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August 4, 2017

Members of the Standing Committee on Finance
c/o Ms. Suzie Cadieux, Clerk
131 Queen Street, 6th Floor
House of Commons
Ottawa, ON K1A 0A6

Subject: Municipal priorities for Budget 2018

Dear Finance Committee Members:

The Federation of Canadian Municipalities (FCM) and its 2,000 members represent more than 90 per cent of Canada's population. From this standpoint, we are pleased to share this overview of local priorities ahead of Budget 2018.

This letter outlines principles for boosting Canada's productivity and quality of life by strengthening cities and communities nationwide. We look forward to contributing full recommendations to your Committee's pre-budget hearings later this fiscal year.

Local governments manage 60 percent of the public infrastructure that supports Canadians' quality of life. Through effective planning and services, they build livable communities that are hubs of economic growth and innovation. In doing this, they deliver local solutions to Canada's economic, environmental and social challenges.

Investing in municipal priorities helps the Government of Canada achieve its central priorities: boosting growth and productivity; fostering innovation; and confronting climate change. That is why, through two consecutive budgets, this government has delivered historic levels of investment and engaged in unprecedented dialogue with local governments.

Budget 2017: the game-changer

Eighteen months ago, Budget 2016 committed to strengthen Canada's public infrastructure through the *Investing in Canada* strategy. The subsequent Fall Economic Statement deepened those commitments. Ultimately, Budget 2017 outlined the framework for an unprecedented long-term plan to build a more productive and livable Canada—by strengthening our cities and communities.

Budget 2017 responded to FCM's call to confront Canada's housing crisis, to better support the families and talented workers our communities need to thrive. This budget confirmed new investment to spark growth in rural and northern communities, and it opened doors to scaling up local green innovation to tackle our national climate change challenge.



Budget 2017 also outlined an investment plan that could launch the next era of Canadian public transit, shortening our daily commutes and reducing greenhouse gas emissions. This can recover billions of dollars' worth of productivity that Canada is losing to congestion each year, while creating vibrant cities to compete for talent and investment.

This transit plan's mechanism is as significant as its \$20.1 billion scale. By funding system expansions on an allocation basis, the federal government recognizes that Canadian cities are capable nation-builders—ready to select, design and deliver major projects to serve both local needs and national goals.

FCM has called Budget 2017 a “game-changer” because it foregrounds this local nation-building role—and because it was crafted through unprecedented engagement with local governments. Through the next budget and beyond, the federal government can best serve Canadians by continuing and extending this federal-municipal partnership.

Investing in Canada: Optimizing Phase 2

Businesses need good roads and safe bridges to deliver goods and services. Commuters need fast, efficient transportation networks to get to work. Growing companies count on a full span of community infrastructure and services to attract skilled workers. And while we know that every \$1 billion dollars spent on this infrastructure generates 18,000 jobs and \$1.6 billion in real growth, these metrics only begin to capture the potential return on investment.

The federal government understands how investing in infrastructure can unlock productive potential—of workers, of innovators, of businesses, of contributing community members. That is the mission of its 11-year, \$81-billion Phase 2 *Investing in Canada* plan.

Phase 2 can transform this country by strengthening our transit, social, green and rural infrastructure. However, its success now depends on key program design decisions, including decisions to be made through the National Housing Strategy and upcoming Integrated Bilateral Agreement (IBA) negotiations with provinces and territories. FCM, our members, and provincial/territorial partner associations expect to be engaged throughout. We expect the Committee will be also be monitoring, in particular, the IBA negotiations that will so significantly drive the outcomes of federal budget commitments.

For many *Investing in Canada* funding streams, outstanding design issues include project selection, provincial/territorial cost-sharing, eligible costs, fund permeability and outcomes and reporting requirements. On transit, for instance, the federal government committed in Budget 2017 to cover 40 per cent of the capital costs of system expansions (50 per cent for capital repairs). Ottawa has since indicated that it will seek at least a 33 percent share from provinces in IBAs. Given municipal fiscal constraints, full cost-sharing will be vital to moving projects forward.

While the transit plan's allocation-based model puts municipalities in the drivers' seat, project selection for other investment streams is less straightforward. The \$2 billion Rural and Northern Communities Fund can spark significant growth and quality-of-life improvements—but only if smaller communities are empowered to direct funding to pressing local needs, with streamlined project identification and reporting requirements. Similarly, FCM is seeking clarity on the degree to which the Green Infrastructure Fund will support locally-identified climate mitigation, adaptation and other environmental priorities.

As a principle for all infrastructure investment, FCM recommends frameworks of stable funding that empower local governments to direct resources to projects that leverage local expertise and offer exceptional returns on investment, locally and nationally.



Affordable housing for Canadians

The housing sector represents 20 per cent of Canada's GDP. And after decades of chronic neglect, the federal government has returned to the table on affordable housing in particular. FCM and other stakeholders continue to work with the government on a National Housing Strategy (NHS) expected to launch later this year. Budget 2017 provided a 10-year fiscal framework for the NHS exceeding \$15 billion—including a crucial commitment to maintain baseline funding from expiring social housing operating agreements.

FCM recognizes this re-engagement as a response to our call for an all-governments response to Canada's housing crisis. A million and a half families can't find decent housing they can afford. One in five renters spends more than half their income on housing. Social housing waitlists are growing as crumbling homes are shuttered. This crisis is real. Conversely, solving it is a major opportunity to build a more productive, competitive, inclusive Canada.

Housing is the bedrock of the strong communities we aspire to build. Every day, we see how safe, affordable housing supports newcomers, families, students and talented workers who enrich our communities and drive our economies. And municipalities are working with community partners to promote new affordable housing—by providing land, reducing fees, expediting permits and much more. We are doing what we can with limited resources.

In October 2016, FCM published *Canada's Housing Opportunity*, our comprehensive recommendations to tackle the housing crisis. These recommendations are the basis for our continuing dialogue with the federal government toward the National Housing Strategy. We envision a fundamentally transformed system of social and affordable housing. Getting there will require sustained partnership among all orders of government.

Transformation starts with the basics. Without urgent funding for social housing repairs, thousands of families could lose their homes as they are shuttered as unsafe or indecent. Across Canada, the capital repair deficit for social housing now exceeds \$1.3 billion. In the past, the burden of repair was insufficiently factored into operating agreements, and providers have been effectively barred from refinancing or borrowing. FCM estimates that at least \$615 million must be dedicated annually—starting immediately—to fund needed repairs.

While supporting repairs is a “catch up” task, this is also a proactive opportunity. It took Canada 40 years, starting in the 1950s, to build its existing stock of 600,000 social housing homes. Renewing these homes is the most cost-effective next step to secure tomorrow's stock, while offering housing providers the stability they need to lead the transformation toward more flexible mixed-income housing through new builds.

The federal government must continue engaging municipalities at every step. This means honouring our advice for the path forward—starting by servicing urgent repair needs. This also means ensuring a meaningful role for municipalities in selecting and designing housing projects. Local leaders are uniquely capable of assessing local needs and integrating housing into land-use and community-development planning. To ensure lasting progress, this recognition should be built into the detailed design and delivery of the NHS and its budgetary framework. The upcoming Canadian Poverty Reduction Strategy is another opportunity to build on the NHS, on the road to a more inclusively prosperous and livable Canada.



Tackling climate change together

Climate change is the challenge of our times, and municipalities influence around half of Canada's greenhouse gas (GHG) emissions. They are also driving some of our most systemic low-carbon practices—from high-efficiency buildings to district heating, from public transit to near-zero GHG waste plans. Some of the most cost-effective potential for reducing Canada's emissions lies in scaling up this local green innovation.

Local governments are also on the front lines of flooding, forest fires and other extreme weather events that increasingly cause property damage and economic disruption. Major cities and smaller communities are assessing risks and developing plans to adapt public infrastructure to the new realities of climate change.

Scaling up local climate mitigation and adaptation efforts will generate substantial growth and productivity gains as well. Because this scale-up will require significant federal investment, the \$21.9 billion Green Infrastructure Fund (GIF) represents a major nation-building opportunity.

FCM is seeking meaningful engagement in finalizing the design of GIF investment streams. National programs like the \$2 billion Disaster Mitigation and Adaptation Fund, if well-designed in partnership with FCM, can enable the large-scale municipal infrastructure projects needed to confront natural disasters, extreme weather events, and effects of a changing climate.

Within the GIF, \$9.2 billion will be streamed to provinces and territories to support priority projects—including water and wastewater, climate resilience and GHG-reduction initiatives. Ottawa has directed that this funding should support a “fair balance” of provincially and municipally-selected projects. This balance will be framed through IBA negotiations, alongside eligibility criteria and many other design details. Critically, this balance will need to be achieved through transparent allocation of funds once negotiations are complete.

These design details will drive the outcomes achieved by last year's budget commitments. Canada cannot achieve its climate objectives without deeply engaging municipalities. This is an unparalleled opportunity to scale up local solutions as a centrepiece of Canada's climate strategy.

Strong partnership for a better Canada

New federal infrastructure commitments recognize two modern Canadian realities. First, municipalities deliver cost-effective, locally-tuned solutions to national challenges, from boosting productivity to reducing emissions. Second, while municipalities possess critical local expertise and capacity, their progress is constrained by inherent fiscal limits.

As long as municipalities are limited to roughly 10 per cent of tax revenues, they will rely deeply on investment from other orders of government. The scale of new federal commitments begins to recognize this. Now FCM's priority is to ensure new investments are designed to unlock local expertise to deliver transformational outcomes—for the Canadians whose needs municipalities understand so well.

This will require the federal government to continue deepening its partnership with local governments. This includes engagement in the design of *Investing in Canada* programs, the National Housing Strategy and Canadian Poverty Reduction Strategy. This includes consultation in the design of the Canada Infrastructure Bank as an optional new investment tool. This includes engagement in the full scope of federal policymaking with local implications—from a pan-Canadian response to the Opioid Crisis, to the development of trade relationships, to the systematic implementation of cannabis legalisation and regulation.



FCM and our members have appreciated new levels of dialogue with the federal government, to its most senior levels. For the first time last September, mayors joined a first ministers' meeting on communities and infrastructure. FCM is looking to Budget 2018 with a fresh lens: how can its commitments deepen the federal-municipal partnership to better serve Canadians?

Municipalities form the order of government closest to people's lives. The federal government comes to the table with nation-building priorities and financial weight. Our shared mission is to build a partnership based on our inherent strengths—to build more livable and competitive communities, and a stronger Canada.

Sincerely,

A handwritten signature in grey ink that reads "J Gerbasi". The signature is fluid and cursive, with the first letter 'J' being particularly large and stylized.

Jenny Gerbasi
Deputy Mayor, City of Winnipeg
FCM President

