 17% rate of return is in addition to all the benefits to individuals (such as reduced time commuting) and all the social and quality of life benefits related to better infrastructure.

Many studies have shown that public investments have a greater impact on increasing productivity than private investments. Direct public investments are also much more effective and equitable than tax credits at achieving social and environment objectives, such as improved public transit, higher participation in recreation, and creation of child care spaces.

## P3s and privatization more expensive and less accountable

Increasing demands and a squeeze on revenues has led to many municipalities looking to public-private partnerships (P3s) as a solution because they offer increased services with off-book financing and “no money down”. Private businesses are aggressively pushing P3s because they can gain lucrative high returns with low risks.

But P3s are a very shortsighted solution. Invariably, their long-term costs are much higher than if a project is publicly funded because they have to pay for profit margins, the higher costs of financing and the costs of negotiation and monitoring. Just the costs of private borrowing

<sup>1</sup> *Municipal Infrastructure in Canada: Issues of Terminology and Methodology*, Infrastructure Canada, November 2003, p. 22.

<sup>2</sup> *Public Infrastructure in Canada: Where do we stand?* Statistics Canada, November 2003, p. 13.

can mean 10-20% higher costs over the life of a 30-year project<sup>3</sup>.

By turning public infrastructure into private property, P3s reduce public control, flexibility, accountability and transparency, and have led to many problems in terms of poorer quality services and access<sup>4</sup>.

There have been enough failed and costly experiments with P3s in Canada and around the world that most public leaders – and a large majority of Canadians – are suitably sceptical of the many promises made by P3 hucksters<sup>5</sup>.

Public financing alternatives, such as pooled municipal debt and bonds, provide much lower costs for municipalities and ratepayers. They also ensure that public services meet the needs of municipalities by preserving public control and accountability.

CUPE has advocated strongly for increased infrastructure funding to municipalities from federal and provincial governments. We've worked together with the Federation of Canadian Municipalities and supported FCM positions for reducing the infrastructure deficit and

relieving fiscal pressures on municipalities.

The New Deal for Cities and Communities was a very positive step, but when the funding under this program reaches its maximum in 2009/10, it will only provide enough to keep the infrastructure deficit from growing and not enough to reduce it. The gas tax transfer needs to be increased faster and made permanent.

Promises made in the 2006 budget to renew and increase funding for the Canada Strategic Infrastructure Fund and the Municipal Rural Infrastructure Fund are welcome. The new Highways and Borders Infrastructure Fund and continued federal funding for public transit will make additional funds available for municipal infrastructure, but the public transit funding was only committed for two more years.

### Other Cost Pressures

While the federal government has responded to pressure by providing greater funding for municipal infrastructure, local governments are also facing increased cost pressures in many other areas:

#### *Increasing Growth and Diversity*

Canada's municipalities have experienced strong and vibrant population growth. The last census showed that urban populations have increased by more than 1% per year, while rural populations have declined – thanks to increasing rural to urban migration and immigration. Over

<sup>3</sup> A CUPE Backgrounder on Urban Infrastructure, CUPE, May 2004, p. 23; *Leaky propositions: the Ontario Watertight Report*, CUPE, December 2005, p. 8.

<sup>4</sup> Mehra, Natalie (2005). *Failed, Flawed, Abandoned: 100 P3s Canadian & International Evidence*. Ontario Health Coalition, March 2005.

<sup>5</sup> Ipsos-Reid Poll March 24 found that 75% of Canadians want public infrastructure kept public; *Failed, flawed, abandoned: 100 P3s Canadian and International Evidence*, Ontario Health Coalition, March 2005.

95% of all recent immigrants to Canada settled in urban areas with 74% going to the largest three cities<sup>6</sup>.

Increasing growth and diversity has led to growing demands on municipal governments for a wider and improved range of services, such as immigrant settlement services and a wide range of other services.

Greater urban sprawl has also led to escalating costs, with the capital costs of utilities up to 50% higher for more spread out developments, and operating costs about 20% higher.<sup>7</sup>

#### *Affordable Housing and Homelessness*

Affordable and adequate housing is a basic human need and a critical determinant of human, community, and social health. Rapidly increasing prices have both increased the need for affordable housing and the cost for municipalities providing affordable housing.

The recent federal budget cut the level of funding that had been previously committed to affordable housing. It also signalled that the federal government is not going to support a strengthened federal role in the area of affordable housing and homelessness.

<sup>6</sup> *Immigrants' Choice of Destination*, Statistics Canada, September 2003.

<sup>7</sup> Slack, Enid (2002). *Municipal Finance and the Pattern of Urban Growth*. C.D. Howe Institute Commentary, February 2002, p. 6.

#### *Environmental Pressures*

Municipalities are responsible for services with significant environmental impacts and face pressures to advance solutions as part of the broader struggle for environmental sustainability. Increasing growth, deteriorating infrastructure, stronger regulations and the need for recycling and composting programs all represent additional cost pressures.

Climate change is also leading to greater costs, with greater stress on services and infrastructure. Local governments can reduce their emissions and save money over the longer-term by promoting energy efficiency, but this requires up-front investments.

The current federal government's retreat from Canada's Kyoto commitments and the cancellation of many of the federal government's climate change programs, such as the successful low income energy retrofit program, will lead to further increased costs for municipalities.

#### *Safe Communities*

Safe and healthy communities should be founded on inclusive and equitable societies with a high quality of life and quality public services.

We need greater investments in social programs and development to reduce insecurity and crime, and not just more money to fight the symptoms. But the stronger emphasis on security, emergency management and crime at the

national level has meant higher costs for policing, emergency management and crime prevention.

### *Quality of Life*

In the new global economy, where businesses and people are ever more mobile, cities and local governments are under pressure to provide both high quality services and community life to attract employers, skilled workers and visitors alike.

These pressures are forcing all municipalities, large or small, to constantly diversify and adapt in order to survive and grow.

At the same time, federal and provincial governments have increased fiscal pressures on local governments through transfer cuts, downloading and offloading while limiting their sources of revenue. Without greater transfers and revenue sources, municipalities have very limited ability to meet these increasing needs.

### **Moving Forward**

Municipalities have welcomed the government's commitment to ensure that governments have access to revenues consistent with their

responsibilities. But the new federal government has not demonstrated any national urban vision for cities and communities, other than reverting to the Constitutional division of powers. This provides no independent powers for municipalities separate from those of provinces.

Our world has changed a lot in the last 140 years. Many issues of increasing concern to municipalities have causes and impacts that go much beyond municipal and provincial boundaries. The federal government needs to play a more positive role so that municipalities can move forward in creating vibrant, inclusive and sustainable communities.

We need coherent and progressive national policies on social, environmental and urban issues – and funding for programs to match these policies. Unless this is done, local governments will continue to face ever increasing challenges and costs to improve the quality of life in their communities with very limited revenue sources.