ANNEX 1

Report on FCM Survey

REVIEW OF FEDERAL GAS TAX TRANSFER AND INFRASTRUCTURE PROGRAMS

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I. Executive Summary

Recent and current federal government initiatives to provide funding for municipal infrastructure have been well received by Canadian municipalities that hope such initiatives will form the basis of establishing long term, predictable funding which will provide them with both additional resources and processes for addressing long term needs more effectively.

There are undoubtedly lessons to be learned from experience to date with the suite of existing federal government municipal infrastructure programs. In order to capture some of the perceived strengths and weaknesses of these programs, as one element developing longer term strategies, FCM conducted a short survey of 28 representative municipalities, including both those that were and were not successful in obtaining funds.

Telephone and written responses were obtained from the brief questionnaire (see Appendix 2) circulated to 28 municipal political and administrative representatives. Municipalities included in the survey ranged from very small to very large. All provinces and territories were included in the sample. More than 50 additional comments were also obtained from other municipal officials not included in the survey.

Based on an analysis of the strengths and weaknesses of recent and current federal infrastructure programs, supported by information and data obtained from the survey, this memorandum offers suggestions as to how best to achieve multilateral agreement on the main features of a longer term, more predictable, comprehensive framework for future federal involvement in addressing the infrastructure deficits faced by municipalities of all sizes.

Clearly, long term, predictable federal government funding programs can best be developed through multilateral, rather than unilateral actions because:

- The absence of direct municipal participation in program design is bound to lead to a variety of practical difficulties inasmuch as federal bureaucrats cannot be expected to fully understand the wide range of variation in capital budgeting procedures at the municipal level, including even relatively obvious matters as differences in fiscal years,
- municipal expectations for long term funding on a sustained basis requires municipalities to adopt a ‘house-in-order’ approach to ensure that their own longer term, substantive plans and priorities are properly in place, and because

- it should be recognized that federal government participation is more easily justified where there is consistency with national strategic objectives related to both the environment and the economy.

A recent survey of a representative range of Canadian municipalities showed, not unexpectedly, a high degree of unanimity on the need for longer term guaranteed funding.

The vast majority of those surveyed also considered the Federal Gas Tax Transfer model to be far superior from the standpoint of ease of administration, meeting eligibility requirements, and consistency with locally determined priorities.

In addition, unanimity among those surveyed was high that:

- accountability mechanisms are reasonable and effective,
- the application process is too demanding,
- the application, decision-making, and negotiating process is too lengthy,
- allocations appear fair and equitable,
- applications were treated fairly,
- there is little difficulty in meeting their matching fund requirements, and
- the period of funding is too restrictive with respect to selecting their highest priority projects.

There was less agreement on such features of existing programs as to:

- the reasonableness of the federal project eligibility categories,
- the extent to which some municipalities were penalized for already having invested in high priority otherwise eligible projects,
- the need to consolidate various programs into a single infrastructure program,
- greater dependence on per capita based allocations,
- special rules for smaller communities, and
- whether local priorities were adversely affected to conform with federal government eligibility requirements.

In the light of experience to date, the following principles should guide development of a ‘go forward’ plan for achieving long term, predictable federal funding.

1. Based on the premise that provincial controls and regulations already provide adequate accountability, conditions associated with applying federal funds to infrastructure investment should be streamlined to reduce the administrative burden and avoid unnecessary duplication of effort and cost.

2. The distinct needs of small communities (however defined), particularly in view of their more limited internal resource capacities, as well as financial limitations on their ability to provide matching funds, should be recognized in federal government program design.

3. Infrastructure funding programs should cover a broader variety of assets consistent with locally determined local priorities.

4. Infrastructure funding should be ‘plan’ oriented rather than ‘project’ oriented.

5. As a condition of long term federal commitments, municipalities have an obligation to formally approve long term investment plans and priorities.

6. There is a need to examine what provincial legislation and regulations require alteration if guaranteed long term federal funding is to be used for more innovative financing models such as the use of a variety of debt instruments, including loans and revenue bonds.

7. Guaranteed long-term funding should be supported by contractual agreements that are legally enforceable.

Recommendations:

Based on these principles, the following recommendations are made for the evolution from present infrastructure funding to programs that provide long term predictable federal assistance:

1. The highly regarded Federal Gas Tax Transfer program should continue as a separate component of total federal government infrastructure funding.

2. Other infrastructure programs should be consolidated into two main categories, one for small communities and rural areas, and one for the remaining municipalities.

3. As a pre-condition for long term guarantees, municipalities should be required to establish formally approved plans for the relevant sector(s) indicating at least the first five priorities for capital spending.

4. Application and reporting processes should be streamlined to accept provincial controls as a proxy for federal government requirements, subject to the caveat that municipalities provide evidence that their own funding of an approved spending sector is not reduced by federal contributions.

5. Federal government funding streams should ensure cash flows that conform to municipal government fiscal years, recognizing that although many municipalities operate on the basis of 5 or 10 year capital plans, funding is often appropriated only on an annual basis.

II. Background

Almost all municipal governments in Canada lack the resources and fiscal instruments to meet needs related to maintenance and rehabilitation of existing physical infrastructure, as well as expansion of infrastructure to accommodate rapid urbanization and population growth.

In the transportation sector, Ontario provides an interesting example.

Between 1986 and 2001, population of the Greater Toronto Area and Hamilton (GTAH) grew substantially. Since 1986, however, provincial investment in transportation (both provincial and municipal) has not kept pace with the overall growth of the region. Figure 1, for example, shows that between 1992 and 2006,

- Although the GTAH population increased by about 33 percent,
- Ontario's budget increased by about 60 percent in current dollars, but
- total provincial spending on transportation declined by about 24 percent.

In 1992, provincial spending on transportation represented about 4.7 percent of the total Ontario budget; in 2006, it represented less than 2.2 percent.

In general, as shown in Figure 2, Canadian municipalities rely extensively on property taxes as their main source of revenue.

Recognizing differences from province to province, fiscal capacity to meet infrastructure needs is generally limited by:

- The extent to which property tax increases are either politically acceptable or fair,
- Legislative or regulatory constraints on the sources of revenue available to municipal governments,
- The discontinuance or completion of provincial assistance programs, and, in some cases,
- Downloading of the responsibility for certain social services previously funded by provincial governments (most notably, in Ontario).

As a result, "municipal governments are faced with the choice of either denying needed services or postponing infrastructure repair and renewal"[11.]

It should also be noted in regard to program design, that federal funding remains a relatively small percentage of total municipal revenues. For this reason, *it is probably unreasonable to expect municipalities to change the way in which they conduct their financial affairs in response to federal government conditions on funding support.*

11 *Building Prosperity from the Ground Up: Restoring Municipal Fiscal Balance*, Ottawa: Federation of Canadian Municipalities, June 2006, p.14.

Figure 1 – Change in Selected Elements of the Ontario Provincial Budget

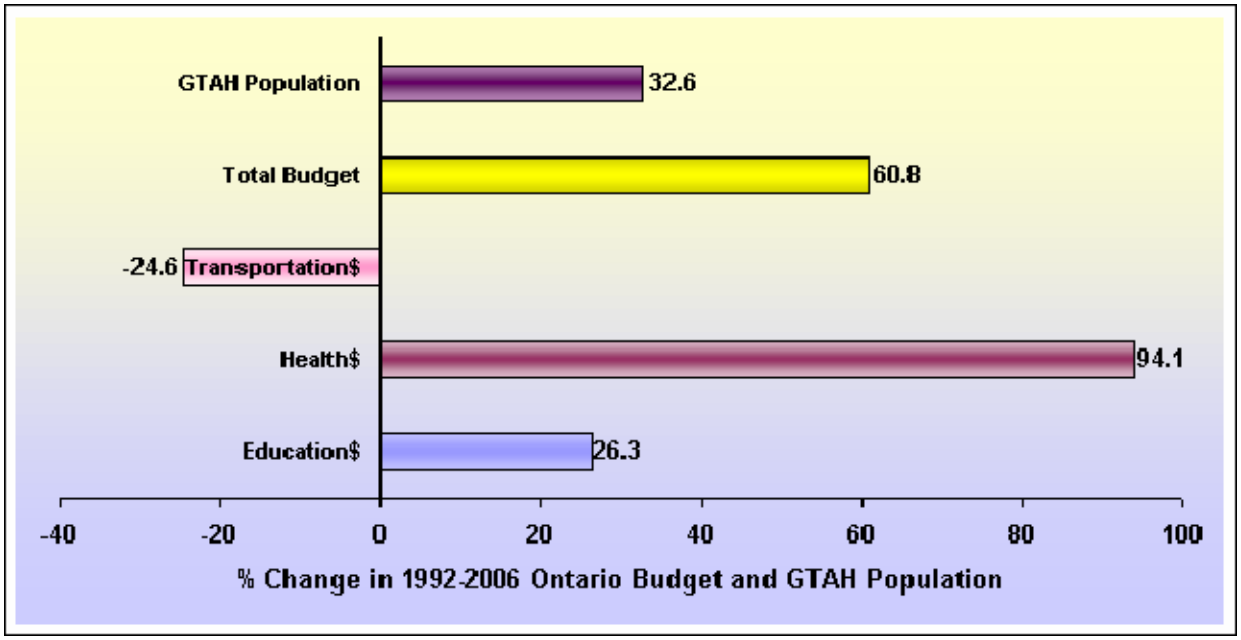
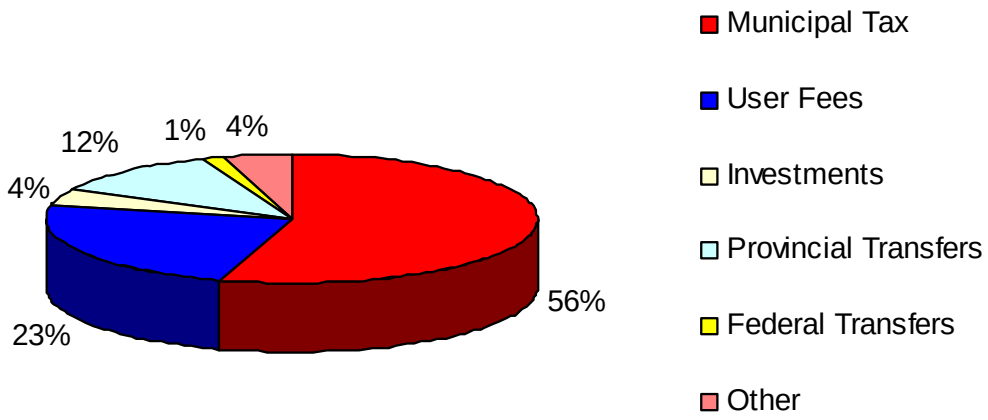


Figure 2 – 2004 Canadian Municipal Revenue Sources



Aside from the quantum aspects of infrastructure needs, there are also some important equity issues that derive, principally from the concept of 'ability to pay'. Clearly, as other studies (such as the FCM's study, *Restoring Municipal Fiscal Balance*) have shown, municipal property taxes are already far more regressive than federal income taxes.

Municipalities therefore welcomed the first, highly successful Canada Infrastructure Works Program (CIWP) that leveraged about $2 billion of federal government investment to generate about $6 billion total investment in needed infrastructure. Subsequent initiatives such as the Canada Strategic Infrastructure Fund (CSIF), the Infrastructure Canada Program (ICP), and the Federal Gas Tax Transfer were also welcomed as signals of continuing federal government interest in helping municipalities to meet their infrastructure needs.

However, except for the Federal Gas Tax Transfer program, these programs, have been, and continue to be:

- Single project oriented, and
- Tied to matching fund conditions.

All programs are also limited to a specific time frame (usually about 4 to 5 years).

Thus, as welcome as federal funding has been to date, agreement on the need for a longer term and more predictable framework for sustained participation in the funding of municipal infrastructure is widespread.

The objective of this memorandum is to assess both the strengths and weaknesses of present federal infrastructure programs as the basis for preferred directions and features of long term, comprehensive programs.

III. Municipal Views

There are undoubtedly lessons to be learned from experience to date with the suite of existing federal government municipal infrastructure programs. In order to capture some of the perceived strengths and weaknesses of these programs, as one element developing longer term strategies, FCM conducted a short survey of representative municipalities, including both those that were and were not successful in obtaining funds.

Telephone and written responses were obtained from the brief questionnaire, provided in Appendix B, circulated to about 28 municipal political and administrative representatives. Municipalities included in the survey ranged from very small to very large. All provinces and territories were included in the sample. A few independent comments were also obtained from other municipal officials not included in the survey.

Some questions required a simple yes or no answer whereas others involved more detailed comments and examples. Selected comments from the survey, provided in Appendix A, provide an indication of the general nature of responses generated over a very short time frame.

With respect to some of the single answer questions, most respondents found:

- accountability mechanisms to be reasonable and effective,
- the application process too demanding,
- the application, decision-making, and negotiating process too lengthy,
- allocations fair and equitable,
- few examples of unfairness in the treatment of their applications,
- little difficulty in meeting their matching fund requirements, and
- the period of funding too restrictive with respect to selecting their highest priority projects.

Views were much more mixed on:

- the reasonableness of the federal categories,
- the extent to which some municipalities were penalized for already having invested in high priority otherwise eligible projects,

- consolidation of various programs into a single infrastructure program,
- per capita based allocations,
- special rules for smaller communities,
- whether their contributions were incremental, and, perhaps, most importantly, on
- whether local priorities were altered to conform with federal government eligibility requirements.

Without repeating all of the comments, there is a common thrust suggesting that a general fund (where all or many types of infrastructure are eligible):

- *"would allow funding to be directed to local priorities"*
- *"if stable and guaranteed over the longer term, would also allow municipalities to focus on certain areas in the shorter term knowing that other areas could be \addressed in the future*."

On the other hand, a few respondents viewed a single fund as putting them

- *"at the mercy of government/politics of the day"*

Not unexpectedly, almost every respondent agreed on two basic points, namely,

1. Municipalities were far more likely to take a longer term view of infrastructure planning if federal funding programs were to be guaranteed for a longer period.

2. The Federal Gas Tax Transfer model is, by far, superior to other federal government infrastructure programs from the standpoint of ease of administration, meeting eligibility requirements, and least adverse effects on locally determined priorities.

IV. Key Parameters of Long Term and Predictable Funding

Developing long term, predictable federal government funding programs to deal effectively with the municipal infrastructure deficit really requires multilateral, rather than unilateral actions, for three main reasons.

First, programs designed in Ottawa *for* municipalities *without* municipal participation in the program design process are bound to lead to a variety of difficulties that stem, in part, from the fact that federal bureaucrats cannot be expected to fully understand the wide range of variation in capital budgeting procedures at the municipal level, including even relatively obvious factors such as differences in fiscal years.

As some survey respondents noted,

- *"the process would be more effective if the bureaucratic support at the provincial/territorial/federal level was knowledgeable of local administrative capacity"*
- *"direct contact between federal and municipal officials is essential."*

Second, municipal expectations for long term funding on a sustained basis requires municipalities to adopt a 'house-in-order' approach to ensure that their own longer term, substantive plans and priorities are properly in place. In other words, obtaining federal funding and spending it effectively go hand-in-hand. At least one municipality agreed that

- *"municipalities should demonstrate mechanisms for identifying capital requirements and establishing priorities."*

Third, federal government participation in infrastructure programs is predicated on consistency with national strategic objectives related to both the environment and the economy, an example of which includes commitments for reductions in greenhouse gas (GHG) emissions.

The following sections treat a number of specific aspects of program design that should be considered.

1. Program Consolidation

Although a suite of individual infrastructure programs permits greater diversification of goals and objectives (e.g., climate change, tourism and economic development) from the standpoint of the federal government, the application and administrative burden is increased from the standpoint of municipalities and potential provincial or territorial partners.

Maintaining a number of separate infrastructure programs provides more flexibility for time limited and overlapping funding periods, but, if the goal is to develop long term, predictable infrastructure financial models, appears to have no advantages over program consolidation.

Moreover, the potential for consolidation extends beyond existing infrastructure programs including, for example, tax incentives such as the very recent transit pass tax credit program.

On the question of program consolidation, views ranged considerably as illustrated by the following:

- *"more flexibility in transferring funds from one project to another is required,"*
- *"with one fund, we would be at the mercy of government/politics of the day,"*
- *"a general fund approach would be welcomed, allowing funding to be directed to local priorities,"*
- *"programs can be further enhanced by condensing a lot of smaller programs into a 'general fund'"*

2. Project vs Plan Orientation

Project support, which now characterizes all federal programs except for the Gas Tax Transfer, clearly provides the highest political visibility, but carries with it the stigma of potential favouritism and lack of sensitivity to local priorities. Simply put, there is more opportunity to support projects on the basis of other than greatest 'need' or highest cost-effectiveness in meeting objectives. Project support is also generally far less strategic in its application.

By contrast, 'plan' support allows funding to be used where need is greatest in accordance with locally perceived priorities. Plan support also lends itself to a broad policy objective such as the elimination of the infrastructure deficit. Federal selectivity can still be retained, if necessary, by allocations to specific sector plans (e.g. water or waste treatment, roads and bridges, public transit, recreation, cultural facilities, etc.).

As noted below, however, plan based support can only work if, in fact, there are meaningful plans. In other words, plan, as opposed to single project- support, requires enhanced municipal planning and accountability in terms formally endorsed municipal plans and priorities.

Comments from a number of those surveyed were somewhat critical of project oriented approach as, for example, the following:

- *"the federal government has its own priorities,"*
- *"overly focused programs distort local priorities,"*
- *"project categories can create frustration when they do not align with local priorities,"*
- *"federal infrastructure programs do not necessarily reflect local priorities,"*
- *"priorisation est beaucoup plus le reflet des intérêts du bailleur de fonds que de la réalité vécue par la municipalité, »*
- *"federal infrastructure programs have a bias toward large, new infrastructure investments, sometimes resulting in a 'gift' we can't afford"*
- *"projects with the highest priority often are not necessarily the ones carried out."*

3. Funding Allocation

Clearly a contentious issue, the main choices are between population based and non-population based allocations where the main issues revolve around:

- 'ability to pay' (i.e. all populations are not created equal),
- economies of scale, and
- evidence of efficiency.

In the case of public transit, for example, per capita grants provide little or no incentives for communities to adopt more efficient transportation and land use policies such as densification, that encourages higher transit use, or transit priority measures, that increase the productivity of both vehicles and labour.

Similarly, per capita needs for water (metered vs. un-metered) and waste treatment (re-cycling, composting, garbage limits, etc.) infrastructure are clearly influenced by pricing and user pay policies.

Thus, a wide variety of allocation measures can be used, by sector, such as allocations based on population density or residential per capita water consumption. Several survey respondents more or less indicated the view that:

- *"all programs should be run similar to the Gas Tax program."*

4. "Incrementality" and Matching Fund Requirements

Almost all programs except for the Gas Tax Transfer Program require some degree of matching funds from either provincial/territorial or municipal governments, or both.

The first CIWP also included 'incrementality' as one of the eligibility requirements, primarily to ensure that total infrastructure funding was increased (the stated objective of that program) and to ensure, as well, that federal contributions did not merely result in corresponding reductions in municipal spending.

However, if the goal of federal funding is to *assist* municipalities, a requirement for incremental spending:

- either places a burden on those with the least ability to generate additional funding, or
- diverts funding from other infrastructure and non-infrastructure services.

Incrementality, incidentally, is not easily measured due to the complexity and year-to-year variation in both municipal capital and operating budgets. Nevertheless, should incrementality becomes a federal policy objective, incrementality tests could be based on a simple system such as 3 to 5 year rolling averages for municipal expenditures. In fact, as noted by one survey respondent,

- *"the concept of incremental spending over a 5 year period is a reasonable approach to deal with year-to-year volatility."*

In any case, assurances that federal funds are not merely treated as a substitute for investments that would otherwise have been made by the municipality are necessary.

5. Financial Instruments

All federal infrastructure programs, except for the Gas Tax Transfer program, involve financial contributions on a matching fund basis, with or without the need for incremental spending, generally for specific projects. These are essentially non-repayable grants.

Examples of other potential financial instruments include:

- Guaranteed streams of funding over a predictable period,
- Performance based grants,
- Loan guarantees,
- Interest free loans that can be used for long term financing,
- Forgivable performance based loans,
- Tax and duty exemptions that reduce municipal costs of both construction and equipment acquisition, and
- Accelerated write-offs (depreciation) for private sector participation in design, build, maintain (DBM) projects.

Municipalities obviously prefer grants over loans that have to be repaid. And, clearly, municipalities would prefer guaranteed streams of funding that can be capitalized through the issuance of debt instruments (where permitted by provincial/territorial legislation) or counted upon for longer term annual capital budgeting. For example, in much the same manner as new investments are now made for airport expansion, municipalities could issue revenue bonds for major capital investments if a guaranteed stream of revenue over a long enough period of time ensures bond repayment.

6. Program Administration

Program administration covers a range of activities beginning with broad based awareness and which incorporates a number of elements, including:

- A clear statement of program objectives,
- Program description,
- Funding limits,
- Eligibility requirements,
- Application processes,
- Timelines for applications and decisions,
- Selection criteria,
- Allowable expenditures,

- Supporting documentation required,
- Procedures for reporting and monitoring, and
- A sample contract.

Most of these elements, in one way or another, are common to existing programs. For long term predictable funding programs, special emphasis is probably required with respect to supporting documentation, as treated below under Municipal Pre-conditions.

Program administration is a greater concern to smaller municipalities that may not have sufficient staff resources to dedicate to application and monitoring processes and that, as a result, may have to incur consulting costs.[12]

In this regard, the following comments are particularly relevant:

- *eligibility requirements are too strict,*
- *having the city administrator, myself and the mayor sign preliminary documents is just too much,*
- *a restrictive, targeted definition can exclude lower-tier municipalities entirely,*
- *expenses are onerous for small communities,*
- *paper work is laborious,*
- *effort in relation to funds awarded was not justified, and*
- *confusion distorts the potential successful applicants if only those with sophisticated staff or consultants can navigate the different types of application processes.*

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In addition, in some cases, the administrative burden is increased unnecessarily and the flow of funds may be interrupted simply because municipalities have fiscal years that are not the same as the fiscal year of the federal government.

A number of survey respondents referred to the duplication of administrative effort for provincial and federal programming, noting

- *Ces mécanismes nécessitant un investissement important de la part du bénéficiaire pour satisfaire les demandes du bailleur de fonds.*

7. Guarantees

A number of both provincial and federal government announcements actually involve little or no new funding, may involve nothing more than a re-statement of previous announcements or, in some cases, never fully materialize.

Municipalities that proceed on the basis of announcements (e.g. the former Metropolitan Toronto's decision to begin construction of the Eglinton subway), rather than contractual agreements, are at risk of losing money directly, or recovering losses at general taxpayer cost for premature or ill-advised investments.

The uncertainty associated with announcements certainly generates confusion and doubts about the federal government's credibility when, for example, months after a provincial project announcement predicated on cost-sharing, the federal Minister of Finance

12 In the case of Transport Canada's Urban Transportation Showcase Program, for example, many municipalities retained consultants to both prepare and present their submissions.

announces that the federal share is not guaranteed. As emphasized in the survey responses:

- *it is important to get the funds when they can be used, and*
- *we can't sit around and twiddle our thumbs while we wait for the money.*

Clearly, any infrastructure program, whether project oriented or long term plan oriented, should be based on legal and enforceable contracts that incorporate explicit terms and conditions in accordance with Canadian contract law. The tri-partite agreement for redevelopment of Toronto's waterfront may serve as a good example.

8. Preconditions at the Municipal Level

Long term predictable funding requires formal (council approved), long term plans and specific priorities, either grouped or in sequence. Official Plans are insufficient unless accompanied by investment priorities and corresponding by-laws or council decisions. In other words, there is a requirement for due diligence.

In the case of rapid transit investments, for example, there is a need to ensure that appropriate land use policies are in place as a pre-condition for major capital investment. Otherwise, municipal councils may attach high priorities on purely political grounds, with relatively little substantive benefit.

9. Preconditions at the Provincial or Territorial Level

Evolution of current project oriented infrastructure funding to longer term predictable financing may require legislative or administrative changes at the provincial/territorial level to permit municipalities to develop new or innovative financing models, such as the issuance of municipal revenue bonds or the right to levy new taxes.

10. Accountability

Every contractual agreement involves at least two parties, each of which are entitled to (and in the case of 'public' parties, required to obtain) assurances that the goals and objectives of the contract, from the standpoint of each party to the agreement are, first and foremost, clearly stated, and second, achieved to the extent possible.

Elements of accountability include:

- Clearly stated and mutually agreed upon policy objectives,
- Evidence of compliance with all contractual obligations,
- Monitoring of progress and results,
- Periodic public disclosure of all expenditures,
- Periodic review of goals, achievements and failures, leading to
- Mutually acceptable revisions, if required.

In many cases, however, federal government accountability requirements simply overlay an additional burden on municipalities that already operate under a variety of quite adequate provincial financial controls, regulations, and reviews. The situation is well summarized by comments that:

- *there are already very rigorous provincial requirements to report on infrastructure spending,*
- *use what already exists and avoid duplication, and*
- *criteria are very similar from program to program, and not in line with where the majority of municipal funding needs to go.*

V. Implications for Long Term, Predictable Federal Funding

In the light of experience to date, some of which was gleaned from the recent FCM survey, there are a number of principles that should guide development of a 'go forward' plan for achieving long term, predictable federal funding. The following appear fundamental.

1. Based on the premise that provincial controls and regulations already provide adequate accountability, conditions associated with applying federal funds to infrastructure investment should be streamlined to reduce the administrative burden and avoid unnecessary duplication of effort and cost.

2. The distinct needs of small communities (however defined) should be recognized in federal government program design, particularly in view of their more limited internal resource capacities, as well as financial limitations on their ability to provide matching funds.

3. Infrastructure funding programs should cover a broader variety of assets, consistent with locally determined local priorities.

4. Infrastructure funding should be 'plan' rather than 'project' oriented.

5. As a condition of long term federal commitments, municipalities should have an obligation to formally approve long term investment plans and priorities.

6. There is a need to examine what provincial legislation and regulations require alteration if guaranteed long term federal funding is to be used for more innovative financing models such as the use of a variety of debt instruments including loans and revenue bonds.

7. Guaranteed funding should be supported by contractual agreements that are legally enforceable.

Recommendations:

Based on these principles, the following recommendations are made as a basis for federal, provincial, and municipal consultation on the evolution from present infrastructure funding to programs that provide long term predictable federal assistance.

1. The highly regarded Federal Gas Tax Transfer program should continue as a separate component of total federal government infrastructure funding.

2. Other infrastructure programs should be consolidated into two main categories, one for small communities and rural areas, and one for the remaining municipalities.

3. As a pre-condition for long term guarantees, municipalities should be required to establish formally approved plans for the relevant sector(s) indicating at least the first five priorities for capital spending.

4. Application and reporting processes should be streamlined to accept provincial controls as a proxy for federal government requirements, subject to the caveat that municipalities provide evidence that their own funding in an approved spending sector is not reduced by the amount of federal contributions.

5. Federal government funding streams should ensure cash flows that conform to municipal government fiscal years, recognizing that even though many municipalities operate on the basis of 5 or 10 year capital plans, many often only appropriate funds on an annual basis.

APPENDIX 1

Selected Comments on Existing Infrastructure Programs

(Comments have been shortened and edited to eliminate identification of specific sources)

1. Accountability

- Not all of the federal infrastructure dollars are reaching municipalities
- Criteria and application process to identify eligible projects is cumbersome
- By trying to accommodate so many rules costs to the public are increased
- One big improvement would be to release information to the public
- Publish both acceptances and rejections
- Gas Tax program accountability provisions are much easier.
- The federal government does not understand the situation in northern and rural communities
- Too short a time frame to measure benefits.
- Audit requirements, such as those required for the CSIP program, add little value compared to the cost.
- Conditional grant programs are not necessary to ensure accountability.
- There are already very rigorous provincial requirements to report on infrastructure spending.
- Use what already exists and avoid duplication.
- Municipalities should demonstrate mechanisms for identifying capital requirements and establishing priorities
- Municipalities should demonstrate and they have open and transparent purchasing practices for infrastructure projects.
- Having city administrator, myself and the mayor sign preliminary documents is too much
- Expenditures reporting could be fairly streamlined
- The demonstration tool suggests that it may be necessary to provide detailed locations for projects – down to streets, long/latitudes, etc., raising concerns regarding the level of detail required
- We question the 'value-added' by this significant staff undertaking
- There is little to no dedicated capacity for the type of monitoring and analysis required to satisfy many of the non-operational indicators
- A balance must be struck between the need for accountability and the effort required to collect and report on outcomes

2. Administration

- Expenses are onerous for small communities.
- Paper work is laborious.
- The current application for MRIF is repetitive
- The length of time to go from application to letter of offer is far too long. Municipalities that have access to consultants and/or specialized staff clearly have an advantage over small municipalities
- The process would be more effective if the bureaucratic support at the provincial/territorial/federal level was knowledgeable of local administrative capacity.
- "One size fits all" approach does not work well.
- The provincial agenda lacks sufficient municipal input.
- Ces mécanismes nécessitant un investissement important de la part du bénéficiaire pour satisfaire les demandes du bailleur de fonds.
- Amount of effort in relation to funds awarded was not justified.
- Confusion distorts the potential successful applicants if only those with sophisticated staff or consultants can navigate the different types of application processes.
- Timelines are very long when construction costs are inflating.
- Application and agreement processes are very labour intensive
- Level of information required exceeds what was required under previous agreements

- Federal and provincial governments must recognize that municipalities have a different fiscal year
- Undue delay after the applications have been submitted
- The time between the estimated cost and the awarding of a tender was approximately three years
- Local governments spend large amounts of time and money completing applications, and then officials (most often provincial officials) spend more time and money evaluating large numbers of applications while projects costs have increased
- Direct contact between federal and municipal officials is essential

3. Project Eligibility

- Infrastructure problems are not always "green".
- Infrastructure and environment should not be forced together
- The federal government has its own priorities they want to meet
- Project categories can create frustration when they do not align with local priorities
- Federal infrastructure programs do not necessarily reflect local priorities
- Federal Infrastructure programs sometimes have a bias toward large, new infrastructure investments, sometimes resulting in a 'gift' we can't afford'
- 1/3 funding on 'new infrastructure' in order to take advantage of Federal programs diverts local resources away from existing infrastructure
- A general fund approach (where all or many types of infrastructure are eligible) would be welcomed, allowing funding to be directed to local priorities.
- Stable and guaranteed funding over the longer term would allow municipalities to focus on certain areas in the shorter term knowing that other areas could be addressed in the future
- GHG projects are not a priority
- Small towns should eligible for rural funds
- Cannot always spend the money on the highest priority projects, but rather have to spend it, based on the federal project categories
- Projects should be selected based on program criteria and municipality priorities
- Political ambitions should not be a factor
- Eligibility requirements are too strict
- Priorisation est beaucoup plus le reflet des intérêts du bailleur de fonds que de la réalité vécue par la municipalité.
- Programs should be flexible enough to accommodate local realities and needs.
- We shouldn't have to create projects to fit into federal categories
- Municipalities require more flexibility in transferring funds from one project to another
- Even when a project appears to be clearly eligible under a federal program, provincial authorities may make it next to impossible to use funds for the purpose intended.
- Programs can upset long term planning.
- A funding model should accommodate incorporated, unincorporated and shared jurisdictions
- MRIF punishes municipalities that have already funded acceptable projects.

4. Distribution of Funds

- At times there is no apparent reason why some projects were approved but others weren't
- Local governments often end up contributing more than their 1/3 share
- Property acquisition is not eligible but a sizeable cost for many transportation projects
- Per capita allocations can work but much depends on the type of infrastructure
- Medium and larger cities have more significant transit needs
- Small municipalities attract people and require services for those far beyond the municipality
- With one fund we would be at the mercy of government/politics of the day
- External political pressures impact project funding
- Haven't received any funds yet even though we have been paying all design and some construction costs
- Costs are higher in the north so this should be taken into account.

5. Contribution Requirements

- Achieved at the expense of programs not included in grant eligible categories
- A plant was funded based on a $14.1 million but the tender came in at $ 18.9 million and the City was unable to get any coverage of this excess
- The concept of incremental spending over a 5 year period is a reasonable approach to deal with year-to-year volatility.

6. Indirect Impacts

- We would not have gone ahead without the funding.
- Projects with the highest priority often are not necessarily the ones carried out.
- Federal funds have been controlled by the provincial government to ensure that their agenda was addressed at the expense of all the municipalities.
- Overly focused programs distort local priorities

7. Long Term Investment Planning

- Long rage funding is certainly is required for transportation
- Guaranteed longer-term financial commitments would be tremendously helpful to our capital planning process and could allow for better planning around even a longer term view and the issue of sustainability.
- Even though the gas tax funding is a welcomed commitment to 5 years of funding, the City's capital plan has a 'hole' in the later years because of the uncertainty of extension
- The negative impact of the fixed period for funding has been the need to push work ahead
- Long range plans will change when the funding changes
- This approach can be further enhanced by more up front consultation about what the money would be used for and condensing a lot of smaller programs into a 'general fund' approach.

8. Overall

- Talk to municipalities before programs are developed
- Allow municipalities to submit their priorities first
- Most of our work is done by city forces and we have to lay off employees to participate in federal programs
- Should be able to pay for own resources rather than hire consultants
- It is difficult to do long term planning with inconsistent funding
- Territorial government has become quite protective of jurisdiction over municipalities
- The age of municipality should be considered.
- Criteria are very similar from program to program, and not in line with where the majority of municipal funding needs to go
- All programs should be run similar to the Gas Tax program.
- Expand eligible projects to include replacement/refurbishment of all municipal infrastructure
- The definition of the infrastructure deficit should not be strictly limited to roads, water and sewer
- Infrastructure funding programs should extend to all types of assets.
- Broader categories for eligible projects would address unique local circumstances
- Regular advances of grant funding should be made
- All qualifying costs should be reimbursed including environmental assessments
- Eliminate the "it's not really our problem" attitude
- Programs should be tied into funding that doesn't change with provincial and federal governments.
- The open nature of the Gas Tax categories provides for more coordinated and balanced plans
- Les programmes ne prennent pas en compte l'impact sur les budgets d'opération
- Application based funding just doesn't work
- No level of government that receives these funds should be allowed to reduce any taxes
- A restrictive, targeted definition can exclude lower-tier municipalities entirely
  Improve the clarity of funding criteria where awards are to be made on a competitive basis or where project funding is limited to certain categories of investment
- It is important for us to get the funds when they can be used
- We can't sit around and twiddle our thumbs while we wait for the money.

APPENDIX 2

Surveying Municipal Experiences of Federal Infrastructure Funding Programs

August 9, 2006

Background
The Federation of Canadian Municipalities (FCM) has been the national voice of municipal government since 1901. With almost 1,400 members, FCM represents the interests of municipalities on policy and program matters that fall within federal jurisdiction. Members include Canada's largest cities, small urban and rural communities, and 18 provincial and territorial municipal associations.

Purpose of the survey
FCM is surveying a small sample of 26 municipal elected officials and/or staff to solicit their views on current infrastructure programs, including the "gas tax transfer". FCM is seeking "front-line" perspectives on what works, what doesn't, and what improvements need to be made. Richard Soberman, a consultant with extensive experience evaluating infrastructure programs, is assisting FCM in the design and analysis of this survey project.

FCM will use the aggregate results of this survey to assist in the preparation of a submission to the Minister of Transport, Infrastructure and Communities, Lawrence Cannon, as part of his review of federal infrastructure investments and his budget mandate to develop a "new framework for long-term funding support for infrastructure programs."

Please note that your responses to this survey are confidential and will be reported in group form only.

HOW TO RESPOND

FCM is seeking your qualitative feedback and local experiences related to seven categories of under evaluation, listed below. There are several bullets accompanying each category designed to illustrate the issues and generate discussion. These bullets do not necessarily require separate responses. Please use specific local examples that support your comments.

Your responses may be provided to FCM:

- **In writing**, by e-mail to survey@fcm.ca, in point form or narrative, or else, you may complete the "Municipal Response Summary Form" on the last page.
- **By telephone**, in a short interview with an FCM research assistant.

We hope to have responses assembled by August 18. Alex Sousa, the research assistant coordinating the survey, will contact you shortly to determine your preferred response format and, if necessary, to book an interview time. Ms. Sousa may be reached at survey@fcm.ca or (613) 907-6271 or (514) 525-6480.

SURVEY CATEGORIES

1. **Accountability**
   (Accountability refers to mechanisms for monitoring, and reporting the extent to which funds are or have been used in accordance with the purposes for which they were made available. Examples of these mechanism include financial or outcome/performance reporting to the federal government, or communications protocols.)
   - Are current federal accountability mechanisms reasonable and effective?
   - What improvements would strengthen accountability to the public, and to the federal government?

2. **Administration**
   - Is the current application process reasonable and effective?
   - Are timelines for application, decision-making, and final negotiations appropriate?
   - What improvements would you suggest?

3. **Project Eligibility**
   - What effect do federal project categories have on local priority-setting for infrastructure projects? Are these federal categories reasonable and appropriate?
   - Has your municipality been penalized because it has already made investments in eligible projects? Please provide examples.
   - Instead of specific project categories, should programs be amalgamated into a general fund?
   - If yes, why?

4. **Distribution of Funds**
   - Do national and provincial/territorial allocation formulas for infrastructure funds appear equitable and appropriate for your municipality?
   - Do you believe that some or all of the funds should be allocated on a per capita basis?
   - Are there any examples of unfairness or inequity in the treatment of your application(s)?

5. **Contribution Requirements**
   - Have you had difficultly providing your local project contribution (often 1/3), if required?
   - Has your contribution been incremental – that is, newly allocated funds that are over and above what you would have spent without the program?
   - Should there be special rules for smaller municipalities regarding local contribution or cost-sharing requirements?

6. **Indirect Impacts**
   - Have you altered local project priorities to meet eligible program categories?
   - Without the federal contribution for your project(s), would your municipal share of funding have been allocated for other purposes, or would it still have been allocated to the same project(s)?

7. **Long-term Investment Planning**
   - Have you been constrained in making certain higher priority investments due to the period of funding for eligible federal projects (usually five years)?
   - Do you believe that your municipality would adopt longer-range infrastructure planning and capital budgeting if federal programs were based on guaranteed longer-term financial commitments?
   - If no, why not?

8. **Overall**
   - Please indicate up to three major changes you would suggest to any of the programs with which you have been involved.