



FEDERATION
OF CANADIAN
MUNICIPALITIES

FÉDÉRATION
CANADIENNE DES
MUNICIPALITÉS

FCM and the Federal Government

Working together for Canadians

- TO FIX THE HOUSING CRUNCH
- ENSURE PUBLIC SAFETY
- REBUILD OUR INFRASTRUCTURE

Submission to Budget 2014-15 Consultations

January 15, 2014

Introduction

The commitments to local infrastructure in Budget 2013 were the largest and longest-term ever announced by the Government of Canada. This decade-long plan will deliver \$47 billion in new funding to help repair and maintain our existing, aging infrastructure and to build the new infrastructure Canada needs to create jobs and compete in a global economy.

This plan was the result of increased collaboration between the federal government and key partners and a more deliberate approach to planning federal infrastructure investments. It was developed in close consultation with FCM, provincial and territorial governments, and other stakeholders over a nearly two-year period.

Now, as we work together to implement the new infrastructure plan, we must also expand its model of intergovernmental cooperation. When it comes to the national issues playing out in our communities, partnership must be the rule, not the exception.

The federal government must apply this standard beyond infrastructure and expand its partnership with FCM and municipalities in order to continue building cities and communities that can support new jobs and growth and help meet our most pressing national challenges. Together, we must look past outdated jurisdictional obstacles to deliver the change that is needed for our cities and communities, and Canada, to succeed.

Summary of FCM's Budget 2014-2015 Recommendations

In Budget 2014-2015, FCM is asking that the Government of Canada:

1. Ensure the new Building Canada Fund (BCF) infrastructure program is ready for 2014 construction season projects, and meets the needs of all communities, large and small, so they can continue rebuilding local roads, bridges, water systems and public transit.
2. Continue the partnership with FCM on issues of public safety.
3. In preparation for Budget 2015, the federal government works with FCM, provinces and territories and other stakeholders to develop a long-term housing plan that:
 - Ensures the sustainability of Canada's social housing units.
 - Delivers on Budget 2013 commitments to reduce homelessness.
 - Meets the unique housing needs of rural, remote, and northern communities.
 - Responds to Canadians' growing need for more affordable housing options, including rental housing.

Partnership in action 1

The New Building Canada Fund: Finishing the Job

Ottawa's new ten-year infrastructure plan brought our cities one step closer to the long-term solution they need, but it didn't get us all the way there. As Ottawa's budget outlook improves in the coming years, more will need to be done to fight traffic gridlock and improve public transit; meet new federal wastewater regulations; protect our communities from flooding and other effects of a changing climate.

However, the first priority is to make the most of the commitments that have already been made, ensuring that the Building Canada Plan is designed in close collaboration with municipalities and responds to the needs of cities and communities of all sizes.

As the federal government sits down to negotiate matching funding agreements with the provinces, it needs to make sure a fair and predictable share of its new Building Canada Fund (BCF) – worth \$14 billion over the next decade – is invested in local roads, bridges, and water systems, and fast, reliable public transit. This new program must also recognize and respond to the unique needs and challenges facing small, rural, remote communities by creating a dedicated, specially designed component for them, much like the Communities Component in the existing BCF.

New Gas Tax Fund (GTF) draft agreements have been recently shared with provinces and territories, which is welcome progress, and has provided significant assurances to our members. However, the details of the new Building Canada Fund have been slow to surface. Consultation with FCM on the design of this new program was promised in Budget 2013 but has not happened to date. Municipal planning for the 2014 construction season is coming to a stand-still. The design of this cost-shared program is extremely important to the budget planning and project prioritization of all governments.

Recommendations

- **Outline key milestones between now and the promised April 1, 2014 launch of BCF to facilitate pre-planning and quick applications by municipalities for 2014 construction season projects.**
- **Ensure that the new BCF includes a dedicated funding envelope and program design to meet the unique needs of small, rural and remote communities.**
- **Improve the predictability of the new BCF by committing or reserving a fair share of the total program funding envelope for municipal projects.**
- **Work with FCM on outstanding program parameters of the new BCF, to ensure the program's design supports effective, efficient municipal participation and planning.**

Partnership in action 2

Keeping our cities and communities safe: A collaborative project

The Lac Mégantic tragedy and recent train derailments in other parts of the country have underscored the critical role that municipalities play in planning for and responding to rail emergencies involving dangerous goods.

FCM called on the federal government to close an information gap that left first responders in local communities unable to properly plan for rail emergencies. Transport Minister Raitt and the federal government quickly responded, worked closely with a group of municipal public safety experts to identify key challenges and opportunities and propose solutions. We commend them for working closely with us and with first responders to quickly develop new safety regulations that meet our planning needs.

This new and growing federal-municipal collaboration has now turned its attention to meeting outstanding municipal concerns with respect to emergency response, liability and risk management. The collaboration to address these urgent rail safety issues must also serve as a model for partnership on other public safety issues.

The Lac Mégantic tragedy and this exceptional, collaborative response have shown us that every order of government has an essential role to play in keeping our citizens safe, and helping them build healthy, prosperous lives. Whether it's in disaster mitigation, ensuring front-line police have the resources they need to reduce and prevent crime, or increasing the capacity of small communities to prepare and respond to safety issues, all orders of government must work in close partnership so we can keep every community across Canada as safe as possible in the future.

Recommendation

Commit to continued partnership with FCM on public safety, including addressing the growing risks associated with climate change, the safety gaps in the transportation of dangerous goods, improving rail safety and increasing the capacity of small communities to prepare and respond to safety issues.

The Next Partnership Opportunity

Fixing Canada's Housing Crunch

In the near term, we need to apply our experience in making the federal-municipal partnership work to the urgent job of filling the growing gaps and cracks in Canada's housing system. Building a more secure and stable housing market is a challenge no single order of government can meet on its own; it requires collaboration. With the Bank of Canada recently listing the imbalances in the housing market as the number one domestic risk to the economy it is imperative that we tackle this issue together.

A stable, secure housing market that creates and maintains jobs while allowing for a range of living options is essential to a growing economy.

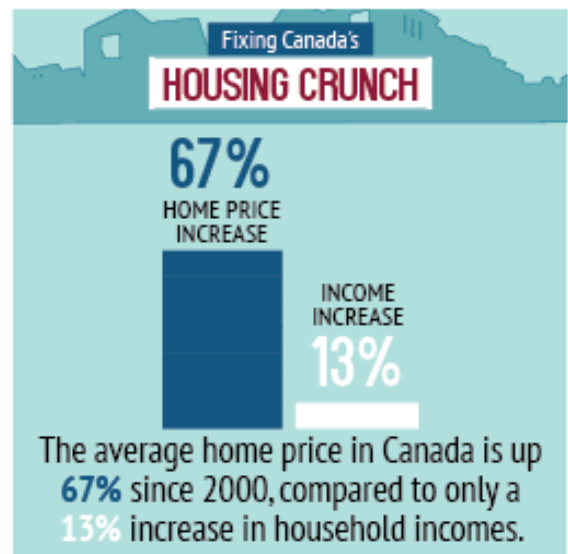
The benefits of investing in a secure housing market are clear: economic growth, job creation, flexible housing options that attract new workers and reduce reliance on costly emergency and social services for people caught in the trap of chronic homelessness. Each dollar spent on housing contributes to a \$1.4 increase in GDP and an expenditure of \$1 million generates roughly three full-time-equivalent jobs, and a further ten indirect and ancillary jobs.

However, holes in our housing system and the uncertain future of federal housing programs are hurting families and businesses and putting our economy at risk.

Fixing Canada's housing crunch is a national challenge that requires federal leadership and a new partnership among all orders of government.

Canada's Housing Crunch

Canadians are carrying record levels of household debt while a growing number are being priced out of the housing market entirely, including the workers urgently needed to drive industry in fast growing regions. As it stands one in four Canadians are spending more than 30 per cent of their before-tax income on housing, while the cost of owning a home has grown at a rate 4.5 times that of Canadians' household incomes. The national average home price hit \$391,820 in November 2013, breaking another record and increasing the housing crunch for average consumers.



Demand continues to outstrip supply in our slow growing and underdeveloped rental market as more Canadians look for new housing options they can afford. Lower income Canadians are struggling to make ends meet in the private housing market, with many forced to rely on affordable and social housing or, in the most desperate cases, emergency shelters.

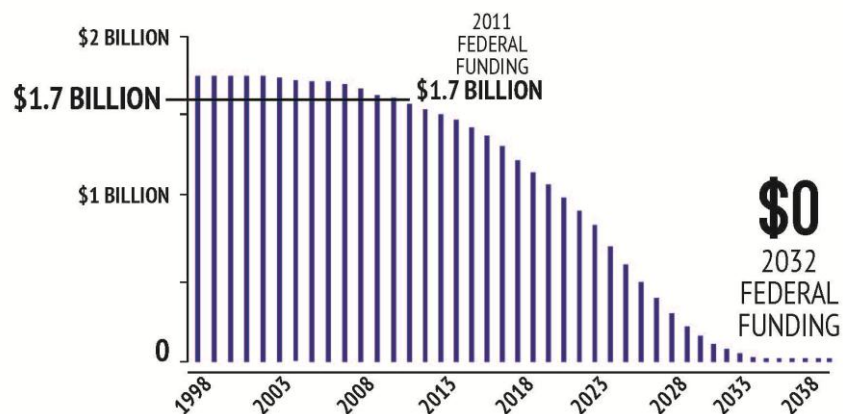
Smaller communities are facing similar challenges. Resource communities are booming while the cost and availability of housing for needed workers is prohibitive. Other communities are seeing a rapidly aging population create a labour force gap and housing is increasingly important for them to attract new Canadians and young families.

At the same time, over \$500 million annually in federal social housing operating agreements expire over the next five years. Approximately 200,000 units of our social housing stock — one-third of which is occupied by seniors — is at risk. The impact on the overall availability of affordable and social housing could be catastrophic.

The federal role in housing

The federal government currently spends just over \$2 billion annually on social and affordable housing. This includes \$1.7 billion in annual federal investment for Canada’s 600,000 social housing units, and the commitments made in Budget 2013: \$253 million annually renewed over 5 years for the Investment in Affordable Housing program, \$119 million annually renewed over 5 years for the Homelessness Partnering Strategy and \$100 million annually over 2 years to support the construction of housing in Nunavut.

FCM applauded the commitments in Budget 2013 as a breakthrough.



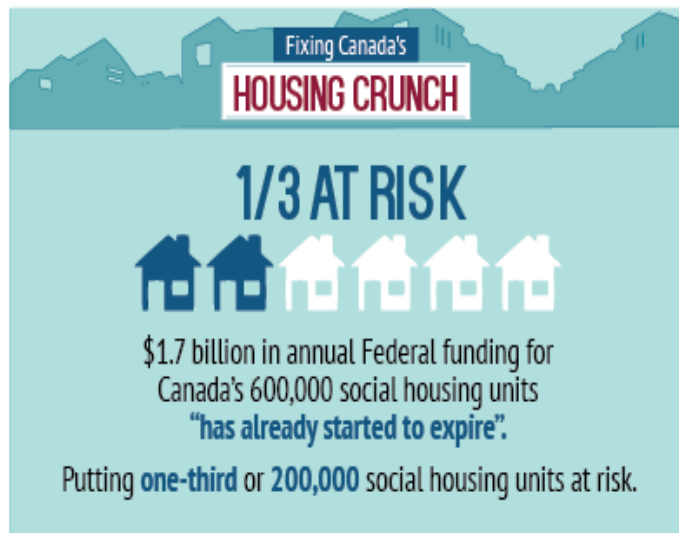
However, it is important to note that the largest federal investment in housing affordability — is now expiring. \$1.7 billion annually will be reduced to \$1.2 billion annually by 2019 and to \$0 by 2032. Over the next five years alone this means a total reduction of nearly \$1.5 billion in federal funding for affordable and social housing.

Budget 2013 and reducing homelessness

In Budget 2013, the federal government took important steps to build on the successful *At Home/Chez Soi* program and committed to moving towards a 'Housing First' model for fighting homelessness. This model has shown successful outcomes when proper supports are put in place complementing the immediate transition to permanently housing the homeless. The program works in conjunction with 61 municipalities across Canada.

This *At Home/Chez Soi* approach is essential, as is the new federal commitment to proven approaches such as 'Housing First' which aims to permanently house Canada's chronically and episodically homeless. FCM supports this crucial undertaking because there are at least 200,000 Canadians living in emergency shelters or on the streets each year, and the number of homeless shelters increased from 859 in 2006 to 1,086 in 2011.

As the federal government promises to make headway on homelessness with programs such as 'Housing First', its objectives are put at risk by simultaneously allowing funding for social housing to expire. 'Housing First' principles proved critical in the success of *At Home/Chez Soi* programs such as mental health support, Assertive Community Treatment and Intensive Case Management programs and identifying permanent housing options. However, investing \$119 million annually in homelessness while at the same time allowing \$500 million annually in critical federal housing subsidies to expire will negate progress on the objectives contained in Budget 2013. 'Housing First' must be given the chance to succeed.



Expiring operating agreements

Social housing provides secure and affordable housing options for many vulnerable households in Canada. The federal government currently invests \$1.7 billion annually to subsidize nearly 600,000 social housing units with the provinces and territories matching funding in many cases. Today however, those agreements are expiring and leaving many units at risk of inoperability.

Social housing dwellings are rented to low income households that in most cases pay rents based on 30 per cent of income, which typically results in low rent revenues, insufficient to cover ongoing operating expenses and mortgage payments. As a result, the governments put in place ongoing operating subsidy to ensure that properties could operate on a break-even basis.

The majority of this operating subsidy is related to servicing debt, while capital costs continue to rise for many aging affordable housing units. Operating agreements that set out the conditions for subsidy were written to coincide with the amortization of the mortgage. It was assumed that, once the debt was retired, properties would generate sufficient rental revenues to cover ongoing operating and capital costs. This will be the case for some of these units.

Over time however, with social housing targeted to those most in need, revenues have stayed low, while operating costs have risen. As a consequence, the expectation of post agreement viability is at great risk for some units.

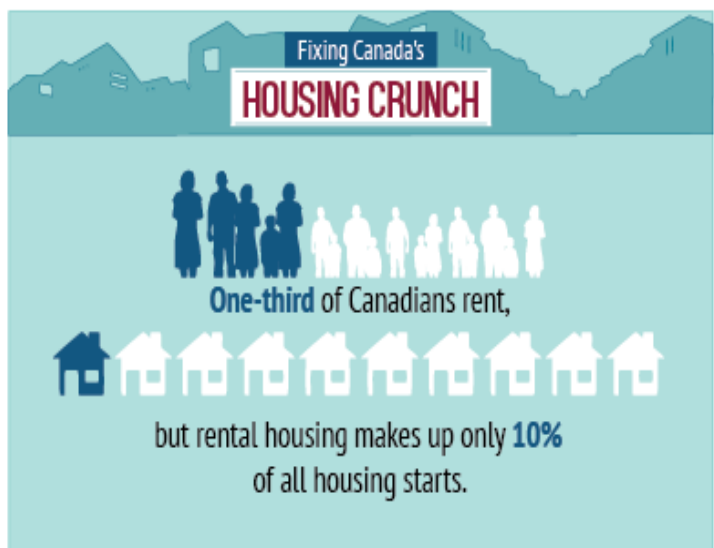
In the worst-case scenario, a property that is unable to make ends meet and has no source of ongoing financial-subsidy support will be bankrupt and will cease to operate. The stock of social housing available to help low-income individuals, families and seniors will contract.

Current estimates show that once federal investment in social housing expires completely in 2032, 200,000 units of our social housing stock — one-third of which is occupied by seniors — will be at risk of being inoperable.

A rental housing deficit

Currently, one third of Canadians rent their housing but purpose-built rental housing has made up just 10 per cent of all new housing starts over the past 15 years.

Canada has also seen low vacancy rate trends across the country since 2000, which has contributed to rising rents. One symptomatic result is that in 2011, 42 per cent of young Canadians (ages 20-29 years) still lived with their parents, compared to just 26 per cent in 1981.



FCM has proposed low and no-cost solutions in reports available at www.fcm.ca that respect the government's desire to return to a balanced budget in 2015:

- 1) ***The Housing Market and Canada's Economic Recovery (2012)***: This report contains specific recommendations on rental incentives that could be implemented with minimal to no cost. The expiry of social housing mortgages is also creating new room under CMHC's authorized direct lending cap.
- 2) ***No Vacancy: Trends in Rental Housing in Canada (2012)***: Report from FCM's Quality of Life Reporting System (QOLRS) confirming that the rising cost of home ownership and the shrinking pool of affordable rental housing are pushing up rental costs and creating a shortage of housing options in Canada's communities.

Keeping rural, remote and northern communities strong

Small towns, villages, rural, remote and Northern communities continue to struggle with the rising costs of housing in Canada. Resource communities are booming while the cost and availability of housing for needed workers is prohibitive. Rural and northern communities are also seeing a rapidly aging population create a labour force gap. Housing also plays increasingly important role in enabling seniors to age in place, in attracting new Canadians and young families. Rural and northern communities also face higher costs of home maintenance and utilities than other communities while private sector builders and developers face higher material and transportation costs, which reduce private market capacity.

Fixing Canada's Housing Crunch

Fixing Canada's housing crunch is an urgent priority that requires a new partnership among all orders of government. In Budget 2013 the federal government made real progress on housing issues. But without action now, recent progress will be lost as a dangerous combination of high real estate prices, inadequate rental availability, and the gradual expiry of 80 per cent of federal affordable housing investments pushes Canadians deeper into debt or out of the housing market entirely.

FCM is calling for partnership and for the federal government to commit to a long-term housing plan in Budget 2014.

Recommendations

In preparation for Budget 2015, the federal government works with FCM, provinces and territories and other stakeholders to develop a long-term housing plan that:

- **Ensures the sustainability of Canada's social housing units**
- **Delivers on Budget 2013 commitments to reduce homelessness**

- **Meets the unique housing needs of rural, remote, and northern communities**
- **Responds to Canadians' growing need for more affordable housing options, including rental housing**

FCM is committed to working with the government as it meets its immediate priority to balance its budget. These recommendations will not require additional federal investments in Budget 2014, but they will require a commitment to plan together. All orders of government must work together to set clear objectives and put these investments on a long-term track; establish performance and reporting mechanisms to measure progress in achieving results; and align investments with stated objectives.

Conclusion

When it comes to responding to national challenges and priorities, municipal and federal cooperation matters. However, municipalities collect just eight cents of every tax dollar and cannot meet these challenges on their own. Maximizing each taxpayer dollar requires collaboration amongst all orders of government and the private and non-profit sectors.

Budget 2013 was historic and potentially transformative. But we still have more work to do to ensure cities and communities have the resources they need to address infrastructure challenges, secure the future of Canada's housing system and keep Canadians safe. The foundation of partnership has been built. In Budget 2014 we must expand it and formalize it.