The Chamber
The Winnipeg Chamber of Commerce

New Economic Growth Investment Directions

Presentation to the Infrastructure Renewal and Public Works (IRPW) Committee, December 9, 2013

The mandate of the Winnipeg Chamber of Commerce Trade & Transportation Committee (WCC T&T Committee) is to identify and champion sustained and strategic investment in trade related infrastructure assets, including legislative and regulatory improvements, which serve to enable new and enhance existing areas of economic activity.

The WCC T&T Committee is mindful of announcements made recently by the provincial government in its November 12, 2103 Speech from the Throne and those that followed. In particular the province committed as follows:

> ***"Every dollar raised from the new point of PST will be fully dedicated to new investments in core infrastructure -- over and above existing spending levels.***
>
> These strategic investments will help power our economy. They will be made up of:
>
> - highways, bridges and strategic transportation infrastructure;
> - flood protection; and
> - municipal infrastructure, including roads, water and sewer.
>
> *Over five years, investments in these key areas are expected to reach a record $5.5 billion."*

A number of follow up economic growth investment announcements were made by Manitoba, including:

* flood proofing PTH 75 to interstate standards so it remains open during severe Red River floods, protecting Manitoba's trade with all of North America;

* rebuilding the southwest Perimeter Highway with interstate standard interchanges to create a high-speed, free-flowing roadway to accommodate the increasing economic activity and truck traffic that comes with the opening of CentrePort Canada Way;

* upgrades to PTH 6 to meet new, wider national highway standards, along with bridge replacements, intersection improvements, curve realignments and passing lanes to make trade from Winnipeg through the Interlake to Thompson safer and faster;

* improvements to PTH 10, bolstering western Manitoba's main trade route to the United States and linking to other east-west trade routes including the Trans-Canada Highway.

The above follows upon the heels of CentrePort Canada Way -- a $215 million four lane divided expressway -- having been opened by the Prime Minister and Premier on November 22, 2013.

In addition, the Province is creating the Churchill Arctic Port Authority, whose mandate will be to harness, shape and lead the creation of a northern Canada trade gateway and corridor which ultimately benefits not just the north, not just the province, but western Canada and our country as a whole.

The above are investments which enhance connecting Winnipeg, the capital region and our province to the world through sustained and strategic transportation investments.

They reflect an appreciation that trade sustains roughly 200,000 jobs in Manitoba -- most based in Winnipeg -- and that trade accounts for roughly 58% of the provincial GDP. They mark good steps forward in reflecting the imperatives of new economic growth investment directions.

Cumulatively the above recognize the importance of ensuring a mature, well maintained, seamless multi-modal transportation system which not only supports existing areas of economic activity, but trade growth through emerging opportunities.

The City of Winnipeg is as well to be commended for recent budget and organizational decisions.

In 2013 Winnipeg City Council moved forward with the establishment of a new Local Street Renewal Reserve. It included key forward thinking elements such as:

- announced dedicated realty tax and frontage levy increases commencing 2013-2034;
- protect dedication by requiring 2/3 vote of Council in order to use funds for other purposes; and
- establishing an asset management based 25 year cycle of local streets renewal.

The above is not only laudable, it places the City in a leadership role.

Most recently, Mayor Katz, in structuring Executive Policy Committee (EPC), appointed a new Secretary of Economic Development, a responsibility of the Chair of its Finance Committee. The main responsibility of this appointment will be to ensure that the City of Winnipeg takes a city-wide approach to economic development, with a fully integrated economic development strategy.

Winnipeg and all cities need to reorient 'fiscal' thinking from 'raising money' to growing the municipal economy and assessment base as a first priority. Economic growth is a prerequisite to government revenues with which social programs can be funded.

Concurrently, provincial governments should both encourage such a priority focus and 'reward' it with a greater share of existing growth taxes. Access to growth taxes allows for reduced pressure on realty tax base and provides for greater municipal fiscal flexibility[1].

On December 4, 2013 the City of Winnipeg announced a service sharing agreement with the R.M. of Rosser that will allow wastewater from the Rural Municipality to be treated at the City's North End sewage treatment plant.

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[1] Consider recommendations in a May 2011 report -- excerpts attached -- of the Infrastructure Funding Council (IFC) entitled: *'New Relationships: A New Order, A balanced approach to funding municipal infrastructure in Manitoba.'* Also instructive is an editorial -- see attached -- published in the Winnipeg free Press on November 30, 2013 entitled: *'City budget exposes fiscal gap.'*

The agreement will provide significant assistance in the development of CentrePort Canada, Canada's first multi-modal inland port. This agreement will help attract large-scale distribution centres, and new business interest from within the province and beyond. We are grateful for this decision and agreement.

City Council will as well soon consider the merits of establishing a Winnipeg Transportation Authority (WTA) to enable and/or empower a structure mandated and presumably funded and/or with access to funding, to implement and oversee transportation priorities established as the prerogative of the elected branch of government and reflected in the Winnipeg Transportation Master Plan (TMP).

The current budget before you establishes a annual 1% property tax increase until 2022 (raising approximately $51 million that year)dedicated to a New Regional Street Renewal Reserve to manage and track new revenue. The increased revenue will be dedicated to the renewal of regional streets and sidewalks.

This direction recognizes that within Winnipeg there are nearly 10 million daily vehicle-kilometers of travel, with about 80% of this traffic volume travelling on regional roads – the remaining 20% travel on local streets. The regional system forms the economic backbone to the City's transportation system. At current funding levels barely 30% of what is required ($20 million vs $60 million required) is allocated to regional streets. This marks a transitioned, transparent step forward to closing the gap.

In summary, we see an emerging policy recognition by the City of Winnipeg to grow dedicated purpose driven infrastructure investment. This dedication recognizes that sustained and strategic investment in infrastructure fuels economic growth and is a matter of public policy priority, which ultimately enables funding of our quality of life programs.

We applaud these decisions and contemplated directions.

This brings us to the Five Year Capital Program.

We strongly encourage this Committee and City Council to support n*ew economic growth investment directions* by harnessing not only strategic investment opportunities, but potential opportunities associated with the announced PST increase revenue dedication, and the yet to be finalized priority investments eligible for funding through the Building Canada Fund.

Winnipeg is well positioned to potentially leverage 33 or 50 cent dollars and it should take advantage of timing and partnerships.

City Council has already adopted its Winnipeg Transportation Master Plan (TMP) and through it, its short, medium and long term priorities. We encourage your focus on three adopted short term priorities as you shape your capital program. They are:

1. Extension of Chief Peguis from Main Street to Route 90 $130 million
2. Widening of Kenaston Boulevard/Route 90 from Ness to Taylor - $129 million
3. Traffic Signals Management System - $5 million

The above reflect not only what Council adopted as short term priorities in its TMP but what was similarly recommended by the Mayor's Trade Council and endorsed by City Council in May 2008.

Cumulatively they serve to reflect important principles and economic realities current and projected:

- Winnipeg is a key intermodal and freight hub due to its development history and geographic location

- There are over 40 million goods movement trips made within Winnipeg each year -- these will only grow

- Pressures on the transportation system will only increase with estimates that by 2031 there will be over 100,00 new households and more than 120,000 new cars in the Capital Region

- Integration of transportation investment and long term land use planning is consistent with adopted long term TMP

- These investments support the imperatives of an efficient transportation network which supports the urban structure by mitigating congestion, improving the movement of people and goods, and reducing related goods and services movement costs

We also encourage, once the Capital Region Transportation Master Plan has been tabled, that the City, as a member of the Partnership of the Manitoba Capital Region, initiate in partnership with the Province, a coordinated implementation with the City's TMP. The coordination of transportation planning on a capital region scale is essential to our collective long term economic growth and social well-being.

We recognize that as with any investment plan, balance, affordability, long term planning and foresight are indispensible tools.

Much of that forward looking planning has already been reflected in your Transportation Master Plan.

Now is the time to seize upon the existence of plans, make those investment decision given emerging circumstances and partnership which can either be strengthened or created.

The WCC T&T Committee is quite prepared to assist Council in any way to realize on the above which we would regard and encourage you to accept as being *'New Economic Growth Investment Directions.'*

I thank you for the opportunity of this presentation.

Respectfully submitted,
Winnipeg Chamber of Commerce Trade & Transportation Committee



Chris Lorenc, B.A., LL.B.,
Committee Chair

City budget exposes fiscal gap

Posted: **11/30/2013**

The Manitoba government raised the PST one percentage point and earned nearly $300 million in new revenue. The city raised property taxes by 2.95 per cent for a grand total of $14.5 million in additional income.

And there's the rub.

The fiscal imbalance between Winnipeg -- the prime generator of economic activity in Manitoba -- and the Selinger government is so wide it seems almost pointless for the city to raise taxes for anything other than keeping up with inflation.

The city's proposed operating budget will dedicate two percentage points of the tax increase to road renewal, while 0.95 per cent will be used to manage the rising cost of government.

Most civic fees, fines and services are also increasing, along with frontage levies and the usual dividend from the water and sewage utility, worth about $20 million this year.

The latter transfer is inappropriate because water rates should not be used to support general revenue, but the city feels it has no choice but to raid the utility. If they didn't loot the water and waste department, the city would have had to raise taxes another four percentage points, or cut services.

Unlike the province, which is averse to cutting services or staff, the city is introducing mandatory unpaid leave of 3.5 days during the Christmas season for non-essential services for an annual saving of $1.5 million. The measure is subject to negotiations with the city's unions.

It is also cutting other staff for savings of $2 million, and budgeting for $14.1 million in savings through vacancy management.

The city also rescinded the dramatic and unwarranted $40,000 increase in councillors' ward representation allowance, which brought them to $114,000 annually earlier this year. The budget proposes a decrease of $37,000, to $77,000.

This is the third tax increase in as many years. Mayor Sam Katz said rate hikes will be the new normal unless the province decides to hand over a single point of PST to the city or open up new revenue sources for the city.

If the mayor runs again next year, it will clearly not include a promise of a tax freeze. That era is over, he said.

About 12 per cent, or $113 million, of the city's $967-million operating budget is derived from provincial and federal coffers, so it's unfair to say senior levels of government have completely abandoned Winnipeg and other municipalities.

But it's not nearly enough and most of the provincial money is linked to its own agendas, such as policing.

Mr. Katz's complaints are not the isolated whining of a single mayor. They are a common refrain in municipalities across Canada, which are struggling under huge infrastructure deficits.

In fact, other cities have raised property taxes at a much faster pace. Between 1999 and 2013, Edmonton's taxes rose 67 per cent, Calgary's 63 per cent, Saskatoon's 54 per cent and Vancouver's 52 per cent.

In comparison, Winnipeg's taxes went up about seven per cent during that time. If attitudes don't change on Broadway, Winnipeg will be playing catch-up for decades.

A 2007 Federation of Canadian Municipalities study said cities needed $123 billion just to save existing infrastructure.

The Conference Board of Canada has also said cities "are not receiving the investment they need to fulfill their role as drivers of national prosperity."

Winnipeg, meanwhile, is heading deeper into debt following a sustained period during which per capita debt declined. By 2018, according to estimates, the city's total per-capita debt, including utilities, will be close to $1,800, the highest it's been in decades.

In financial terms the city is sliding backwards, but there will be no reversal of fortune so long as the city is denied new sources of revenue.

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New Relationships: A New Order

A balanced approach to funding municipal infrastructure in Manitoba

Prepared by the Infrastructure Funding Council (IFC)

May 2011



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1910 Saskatchewan Ave. W
Portage la Prairie, MB R1N 0P1

His Worship Mayor Sam Katz
City of Winnipeg
510 Main Street
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Gentlemen:

I am pleased to deliver the report of the Infrastructure Funding Council (IFC) entitled *New Relationships: A New Order, A balanced approach to funding municipal infrastructure in Manitoba.*

I had the great privilege of chairing the IFC for which opportunity I sincerely thank you.

The IFC was mandated with the challenging and complex task of developing recommendations underpinning a comprehensive funding strategy that addresses Manitoba's growing municipal infrastructure deficit, including internal funding options controlled by the municipalities, and external funding options requiring intergovernmental negotiation.

This exercise was clearly a 'Manitoba first' such effort. All Manitobans should be grateful for your leadership and you should be commended for the political courage to launch it.

The challenge for all of us is to develop a framework which addresses the municipal infrastructure deficit amassed over the last 50 years and still permits strategic investments for future growth. The size of the Manitoba's municipal infrastructure deficit is daunting – estimated to reach $13.4 billion in Manitoba within 10 years at current funding levels – but not insurmountable. Just as the problem took time to develop, the solution will require a concerted, sustained and disciplined effort.

The IFC submits that is exactly what Manitobans collectively must do – develop a transparent, accountable, long–term strategy that balances roles and responsibilities for municipal infrastructure amongst the three levels of government.

The IFC proposes 17 recommendations. The approach is three-pronged and proposes a 20-year staged in process, from 2011 to 2030, to implement municipal organizational and efficiency gains, generate the revenue needed to address the infrastructure deficit, and gradually develop new funding relationships. Within this framework, the IFC has identified various revenues sources that could, over the time frame, generate more than $1 billion in annual funding.

Success is dependent upon public support and intergovernmental collaboration. The IFC recognizes that over time, positions on the infrastructure funding policies and approaches may have hardened. The IFC appeals to all Manitobans to open themselves up to the possibilities outlined for public consideration.

By acting now, and with the support from Manitobans, this report can form the basis for a funding blueprint and be a model for all Canadian municipalities seeking resolve and access to sustainable and transparent revenues with which to fund infrastructure. The IFC hopes this report provides a platform for a healthy, vigorous public debate over the mix of measures with which to address Manitoba's municipal infrastructure deficit.

On behalf of the IFC I would like to express appreciation to those who made submissions, presentations or provided insightful advice during the course of our deliberations.

I sincerely thank each IFC members for their time, tireless efforts and countless dedicated volunteered hours to discharge the mandate placed before them. I would be remiss if I did not publicly acknowledge and thank Georges Chartier, Manager of Infrastructure Planning and Tyler MacAfee AMM Director of Policy and Communications, for their indispensible policy and research assistance and to Melodie Richard and John Douglas for their patience as writers in reflecting the IFC thinking and approach.

Respectfully submitted,



Chris Lorenc, B.A., LL.B.,
Chair, Infrastructure Funding Council (IFC)

May 2011

NEW RELATIONSHIPS: A NEW ORDER
A BALANCED APPROACH TO FUNDING MUNICIPAL INFRASTRUCTURE IN MANITOBA

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EXECUTIVE SUMMARY

The challenge of raising the revenues to fund municipal infrastructure projects is not new to Manitoba. To address the current problem, Association of Manitoba Municipalities (AMM) President Doug Dobrowolski and Winnipeg Mayor Sam Katz appointed the Infrastructure Funding Council (IFC) in 2010 to chart a response to the growing infrastructure deficit.

The IFC was mandated with the challenging and complex task of developing recommendations for a comprehensive funding strategy that addresses Manitoba's growing municipal infrastructure deficit, including internal funding options controlled by the municipalities, and external funding options requiring intergovernmental negotiation.

Benchmarks & Objectives
In shaping its report, the IFC relied upon a series of guideposts. Those were the report's Benchmarks and Objectives. Each is outlined in Appendix 'A' for review in advance of considering the report.

Infrastructure Defined
For the purposes of this report, infrastructure means roads (regional, local and lanes), bridges, active transportation facilities, transit facilities, parks, riverbanks, flood protection, buildings (including police, fire paramedic, libraries, pool, arenas, community centers, administration buildings), water and sewage facilities, land drainage facilities, and solid waste facilities. These were further categorized – see Appendix 'C'.

Consultation
The IFC benefited from written submissions and engaged in consultative discussions with a number of organizations and individuals each of which are thanked for their input. They are listed in Appendix 'B'.

Manitoba's Municipal Infrastructure Deficit
The IFC determined that Manitoba's municipal infrastructure challenge is real and not imagined and mirrors in scale that of the rest of the country. The size of the Manitoba's municipal infrastructure deficit is daunting – an estimated to reach $13.4 billion in Manitoba within the next 10 years at current funding levels – but not insurmountable. (See 'Quantifying the Infrastructure Deficit' in Appendix 'C')

Economic Impact
The condition of Canada's municipal infrastructure is one of the keys to underpinning, maintaining and enhancing Canada's economic productivity and competitiveness. Manitoba's municipalities are no exception. A growing Manitoba economy is increasing the pressure on infrastructure that is now servicing populations beyond what they were intended to do.

Urgency
The IFC has developed a series of recommendations that could form a foundation for a comprehensive infrastructure funding strategy. The IFC submits there is an urgent need of a diagnosis of the problem and the development of a "treatment" plan.

The diagnosis is how best we balance the importance of funding infrastructure needed to fuel economic growth in the future, and the need to address the infrastructure deficit of the past.

The IFC offers a series of treatment options for Manitobans to consider. It encourages public consensus and acknowledges there may be a need for a Province-wide referendum on new taxes dedicated to infrastructure.

Manitobans should begin this debate immediately so a final prescription can be determined and implemented within three years.

There is a public policy imperative to devote priority attention to the challenges associated with our municipal infrastructure deficit. The IFC warns that failure to act now saddles the present and future generations with a significant financial burden and unquestionably will lower Manitoba's standard of living and economic growth.

The Approach – Shared, Balanced, Three Pronged, Phased-In

There is no silver bullet to quickly eliminate Manitoba's infrastructure deficit. Based on extensive consultation, submissions from stakeholders and an exhaustive literature search, the IFC proposes 17 recommendations within a three-pronged, staged-in approach to generate organizational and efficiency gains alongside a revenue platform to address the problem.

The IFC report outlines a series of recommendations that, if after broad public consultation are acceptable to Manitobans and decision makers, could improve the situation significantly over a proposed 20 year implementation period between 2011 and 2030. It is a difficult yet realistic approach that challenges municipalities to address efficiencies and practices using existing tools; it suggests redefined fiscal relationships and recommends new revenue streams to help municipalities address their infrastructure deficits ultimately requiring intergovernmental collaboration.

The recommendations are separated into three distinct groups:

1. Recommendations that can be acted upon by municipalities on their own;
2. Recommendations which require provincial agreement, approval and legislation;
3. Recommendations associated with a joint provincial / municipal national strategy to secure the federal government's rightful participation in funding municipal infrastructure investment.

The IFC strongly encourages the following (See 'Summary of Recommendations' on Page 9 for further detail):

1. Municipalities make internal adjustments ranging from maximizing own source revenues, introducing organizational efficiency changes, adjusting delivery models, and implementing related best practices;
2. The Government of Manitoba allocate growth taxes and vacate a further portion of education property taxes dedicated through legislation to municipal infrastructure; and
3. The Government of Manitoba, the AMM and City of Winnipeg jointly pursue a national strategy petitioning the federal government to a continued and enhanced municipal infrastructure funding role on an ongoing and permanent basis.

Municipalities do not have the legislative capacity to implement a number of the IFC recommendations. Any resolution will inevitably require intergovernmental good will, negotiation and commitment.

Accordingly the IFC recommends that an Implementation Committee appointed by the Government of Manitoba, the AMM and the City of Winnipeg with a mandate to negotiate within one year of its appointment, the terms of a what is referred to in the report as a Manitoba Municipal Infrastructure Funding Agreement (MIFA) based upon this report's recommendations and others arising from such a committee's work.

Looking Forward

The IFC has identified various revenues sources that could, over time, generate more than $1 billion in annual funding – see Appendix 'J'.

The challenge in identifying new revenue streams was to create a virtual circle wherein municipalities are rewarded through their tax structure by focusing on economic growth and decisions that create prosperity, positioning them for the future.

Faced with growing responsibilities, municipalities require additional sources of stable and sustainable revenue. The IFC submits that this can be accomplished by municipalities in part through own source revenues, maximized efficiencies related to their infrastructure planning, focusing on economic growth in their decision making process along with access to growth taxes and an expanded realty tax base.

By shifting the municipal emphasis from generating revenue to generating wealth, the IFC submits that senior levels of governments - Manitoba and the national government in our case - should be more inclined to view municipalities as economic growth partners and provide access to the dedicated revenues needed to fund Manitoba and Canada's municipal infrastructure deficit.

More importantly this paradigm shift will create a simple yet necessary focus upon growing the economy at the municipal, provincial and national levels of government without which, discussions about revenues and revenue sharing, are moot.

Ultimately, the report's recommendations and our collective success in addressing our provincial and national municipal infrastructure deficits are dependent upon broad public consultation, its understanding and support, and intergovernmental collaboration.

One thing is for certain: *the need for this debate is now*. Our infrastructure network is the lifeblood of our economy. It affects our productivity, economic growth, prosperity and our standard of living. Failure to address this issue not only limits the ability of our municipalities to serve a growing population but also creates safety issues to those using our aging infrastructure.

This is a problem born in the past but it must be addressed in the present and the future. An ensuing political, public and stakeholder debate is welcome to move forward a final strategy that will ease the infrastructure burden for future generations. The imperative is to begin the process without further delay.

Respectfully submitted,
Infrastructure Funding Council (IFC)

Chris Lorenc, B.A., LL.B.,
IFC Chair

IFC Members:
Ron Bell
Councillor Jeff Browaty
Jill Vogan, B.A., (Hons) and M.N.R.M.
Cory Young

SUMMARY OF RECOMMENDATIONS

AREAS FOR MUNICIPAL ACTION

The IFC encourages municipalities to implement the following:

Maximize Use of Existing Financial Tools

1. Continue demonstrating financial commitment to the funding of municipal infrastructure, with borrowing levels consistent with Manitoba Municipal Board Guidelines. (Pg. 22)

2. Apply the notion of 'smart debt' within individual municipal context. This approach means building a consensus around an appropriate and sustainable level of tax-supported debt over the long-term, recognizing that borrowing is a legitimate part of any long-term capital financing plan. (Pg. 22)

3. Consider the application of a special purpose tax (frontage fees) specifically allocated to infrastructure funding (Pg. 22)

4. Review user fee structures and adjust where necessary to ensure that there is a clear link between the fee being paid and the service being provided and that these fees reflect the true cost of the service provided. (Pg. 22)

5. Augment current infrastructure budgets equal to an annual average of the last five years and provide for annual increases equal to the rate of inflation and population growth, utilizing existing municipal sources of revenues. (Pg. 23)

6. Publicly set out a clear detailed strategy for addressing the infrastructure deficit including a time frame for the effort, measurable benchmarks, periodic reviews and public accountability for results. (Pg. 23)

Address Efficiencies, Adopt Best Practices and Reinvest Gains into Infrastructure

7. Adopt Best Practices by:
   a. Implementing the recommendations of the 1998 Strategic Infrastructure Reinvestment Policy Report (SIRP) which provides a municipal roadmap to align asset management practices and budgeting – see Appendix 'E' (Pg.23)
   b. Phasing in infrastructure asset management processes and systems to better quantify existing and future infrastructure needs (Pg.23)
   c. Financing infrastructure projects to properly recognize project life and replacement patterns (Pg. 23)
   d. Justifying construction of all new publicly funded infrastructure projects by providing a cost/benefit analysis that incorporates sustainability (Pg.23)
   e. Including incremental maintenance costs and a parallel maintenance budget for new or upgraded infrastructure (Pg.23)
   f. Incorporating advanced techniques, improved technologies, better materials and best practices in all infrastructure programs (Pg.23)
   g. Applying full cost accounting principles to all government services ensuring that the prices for services reflect the true costs of service(s) provided (Pg. 24)
   h. Determining the most cost effective options for all capital programs for new or rehabilitated infrastructure by pursuing life cycle costing analysis (Pg.24)

8. Reinvest resulting efficiency gains/financial savings into priority infrastructure projects. (Pg.24)

Adopt Sustainable Development Practices

9. Municipalities should incorporate ongoing and long term municipal infrastructure planning and investment strategies into their sustainable development plans to ensure congruency of objectives. (Pg.24)

Pursue Rural Regional Infrastructure Delivery Strategy

10. Municipalities outside Winnipeg are encouraged to maximize efficiencies and create a regional focus by delivering infrastructure services in partnership with neighboring municipalities consistent with objectives in the Planning Act and the Capital Region Partnership Act objectives. (Pg. 25)

AREAS FOR MANITOBA'S ACTION

The IFC encourages the Government of Manitoba's support in the following areas:

Amend the Municipal Board Act

11. Amend the Manitoba Municipal Board Act to:
    a. Enable municipalities to borrow without approval of the Municipal Board, as long as they remain within established borrowing guidelines; (Pg.23)
    b. More clearly enable Municipalities to borrow outside the guidelines, with Municipal Board review and approvals, keeping in mind the Province's interest in the long-term financial sustainability of municipalities; and (Pg.23)
    c. Expand definition of 'Municipal Revenues' to include Gas Tax Agreement revenues and other like revenues for the purpose of Municipal Board review of municipal access to revenues. (Pg.23)

Allocate Consumption Taxes to Municipalities Dedicated to Infrastructure

12. Apart from the re-allocation of provincial funding sources announced in the 2011 budget, and subject to any required public approval including a referendum if necessary, allocate the equivalent of an additional 1% of the Provincial Sales Tax (PST) and explicitly dedicate through legislation, revenues associated with all such allocations to core and social municipal infrastructure. (Pg.27)

    This additional revenue could be generated though any of the following approaches:
    - A new and separate Municipal Infrastructure Levy (MIL)
    - Over and above the 2011 budget re-allocation, from within the existing PST framework
    - By adding 1% to the PST

    If a referendum is required, the municipalities and the Province should jointly participate and support any public education campaign.

Vacate Property Education Tax Room Dedicated to Infrastructure

13. Increase provincial education funding to 80% of net operations (as defined in the FRAME Report) in a staged manner over a three year period thereby phasing out approximately $300 million from the current realty education levy and through appropriate legislation enable municipalities to backfill the tax space vacated by the current education levy with a municipal levy dedicated by legislation for application to municipal infrastructure investment. (Pg. 29)

Create an Equity Reserve Account for Smaller Municipalities

14. Create an *'equity reserve account'* from 5% of the funds raised annually from the new MIL (or its equivalent) and establish access criteria for smaller rural municipalities for the purposes of enabling their participation in locally, regionally or multi-partied prioritized infrastructure programs. (Pg. 29)

PROVINCE OF MANITOBA AND MUNICIPALITIES ARE ENCOURAGED TO:

Develop Winnipeg Capital Region Infrastructure Delivery Strategy

15. The Government of Manitoba and the Winnipeg Capital Region municipalities are encouraged to develop a Capital Regional Strategy which recognizes the importance of the supply and delivery of regional core and social infrastructure services in a fiscally and environmentally responsible and sustainable manner by implementing the recommendations of Transplan 2010 and SIRP Reports and following the principles in the Planning Act and the Capital Region Partnership Act[1]. (Pg. 25)

Pursue Sustained Federal Municipal Infrastructure Funding

16. The Government of Manitoba, the AMM and City of Winnipeg are encouraged to work together and within their national networks including the Council of the Premiers, the Big City Mayors Caucus and the Federation of Canadian Municipalities (FCM), to urge the federal government to renew a national infrastructure strategy that:
    a. Permanently transfers to municipalities on an ongoing basis the current $2 billion annual federal Gas Tax Fund and indexes annual increases to a minimum of the annual rate of inflation and population growth. (Pg. 26)
    b. Transitions over three years the remaining portion of federal gas tax revenues to municipalities using the existing Gas Tax Agreement framework. At its current level, this would result in an additional $3.2 billion being allocated to Canadian municipalities. In Manitoba, this would provide municipalities with approximately $100 million annually. (Pg. 26)
    c. Continues tri-level government infrastructure funding agreements on an on-going and permanent basis to address emerging infrastructure needs and shared priority projects. (Pg. 26)

Establish an Implementation Committee

17. Establish an Implementation Committee whose members are jointly appointed by the Government of Province, the Association of Manitoba Municipalities (AMM) and the City of Winnipeg, and whose terms of reference would require it to develop, within 12 months of their appointment, a Manitoba Municipal Infrastructure Funding Agreement (MIFA) that sets out (amongst other things): (Pg. 30)

    a. Criteria to be used by municipalities to access new revenue streams that ensures public transparency and accountability (Pg. 30)
    b. A description of the new intergovernmental infrastructure funding relationship taking into account competitive constraints, transitional periods and financial capacity (Pg. 30)
    c. A protocol that ensures annual public reporting, project audits and five-year public reviews of Manitoba's infrastructure strategy and progress against a 20-year goal. (Pg. 30)

[1] The Capital Region Partnership Act is designed to create a forum for discussion and the development of regional solutions to issues facing capital region municipalities, including infrastructure development and applies only to the 16 Capital Region municipalities, including Winnipeg.

1.0 INTRODUCTION

The challenge of raising the revenues to fund municipal infrastructure projects is nothing new to Manitoba.

Nearly 75 years ago, Winnipeg Mayor F.E. Warriner appeared before the Federal Royal Commission on Dominion Provincial Relations and described what he called *``the extremely unsatisfactory financial conditions under which Winnipeg operates as a municipality, required by provincial statute to maintain certain services and given only restricted revenues for the purpose of financing said services."* He warned of *"the absolute impossibility of the city being able to continue to function under the existing distribution of responsibilities and revenues."*

Twenty five years later, the 1961 Blake-Goldenberg report on metro financing suggested the 12 municipalities that made up Greater Winnipeg introduce either a metro gasoline tax or a tax on vehicle registrations as an alternative to direct government grants for streets and bridges.

By 1974, greater municipal responsibility for infrastructure works pushed the municipal infrastructure deficit 175% higher than the provincial deficit. The Canadian Federation of Mayors responded by proposing a three point plan that would:

- Reduce the responsibilities of local governments
- Expand transfers from senior governments to the municipalities
- Expand the tax base of local governments

In 2003, then Winnipeg Mayor Glen Murray proposed broadening Winnipeg's access to an array of revenue sources not as a revenue grab, but to shift reliance away from realty taxes to growth based taxes.

Regrettably, notwithstanding the efforts of a succession of mayors over the past 75 plus years, not much has changed relative municipal access to revenue streams. Municipalities are still generally speaking limited to realty and business taxes, user fees, levies and grants from senior levels of government with little or no access to growth based taxation.

IFC Mandate

In light of the above and in an effort to advance the infrastructure deficit debate from size and cost to finding real funding solutions, the Association of Manitoba Municipalities (AMM) President Doug Dobrowolski and Winnipeg Mayor Sam Katz appointed the Infrastructure Funding Council (IFC).

Its mandate was to develop a series of recommendations that could support a comprehensive funding strategy to address Manitoba's growing municipal infrastructure deficit. The IFC was to examine funding options within the control of municipalities and external options requiring intergovernmental negotiation. The IFC was also asked to outline a process for implementing the options.

When developing its recommendations, the IFC balanced the importance of funding infrastructure needed to fuel future economic growth with the need to address the current infrastructure deficit.

Manitoba's Municipal Infrastructure Deficit

For the purpose of this report, the IFC estimates that at current funding levels, Manitoba's combined total municipal infrastructure deficit will grow to $13.4 billion by 2019.

In Winnipeg, the total deficit is $7.4 billion made up of $3.8 billion[2] required to repair or replace existing and aging infrastructure and $3.6 billion[3] to fund new projects. Municipalities outside Winnipeg have a total deficit of $6 billion which includes an estimated $4 billion required now and an addition $2 billion by 2019. (For a full explanation of the deficit, and the underlying problems faced by municipalities, see Appendix 'C').

The IFC is hopeful that this report will help all stakeholders grasp the magnitude of the infrastructure challenge facing Manitoba municipalities and the need to debate the most appropriate options that results in a lasting solution. We look forward to this debate.

2.0 REQUIREMENTS FOR CHANGE

For the better part of a century, municipalities have been required to take on greater responsibility for the restoration and upgrade of existing public infrastructure and finance new infrastructure without corresponding access to revenues. Today, Canada's municipalities have an estimated infrastructure deficit of $238 billion which is comprised of (see Appendix 'C'):

- ***Existing Infrastructure Deficit*** refers to the amount required to rehabilitate or replace 'physically existing' infrastructure assets beyond budgeted levels. Examples include repairing a bridge or rebuilding a road which are unfunded within an existing budget;

- ***New Infrastructure Deficit*** refers to investments in new, projected or anticipated infrastructure assets that do not currently exist or the improvement of existing infrastructure assets, each of which are unbudgeted. This can involve new assets, such as a building, a new park, and/or enhancement of existing assets such as expanding an existing roadway to handle additional capacity; and

- ***Strategic Infrastructure Investments*** refer to unique and unanticipated investment in assets required in special case scenarios to platform new economic strategies or opportunities, such as but not limited to, infrastructure for CentrePort Canada, the Manitoba Theatre Centre (MTC) or the new Winnipeg Football Stadium.

INFRASTRUCTURE AND THE ECONOMY

It is well established that the condition of Canada's municipal infrastructure is one of the keys to underpinning, maintaining and enhancing Canada's economic productivity and competitiveness in North America and internationally.[4]

The World Economic Forum ('the Forum) puts a high priority on infrastructure when developing a competitive national global trading strategy. In its *2010-2011 Global Competitiveness Report*, the Forum said that developing and maintaining an extensive and efficient national infrastructure system was one of the top two priorities for growing a competitive trading economy.

However, after more than 30 years of successfully improving its position relative to its major trading partners, Canada's manufacturing productivity began to decline relative to other G8 countries in the early 1980s. The slide

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[2] Executive Policy Committee, *'Existing Infrastructure Deficit,'* Winnipeg, Manitoba, July 8, 2009.

[3] Executive Policy Committee, *'New Strategic Infrastructure Deficit'* Winnipeg, Manitoba, July 8, 2009.

[4] Brox, James A. "Infrastructure Investment: the foundation of Canadian competitiveness." *IRPP Policy Matters. 9,*2(2008): 3-4 and "Trade, Innovation, and prosperity," Institute for Competitiveness & Prosperity (ICAP), September 2010

accelerated over the next 10 years, as leading countries in the Organization for Economic Co-operation and Development (OECD) surpassed Canada.[5] Some research has linked Canada's decline to its failure to maintain its infrastructure.

The link between infrastructure investment and productivity is particularly pronounced when Canada's experience over the last 20 years is compared with the United States. The two countries had similar rates of manufacturing productivity until the early 1990s. However, as infrastructure investment increased in the United States, American productivity continued to improve relative to Canadian rates. By 2008, Canada had fallen significantly behind the United States. Economists now believe that poor infrastructure in Canada has produced transportation delays and reduced national manufacturing productivity rates.

Canadians have enjoyed a consistently high standard of living fueled by strong and sustained economic growth. As a country of traders, the efficient flow of primary and manufactured goods and services to partners outside its borders has been a key factor in Canada's prosperity. This reality not only impacts Canadian trade and tax policies, but also places an even greater importance on maintaining and upgrading a national network of roads, railways and ports. Delays caused by traffic congestion or commodity routing significantly impacts Canada's ability to do commerce and its reputation as a reliable supplier of goods and services.

In its July 2010 report *Public Infrastructure Underinvestment: The Risk to Canada's Economic Growth,*[6] the Residential and Civil Construction Alliance of Ontario predicted that Canada's continued underinvestment in infrastructure will slow economic growth, reduce corporate profitability and cost the average Canadian worker between $9,000 and $51,000 in reduced wages over the course of their career.[7]

Speaking to the National Infrastructure Summit in January 2011, Canadian Construction Association chair Wayne Morsky reported that for every $10 billion invested in municipal infrastructure, 115,000 new jobs were created and Canada's Gross Domestic Product (GDP) expanded by 1.3%.[8]

A 2010 study prepared for the Federation of Canadian Municipalities concluded that Canada's failure to increase investment in infrastructure would reduce future wage increases by half a percentage point annually, and reduce annual real net profits by an average of 0.7%.[9]

While Manitoba's past has relied heavily on the quality of its infrastructure, so too does its future.

Canada is a trading nation with its economy five times more dependent upon trade than that of the United States. Manitoba's is one of Canada's most export-oriented Provinces with manufacturing exports of approximately $13 billion annually accounting for roughly 62% of its economy. Trucking, rail, marine, warehousing, distribution and manufacturing are all dependent upon and support trade and account for roughly 100,000 jobs in Manitoba. And with 64% of the provincial GDP, Winnipeg accounts for the dominant share of trade-related jobs.

While a large part of Manitoba's infrastructure system is nearing the end of its natural life, the need to rehabilitate existing works and build new systems has been compounded by safety concerns and continued

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[5] Brox, IRP: August 2009 www.lrop.org/pm/archive/pmvol9no2.pdf

[6] Public Infrastructure Underinvestments: The Risk to Canada's Economic Growth, July 2010 http://www.rccao.com/news/files/RCCAO_Report_JULY2010_LOWRES.pdf

[7] http://www.newswire.ca/en/releases/archive/July2010/15/c4517.html

[8] Morsky, Wayne 2011 National Infrastructure Summit http://www.cca-acc.com/news/ccanews/WayneNISReginaSpeech2011.pdf

[9] Risk Analytica, *Public Infrastructure Underinvestment: The Risk of Canada's Economic Growth*, 2010

economic expansion. The recent catastrophic bridge failures in Quebec and Minneapolis and the bridge shut down on Highway #1 immediately east of Portage la Prairie, illustrate the real safety risk municipalities face with aging infrastructure renewal.

A growing Manitoba economy is increasing the pressure on infrastructure that is now servicing populations beyond what they were intended to do.

In Winnipeg for example, after limited population growth in the 1990s and early 2000s, the city has resumed a modest to strong population growth of about 1.2% per year. This has had a significant impact on infrastructure demands both from a residential use as well as an economic needs perspective. Over the past decade, Winnipeg's population as increased by 50,000 people and the capital region is expected to grow by more than 200,000 over the next 22 years.

In order to support this kind of economic expansion, Winnipeg must have a plan to support the renewal and expansion of its infrastructure system that facilitates and supports an efficient economy and economic growth.

How well Canada and Manitoba renew their current infrastructure and finance new construction over the next 10 years will dictate how well they maintain their competitive advantage and grow their economies.

3.0 BRIDGING THE GAP: FEDERAL AND PROVINCIAL INFRASTRUCTURE CONTRIBUTIONS

The recent economic downturn created a focus – and the political will at all levels of government – to increase infrastructure investments in Canada. The economic stimulus benefits of such investments included:

- Every $1 billion invested in municipal infrastructure created 11,500 new jobs
- Each dollar invested in municipal infrastructure returned roughly 35 cents back to governments in the form of sales and income taxes
- A $1 net increase in infrastructure investment generated approximately 17 cents in private sector cost savings.[10]
- An increase in municipal infrastructure investments of $1 billion in 2008 increased the size of the real economy by roughly 0.13 percent or $1.3 billion.[11]

With stimulus funding ending and the federal Building Canada program wrapping up in 2014, the challenge for municipalities is to continue the momentum. What is clear is that municipalities require ongoing partnership with the two senior orders of government. As stated by Winnipeg Mayor Sam Katz, *"We're facing a problem and we need to find a solution at all levels of government. Municipalities cannot do it on their own."*[12]

Federal and provincial contributions toward infrastructure investments in Manitoba communities have significantly increased over the last six years and the improvements are observable. The programs have also leveraged further private sector funding on strategic programs to grow the economy, and improve the efficiency of international cargo by road, rail and ship. In total, $460 million was provided to key projects that included

[10] http://www.statcan.gc.ca/pub/11f0027m/11f0027m2003017-eng.pdf .
[11] FCM data cited from AMM, "The Core Challenges for Municipalities" http://www.amm.mb.ca/documents/TheCoreChallengesforMunicipalities.pdf
[12] Agrell, Siri *Canada's big-city mayors are wondering: After the stimulus, what's next*, Globe and Mail, March 17, 2011

CentrePort Canada Way, Port of Churchill, Hudson Bay Rail Rehabilitation, Emerson Highway 75, and Trans-Canada Highway and Yellowhead Highway Interchange.[13]

FEDERAL INITIATIVES

Just seven years ago, federal investment in the country's infrastructure was $125 million. In fiscal 2010, Ottawa expected to dedicate $9 billion to municipal infrastructure.[14] Beginning in 2005, the federal government diversified the sources of infrastructure monies with a three-pronged approach including:

- A 10-year Goods and Service Tax (GST) rebate (valued at $7 billion over its lifetime)
- A five-year Municipal Rural Infrastructure Fund (valued at $1 billion over its lifetime)
- A sharing of Gas Tax revenues (was announced as a five-year, $5 billion program but is now permanently established at $2 billion annually)

The central piece of the federal initiatives has been the Building Canada Plan. When announced, the seven-year plan was to distribute $33 billion to municipalities across Canada through 2014. The plan was augmented by a further $11 billion in 2009 from the Economic Stimulus Fund to help combat the economic impact of the global recession.

In addition to supporting specific projects through its infrastructure programs, Ottawa has also developed initiatives that are helping Manitoba municipalities revitalize infrastructure priorities including:

- A full rebate of all federal GST paid by municipalities. In 2010, this amounted to $22.8 million[15]
- The sharing of the federal gas tax has grown to $66.9 million/year[16]

PROVINCIAL INITIATIVES

The provincial government provided $219 million to Winnipeg and $84 million to municipalities outside of Winnipeg in fiscal 2010[17] through a number of programs to fund infrastructure priorities. A large portion of this funding (in the case of Winnipeg three-quarters) supports ongoing operations and only a portion supports direct infrastructure renewal.

The central piece of provincial support was the Building Manitoba Fund, a unique income and fuel tax sharing program that provided municipalities with limited access to provincial tax revenues that grow with the economy.

The 2010 total financing of $158.5 million through the Building Manitoba Fund was equal to 4.15% of provincial income tax, two cents per litre of provincial gasoline tax, and one cent per litre of provincial diesel fuel tax. The allocation provided Winnipeg with $103.2 million and municipalities outside of Winnipeg with $55.3 million for roads, transit, public safety and other municipal infrastructure priorities.

In addition to the above funding, the provincial government provided matching grants to many of the federal stimulus programs. Municipalities outside Winnipeg received provincial support through the Community Places Program and the Manitoba Water Services Board which funds land drainage and related investments and offers valuable expertise and cost savings in the design and implementation of projects.

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[13] http://www.canadasgateways.gc.ca/docs/centreport-final.pdf

[14] Federation of Canadian Municipalities, *Municipal Infrastructure: The View from Ottawa*, presentation to IFC, July 2010

[15] http://www.cra-arc.gc.ca/gncy/gsthstrbmn/2010/mb-eng.html

[16] Business Council of Manitoba, *Urban Affairs in Manitoba – The Issues*, September 2010

[17] Manitoba Local Government Webpage http://web5.gov.mb.ca/mfas/grants_payments_fund.aspx

Manitoba is the first Province in Canada to enable municipal access to Tax Increment Financing (TIF), an innovative financing tool that redirects incremental property tax revenue to support development and revitalization in municipalities. In jurisdictions outside Canada, TIFs are used as leverage to initiate and finance infrastructure benefitting the community at large that would otherwise not have been possible. When offered at both the municipal and provincial level, a TIF can become a significant financing source to enhance public investment in development.

In its 2011 budget, the Province announced it would provide Manitoba municipalities with revenue equal to a minimum 1% of the existing Provincial Sales Tax (PST) towards municipal infrastructure and transit. This is a repackaging of existing programs and effectively adds very little new funding to existing programs. It does, however, begin to acknowledge the policy imperative for legislatively dedicated, transparent and accountable funding with which to address the municipal infrastructure deficit.

MUNICIPAL COST SHARING CHALLENGES

Given the magnitude of the infrastructure deficit in Manitoba, cost sharing programs are necessary and beneficial. In fact, demand by municipalities for access to funding from some programs such as the Municipal Rural Infrastructure Fund (MRIF) and the Building Canada Fund is typically five times greater than the total pool of funds available.

The temporary nature and changing criteria of provincial programs also create challenges for larger municipalities because there is no certainty that a project will qualify for funding or if the program will even be available when the need is greatest.

In rural Manitoba, smaller municipalities are challenged even more because they are often unable to take advantage of infrastructure programs designed to respond to major initiatives like water and wastewater upgrades or regional recreation complexes. To access most of these programs, each order of government is required to commit one-third of the funding needed for the specific project, and in some cases more. However, current municipal borrowing guidelines can make it difficult for many rural municipalities to raise the required capital to participate.

The 197 municipalities outside Winnipeg currently have an unused borrowing capacity of about $600 million.[18] On the surface this appears significant but the available debt capacity[19] varies across the Province. One community has the capacity to access $35 million in unused borrowing capacity; another is currently over-extended by $5 million.

While borrowing remains a tool to be judiciously used for those municipalities with access to unused debt capacity, the majority of municipalities outside Winnipeg do not have the financial capacity to address their infrastructure needs, stay within borrowing limits and access provincial programs to fund these projects.

Municipalities also have access to financing for capital projects through general borrowing or through a local improvement plan that can be applied to all or part of the municipality. By law, the Manitoba Municipal Board must approve all borrowing,[20] a process which involves additional time and expense to municipalities. Many

[18] As provided by Manitoba Local Government.

[19] There are two measures for capacity – 7% of total assessment or 20% of total revenues. This is a guideline used by the Municipal Board and it is consistent with other jurisdictions.

[20] The Municipal Board's primary consideration is the long-term financial sustainability of municipalities. This recognizes the Province's interest in the long term financial sustainability of municipalities, as the Province would assume responsibility for those municipalities which are not longer financially viable.

municipalities believe that the Municipal Board process has become cumbersome and impedes infrastructure decisions.

Similarly, municipalities are challenged by the timing and costs of engineering assessments, environmental impact studies, and other provincial and federal requirements needed for infrastructure projects to be considered and approved. Currently, all these approvals are requisite for a municipal application to be advanced for national and provincial funding, resulting in hundreds of thousands of dollars in expenditures with no guarantee of successful funding.

4.0 PRINCIPLED DECISION MAKING

Principled decision making - including tough choices - requires transparent criteria and their consistent application. The IFC focuses on options and strategies considered forward thinking and addressed Manitoba's competitiveness needs. The IFC submits that this is best accomplished with a mixture of existing and new tax tools.

Principles of a Good Tax Design
A good tax system must balance various, sometimes competing objectives. The IFC relied upon the following tax principles to guide its discussions and recommendations:[21]

- **An objective of the tax system should be able to generate sufficient revenue** - It should judiciously raise sufficient revenues to reasonably ensure ability to meet obligations.

- **The tax system should be competitive and be perceived to be competitive with other jurisdictions** - Tax competitiveness is an imperative as the national and world economies are increasingly inter-connected, and businesses and people alike can migrate to jurisdictions that provide better economic returns.

- **The tax system should be equitable and levy taxes in a fair manner.** - There are two fairness principles usually applied:

    - Horizontal Equity - persons in similar circumstances should be treated similarly
    - Vertical Equity - persons with a greater ability to pay taxes should pay a proportionately greater amount of taxes (a progressive system).

- **A tax system should be efficient** - An efficient tax system has minimal impact on decision-making whether by businesses or individuals.

- **A tax system should be transparent** - The underlying purpose and principles behind the tax system should be clearly identified. It should be clear what is being taxed, who is liable, and how their liability is calculated.

- **A tax system should be accountable** - The same political entity is responsible both for raising taxation revenues and accountable for their expenditure (either directly or through funding agreements).

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[21] Principles were compiled from a variety of sources including those proposed by the Business Council of Manitoba and the Asper School of Business *Tax Commission Report*, February 2010.

- **A tax system should minimize administrative and compliance costs for both the government and the taxpayer** - The tax system should be sufficiently simple so that taxpayers understand the rules and comply with them correctly and in a cost efficient manner.

- **A tax system should encourage sustainable development, resource conservation and support environmental principles including pollution prevention.**

5.0 INFRASTRUCTURE FUNDING – TOOLS AND IFC OVERVIEW

Over the past two decades, municipal governments have increasingly taken on more responsibility for financing, construction, maintaining, rehabilitating and building new infrastructure. Today, as in Canada, more than half of the infrastructure in Manitoba is the responsibility of the province's municipalities.

However, while the municipal role has grown, the municipal revenue tools and fiscal environment has become more constrained. Adding further complication is Manitoba's geographical size and the varied populations of its 198 municipalities which pose a real challenge when developing a new fiscal model and revenue tools. Nearly half of Manitoba's municipalities have fewer than 1,000 residents and some cover land masses larger than entire countries. As a result, solutions must be as diverse as the territory it affects.

The Canada West Foundation report *'New Tools for New Times'* warned governments to resist the temptation to select only one or two revenue tools when looking to fund infrastructure. It suggests that *"if innovative infrastructure finance is to be successful, governments must carefully assess their infrastructure needs, scan the list of available tools, and then put into play those tools that offer the best solutions for financing, funding and delivery."*[22]

The IFC reviewed internal and external revenue options and then utilized the "Principles of a Good Tax Design" to develop the comparative table in Appendix 'D'. The comparative assessment of the tax tools below helped form the basis of our recommendations:

- **Frontage Levy** – A special purpose tax charged separately from other property taxes. Winnipeg's Charter requires Council to state the purpose of the tax. Its calculation is based on the extent to which a property fronts or abuts a street with water or sewer mains.

- **Municipal sales tax** – The Business Council of Manitoba recently proposed a special municipal infrastructure levy equal to adding 1-cent to the PST for a 10 year period. The levy would provide Manitoba's municipalities $238 million (and grow) that could only be used for infrastructure priorities approved by the Province and municipalities. Allocation decisions would be publicly reported.

- **Vehicle Registration Fees** – These act as a generalized benefit tax because the number of vehicles relates to the demand for expenditures on roads, emergency services, and policing. These fees would be above the annual provincial levies applied to all vehicles. A 50% surcharge upon existing fees could generate $64 million to municipal infrastructure programs across Manitoba.

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[22] Vander Ploeg, Casey New Tools for New Times: A source book for the finance, funding and delivery of urban Infrastructure Canada West Foundation http://www.canadascities.ca/pdf/2006_CWF_New_Tools_for_New_Times.pdf

- **User Fees** – Pricing municipal services provided to citizens should provide a clear link between benefits received and fees paid. User fees have been implemented for water and sewer services, public transit, solid waste collection and disposal as well as public recreation and libraries.

- **Smart Debt Financing** – Smart debt recognizes that borrowing is a valid form of infrastructure financing and provides broad parameters on how municipalities should borrow. It recognizes that not all capital projects are equally well-suited for tax-supported debt financing. Some large projects are difficult to do on a cash basis. But with additional revenues, a component can be used to pay the borrowing costs providing municipalities the ability to build larger projects like a bridge, a rapid transit system or a large building. Smart debt requires municipalities to identify a sustainable borrowing threshold or some notion of optimal debt relative to future operating budgets and anticipated growth.

- **Public Private Partnerships (P3)** – These provide a legal framework between a government and business partners to design, build, manage, operate and maintain an asset and /or the delivery of services. They allocate responsibilities and risks amongst the partners proportionate to capacity and ability. Government remains actively involved throughout the project's life cycle. The private sector is responsible for the more commercial functions such as project design, construction, finance and operations. P3s are increasingly becoming a common financing tool for large infrastructure projects.

- **Tax Increment Financing (TIF)** – TIFs allow for all or a portion of the incremental municipal revenues arising from a defined municipal development to support the investment and community benefit rather than relying on general municipal revenues and its competing priorities. This is usually an option when the revenues generated by the infrastructure investment can be easily understood and predicted.

- **Municipal Property Tax** – Property taxes are levied on property owners. The amount paid is calculated by applying municipal and school mill rates against the portioned uniform assessment of the property. In Winnipeg, a one per cent increase in property taxes generates an additional $4.3 million of revenue. When calculating taxes in Manitoba, one mill represents $1 of taxes for every $1,000 of portioned assessment.

IFC ASSESSMENT OVERVIEW

Frontage Levies, Municipal Sales Tax, Vehicle Registration fees, User Fees
The IFC has assessed that frontage levies, municipal sales tax, vehicle registration fees and user fees respect the stated tax principles and also clearly link the user to the benefit. They are therefore recommended. There is also capacity within the existing measures to upwardly adjust revenues in a transitioned manner. If, for example, frontage levies ($1.00 per front foot), a municipal sales tax and vehicle registration fees were adopted or expanded further, the total revenue that could be generated over time totals more than $300 million.

Smart Debt, P3's, Tax Increment Financing (TIFs), Municipal Property Taxes
There is merit in smart debt financing, P3's, tax increment financing and municipal property taxes. All matched well against the taxation principles and provide sufficient transparency between the infrastructure user and benefit received. There are also limitations and without expansion of the existing realty tax base, these measures were not viewed as favourably as the first group. It is worth noting that each taxation measure has unique attributes that can be favourable to municipalities under the right circumstances.

While TIFs are used extensively in the United States to fund infrastructure projects, they are only now emerging as a viable financing tool in Manitoba. Winnipeg has used TIFs to develop its Exchange District, the Seasons of Tuxedo Development (IKEA) and the new football stadium. The IFC recommends the use of TIFs.

Municipal Borrowing
Municipalities should continue to borrow to fund infrastructure which spans several generations. While some might argue that a city free of debt is good public policy, it is not when the infrastructure that supports a community's current and future economic success is allowed to deteriorate.

User Fees
The IFC encourages municipalities to ensure that user fees reflect the true cost of the service being provided. When they fail to do so, there is no incentive to conserve or modify consumption. Subsidized, inexpensive water, hydro or natural gas encourages overuse and waste. Properly priced services persuade smarter consumption which slows infrastructure deterioration, extends asset life cycles and delays capital expenditures.

Other Tools
The IFC also reviewed an extensive list of alternative or innovative revenue sources considered in a variety of sources and reports - see Appendix 'F' to 'H' inclusive. Many of these are viewed as reasonable secondary sources of revenue with which to augment an existing and expected municipal share as part of the proposed solution, but not the primary ones which form the basis of the IFC's fiscal plan approach.

IFC Preference
The IFC endorses a tax structure which is transparent, serves a defined public purpose(s) and is seen to be accountable. Furthermore, any solution should:

- Be a toolbox of diversified revenue sources to provide individual municipalities with the flexibility to address their unique needs
- Not focus simply on increasing current revenue sources as they will result in only small incremental revenue gains and result in taxpayer fatigue and not address the revenue shortage problem
- Should provide municipalities with access to elastic, growth-based revenue streams inducing a pronounced municipal focus on decisions to grow the economy with increasing reliance on progressive tax measures

The IFC recommendations were also tested against their applicability to Manitoba municipalities.

In the balance of the report, the goal was to develop a toolbox that would have considerable potential to benefit the majority of municipalities by improving efficiencies on one hand and increasing their capacity to access multiple revenue sources on the other.

6.0 INTERNAL INFRASTRUCTURE FUNDING OPTIONS

Funding options cannot focus solely on access to new revenue streams. There should be a clearly accompanied focus on improved practices and methodologies which result in visible gained efficiencies. This should be accompanied by a clear and determined focus by municipalities in their decision making on growing the economy, without which, talk of revenues is moot.

To accomplish this, municipalities are encouraged to re-engineer their internal practices, embrace innovation, welcome regional service delivery models, commit to sustainable development practices, and improve governance in all its related respects to further enhance transparency and accountability to taxpayers.

In short municipalities should:

1. Maximize use of existing municipal infrastructure funding tools
2. Improve internal infrastructure investment management and planning efficiencies
3. Adopt sustainable development plans
4. Pursue regional service delivery efficiencies
5. Focus decision making on growing the economy

Municipal Financial Tools
The IFC recognizes that there are a limited number of financing options for cities, towns and municipalities to respond to the current infrastructure situation including:

- **Retreat** – Municipalities withdraw from existing infrastructure projects and support and focus only on core responsibilities and priorities

- **Pay-as-you-go Financing** – Municipalities put money aside each year within their budget to cover annual capital programs or road maintenance, sidewalk repairs and the upkeep of facilities

- **Debt Financing** – Municipalities issue bonds, debentures or another debt security

- **Taxation Funding** – Municipalities use property tax and capital grants to fund infrastructure needs

- **User Pay Funding** – Municipalities price services that they provide to consumers

- **Private Sector Involvement** – Enhance collaboration strategies with the private sector related to the design, construction, delivery and maintenance of infrastructure assets in a manner which fairly apportions the risk and shares rewards.

IFC RECOMMENDATIONS – Maximize Use of Existing Financial Tools
The IFC recommends that Municipalities:

1. Continue demonstrating financial commitment to the funding of municipal infrastructure, with borrowing levels consistent with Manitoba Municipal Board Guidelines.

2. Apply the notion of 'smart debt' within individual municipal context. This approach means building a consensus around an appropriate and sustainable level of tax-supported debt over the long-term, recognizing that borrowing is a legitimate part of any long-term capital financing plan.

3. Consider the application of a special purpose tax (frontage fees) specifically allocated to infrastructure funding.

4. Review user fee structures and adjust where necessary to ensure that there is a clear link between the fee being paid and the service being provided and that these fees reflect the true cost of the service provided.

5. Augment current infrastructure budgets equal to an annual average of the last five years and provide for annual increases equal to the rate of inflation and population growth, utilizing existing municipal sources of revenues.

6. Publicly set out a clear detailed strategy for addressing the infrastructure deficit including a time frame for the effort, measurable benchmarks, periodic reviews and public accountability for results.

The IFC further recommends that the Province of Manitoba assist in facilitating the maximum use of municipal fiscal tools by taking the following steps:

IFC RECOMMENDATION – Manitoba encouraged to Amend the Municipal Board Act

7. The Government of Manitoba is encouraged to amend the Manitoba Municipal Board Act to:

   a. Enable municipalities to borrow without approval of the Municipal Board, as long as they remain within established borrowing guidelines;
   b. More clearly enable Municipalities to borrow outside the guidelines, with Municipal Board review and approvals, keeping in mind the Province's interest in the long-term financial sustainability of municipalities; and
   c. Expand definition of Municipal revenues to include Gas Tax Agreement revenues and other like revenues.

EFFICIENCY GAINS & BEST PRACTICES

Municipal leaders do and should continue their quest towards improved efficiencies in order to provide better value for the existing tax dollars they collect and invest. Efficiency gains create additional fiscal flexibility and the opportunity to reinvest these "savings" to further infrastructure programs.

The IFC identified a number of best practices which if implemented may enable some municipalities' greater fiscal investment flexibility.

IFC RECOMMENDATIONS –Address Efficiencies, Adopt Best Practices and Reinvest Gains Into Infrastructure

The IFC recommends that municipalities be encouraged to review the manner in which the following practices could be implemented:

8. Adopt Best Practices by:
   a. Implementing the recommendations of the 1998 Strategic Infrastructure Reinvestment Policy Report (SIRP) which provides a municipal roadmap to align asset management practices and budgeting – see Appendix 'E'
   b. Phasing in infrastructure asset management processes and systems to better quantify existing and future infrastructure needs
   c. Financing infrastructure projects to properly recognize project life and replacement patterns
   d. Justifying construction of all new publicly funded infrastructure projects by providing a cost/benefit analysis that incorporates sustainability
   e. Including incremental maintenance costs and a parallel maintenance budget for new or upgraded infrastructure
   f. Incorporating advanced techniques, improved technologies, better materials and best practices in all infrastructure programs

g. Applying full cost accounting principles to all government services ensuring that the prices for services reflect the true costs of service(s) provided[23]
h. Determining the most cost effective options for all capital programs for new or rehabilitated infrastructure by pursuing life cycle costing analysis

9. Reinvest resulting efficiency gains/financial savings into priority infrastructure projects.

MAKING INFRASTRUCTURE MORE SUSTAINABLE

In Manitoba, municipal development plans are required by legislation (under the *Planning Act and The Sustainable Development Act*) to incorporate the principles of sustainable development. Municipalities are required to balance social, economic and environmental costs and benefits when revitalizing existing infrastructure and constructing new infrastructure.

Infrastructure development should incorporate sustainable practices and green technologies that reduce the environmental footprint of municipalities. This balancing of costs and benefits ensures that the needs of today do not come at the expense of future generations.

IFC RECOMMENDATION–Adopt Sustainable Development Practices

The IFC recommends that:

10. Municipalities should incorporate ongoing and long term municipal infrastructure planning and investment strategies into their sustainable development plans to ensure congruency of objectives.

PURSUING REGIONAL INFRASTRUCTURE EFFICIENCIES

The notion of regional collaboration is not new to municipal thinking but its importance should take on a greater sense of policy priority and urgency. Winnipeg on an increasingly frequent basis now engages in discussions with capital region neighbors on the delivery of services.

Across Manitoba, the AMM has invested time encouraging municipalities to work regionally. It has supported this initiative with a *"Tools for Change"* program in partnership with the Province, aimed at encouraging regional thinking. [24]

Key stakeholders recognize the value of regional service delivery. As an example, a 2010 transportation and infrastructure brief prepared by the Winnipeg Chamber of Commerce pointed out that "a regional approach to transportation and infrastructure planning (that) will provide a capital region plan that leverages regional investment and provides more efficient outcomes."[25]

The Manitoba Planning Act[26] authorizes boards or councils of two or more planning districts or municipalities to develop a regional strategy covering the area within their jurisdiction. The purpose of a regional strategy is to improve and co-ordinate land use and development in the region and promote co-operation between planning districts and municipalities in the delivery of services and development of infrastructure in the region.

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[23] See *'ND Lea, Cost Benefit Analysis for Waverly West, 2004'* provides a good framework around which principles in items 3, 4, 5, 7 and 8 can be developed.

[24] (http://www.amm.mb.ca/res_tools.html)

[25] Winnipeg Chamber of Commerce, *Transportation and Infrastructure*, October 2010

[26] http://web2.gov.mb.ca/laws/statutes/ccsm/p080e.php

This approach better coordinates and unifies approaches within a geographic area and can provide better tax value because municipalities can accelerate investment opportunities. It reduces costs by sharing resources and improving efficiencies through a uniform approach. Municipalities can then tackle larger scale projects by pooling financial and human resources.

IFC RECOMMENDATION – Pursue Rural Regional Infrastructure Delivery Strategy
The IFC recommends that:

11. Municipalities outside Winnipeg are encouraged to maximize efficiencies and create a regional focus by delivering infrastructure services in partnership with neighboring municipalities consistent with objectives in the Planning Act and the Capital Region Partnership Act objectives.

IFC RECOMMENDATION - Develop Winnipeg Capital Region Infrastructure Delivery Strategy

12. The Government of Manitoba and the Winnipeg Capital Region municipalities are encouraged to develop a Capital Regional Strategy which recognizes the importance of the supply and delivery of regional core and social infrastructure services in a fiscally and environmentally responsible and sustainable manner by implementing the recommendations of Transplan 2010 and SIRP Reports and following the principles in the Planning Act and the Capital Region Partnership Act[27].

7.0 EXTERNAL INFRASTRUCTURE FUNDING OPTIONS

FEDERAL AND PROVINCIAL GOVERNMENT ROLES
It is well established that that the condition of Canada's municipal infrastructure is one of the keys to underpinning, maintaining and enhancing Canada's economic productivity and competitiveness in North America and internationally. Municipalities host much of Canada's economic engines.

It is therefore clearly in the national and provincial interests for the federal and provincial governments to institute permanent and sustainable programs in partnerships involving the municipalities with which to address reinvestment in Canada's municipal infrastructure.

In such a tri-level partnership, municipalities should at the outset be involved in federal-provincial funding decisions impacting local municipal infrastructure. The IFC supports bi-level and tri-level agreements that include defined roles and responsibilities for each partner.

While this report focuses primarily on the ability by municipalities – alone and with the assistance of the Province – to generate the revenues needed to fund their infrastructure deficits, the IFC submits that there is a necessary place and role for further federal funding on a national basis and in partnership with the other two levels of government.

Public opinion research shows that Canadians understand that the condition of the country's infrastructure can impact its competitiveness, growth and the standard of living that its citizens enjoy. In fact, most Canadians

[27] The Capital Region Partnership Act is designed to create a forum for discussion and the development of regional solutions to issues facing capital region municipalities, including infrastructure development and applies only to the 16 Capital Region municipalities, including Winnipeg.

believe Ottawa should be part of the infrastructure deficit solution, and want this to be a federal priority over the next 10 years. Research shows:[28]

- Most Canadians believe that Canada's infrastructure investment is falling behind other countries and that this will threaten their personal prosperity in the future
- Canadians believe that two areas should be protected from federal spending cuts – health care and municipal infrastructure
- Canadians believe that improving local infrastructure (57%) would have a greater impact on their quality of life than tax cuts (45%)
- Two thirds of Canadians would support an increase in the GST if it were dedicated to local infrastructure
- Canadians believe that the country's aging infrastructure is as big a national issue as the federal deficit

As the state of the country's infrastructure represents a key barometer of the country's economic strength, Canadians want a strong federal government that provides leadership and direction.

IFC RECOMMENDATION– Pursue Sustained Federal Municipal Infrastructure Funding
The IFC recommends the following:

13. The Government of Manitoba, the Association of Manitoba Municipalities (AMM) and City of Winnipeg are encouraged to work together and within their national networks including the Council of the Premiers, the Big City Mayors Caucus and the Federation of Canadian Municipalities (FCM), to urge the federal government to renew a national infrastructure strategy that:

a. Permanently transfers to municipalities on an ongoing basis the current $2 billion annual federal Gas Tax Fund and indexes annual increases to a minimum of the annual rate of inflation and population growth.
b. Transitions over three years the remaining portion of federal gas tax revenues to municipalities using the existing Gas Tax Agreement framework. At its current level, this would result in an additional $3.2 billion being allocated to Canadian municipalities. In Manitoba, this would provide municipalities with approximately $100 million annually.
c. Continues tri-level government infrastructure funding agreements on an on-going and permanent basis to address emerging infrastructure needs and shared priority projects.

As is the case with the federal *Gas Tax Agreement*[29] the IFC submits that federal funds should be dispersed primarily on a per capita basis without ignoring larger strategic needs. Accountability should be ensured through annual municipal reporting on how the funds invested and what outcomes were achieved. These programs should be subject to periodic arms length "value-for-dollar" reviews.

Provincial Government's Role
If municipalities are to be empowered to address their infrastructure needs then the current revenue streams provided by existing provincial legislation respectfully are inadequate.

For example, if municipalities were to use property taxes to raise the funds needed to address their infrastructure deficits, municipal property tax bills in Manitoba would likely need to triple.

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[28] *The Strategic Counsel survey of 2,168 Canadians proportional to the adult population in all regions completed in January 2010 and reported in Cities, Communities and the Federal Budget Deficit,* http://www.fcm.ca//CMFiles/SurveyReportJan192010EMBARGOED1JBG-1202010-2986.pdf

[29] The AMM cited the Gas Tax Agreement program administration is well accepted and embraced by Manitoba's municipalities.

the Provincial Sales Tax (PST) and explicitly dedicate through legislation, revenues associated with all such allocations to core and social municipal infrastructure.

This additional revenue could be generated through any of the following approaches:

- A new and separate Municipal Infrastructure Levy (MIL)
- Over and above the 2011 budget re-allocation, from within the existing PST framework
- By adding 1% to the PST

If a referendum is required, the municipalities and the Province should jointly participate and support any public education campaign.

Vacate Property Education Tax

Education falls under provincial jurisdiction but Manitoba's municipalities collect $669 million in net property tax on its behalf each year (see Figure 1). This structure does not provide the transparency to taxpayers in that there is no link between what is being taxed and who is accountable for its expenditure.

Figure 1: Total Net Education Property Tax

2009 Budget, Dollars in Millions	FRAME Report All MB	City of Winnipeg	Rest of Manitoba Municipalities
Provincial Education Support Levy	$127	$76	$51
School Division Property Tax	$703	$399	$305
Total Gross Education Property Tax	**$830**	**$474**	**$356**
		57%	**43%**
Minus Provincial Education Tax Credit	$161	$108	$53
Total Net Education Property Tax	**$669**	**$367**	**$303**
		55%	**45%**
2009 Budget, $ in millions			
Total Net Revenue from Education Property Tax	$669	$367	$303
Current Municipal Property Tax Revenues	$715	$429	$287
Total Funding from Property Taxes on Net Basis	**$1,385**	**$795**	**$590**

Sources: Manitoba Education, the Financial Reporting and Accounting in Manitoba Education (FRAME Report) http://www.edu.gov.mb.ca/k12/finance/frame_report/index.html and the City of Winnipeg's 2009 Annual Financial Report

Currently a number of Provinces – Prince Edward Island, New Brunswick and Newfoundland – have eliminated education tax from municipalities' residential property tax[32] . Saskatchewan has also been reducing its education portion on the municipal property tax bill year annually.

[32] Edmonton Property Tax and Utility Charges survey, produced by the City of Edmonton

In identifying pools of revenue that could help municipalities address their infrastructure deficits, the IFC recognized a number of challenges including:

- The political and economic ramifications of major changes to the tax system
- The complexity of transitioning existing revenue levies from one jurisdiction to another
- The challenges of introducing new taxes

To bridge these challenges, the IFC submits that any new revenue streams be transparent, accountable to the public and dedicated by legislation only to municipal infrastructure investment. They should also be transitioned and done so only after broad public consultation or public referendum led by municipal and provincial leaders.

Allocate Consumption Taxes to Municipalities

Taxes based upon growth and consumption, such as corporate and personal income, sales and the goods and services taxes, are progressive. They are a more equitable way to achieve the vertical and horizontal fairness objectives in a properly structured tax system. They provide access to the benefits of economic growth and encourage a focus on growing the economy.

An over-reliance on grants and transfers has left municipalities struggling to meet the growing infrastructure demand. Transfers also do not provide the transparency taxpayers need to hold their municipalities accountable.

In Manitoba, the current PST raises roughly $238 million for each point of tax. Since being introduced in 1991, the federal GST it has been reduced twice leaving room for either the Provinces, or by agreement, the municipalities to access this tax space.

In its February 2011 budget submission to the provincial finance minister, the Business Council of Manitoba called for a 1% sales tax to fund infrastructure construction for a period of 10 years. The Council said this new support should be incremental to existing infrastructure funding that municipalities receive. The Business Council undertook to support the change should a Province-wide referendum be required.

Last year, the Winnipeg Chamber of Commerce recommended a fiscal realignment that included "some consumption tax room to allow for the establishment of a city sales tax. The City sales tax should be dedicated to fund certain elements of the infrastructure strategy."[30]

Public opinion research suggests that infrastructure is a major priority for nine-in-ten Manitobans [31] and that more than half (54% of Manitobans and 51% of Winnipeggers) would support a 1% Municipal Infrastructure Levy (MIL) that was dedicated to infrastructure renewal projects. An MIL collected in the same manner as the PST must be approved in legislation by the Province, as municipalities do not have the authority into introduce this type of tax.

IFC RECOMMENDATION – Allocate Consumption Taxes to Municipalities Dedicated to Infrastructure

The IFC recommends that the Government of Manitoba address the following:

14. Apart from the re-allocation of provincial funding sources announced in the 2011 budget, and subject to any required public approval including a referendum if necessary, allocate the equivalent of an additional 1% of

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[30] Transportation and Infrastructure Brief, Winnipeg Chamber of Commerce, October 2010

[31] Association of Manitoba Municipalities survey, 2008 http://velocitybranding.com/mhca/images/reportsarticles_pdf/probereportinfrastructure.pdf

The Manitoba government announced in 2007 that it was committed to increasing provincial funding to 80 per cent of total public schools education expenditures.[33] The IFC wants to clearly distinguish the difference between the adjusted total cost of public education which would include capital and other pension related costs and the net operations budget as mentioned above.[34]

The IFC submits by increasing provincial funding to 80% of the net education operations budget (FRAME operating budget) over a staged multi-year period; Manitoba municipalities can access that tax room over time until it reaches approximately $300 million annually. Legislation should require municipalities to dedicate the new funding to municipal infrastructure programs. This calculation assumes that school divisions have a 20% reliance on property taxes. The recommendation also assumes the Province will identify just over $300 million from another revenue source to fund school divisions. Whether the Education Property Tax Credit is affected by this recommendation is a matter for the provincial government.

IFC RECOMMENDATION - Vacate Property Education Tax Room Dedicated to Infrastructure
The IFC recommends that the Government of Manitoba:

15. Increase provincial education funding to 80% of net operations (as defined in the FRAME Report) in a staged manner over a three year period while phasing out approximately $300 million from the current realty education levy. Then, through legislation enable municipalities to backfill the tax space vacated by the current education levy with a municipal levy dedicated by legislation for application to municipal infrastructure investment.

IFC RECOMMENDATION - Create an Equity Reserve Account for Smaller Municipalities
The IFC recommends that the Government of Manitoba, as part of the revenue stream allocation, enshrine the following principle:

16. Create an *'equity reserve account'* from 5% of the funds raised annually from the new MIL (or its equivalent) and establish access criteria for smaller rural municipalities for the purposes of enabling their participation in locally, regionally or multi-partied prioritized infrastructure programs.

IFC Approach – A summary
In summary then, the IFC proposes a three-pronged approach to generate the revenue platform needed to address the infrastructure deficit. This staged approach co-ordinates change at several levels.

1. Municipalities make the required internal changes noted earlier. These changes range from maximizing own source revenues, introducing organizational changes, adjusting current service delivery models, and implementing related best practices.

2. Province allocates an additional one per cent of existing PST revenues or adds an additional point to the PST along with vacating the education property tax as hereinafter provided over a three year period (the specifics of such an arrangement would be the subject of discussion and agreement between Manitoba and the municipalities). These two new revenue streams could be the foundation for a new fiscal strategy dedicated to addressing the $1.3 billion annual infrastructure need.

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[33] Province of Manitoba news release, *Budget 2007 Highlights*, http://news.gov.mb.ca/news/index.html?archive=2007-4-01&item=1417

[34] http://www.edu.gov.mb.ca/k12/finance/frame_report/2009-10_frame_budget.pdf page 42

3. A partnership between Manitoba and its municipalities to jointly pursue a national strategy that would provide sustained federal funding of Canada's municipal infrastructure.

IMPLEMENTING EXTERNAL FUNDING OPTIONS

In order to build public support for new revenue sources, the IFC submits there is a need for an implementation plan that provides the transparency and accountability that taxpayers will demand in return for new revenues. The IFC offers the following implementation framework as a starting point to build public confidence.

IFC RECOMMENDATION – Establish an Implementation Committee

The IFC recommends that the Government of Manitoba, AMM and the City of Winnipeg commit to the following:

17. Establish an Implementation Committee whose members are jointly appointed by the Government of Manitoba, the Association of Manitoba Municipalities (AMM) and the City of Winnipeg, and whose terms of reference would require it to develop, within 12 months of its appointment, a Manitoba Municipal Infrastructure Funding Agreement (MIFA) that sets out:

a. Criteria to be used by municipalities to access new revenue streams that ensures public transparency and accountability
b. A description of the new intergovernmental infrastructure funding relationship taking into account competitive constraints, transitional periods and financial capacity
c. A protocol that ensures annual public reporting, project audits and five-year public reviews of Manitoba's infrastructure strategy and progress against the 20-year goal.

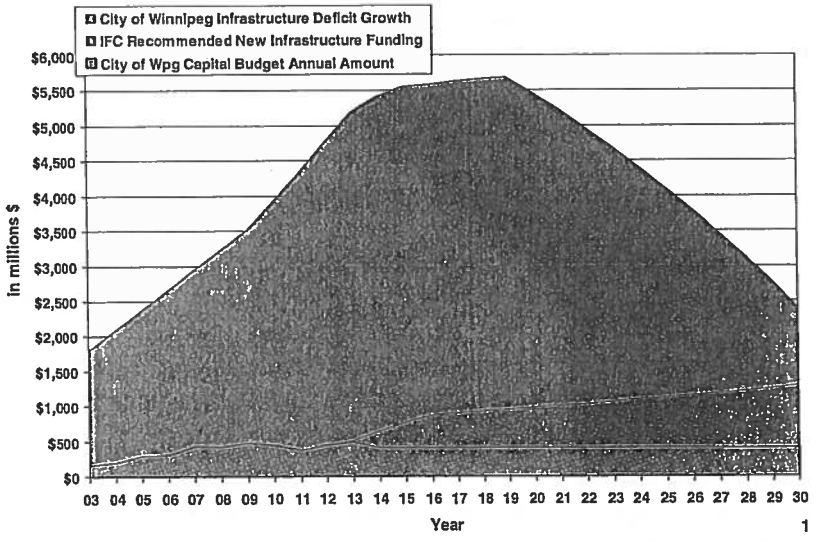
IMPACT OF A FINANCIAL PLAN – FINANCIAL MODELING

The magnitude of the challenge, which demonstrates the imperative of sustained decisions, discipline and intergovernmental collaboration, is reflected in the 2011-2030 Financial Plan and Financial Modeling (See Appendix 'J'.)

As stated, the total municipal infrastructure deficit in Manitoba is projected to reach $13.4 billion within 10 years at current funding levels. The amount of additional budget to address the deficits hovers in the vicinity of $1.3 billion annually.

The IFC Financial Model assumes that effective 2012 municipalities begin the renewal with annual increases to their infrastructure budgets from existing revenue sources, tied to the rate of inflation and population growth increases.

IFC Recommended New Infrastructure Funding Reduces the Infrastructure Deficit over the Long Term



The additional revenues contemplated from vacated education tax room; an additional point under the existing, or new PST or new MIL; and federal contribution, are assumed to be transitioned in commencing 2014 – see 'IFC Recommended New Funding' chart below.

To help better understand the impact of a sustained 20-year effort, the IFC has prepared a financial model based on the recommendations in this report,

It is offered as a tool for Manitobans to use and help understand the long-term impact of any plan that is ultimately put in place. The measures may change as might the timeframe for achieving different municipal goals, and the model can be adjusted to reflect these decisions needed in the development of a plan.

IFC Recommended New Funding available to address $13.4 Billion of Infrastructure Deficit

In $ millions									5 Year						5 Year
For City of Winnipeg	2011	2012	2013	2014	2015	2016	2017	2018	subtotal	2019	2020	2021	2022	2023	subtotal
Vacated Education Property Taxes	-	-	-	63	129	197	201	205	796	210	214	218	222	227	1,091
Additional Federal Fuel Tax	-	-	-	11	43	65	65	66	249	66	67	68	69	69	339
Municipal Infrastructure Levy	-	-	-	135	141	146	152	158	732	164	171	178	185	192	891
Municipal Additional Funding	-	12	24	37	50	64	78	92	357	107	122	138	154	170	690
Wpg Sub-Total	-	12	24	246	362	472	496	521	2,134	547	574	601	630	659	3,011
Remaining Municipalities	2011	2012	2013	2014	2015	2016	2017	2018		2019	2020	2021	2022	2023	
Vacated Education Property Taxes	-	-	-	49	100	154	157	160	621	163	167	170	173	177	850
Additional Federal Fuel Tax	-	-	-	7	27	41	41	41	156	42	42	43	43	43	213
Municipal Infrastructure Levy	-	-	-	123	128	133	138	143	664	149	155	161	168	175	808
Municipal Additional Funding	-	6	12	19	25	32	39	46	178	53	61	69	77	85	345
Remaining Municipalities Sub-Total	-	6	12	197	280	359	375	391	1,620	408	425	443	461	480	2,216
Total Province wide	2011	2012	2013	2014	2015	2016	2017	2018		2019	2020	2021	2022	2023	
Vacated Education Property Taxes	-	-	-	112	229	351	358	366	1,417	373	380	388	396	404	1,940
Additional Federal Fuel Tax	-	-	-	17	69	105	106	107	405	108	109	110	112	113	552
Municipal Infrastructure Levy	-	-	-	258	268	279	290	302	1,396	314	326	339	353	367	1,699
Municipal Additional Funding	-	18	37	56	75	96	116	138	535	160	183	206	231	255	1,035
Province Wide Sub-Total	-	18	37	443	642	831	871	912	3,754	955	999	1,044	1,091	1,139	5,227

The 'IFC Recommended New Funding' chart summarizes the results of financial modeling based upon IFC's recommendations. It illustrates the impact of new revenue sources over time for Manitoba municipalities.

Initially, new funding to municipalities starts small but builds through annual growth and the compound affect of time.

As shown to the table to the right, the IFC is urging all levels of government to participate in providing additional revenues to help fund municipal infrastructure. By 2023, $1.139 billion of new funding would be available:

IFC Revenue Sharing Summary Plan to address $13.4 Billion Infrastructure Deficit			
(in millions of dollars)	By 2023	% of total revenues	
Vacated Education Property Tax	$404	35%	Provincial
Additional Federal Gas Tax	$113	10%	Federal
1% Municipal Infrastructure Levy	$367	32%	MIL
Additional Municipal Revenue equal to inflation plus growth	$255	22%	Municipal
Total Additional Revenue	**$1,139**		

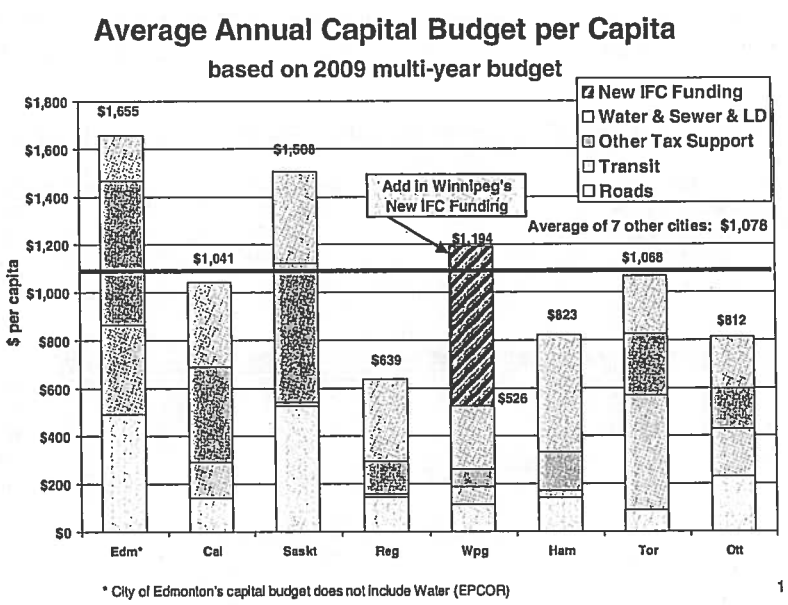
- $404 million by the Provincial Government by reducing education property tax and funding school divisions directly from their general revenues;

- $113 million from the Federal Government by transferring all of its Fuel tax it currently collects to municipalities;

- $367 million from a province wide new 1% sales tax called the Municipal Infrastructure Levy; and
- $255 million from municipalities to increase their base capital budget by the rate of inflation plus population growth using their current revenue tools such as property tax, frontage levies, and user fees.

Although the revenues generated by the new measures appear to be significant, the IFC submits the response is proportional to the scale of the problem.

To illustrate this point, Winnipeg's share of the new revenues (shown in red) has been added to the city's current capital budget plan and compared with current capital budgets of other Canadian cities. The result is that the total funding level only increases slightly above the existing average large Canadian city.



The above financial modeling also assumed cash funding of infrastructure projects. With this kind of new infrastructure revenue there is also the alternative of using Smart Debt which could also be used to fund large inter-generational projects such as a large bridge project, an additional leg of rapid transit and other projects.

A portion of the new revenues would need to be dedicated to the Smart Debt in order to make the 30 years of annual financing payments. For example, $75 million of annual cash payments for 30 years could leverage $1 billion of construction projects immediately. In addition, the Smart Debt approach should be in sync with the municipality's overall debt strategy.

As noted by the year 2023, or 12 years out, the additional revenues total $1.139 billion – see 'IFC Revenue Sharing Summary Pan' chart. The cumulative impact is that Winnipeg's infrastructure deficit is reduced from its projected $7.4 billion to $4.6 billion, and for municipalities outside Winnipeg, from its projected $6 billion to $3.6 billion.

By 2030, at the end of the 20 year plan, those deficits drop further to $2.3 billion and $2.4 billion respectively. (See chart at Appendix 'J.')

With this report and recommendations the IFC is urging Manitobans and governments alike that it is time to put a stake in the sand and start to address the infrastructure deficit by making the necessary decisions, creating a plan and implementing it. Success will flow from this decision – with the required patience, discipline, and commitment to the purpose.

9.0 CONCLUSION

Manitoba can begin to address its infrastructure investment deficit in a balanced, disciplined and lasting way. How and over what time frame we achieve this goal is up to Manitobans.

The IFC hopes that *New Relationships: A New Order: A balanced approach to funding municipal infrastructure in Manitoba* ignites a vigorous public debate in this Province about the best approach and mix of revenue tools to address Manitoba's infrastructure deficit.

One thing is for certain: the need for this debate is now. Our infrastructure network is the lifeblood of our economy. It affects our productivity, economic growth, prosperity and our standard of living. Failure to address this issue not only limits the ability of our municipalities to serve a growing population but also creates safety issues to those using our aging infrastructure.

The challenge before municipalities in Manitoba – and the challenge for municipalities throughout Canada – is developing a revenue framework that addressing the immediate infrastructure need without compromising efforts to grow the economy with new works.

This is a problem born in the past but it must be addressed in the present and the future. We must summon the courage to make the necessary decisions to create a visionary plan and then have the patience and discipline to implement it.

In this report, the IFC identifies a number of revenue tools for public consideration. Together we must develop a plan that uses our tax structure to create a virtuous circle where municipalities are rewarded for focusing on economic growth and making spending decisions that invest in creating prosperity in order to better position them for the future. Part of the solution, the IFC submits, is to provide municipalities' access to growth taxes.

The IFC submits that Manitobans understand the need to take action on the Province's infrastructure and are prepared, under the right conditions, to financially support it. Public opinion research shows:[35]

- 94% of Manitobans see infrastructure as a high priority
- 54% of Manitobans, including 51% of Winnipeggers, support an additional 1% municipal tax dedicated to infrastructure renewal projects

The recent experience of senior levels of government demonstrates the value of this change. Over the last five years, provincial and federal governments have improved their tax competitiveness and reduced tax rates, while increasing infrastructure investing. They have been able to do this because revenue-associated growth taxes have continued to grow with the economy.

By shifting the municipal emphasis from generating revenue to generating wealth, the IFC submits that senior levels of governments should be more inclined to provide municipalities access to the dedicated revenues needed to fund Canada's infrastructure deficit.

More importantly this paradigm shift will create a simple yet necessary focus upon growing the economy at the municipal, provincial and national levels of government.

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[35] Probe Research Inc., Manitoba-wide survey of 1,000 Manitobans between September 15, 2008 and October 6, 2008

Ultimately, the report's recommendations and our collective success in addressing our provincial and national municipal infrastructure deficits are dependent upon broad public consultation, its understanding and support, and intergovernmental collaboration.

We anticipate and look forward to an ensuing vigorous political, public, stakeholder and media debate.

If acceptable to Manitobans, the options outlined in this report could support a comprehensive infrastructure funding strategy. They include measures that municipalities can unilaterally adopt and others that require intergovernmental negotiations. The final solution could also serve as a model for the rest of the country.

Our experience of the last five years demonstrates what can be accomplished when all three levels of government apply their collective attention and investment in Canada's infrastructure. However, moving forward, the IFC submits a long term plan must provide the transparency and accountability that taxpayers will demand and are entitled to receive in return for new revenues.

We must act. By starting now, we can begin the healing process that will make our economy stronger in the future and ease an unfair burden on future generations.

This report marks a first step. We encourage Manitobans to embrace the challenge of addressing our collective infrastructure deficit and join the debate.

Our collective will should focus to achieve the goal reflected in the title of this report – 'New Relationships: A New Order – A balanced approach to funding municipal infrastructure in Manitoba.'

Respectfully submitted,
Infrastructure Funding Council (IFC)



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