

July 2013

NEW MUNICIPAL INFRASTRUCTURE PROGRAM

A DISCUSSION
GUIDE



Letter from the Minister of Rural Affairs and the Minister of Infrastructure and Transportation

Communities across Ontario depend on modernized infrastructure.

Revitalized roads, bridges and other critical infrastructure will help improve the transport of people and products, create jobs and build stronger, more inclusive communities.

That's why, since 2003, the Ontario government has invested approximately \$85 billion in public infrastructure projects. More recently, the 2013 Ontario budget included a three-year, \$35 billion commitment to further improve infrastructure.

The budget also featured a \$100 million infrastructure fund to help small, rural and northern municipalities undertake critical infrastructure projects. Available October 1, 2013, the one-year fund could become permanent as part of the 2014 Ontario Budget.

Before launching the fund, we will consult with local representatives to gather feedback concerning its design and components. These consultations, in turn, speak to our government's ongoing commitment to provide local communities with a say in their future development.

The federal government must be a key partner in any important infrastructure investment. As part of its 2013 Budget, the federal government announced a 10-year, new *Building Canada* plan to support provincial, territorial and municipal infrastructure, beginning in 2014-15. For its part, Ontario will actively engage with the federal government as the plan's details are developed.

We will continue working with our municipal partners to help address their infrastructure challenges, and in the process, build a more prosperous, more productive Ontario.

Jeff Leal
Minister of Rural Affairs

Glen Murray
Minister of Infrastructure, Minister of Transportation

New Municipal Infrastructure Program

A Discussion Guide

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Introduction

Municipalities are stewards of a significant portion of Ontario's public infrastructure. They have made large investments in infrastructure while trying to balance and address other municipal priorities. Recognizing the ongoing challenge of addressing infrastructure needs, the 2013 Ontario Budget includes \$100 million for small and rural municipalities for a new, dedicated fund for municipal roads, bridges and other critical infrastructure. The new program is part of the province's commitment to working with municipalities, to help make critical infrastructure investments that will strengthen communities and create jobs.

The province is consulting on elements of this program, and will be looking at options to make it permanent for consideration in the 2014 Budget. This discussion guide is intended to support the dialogue between the province and our municipal partners.

Since 2003, the province has invested approximately \$13 billion in municipal infrastructure projects. These investments have helped municipalities to repair and upgrade roads and bridges, improve water and wastewater systems and revitalize communities. The province underscored its continued commitment to infrastructure, both to key investments themselves and the strategic long-term planning they demand, with the release of its 10-year infrastructure plan, *Building Together*.

Building Together: Ontario's Long-Term Infrastructure Plan

Released in June 2011, this plan provides a strategic framework to guide public infrastructure investments that:

- support future prosperity;
- align public services with demographic change; and
- ensure good stewardship.

Recognizing that there are limited resources to meet competing investment priorities, all orders of government, municipal, provincial and federal, need to think about how to continue to make investments to ensure that core infrastructure assets are well maintained.

Ontario's Engagement on the New Building Canada Plan

In October 2012, Ontario delivered *Building Canada Together: Ontario's Recommendations for the Federal Government's Long-Term Infrastructure Plan* to the federal government. The 2013 federal budget announced a new 10-year Building Canada plan to support provincial, territorial, and municipal infrastructure, beginning in 2014-15. Ontario is actively engaging with the federal government as details of the plan are developed.

The province looks forward to the federal government joining the province in addressing the need for municipal infrastructure investment. Ontario is committed to ensuring that the new Building Canada plan promotes Ontario's strategic infrastructure priorities, meets the needs of our communities, and supports our path to fiscal balance. The province will work with the federal government and with municipalities on the new Building Canada plan.

This consultation recognizes the value of working with our municipal partners. The province is consulting on many important initiatives, such as the Ontario Municipal Partnership Fund which supports municipalities across Ontario. Your time and effort as part of this dialogue are appreciated.

Through this process, the province is looking for advice on how to build on its existing policy framework to improve the funding approach for critical municipal roads, bridges, water and wastewater projects. Working together, the province and its municipal partners can develop an infrastructure program that will respond to the infrastructure needs of municipalities, make the best use of limited public resources, and help ensure Ontario's future prosperity.

Context

Municipal Infrastructure Strategy

In its long-term infrastructure plan, *Building Together*, the province committed to establish a municipal infrastructure strategy. The Municipal Infrastructure Strategy was released in 2012 and builds on the key principles of *Building Together*, including ensuring good stewardship of public assets.

Asset management planning is the foundation of good stewardship. This is why the first step of the Municipal Infrastructure Strategy is to improve asset management. Asset management planning ensures that investments are made at the right time to minimize future repair and rehabilitation costs and maintain municipal assets.

“The asset management plans are really important so that we know, as infrastructure dollars become available - whether it's federal infrastructure dollars or whether it's provincial infrastructure dollars - what the priorities of municipalities are.”

- Hon. Kathleen Wynne, Premier of Ontario

Through *Building Together* and the Municipal Infrastructure Strategy, the province stated that any municipality seeking provincial infrastructure funding must demonstrate how its proposed project fits within a detailed asset management plan. This will help ensure that limited resources are directed to the most critical needs.

In recognition that some municipalities do not have the resources to undertake asset management planning, the province provided support tools as part of the first phase of the Municipal Infrastructure Strategy:

- A guide for municipal asset management plans which sets out the information and analysis that municipal asset management plans should include; and
- An online toolkit which includes tip sheets and templates to help develop and improve asset management plans.

Municipal Infrastructure Investment Initiative (MIII)

The Municipal Infrastructure Strategy was also supported by the Municipal Infrastructure Investment Initiative (MIII), launched in 2012 and consisting of two components. The MIII Asset Management program provided \$8.25 million to 358 small and rural communities and \$750,000 to 37 Consolidated Municipal Service Managers responsible for affordable housing units to support the development of asset management plans. The MIII Capital Program is providing nearly \$90 million over three years to address critical infrastructure projects.

Municipal Infrastructure Investment Initiative (MIII) Capital Program

The objectives of MIII program were to:

- Help address critical roads, bridges, water, and wastewater projects;
- Further strengthen municipal asset management practices; and
- Provide funding to municipalities and Local Services Boards (LSBs) that are unable to undertake projects without provincial support.

Eligible recipients for capital funding included:

- Municipalities that own roads, bridges, water and wastewater systems; and
- LSBs that own water and/or wastewater systems.

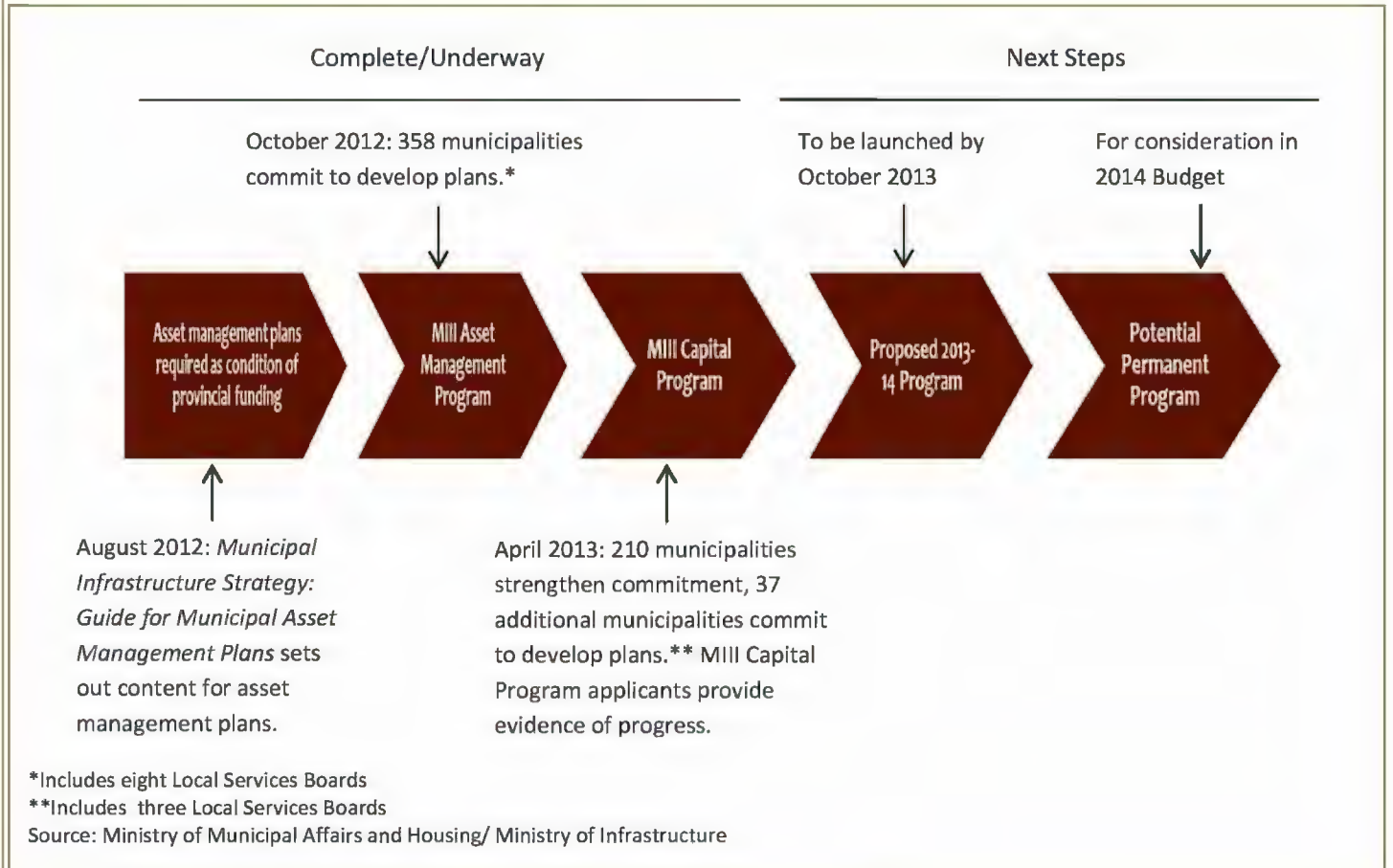
First Nation communities were eligible if the proposed project was being undertaken in collaboration with one or more eligible municipalities and/or LSBs.

MIII applications were evaluated based on:

- Technical information regarding urgency of health and/or safety problems;
- Evidence of commitment to and progress towards completion of asset management plans; and
- The applicant's fiscal situation, including efforts to make full use of all available local infrastructure financing tools.

The new \$100 million funding program announced in the 2013 Budget represents a continuation of the government's commitment to support municipal infrastructure through the Municipal Infrastructure Strategy and the Municipal Infrastructure Investment Initiative.

Figure 1: Building the Municipal Infrastructure Strategy



Ontario's Small, Rural and Northern Communities

Ontario municipalities, both large and small, have varying abilities to address their infrastructure needs. In many small and rural communities, particularly in northern Ontario, there are added demographic and economic challenges.

The province proposes an inclusive definition of small, rural and northern which captures approximately 420 of Ontario's 444 municipalities.

Small, rural and northern municipalities are those that:

- Have populations of less than 100,000; and/or
- Are located in northern Ontario (i.e. all areas north of, and including the districts of Parry Sound and Nipissing); and/or
- Have 25% or more of their population living in a rural area, according to the Rural and Small Community Measure (RSCM).

The RSCM represents the proportion of a municipality's population residing in rural areas or small communities based on Statistics Canada data from the 2006 census. This approach recognizes that some municipalities include a mix of rural and non-rural areas.

The Ontario Ministry of Finance uses the RSCM as the basis to allocate a portion of Ontario Municipal Partnership Funding (OMPF). One of the key objectives of the OMPF has been to provide support to rural communities in recognition of the unique challenges they face.

Services in Unincorporated Areas

In most areas of the province which are not part of an incorporated municipality, the province owns infrastructure such as roads and bridges. Working together with Local Roads Boards, Statute Labour Boards, or according to other local arrangements, the province provides funding to support various activities such as maintenance.

In some areas Local Services Boards (LSBs) own the infrastructure. LSBs are volunteer organizations that have the authority under the Northern Services Boards Act to deliver approved services to residents.

Discussion Questions

The following questions have been developed to seek input from the municipal sector on key components of the new \$100 million fund in 2013-14, and on how it could evolve over time under a potential permanent program. Given the ongoing, long-term impacts of a potential permanent municipal infrastructure program, the consultation questions place greater emphasis on issues and considerations aimed at informing how such a program could be designed. The questions touch on the main themes relating to municipal infrastructure challenges and program design. They are intended to provide a starting point for discussion. Each question is followed by additional context and includes a number of key considerations.

1. *What are your municipality/region's infrastructure challenges and how are you addressing them?*

Things to Consider in Developing Your Answers:

Small, rural and northern municipalities face a number of challenges addressing infrastructure needs, including lower population density and a smaller tax base, as well as keeping up with strengthened regulatory frameworks. Although many communities share similar challenges, the province recognizes that every municipality is unique. How much and what kind of infrastructure municipalities have, and what condition it is in, varies significantly based on local circumstances.

Figure 2 provides an overview of core infrastructure in small, rural and northern municipalities across the province. Together, the roads, bridges, water systems and wastewater systems owned by these communities are valued at approximately \$21 billion (net book value). On average, almost half of the core infrastructure assets are roads, but some municipalities have more bridges or more water/wastewater assets (e.g., sewer and water mains, treatment facilities, equipment, etc.).

Figure 2: Core Infrastructure in Small and Rural Municipalities

Source: Ministry of Municipal Affairs and Housing - Financial Information Returns

Demographics, geographic location and local economic profile are just a few of the contributing factors that affect the type of infrastructure that a municipality needs. For example, many northern communities have substantial commercial activities involving heavy equipment such as logging and mining that impacts their transportation infrastructure in a manner that is disproportionate to their population base. Some small communities with slow-growing or declining populations will face additional challenges in the coming years, and will need to employ creative, long-term solutions to meet these sustainability challenges. Local Services Boards have few opportunities to access loans to maintain or upgrade infrastructure, and can only levy fees on those accessing services directly.

Northern Growth Plan

Released in 2011, the *Growth Plan for Northern Ontario* is a 25-year plan for growing a more prosperous region. The plan focuses on diversifying the economy, fostering more education, training and career opportunities, and ensuring communities are positioned to attract people and investment. The province has begun implementing the Growth Plan on several fronts, including three initiatives that were announced at the time of the plan's release. These initiatives include developing a northern multi-modal transportation strategy, establishing a Northern Policy Institute, and undertaking regional economic development planning. These initiatives are building on the significant infrastructure investments underway through the Northern Highways Program and the Northern Ontario Heritage Fund.

Investment in core infrastructure in small, rural, and northern communities also varies. Financial information provided by municipalities for 2011 shows that core infrastructure investments averaged \$763 per household, 20% of communities invested more than \$1000 per household, while 18% invested less than \$100 per household.

Under the MIII Capital Program, the province aimed to provide funding support to communities that are struggling to meet their critical infrastructure needs despite having taken all possible local steps. This program tried to balance the objective of supporting the most critical projects while encouraging progress on asset management planning and utilization of the full range of local financing tools.

2. *Should the funding program be provided through a merit-based application process or through an entitlement program?*

Things to Consider in Developing Your Answers:

The 2013 Budget committed to make the \$100 million fund available by October 1, 2013. This means that, depending on the funding model chosen, funds could begin to flow by this date, or later in the fiscal year following an application process. While an entitlement program may be quicker to design, it may not target needs as strategically as a merit-based application process.

The benefits of any program should also be considered in light of the amount of provincial funding available and the large number of rural and small communities in Ontario: the more municipalities receive funding, the smaller the grant each receives. The resulting grant amounts may be insufficient for municipalities to proceed with key projects.

An example of an entitlement program is one that distributes funds based on a population threshold. While this type of funding is stable and predictable, infrastructure needs are not determined by population size alone. For example, a community that covers a large area with an extensive road and bridge network with a relatively low population would be disadvantaged under a population-based model. An entitlement formula that accounts for the size and condition of municipal assets would allow funding to be better targeted to needs. Similarly, improved information on how infrastructure projects are financed could also be included. Unfortunately, uneven asset management planning practices and the absence of standardized information across the province do not make this possible at this time.

Over time, as asset management planning becomes universal and information is increasingly standardized, an entitlement program that better reflects local considerations is a possibility. In the near term, a merit-based program may provide a better opportunity to address needs while taking some key considerations into account.

Roads and Bridges Review

In 2012, the Association of Municipalities of Ontario together with the Ministry of Transportation released its joint Roads and Bridges Review, emphasizing the importance of asset management plans to identify critical road and bridge needs. The report proposed that any new permanent capital program should be based on the consideration of a municipality's critical infrastructure needs and the fiscal capacity of the municipality and the province to pay for these infrastructure needs.

The MIII Capital Program was a merit-based program that allowed a large number of applicants to apply, and targeted funding to critical needs. Grants averaged \$1 million and were large enough to allow for the completion of a range of critical projects. The program targeted municipalities that would have financial difficulty undertaking projects on their own and that displayed a commitment and progress towards developing and improving their asset management plans.

Reducing the Administrative Burden

The province recognizes that the application process necessary to support a merit-based approach can be burdensome to some communities. Under MIII, the province used a two-phase approach to streamline the process. This included a short Expression of Interest form followed by a more detailed application for the municipalities selected through the Expression of Interest phase.

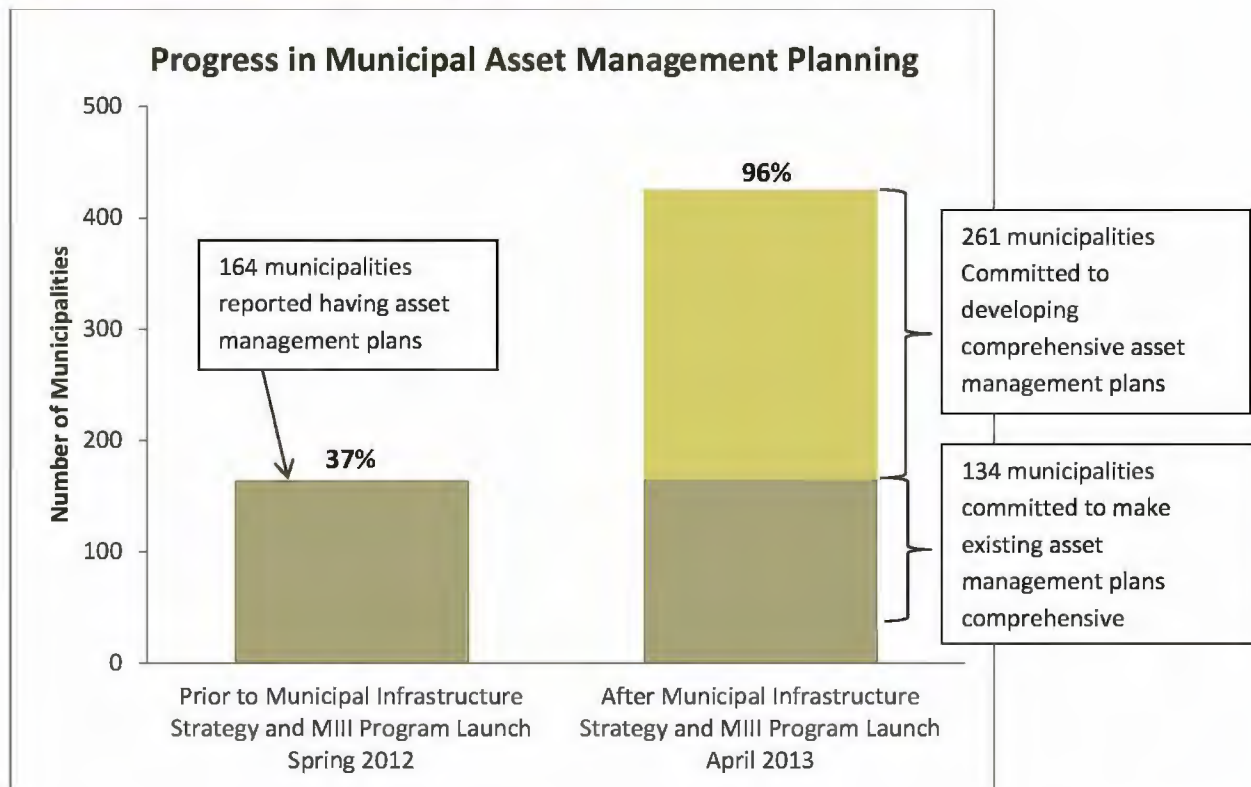
3. How could the program complement and advance the work municipalities are doing on asset management planning?

Things to Consider in Developing Your Answers:

In its long-term infrastructure plan, *Building Together*, the province announced that municipalities seeking provincial infrastructure funding would be required to show how projects fit within a comprehensive asset management plan and provided funding through the Municipal Infrastructure Investment Initiative to support asset management planning.

Recognizing that it takes time to develop a comprehensive asset management plan and adopt asset management as an ongoing process, the MIII Capital Program was flexible, allowing applicants without a plan to provide evidence of a commitment to develop a comprehensive asset management plan and progress towards completing it.

Figure 3: Municipalities with Asset Management Plans



By the end of 2013, many municipalities will have a comprehensive asset management plan in place. Going forward, municipalities will implement, improve and update their plans. At the same time, there should be greater standardization and consistency to support public reporting

on the nature and condition of municipal infrastructure assets, investment needs and financing strategies.

This could be supported by a new or amended schedule in the annual Financial Information Return submitted to the province by municipalities. The schedule could also be used to collect key asset management information.

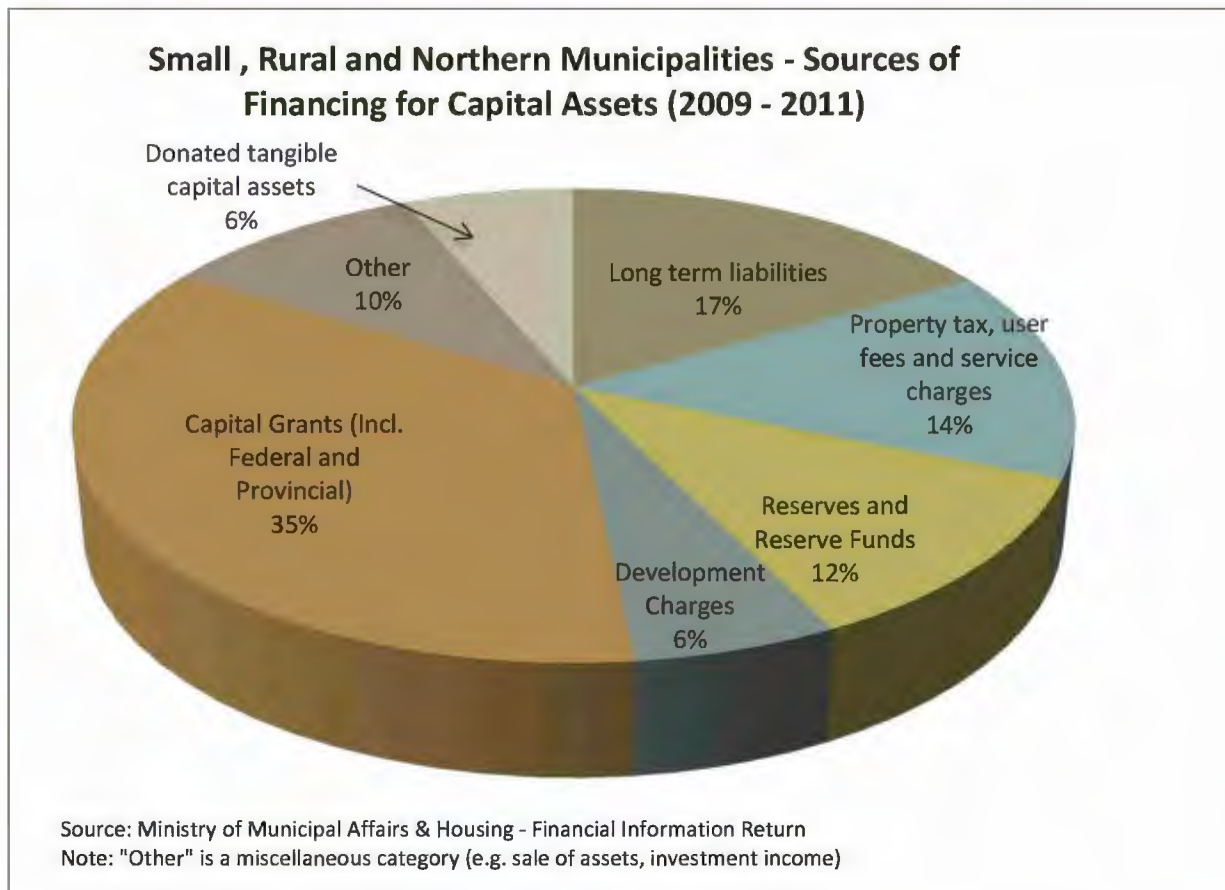
Ensuring that the process and the administrative effort associated with reporting on asset management plans is efficient and streamlined should be a key consideration. As outlined in the Municipal Infrastructure Strategy, the province intends to move toward a “one window” approach to help ensure that a single comprehensive plan would satisfy all provincial requirements related to municipal asset management. This will help streamline activities such as potential future regulations under the *Water Opportunities Act*.

4. *How could the program encourage the use of the full range of infrastructure financing tools?*

Things to Consider in Developing Your Answers:

Many municipalities utilize a variety of tools to support infrastructure investment, including property taxes, debt, user fees and charges, development and local improvement charges, special services levies and partnerships.

Figure 4: Sources of Financing for Capital Assets for Small, Rural, and Northern Municipalities



Based on their local circumstances, municipalities are using different financing tools to various degrees. For example, of the approximately 420 small, rural and northern municipalities:

- **Property Taxes:** The average residential property tax bill ranged from less than 1% of average household income to almost 6%¹. Half of all small, rural and northern municipalities collected between 2.62% and 3.57% of household income in property taxes, with a quarter below and a quarter above that range.
- **Debt servicing:** In 2011, 236 small, rural and northern municipalities (57%) spent less than 5% of their total own-source revenues to pay debt servicing costs (principal and interest) on long-term financial obligations. Of those 236 municipalities, 69 did not have any debt servicing costs. Only 14 small, rural and northern municipalities (3%) paid more than 15% of own-source revenues in debt servicing costs.
- **User Fees:** On average, small, rural and northern municipalities collected 14.6% of total revenues through user fees from 2009-2011. Half of all small, rural and northern municipalities collected between 6.1% and 21.3%, with a quarter below and a quarter above that range.

A key principle under the MIII Capital Program was to ensure that consideration was given to municipalities that were utilizing available financing tools, including seeking federal funding, but that were still unable to undertake critical projects on their own.

¹ Residential property tax data is from the 2011 Online Property Tax Analysis tool and income figures are from the 2006 Census - Statistics Canada 97-563-XCB2006052.

Observations from MIII

In their MIII applications, a number of municipalities indicated they were using various financing options for their proposed projects. These include:

- The Township of Hawkesbury obtaining a long-term infrastructure loan through Infrastructure Ontario to replace Higginson Boulevard.
- The Township of Joly is using a combination of debt financing, guaranteed investment certificates, and reserve funds to help finance the Brennan's Road Bridge Replacement.

Under MIII, the share of provincial funding that could be requested was flexible up to a maximum of 90% of total project costs or \$2 million. Many municipalities requested the maximum provincial share, regardless of economic conditions (e.g., incomes, property tax base, tax burden on residents etc.) or fiscal health (e.g., financial position, debt, etc.). Proposed contributions from municipalities to projects generally ranged from less than \$2 to over \$1,000 per household, with one municipality proposing over \$5,000 per household.

These factors were among the considerations of the MIII assessment process.

Asset management plans can help demonstrate that the full range of local infrastructure financing tools has been explored. As asset management plans become more widespread, a common set of metrics could be used to help provide evidence of efforts to leverage all available options. The information provided would have to address:

- How much is being invested in core infrastructure relative to the existing asset base and property tax base
- The level of property taxes and user fees relative to incomes in the municipality
- Debt burdens
- Progress towards full cost recovery for services such as water and wastewater.

5. *In addition to funding and support for asset management planning, what other measures would help address municipal infrastructure challenges? For example, how can innovations in the construction process that lead to efficiencies, such as the use of recycled products, be better utilized?*
-

Things to Consider in Developing Your Answers:

Many small communities, particularly in northern and rural Ontario, face unique circumstances because of the extent of their infrastructure and limited financial resources. For instance, over 60% of municipal road kilometres in northern Ontario are in communities with a population of less than 5,000. Implementing best practices in asset management is critical but there remains a need to find new ways to address the significant infrastructure gaps beyond just providing more capital funding.

Infrastructure Innovation for Roads and Bridges

Use of innovative construction techniques and materials can lead to lower infrastructure costs for communities. Below are a few of the innovative approaches being used for roads and bridges:

- Municipal road maintenance partnerships to avoid the need to purchase new equipment which can be costly for small communities.
- Use of prefabricated steel structures to replace small bridges on rural, low volume roads in northern Ontario. The Ontario Ministry of Transportation has found these structures can be built for significantly less cost than traditional bridges.
- Utilizing recycled materials in road rehabilitation to reduce costs and conserve aggregate resources.
- Bundling of bridge projects to achieve cost savings at the design and construction stages.

For example, while the bulk of Ontario's population is served by very large water and wastewater systems, the majority of these systems serve fewer than 10,000 people. These small, high-cost systems would benefit from a broader customer base to help protect the customers from unaffordable water rates.

One possible way that cost reductions can be achieved and/or costly capital projects can be deferred is by optimizing existing infrastructure and exploring innovative approaches for service delivery.

Communities of Practice

In the Grand River watershed, an optimization Community of Practice, funded under the province's [Showcasing Water Innovation](#) program, has been developed to ensure that small municipalities have access to the methods and expertise that larger municipalities have to reduce costs and enhance the benefits to the watershed for all.

Significant cost savings arise where infrastructure is physically joined and integrated (e.g. co-location of facilities). However, in many parts of Ontario this is not feasible.

Opportunities to collaborate range from informal inter-municipal cooperation to the creation of a new joint entity that delivers a service. Sharing equipment, purchasing and tendering in bulk, as well as joint administration and operational oversight are examples of delivering value for money. Partnerships with other municipalities and First Nations are an area that presents opportunities and consideration could be given to providing additional funding to communities that undertake such partnerships.

For more information, see [Building Together: Municipal Infrastructure Strategy: Opportunities for Partnerships](#)

Inter-Municipal Cooperation: A Best Practice Example

The Township of Hudson leases a gravel pit from the Ministry of Natural Resources. An agreement is in place to share the cost of the gravel pit between the Townships of Harley, Hudson and Kerns and the City of Temiskaming Shores. Every two years, crushing is performed to each Township's specifications by a portable crushing contractor, as well as hauling and spreading by each Townships' crews, have combined to bring down costs substantially.

How to Provide Feedback

Municipalities will have the opportunity to provide feedback at in-person consultations and are also invited to submit comments online through the Ministry of Infrastructure (MOI) website at www.ontario.ca/municipalinfrastructure

Submissions can also be sent by August 26, 2013 by mail or email to the following address:

Address:

Ministry of Agriculture and Food
Ministry of Rural Affairs
Rural Development Policy Unit
1 Stone Rd. West
2nd Floor NE, 2NE109
Guelph, ON
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Email:

New-Municipal-Infrastructure@ontario.ca

Thank you for your feedback.