

Submission of the
**Association of
Manitoba
Municipalities**



to

The Federal Standing Committee On Finance

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1. Federal New Deal

Across Canada, municipalities are looking for new ways of accessing funding to accommodate their growing responsibilities. There are consistent problems in Manitoba with a growing infrastructure deficit and municipalities that rely almost exclusively on property taxes for revenues. Problems arise based on the gap between the services that municipalities must provide and the resources at their disposal. Manitoba municipalities are ready for a major change in funding mechanisms to enable better service provision to residents.

Over the past four years, while municipal revenues increased by only four per cent, provincial/territorial revenues across Canada have increased 21 per cent and Federal Government revenues have increased 16 per cent. Specifically, federal fuel tax revenue roughly doubled between 1993 and 2003, while investment levels dropped significantly. In Manitoba, municipal financing problems are exacerbated by the requirement that municipalities must share property tax revenue with the Provincial Government. More than 50 per cent of all Manitoba property taxes are dedicated to education funding, an amount set by the Provincial Government. Therefore, it is increasingly difficult for Manitoba municipalities to balance their residents' ability to pay with the increases to property taxes that are necessary for increasing municipal service provision.

The solution to municipal financing must create new revenue sources for municipalities that are specifically tied to economic growth. At present, only 7 cents of every tax dollar collected is allocated to municipalities, while the federal and provincial governments collect the remaining share. As a result, little benefit accrues to municipalities in times of strong economic growth, particularly in comparison to Federal and Provincial Government gains.

Since responsibilities are continually downloaded to municipalities, the present system is unsustainable and municipal service provision cannot be effective. As such, a new revenue sharing agreement should provide a fuel-tax escalator tied to GDP to ensure proportional growth with the economy. Furthermore, the Federal and Provincial Governments should make a commitment to explore sharing other taxes that grow with the economy. Moving in this direction will ultimately benefit all residents through improved service provision.

Developing solutions to inadequate municipal financing will also require the three levels of government to establish a mutually beneficial partnership. In Manitoba, there have been some advances at the Provincial and Federal levels, however a broader commitment is required to ensure progress occurs in communities across the country. Canadians expect that the three levels of government will cooperate to address common concerns. National and regional polling consistently identifies the need for greater infrastructure investment as a key issue. There is public dissatisfaction with the condition of roads and infrastructure, as well as a concern that quality of life will deteriorate without increased and sustained government investment in infrastructure. Manitoba municipalities strongly support the need for partnership between the three levels of government to develop and maintain sustainable, competitive communities that support a high quality of life. To accomplish this all levels of government must commit to supporting cooperative action.

The AMM was pleased that the recent Throne Speech raised cities and communities and committed to “make available, for the benefit of municipalities, a portion of the federal gas tax, growing over the next five years.” There are critical infrastructure needs in all municipalities, and timely access to this funding will be an essential contribution to

supporting local action. In order to maximize the effectiveness of the Throne Speech commitment, immediate action must enable municipalities to undertake long term projects to improve the failing infrastructure in their communities.

New revenue sources are crucial to municipalities as they strive to create vibrant communities for all Manitobans. Creating a municipal revenue source that is based on economic growth will facilitate a meaningful municipal contribution to infrastructure improvements. This type of investment will support efforts to improve the quality of life in Manitoba's communities and attract the young people necessary to solidify the future of these communities. As responsibilities are continually downloaded to municipalities, the current system is inequitable and municipal service provision cannot be effective with such limited resources. Action must be taken to mitigate the fiscal imbalance between municipal revenues and service provision.

The AMM urges the Federal Government to finalize and implement an action plan by the end of 2004 that will provide equitable access to funding for all municipalities based on previous commitments.

2. Infrastructure

Upgrading municipal infrastructure is a complex problem for Canada and for Manitoba.

Municipalities are responsible for the operation and maintenance of more services than ever before, yet they are limited in their ability to raise revenues to support these services.

Municipal infrastructure includes physical community assets relating to transportation, water and wastewater, drainage and recreation. Throughout Manitoba, these assets are aging and require targeted, sustained investment to reverse their ongoing deterioration. Priority infrastructure issues include the National Highway System, rural water infrastructure and a national recreation infrastructure program.

Establishing a context for this discussion requires an examination of the infrastructure deficit, which will provide a clear indication of the severity of the problem. Canada's core municipal infrastructure deficit has been estimated at \$60 billion and is growing at a rate of \$2 billion annually. Provincially, Manitoba's infrastructure deficit is approximately \$7.4 billion. This amount includes \$3.4 billion for the highway system, \$2 billion for rural municipal infrastructure, \$1 billion for rural land drainage and \$1 billion for Winnipeg's infrastructure deficit. The provincial infrastructure deficit is also rapidly increasing, with the highway deficit alone growing by \$100 million annually. Further neglect of this aging infrastructure will only increase the rate of deterioration and widen the infrastructure deficit.

a) National Highways Program

To counteract part of the infrastructure deficit, the Federal Government should implement a National Highways Program. For many years, highways have been recognized for their positive contribution to economic growth and industrial productivity. Highways will play an increasingly vital role in our economy as changes continue to occur in the areas of value-

added processing and the transportation of agricultural products. As Manitobans look to new and innovative forms of economic development it is imperative that they are able to rely on an efficient transportation system for access to markets. An effective road system can promote economic development through an improved ability to retain businesses and develop future markets. Furthermore, inadequate road maintenance leads to poor road conditions that pose a safety risk to residents. Particularly in rural areas, residents rely heavily on the road infrastructure for access to basic services such as health care. Investment in the National Highway System will therefore have a favorable impact on the well-being of communities across the nation.

The National Highway System accounts for 24,000 kilometres of roads, approximately three per cent of the total Canadian road network. However, these highways are used extensively, as more than 25 per cent of traffic occurs on national highways. In Manitoba, there are approximately 860 kilometres of the National Highway System that are also heavily used by residents and visitors. These highways represent only 4.8 per cent of Manitoba's total highway system, yet serve approximately 30 per cent of its total traffic. In Canada, the estimated cost of correcting all of the current deficiencies of the National Highway System is \$17.4 billion and rising steadily. In Manitoba alone, the estimated cost of correcting all deficiencies is currently more than \$800 million.

The Federal Government's response to this problem has been the five year, \$600 million Strategic Highway Infrastructure Program. The \$500 million of this program allocated to strategic improvements to the National Highway System hardly begins to address the problems associated with the \$17.4 billion National Highway infrastructure deficit. While

there have been instances of one-time investments by the federal government, such as the Canada Strategic Infrastructure Fund, the fact remains that there is a need to address the long-term issue of the National Highway infrastructure deficit. The most appropriate source of funding for the National Highway System is the federal fuel tax. Ottawa collects over \$5 billion annually from gasoline taxes, yet in 2002-2003, only returned \$461 million to the National Highway System. It is inappropriate for fuel tax revenue to contribute so little to highway infrastructure, and increased federal investments are necessary.

A further illustration of the need for investment is a comparison with the United States national highway system. Canadians are at a clear disadvantage in comparison to the US, our primary trading partner and economic competitor. Across the border, commitments average \$35 billion annually to highway trust fund projects that add to the productivity advantage over Canada. The stark contrast between the national highway system in each country diverts travel-related economic activity from Canadian to US routes. In Canada, an improved National Highway System could provide substantial productivity gains and is essential to achieve a more productive and competitive economy. A National Highway Program would be more than just an investment in transportation – it would be an investment in a successful, competitive Canadian economy.

The AMM urges the Federal Government to financially support a National Highway Program by dedicating additional revenue from federal fuel tax to this program.

b) Rural Water Infrastructure

Water is one of the most valuable resources available to Canada. Holding seven per cent of the world's renewable water supply and 20 per cent of the world's total freshwater resources, Canada has access to a vast resource. This water supply is not only beneficial for the provision of drinking water, but can contribute to economic development through the support of new industries. The need for an adequate water supply will only increase as value-added processing and crop diversification continue to expand. Agricultural diversification can require irrigation, thereby requiring appropriate infrastructure to ensure access to safe water. While industrial access to water in Canada can represent an economic opportunity, basic supplies of fresh drinking water are also of critical importance. The provision of a safe, high quality water supply is a crucial factor in the success of all communities.

Canada's water supply is also critical in Manitoba, where freshwater comprises 15 per cent of the total provincial area and 11 per cent of Canada's freshwater. However, this province is still experiencing problems with establishing infrastructure to appropriately use this resource. For instance, some areas do not have access to safe drinking water and are perpetually under boil water orders. In certain rural and northern areas, boiling and chlorination do not make the water safe to drink. This situation is unacceptable due to the extreme health concerns associated with such unsafe water supplies. As well, wastewater treatment is a vital issue for many communities. The high cost of this infrastructure can be a deterrent to the investment that is required to protect the health of residents and the environment. These issues require further attention to safe water supplies and wastewater treatment across Manitoba.

The National Water Supply Expansion Program (NWSEP) has provided a necessary source of funding to water infrastructure projects. Manitoba's allocation of \$60 million over four years contributed to several important initiatives and was appreciated by those who received funding. Fortunately, Manitoba was able to allocate these funds in accordance with the timeline developed and will have exhausted the funding allocation after the March 31, 2006 intake of applications. However, the AMM has been informed that the NWSEP will likely be extended for two additional years to allow other participating provinces to appropriately allocate their resources. This raises the concern that there will be no additional programming or funding for water infrastructure in Manitoba until the extension to NWSEP is complete. Two years without funding places Manitoba in a tenuous position. The AMM has asked repeatedly for a national program that will provide \$180 million over 10 years to water infrastructure and to defer investment in Manitoba's infrastructure for two years would hardly provide the type of ongoing support that is required.

The AMM has met with representatives from the Government of Manitoba to discuss the need for investment in water infrastructure. Our Provincial Government is willing to dedicate funding to water infrastructure and will match new federal funding for this purpose. This provincial commitment and the demonstrated demand for investment across Manitoba emphasizes the need for additional federal contributions to water infrastructure. Manitoba should not be penalized for using its allocation in the appropriate timeframe, particularly since clean drinking water is a necessity and is not available to all municipalities.

The AMM urges the Federal Government to provide additional funding to Manitoba until the NWSEP extension is complete and to commit to a \$180 million water infrastructure investment over a 10 year period.

c) Recreational Facilities

Communities are healthy when they have access to effective recreational facilities. Not only do recreational facilities promote the health and well-being of residents, but research shows that recreation can contribute to crime prevention. At a time when youth crime is an enormous concern, alternative programs that involve recreational opportunities can have a very positive impact on communities. The comprehensive health and safety benefits mean that investing in recreation infrastructure will contribute to alleviating the high costs of health care and policing. However, Manitoba communities consistently raise the need for greater funding to repair or replace cultural and recreational facilities, as well as greater funding to build new facilities. These investments cannot be made unless municipalities obtain additional resources.

The root of the problem is that many of Manitoba's recreational facilities are aging and in desperate need of repair. Over the years, grants to recreational associations have been reduced and municipalities are unable to finance these essential upgrades. Nevertheless, it is necessary for municipalities to provide new and upgraded recreational facilities in their communities; failure to meet this challenge is a failure to provide residents with a reasonable standard of living and quality of life.

The need for investment in recreation has been recognized by many stakeholders, including municipalities in Manitoba and across Canada. The Federation of Canadian Municipalities (FCM) strongly supports broad investment in recreation. Its Committee on Community Safety and Crime Prevention continues to work with municipalities to promote recreational programs as an integral part of community safety plans. As well, FCM research shows that

the annual cost of subsidies for recreational infrastructure is far less than the direct savings (\$1,000 per person per year) generated by parents' reduced use of direct services. The benefits of excellent recreational facilities must be made available to all Canadian communities in order to support their social sustainability over the long-term.

The Federal Government is also a key stakeholder in recreation initiatives. The Federal-Provincial/Territorial Priorities for Collaborative Action 2002-2005 articulated the priority of improving sport and recreation facilities by identifying innovative funding sources, notably an infrastructure program, targeted at sport and recreation facilities and best practices for the development of those facilities. This policy document also recognized the need to foster the diversification of the resource base of sport organizations at all levels through a comparative analysis of international funding models for sport. These funding priorities must be made available to all communities. Furthermore, with the policy timeline of 2002-2005, the Federal Government should be acting on these priorities and allocating funding to recreational infrastructure across Canada. Since the Province of Manitoba is also supportive of a tri-partite funding agreement for recreational infrastructure, action should be taken to establish an appropriate funding mechanism through an intergovernmental partnership.

The most recent Throne Speech also recognized that better health for Canadians will depend on preventive measures such as promoting healthy living and addressing risk factors such as nutrition and physical inactivity. The next federal budget must reflect this priority and commit funding to a national recreation infrastructure program. For several years there has been insufficient federal funding for all types of infrastructure and the specific needs of recreation infrastructure cannot continue to be neglected.

The AMM calls upon the Federal Government to establish a tri-partite infrastructure program for the repair, upgrading and building of recreational facilities in municipalities throughout Manitoba and Canada.

Ultimately, infrastructure deficits pass on the costs of today's use and consumption of infrastructure to future generations. The consequence is a limited ability for future generations to meet impending infrastructure needs, which contradicts the principles of sustainable development. Addressing the infrastructure problem is a priority for municipalities because the consequences are extremely broad. The Municipal Rural Infrastructure Fund will be a valuable injection of funds across various types of municipal infrastructure. However, Canada's infrastructure deficit is far greater than the program's total national allocation of \$1 billion. There remains a tremendous shortfall which must be supported by increased federal infrastructure investment, particularly in the areas of highway, water and recreation infrastructure.

The AMM observed that October's Throne Speech was silent on the need for continued support for infrastructure programs and increased funding to address the infrastructure deficit. Federal support for cities and communities must include an explicit commitment to confront all infrastructure needs. Therefore, the Federal Government must demonstrate a commitment to addressing the infrastructure deficit through the allocation of sustained infrastructure funding in an equitable manner across the country. This funding should be in addition to the commitments to allocate a portion of the federal fuel tax to municipalities. The solution to infrastructure funding will likely be as complex as the problem itself. A multi-faceted approach must be taken to provide funding to municipalities in their role as key service providers. Until municipalities have access to greater resources, they cannot

adequately address the needs of their communities. Community health and well-being depend on greater investment in and commitment to infrastructure, making this a leading priority for municipalities and the Federal Government.

The AMM urges the Federal Government to provide funding for all aspects of municipal and national infrastructure, in addition to any New Deal funding, and to address the growing infrastructure deficit through targeted, sustained investment.

3. Disaster Financial Assistance

With little warning, a disaster can cause widespread destruction and distress. Residents must be confident that their governments will provide an immediate and effective response to counteract the resultant devastation. In the most severe cases, all three levels of government have a responsibility to compensate those affected by the disaster. Municipal governments are committed to assisting residents by directly repairing infrastructure and property, but the higher levels of government must also contribute to the high costs of these major disasters.

The provision of effective disaster response service is being threatened by the Federal Government's review of the disaster funding formula. If federal funding is reduced, municipalities will not be able to provide the same timely attention to disaster recovery efforts or return communities to pre-disaster level conditions. Municipalities cannot bear the high costs of disaster assistance alone, and insufficient disaster recovery will surely result. Reducing federal funding could also set a precedent and justify reductions in provincial disaster assistance funding. However, higher levels of government have greater access to the resources that are required to address the costs of widespread disasters.

In addition, current compensation rates are inadequate for certain aspects of disaster financial assistance. Presently, municipal equipment used in an emergency is compensated at only 16 per cent of the cost and municipal labour is compensated only for overtime. In contrast, when contracted (non-municipal) labour and equipment costs are required, 100 per cent of the costs are eligible for compensation. This policy penalizes municipalities for doing their own work, even though this action will certainly represent a cost savings to all levels of

government. As an incentive to minimize the costs of disaster recovery, the rate of compensation for using municipal equipment and labour should be increased from 16 to 65 per cent. This will better reflect the true costs incurred by municipalities in using their own equipment and labour.

To further illustrate municipal concerns, the review of disaster financial assistance should include representation of a municipal voice. If municipalities continue to hold the primary responsibility for direct assistance, they must be consulted as the terms of disaster financial assistance are defined. As a primary stakeholder in local disaster recovery, municipalities should be represented in the review process through the Federation of Canadian Municipalities (FCM). Since FCM has already undertaken extensive research on the topic of disaster assistance, they are well-equipped to provide insight into the financial needs of municipalities responding to disaster situations. This municipal voice should not be neglected, since municipalities are directly responsible to their residents in disaster situations.

The AMM urges the Federal Government to maintain high levels of funding for disaster financial assistance, and to raise the compensation rates for the use of municipal equipment and labour in disaster recovery efforts.

4. BSE Crisis

The crisis that has resulted from the discovery of a single case of bovine spongiform encephalopathy (BSE) in May 2003 is extensive. Its effects are not limited to rural communities and livestock producers but extend to consumers in all communities. The Prairies in particular are vulnerable because so much of the economy is linked to the agriculture sector. Although it is the Canadian ranchers who have suffered the heaviest toll thus far, the effects are felt across all Western Canadian communities.

The closure of the border has demonstrated Canada's vulnerability to the market. Regardless of whether or when the border reopens to live Canadian ruminants, Canada needs to create a self-reliant ruminant industry. The slaughter capacity in Canada is lacking and must be developed if the livestock industry is going to survive. This is particularly true in Manitoba as nearly 100% of ruminants were slaughtered outside the Province prior to May 2003.

The Federal Government has recently responded to this situation by announcing a strategy whereby \$66.2 million federal dollars will be invested to facilitate increases in ruminant slaughter capacity. The AMM is pleased with this investment, and we encourage the Federal Government to continue in this direction as it is important for the Canadian livestock industry to be capable of managing itself on all levels. However, without adequate slaughter facilities, this is not possible. As well, there is no certainty that the border will reopen any time soon so being a self-sufficient industry is currently a necessity. Statistics Canada has reported that there is one million more cattle in Canada than there was one year ago, including a 10% increase in Manitoba.

Therefore, the AMM recommends that the Federal Government continue to invest funds to encourage the establishment of additional value-added slaughter facilities across Canada, and specifically in areas of greatest need, such as Manitoba.