August 11, 2020

Mr. Amarjot Sandhu, MPP
Chair, Standing Committee on Finance and Economic Affairs

RE: Study of the recommendations relating to *the Economic and Fiscal Update Act, 2020* and the impacts of the COVID-19 crisis on the infrastructure sector

Dear Chair,

I am writing on behalf of the Municipal Finance Officers' Association of Ontario (MFOA), and the municipalities it serves, to provide you with the Association's recommendations regarding infrastructure stimulus programs.

The MFOA represents individuals who are responsible for handling the financial affairs of municipalities. MFOA promotes the interests of its members through advocacy, research and analysis, and sector engagement, as well as by providing professional development opportunities.

On July 13, 2020, I presented to the Committee on the impact of the pandemic on municipal fiscal health. My current focus is on infrastructure, specifically infrastructure stimulus programs. My interest in these programs lies in their potential for stimulating economies in the short term while building a better future.

Municipalities understand that designing these types of programs is an extremely complex endeavour. Responsible for close to 60% of public infrastructure, municipalities hold valuable insights into the variability of local needs, the complexities of implementation, and the long-term implications of decisions for municipal fiscal sustainability.

The purpose of the attached paper, the second in MFOA's series on the effects of the pandemic on municipal finances, is to present a municipal finance officer's perspective on key considerations in the development of an infrastructure stimulus program.

Three objectives guide the report's recommendations: leave municipalities in a financial position to continue to offer vital services (no ongoing major financial burdens that will impair them for years); maintain essential services during the pandemic and into the recovery period; and develop infrastructure stimulus programs that revive the economy now and offer lasting community benefits.

The recommendations are as follows:

- For an infrastructure project to be shovel-worthy, it must reflect municipal priorities, be informed by a municipality's asset management plan, and contribute to municipal sustainability as well as community vitality. It should also be timely, help restore employment to Ontarians who lost their jobs where possible, and address problems that have become more apparent during the pandemic.
- Programs should be flexible.
- Complete information, including timelines, about infrastructure programs past and present, should be released as soon as possible.
- The definition of infrastructure should be expanded beyond 'hard' infrastructure to include 'social' and IT infrastructure.
- The federal and provincial governments should work with municipalities to arrive at appropriate cost-sharing arrangements for infrastructure stimulus programs.
- Infrastructure stimulus programs should use a hybrid formula-application model.
- Program processes and reporting should be streamlined.
- The provincial and federal governments should build on the current momentum and engage with their local counterparts in a national conversation about infrastructure, including what types of infrastructure will be needed in the future and how best to fund them, based on lessons learned from the pandemic.

The pandemic has had a significant impact on municipal finances. Infrastructure stimulus programs allow municipalities to pursue capital projects they would not otherwise have been able to. The challenge is achieving the appropriate balance between short-term and long-term objectives.

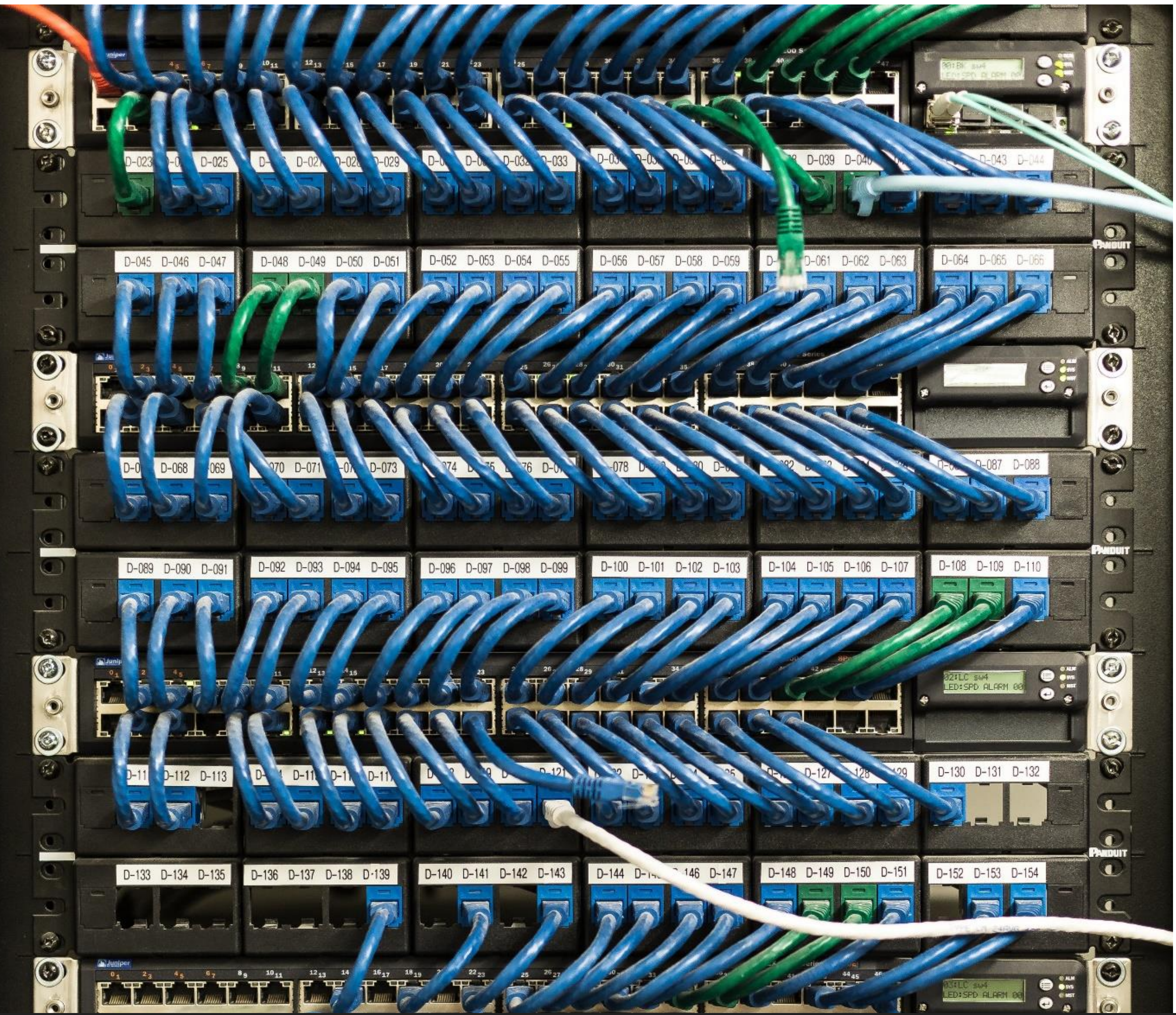
We hope that this report will build on the existing desire to work together over the coming months that will include dealing with the pandemic and the subsequent economic recovery. Please contact MFOA Executive Director, Donna Herridge (donna@mfoa.on.ca), should you wish to follow up on any issues identified in the letter.

Sincerely,

Trevor Pinn

Trevor Pinn, CPA, CA
President

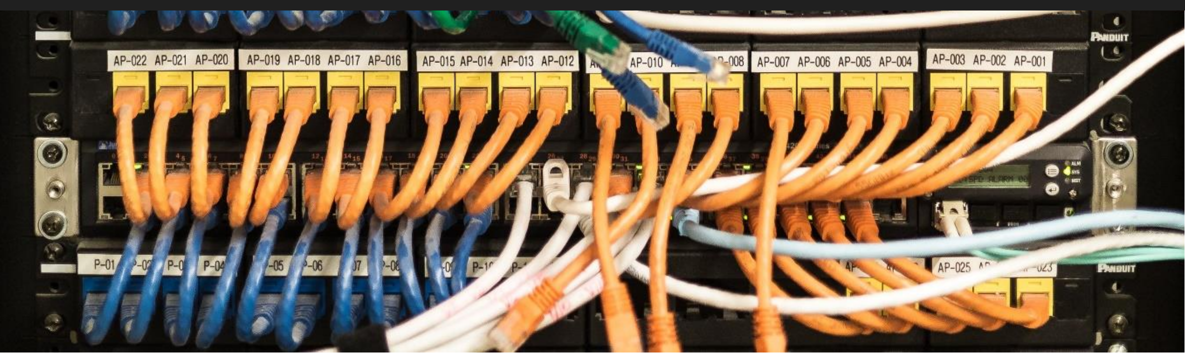
MFOA | MUNICIPAL FINANCE OFFICERS' ASSOCIATION OF ONTARIO



COVID-19 & Municipalities: Infrastructure Considerations

Submission to the Standing Committee on Finance and Economic Affairs

MFOA Pandemic Paper 2, August 2020



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1. Executive Summary

Infrastructure stimulus programs provide governments with the opportunity to stimulate economies in the short term, while building a better future. But like any other strategic decision, designing these programs is an extremely complex endeavour.

The purpose of this paper is to present a municipal finance officer's perspective on key considerations in the development of an infrastructure stimulus program. Responsible for close to 60% of public infrastructure, municipalities' hold valuable insights into local needs, the complexities of implementation, and the long-term implications of decisions for municipal fiscal sustainability.

The report provides a brief overview of the implications of the pandemic for municipal finance, the municipal environment and municipal infrastructure, followed by recommendations. The report's recommendations are guided by three objectives: leave municipalities in a financial position to continue to offer vital services (no ongoing major financial burdens that will impair them for years); maintain essential services during the pandemic and into the recovery period; and develop infrastructure stimulus programs that revive the economy now and offer lasting community benefits.

The recommendations are as follows:

- For an infrastructure project to be shovel-worthy, it must reflect municipal priorities, be informed by a municipality's asset management plan, and contribute to municipal sustainability as well as community vitality. It should also be timely, help restore employment to Ontarians who lost their jobs where possible, and address problems that have become more apparent during the pandemic.
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- Complete information, including timelines, about infrastructure programs past and present be released as soon as possible.
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The pandemic has had a major impact on municipal finances. Infrastructure stimulus programs allow municipalities to pursue capital projects they would not otherwise have been able to. The challenge is achieving the appropriate balance between short-term and long-term objectives.

2. Introduction

Infrastructure stimulus programs provide governments with the opportunity to stimulate economies in the short term, while building a better future. But like any other strategic decision, designing these programs is an extremely complex endeavour.

Municipalities understand this. Responsible for close to 60% of public infrastructure, municipalities hold valuable insights into the variability of local needs, the complexities of implementation, and the long-term implications of decisions for municipal fiscal sustainability. They provide many of the vital services residents and businesses rely on each day. Their voice is important in the development process for stimulus programs.

This is the second paper in MFOA's series on the effects of the pandemic on municipal finances. The first paper is an early analysis of the implications of the pandemic for municipal finance. The purpose of this second paper is to present a municipal finance officer's perspective on key considerations in the development of an infrastructure stimulus program. Future papers will touch on other areas of interest.

This paper is divided into three main sections. The first section identifies who we are, our principles and objectives; the second section provides a brief overview of the implications of the pandemic for municipal finance, the municipal environment and municipal infrastructure; and the third section outlines the paper's recommendations.

We wish to thank our members who have collaborated with us and shared information, reports and thoughts to enable MFOA to present their perspectives. We would also like to thank the Province of Ontario and the Government of Canada for their continued discussions with and support of municipalities. We look forward to future consultations on infrastructure stimulus programs.

3. About MFOA

The Municipal Finance Officers' Association of Ontario (MFOA), established in 1989, is the professional association of municipal finance officers with more than 2,300 individual members. We represent individuals who are responsible for handling the financial affairs of municipalities and who are key advisors to councils on matters of finance policy.

MFOA promotes the interests of our members in carrying out their statutory and other financial responsibilities through advocacy, information sharing, networking opportunities, and through the promotion of fiscal sustainability. We also provide members with training and education to enable continuous professional development and to support excellence in municipal finance.

Since the beginning of the pandemic, MFOA has provided its members and the wider municipal sector with free just-in-time training on key areas of municipal finance, as well as opportunities for staff to share information with their peers on a regular basis. These sessions have allowed municipal staff to learn from experts as well as each other and help build communities of practice and support during these unprecedented times.

4. Principles

MFOA has a variety of policy positions on a wide range of municipal finance issues. The Association's recommendations are rooted in four long-standing principles:

- Long-term financial sustainability
- Flexibility
- Autonomy
- Permissive governance framework

Given the focus of the paper we have included an additional principle:

- Administrative ease

Long-Term Financial Sustainability

MFOA has long promoted the concept of long-term financial planning as a means to ensure financial sustainability. Sustainability requires long-term financial plans that are:

- Comprehensive – includes all services (internal and external) and all municipal departments.
- Integrated – incorporates requirements in corporate strategic plans, operating and capital budgets, master servicing plans, development charge studies, asset management plans.
- Resilient – contains provisions for managing revenue fluctuations and contingencies.
- Long-term – incorporates a long-term view of future financial requirements including future asset management requirements and growth-related capital and operating requirements.

In the context of the COVID-19 pandemic, municipalities must ensure that they can remain sustainable in the short and long-term. Policy decisions made today should not be done at the expense of financially crippling municipalities in 2021 and beyond.

Flexibility

Ontario is home to a diversity of municipalities. No two are identical from the services they provide, population, area, and a host of other variables. For this reason, MFOA advocates that municipalities be provided a broad suite of policy tools. Flexible policy tools that are discretionary allow municipalities to maximize the tools' capability of addressing local circumstances.

In the context of the current pandemic, MFOA recognizes that some policy recommendations in both this paper and our previous paper on the pandemic may not be appropriate for all of our members. By providing an array of recommendations to the Province, we hope to address the more pressing issues that all municipalities currently face. Some will be better positioned to deal with revenues losses and increased costs than others and this reality is reflected in our recommendations.

Autonomy

In order to operate efficiently, municipalities need sufficient authority to be able to respond to local needs in ways that central governments cannot. For this reason, MFOA provides recommendations that support autonomy by leaving decision-making at the local level with duly elected local councils.

With respect to the pandemic, municipalities must have autonomy to play a role in dealing with the crisis and managing to the post-pandemic period that will almost certainly require new approaches to public health and emergency planning and possibly other services.

Permissive Governance Framework

Building on the principles above, a permissive governance framework provides a flexible and varied array of policy tools for dealing with municipal issues and services. Uniform and rigid approaches seldom succeed and the legislative framework that governs municipalities and municipal finance needs to recognize this.

Administrative Ease

Finally, the pandemic has disrupted municipalities' normal ways of doing business, as well as those of their stakeholders and suppliers. While reporting and robust procedures are key to ensuring accountability, they must be balanced with the cost of diverting staff time away from addressing problems arising from the current crisis. They must also consider the potential drag on project momentum.

5. Objectives

As stated in MFOA's first paper analyzing the municipal financial impact of the COVID-19 pandemic, our objectives are to:

- Leave municipalities in a financial position to continue to offer vital services (no ongoing major financial burdens that will impair them for years), and
- Maintain essential services during the pandemic and into the recovery period.

In addition, given this paper's focus we have included a further objective, to:

- Develop infrastructure stimulus programs that revive the economy now and offer lasting community benefits[1]

6. Impact of the pandemic on the municipal environment

As we can see by the varied impact of the pandemic on municipal finances, municipalities are inexorably influenced by the world around them. Political, economic, social, and technological changes impact demands for municipal services, operating costs, and revenue generation capacity. Briefly described below are some of the trends that have and will continue to impact Ontario municipalities over the course of the pandemic and likely into the recovery period.

6.1 Decline in employment with significant geographic and gender disparities

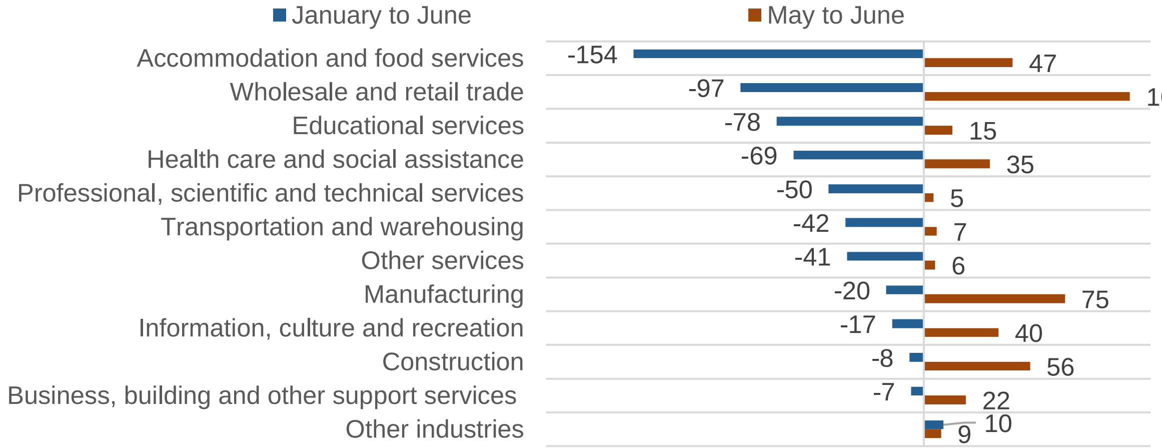
Employment in Ontario in June 2020 was far below its pre-pandemic level. There were 571,000 fewer jobs compared to January 2020 and there was a decline of 6.3% in the employment rate of the working age population compared to June 2019.

Nearly 70% of job losses were in four sectors:

- accommodation and food services,
- wholesale and retail trade,
- educational services, and
- health care and social assistance

In June, as the province reopened, employment increased due to job gains in the food services, retail, manufacturing, and construction sectors, as can be seen in Figure 1. The contribution of construction is noteworthy but it partly reflects the seasonal nature of this industry whose level of activity peaks during the summer.

Figure 1: Change in total employment for selected industries, Ontario, January to June 2020, in thousands of workers



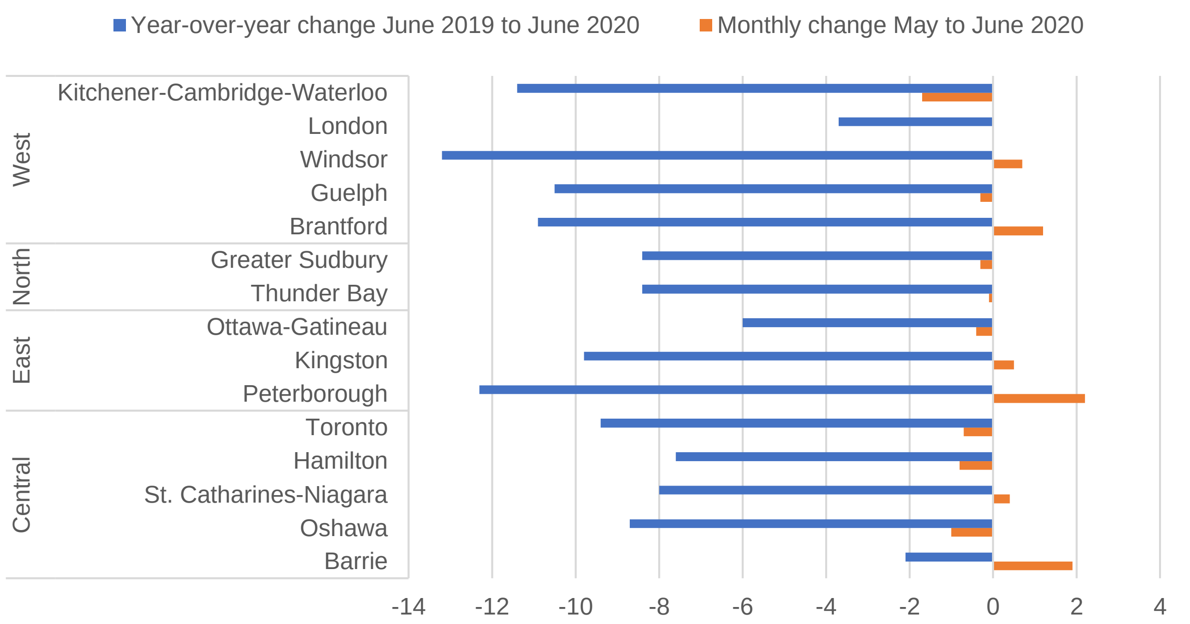
Source: Table 14-10-0022-01 Labour force characteristics by industry, monthly.
Data interpretation: The accommodation and food services sector had 154,000 fewer jobs in June compared to January 2020 even after gaining 47,000 jobs between May and June.

[1] Elgie, Stewart and McNally, John. (April 30, 2020). 3 Ingredients for Smart Stimulus. Smart Prosperity Institute.

Taking a regional perspective, Figure 2 demonstrates variations in employment rates across the Province. In some census metropolitan areas (CMA) such as Windsor, Guelph, Brantford, and Peterborough, the year-over-year drop in employment rates exceeded 10%. In contrast, London, Barrie, and Ottawa-Gatineau experienced decreases of 6% or less.

The disparities are associated with the composition of local workforces. A higher share of the population employed in construction and the ‘business, building and other support services’ categories is associated with lower job losses. The opposite is true for employment in education services and agriculture.

Figure 2: Change in the employment rate among the working age population , Ontario, by census metropolitan area

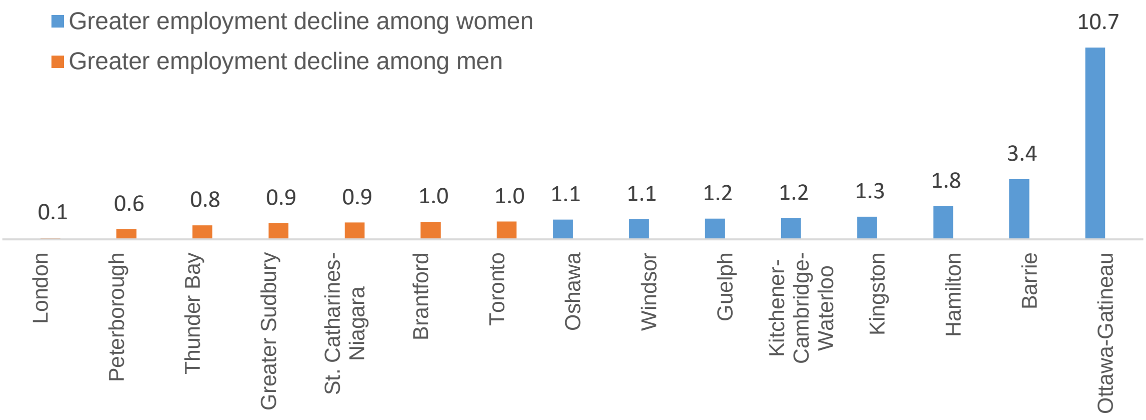


Source: Statistics Canada. Table 14-10-0095-01 Labor force characteristics by census metropolitan area, three-month moving average, unadjusted for seasonality

Taken together, the experience to date differs greatly from the employment drops following the 2008/9 financial crisis. “Six months after the [2008/9] recession started, net employment in Canada had fallen by 681,000 jobs, with net employment for men falling by 480,000, representing 79% of the total decline. Nearly 57% of the total net drop in employment came from two industries: construction and manufacturing.”[2] We can also see how the pandemic is being experienced differently across the Province.

[2] Moffatt, Mike. (May 1, 2020). [This isn’t your older brother’s recession: 2020 vs. 2008](). Medium.

Figure 3: Women to men ratio of the year-over-year change in the employment rate, June 2019-June 2020, Ontario, by census metropolitan area (CMA)



Source: Statistics Canada. Table 14-10-0095-01 Labor force characteristics by census metropolitan area, three-month moving average, unadjusted for seasonality

6.2 Sustained geographic inequalities in the quality of Internet connectivity

The pandemic also highlights the importance of high-speed internet connectivity. Individuals, businesses, and municipalities alike were forced into the digital future. "Rogers Communications Inc. told a House of Commons committee that home internet usage is up more than 50 per cent, voice call usage on its wireless network is up 40 per cent, and 1-800 toll-free calls are up more than 300 per cent."[3]

For many, changes made will likely stick. More people will work, learn, and shop from home. Changes made to businesses, such as moves to the cloud or acceptance of online payments, are also likely here to stay.

The problem in Ontario is that high quality broadband is not evenly distributed across the Province. A report based on data collected from 101 communities in Northern Ontario between October 2015 and April 2020, concluded that larger and more densely population communities have better broadband access and more options. In addition, the internet speed in communities that were designated as "cities", registered Internet connectivity on average that was over twice as fast as speed tests registered for other communities.[4]

With changes in how we work, learn and play, continued inequalities will severely disadvantage municipalities with poor internet service, as well as undermine their long-term sustainability.

[3] Marowits, Ross. (May 14, 2020). Canadian telecom companies say COVID-19 causing surge in demand for services. CTV News.
[4] Blue Sky Economic Growth Corporation. (2020). Connected North: the speed of Northern Ontario Broadband. https://www.amo.on.ca/AMO-PDFs/Broadband/The-Speed-of-Northern-Ontario-Broadband-Report.aspx

6.3 When America sneezes, Ontario catches a cold

The last point in this section is about the United States. At the time of drafting this paper, the situation in the US is dire. This is bleak news for Ontario given its dependence on the US. In 2019, close to 80% of Ontario's exports went to the US, with Michigan as its primary destination and auto parts, its primary exported good.[5] Further nearly 54% of Ontario imports came from the US. The Canada/US border is closed to non-essential travel and the US government has imposed tariffs on select Canadian goods.

Ontario municipalities are affected by their neighbour's economic situation in different ways. For northern hunting lodges, it can mean severe drops in tourism and for southern manufacturers, declines in markets for goods.[6] Issues in the US can also impact supply chains of materials needed for construction.

While we are still in the early days of understanding the full impact of the pandemic, what we can tell so far is that the current pandemic is different. It is affecting employment rates and categories in different ways compared to the 2008/9 financial crisis. Its ripple effects vary across the Province. For infrastructure stimulus programs to have a chance at effectiveness, local communities will need the flexibility to tailor programs to their circumstances.

7. Impact of the pandemic on municipal finances

The pandemic has had a major impact on municipal finances by reducing revenues, increasing costs, and disrupting municipal cash flows. While cost mitigation strategies are being implemented by municipalities, they are almost always insufficient to cover increased costs and lost revenues caused by the pandemic. Looking forward municipalities are concerned that public sensitivity to property tax increases coupled with enhanced safety protocols will force municipalities to make tough decisions about the delivery of local services.

MFOA's first paper on the municipal financial impacts of the COVID-19 pandemic was released on May 30, 2020. The recommendations largely focus on the needs of Ontario municipalities in the immediate term, during a period when impacts were only beginning to be understood and things were highly uncertain. Some of these recommendations appear to have been addressed in recent announcements by the federal and provincial governments, although at the time of writing this paper municipalities were still waiting for details. More information on the recommendations can be found in Appendix A.

[5] Ontario. (n.d.). Ontario Trade Fact Sheet

[6] Naughton, Keith. (July 15, 2020). Mich. governor: Auto plants may shut if residents don't wear masks. Automotive News.

8. Impact of the pandemic on municipal infrastructure & a brief history

"Public infrastructure (…) is the foundation that the daily life of Canadians is built upon. The strength of this foundation enables our communities and local businesses to grow, and ensures Canadians have a high quality of life."[7]

In 2020, it is also primarily the responsibility of the municipal sector, the level of government with the smallest and least growth-responsive revenue base.[8, 9] This was not always the case. In 1955, responsibilities were more evenly divided between the three orders of government with 44% of public infrastructure owned by the federal government, 34% by the provinces, and 22% by local governments.[10] Over the subsequent 65 years, most of the responsibility was passed down to municipal government without a corresponding increase in transfer payments or a permanent source of stable funding.

The positive news is that municipalities have been making good progress on their asset management journeys. Over the last ten years, municipalities have developed asset management plans, drafted strategic asset management policies, and many have introduced an asset management lens to their strategic decision-making processes.

The bad news is that Ontario, like in many parts of the country and the world, continues to have a significant infrastructure deficit.[11] "In many parts of Ontario, existing infrastructure is degrading faster than it is being repaired or replaced, putting services at risk."[12] Infrastructure challenges are multifold and vary across the Province. Growing municipalities struggle to emplace the infrastructure needed to support growth due to the limitations of the development charge regime, among other challenges; while some smaller municipalities are struggling to fund existing lifelines, like water systems. The effects of climate change are also being felt by municipal infrastructure, increasing its risk of failure.[13] Further, infrastructure must keep up with technological change, such as the advent of autonomous vehicles.

Given its history and the myriad of pressures, while the state of infrastructure may differ across the Province and across infrastructure categories, all municipalities are united in the challenge of appropriately funding their capital plans. The situation was difficult prior to the pandemic and the current crisis has only magnified the issue by exposing infrastructure systems' weaknesses (e.g. public health and shelters) and changing 'normal' working practices (e.g. working remotely). It has also further

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[7] FCM et al. (2019). 2019 Canada Infrastructure Report Card. (p. 4)
[8] FCM. (2019). The case for growing the Gas Tax Fund: A report on the state of municipal finance in Canada.
[9] Ibid. (p. 8)
[10] Canadian Centre for Policy Alternatives. (2013). Canada's Infrastructure Gap: Where It Came From and Why It Will Cost So Much To Close. (p. 7).
[11] For information on how the infrastructure deficit developed read AMO's report, What's Next Ontario? – Ontario Sustainability Project 2015 (pp. 23 – 24)
[12] Ontario. (n.d.) Municipal Asset Management Planning
[13] A grave example is the effect of record water levels on coastal communities along the Great Lakes. Refer to Shreve, Ellwood. (July 10, 2020). Chatham-Kent joins coalition pushing for billions in shoreline-protection funding. Chatham Daily News.

stressed funding plans as cash-strapped municipalities defer capital works to address current year shortfalls.

To build back better, governments must understand where we have been, where we are now, and where we want to go. One direction we want to avoid is a longer-term delay or deferral of infrastructure expenditures. Infrastructure decisions must be made using a holistic approach taking the current state of the world into consideration, lessons learned from previous experience, and future residents and businesses' needs.

9. Recommendations

9.1 Infrastructure

So, what does this all mean for infrastructure stimulus programs? The following section presents a municipal finance officer's perspective on key considerations in the development of infrastructure stimulus programs. Responsible for close to 60% of public infrastructure, municipalities' hold valuable insights into local needs, the complexities of implementation, and long-term implications of decisions for municipal fiscal sustainability.[14] Their voice must be reflected in provincial and federally designed programs. Guidance is divided among seven main themes: the importance of asset management planning; flexibility; timely information; an expanded definition of infrastructure; the need for new cost-sharing arrangements; use of a hybrid allocation model; and streamlining processes and reporting.

9.1.1 Shovel-worthy projects are informed by municipal asset management plans

The conversation about stimulus priorities has shifted since the federal infrastructure stimulus program following the 2008/9 economic recession. In 2009, dialogue focused on 'shovel-ready' projects, where construction-readiness was an important project selection criterion.[15] The perceived problem with this method is that despite the government's best intentions, a number of critics believed that the weight placed on this criterion skewed the prioritization of projects and resulted in a suboptimal list of investments.[16]

Learning from the past, ten years later the federal government is now using the term 'shovel-worthy'.[17] On the surface this appears to be an improvement over 'shovel-ready'; however, we are concerned with the definition of worthy. Worthy to whom? The federal government, the provincial government, and the local government?

[14] StatsCan, CANSIM Table 031-0005: Flows and stocks of fixed non-residential capital, by industry and asset, Canada, provinces and territories, annual via AMO's 2018 presentation on Municipal Infrastructure Investment & Financial Sustainability
[15] Infrastructure Canada. (2009). Canada and Alberta Make Significant Stimulus Infrastructure Investment
[16] Kirby, J, et al. (July 27, 2010). Ottawa's stimulus fiasco. Maclean's Magazine.
[17] The Canadian Press. (May 12, 2020). Feds unveil new COVID-19 stream for provincial infrastructure program. National Post.

For a project to have an immediate impact it must be ready to go. One approach to achieving the right balance is to have additional criteria in the program parameters that enable municipalities to fix some of the holes laid bare by the pandemic and build social services that support families and businesses by permitting flexible work arrangements.

Municipalities are the order of government that best understand the needs of their communities. They have also been working over the last ten years to strengthen their asset management practices and integrate their long-term strategic plans. Infrastructure stimulus program parameters must also be informed by this work, based on this on-the-ground knowledge, focused on the long-term consequences for municipalities, as well as reflect the early and ongoing lessons of the pandemic.

Accordingly, **MFOA believes that:**

For an infrastructure project to be shovel-worthy, it must reflect municipal priorities, be informed by a municipality's asset management plan, and contribute to municipal sustainability as well as community vitality.

It should also be timely, help restore employment to Ontarians who lost their jobs where possible, and address problems that have become more apparent during the pandemic.

This would enable governments to act short term, but think long term.[18]

9.1.2 Programs should be flexible

Infrastructure stimulus programs must be flexible. Flexibility allows municipalities to pursue projects that reflect local circumstances. It also better supports the fulfilment of the objectives of these programs, namely in accounting terms to support function over form. Learning from past experience, we believe the following areas could benefit from increased flexibility:

- *Projects deadlines must be realistic*: When reviewing 2008/9 infrastructure stimulus funding programs, the Auditor General found that "more than one-third of respondents faced such issues as having to adjust project specifications and cost estimates in the original applications, pay contractors overtime, and sole-source some contracts to meet the deadline."[19] In addition, hiring freezes and furloughs have decreased municipal capacity to manage projects. Project deadlines should enable municipalities to follow normal standards and procedures.

- *Roll out plans should balance maximizing purchase power with speed of completion*: Increased safety procedures, the need for PPE, and the general uncertainty surrounding the pandemic has significantly increased the cost of

[18] Elgie, Stewart. (April 14, 2020). [What Canada's COVID-19 economic stimulus plan should look like when it comes](). Maclean's.
[19] Office of the Auditor General of Ontario. (2010). Chapter: Infrastructure Stimulus Spending. (p. 189).

construction for some municipalities. One of our members spoke to a quadrupling of costs for one tender, a situation which may further worsen depending on what happens in the US. The more costly the construction, the less the leverage of government stimulus dollars. Roll out plans/project timelines must balance the current bump in project costs with the desire to focus on shorter term projects.[20]

- *Renewal projects should be eligible for investment*: Municipalities have a mix of older and newer infrastructure. Including renewal projects as eligible investments allows municipalities to focus on the priority infrastructure projects identified in their asset management plans.

- *Build resiliency into existing infrastructure*: Programs should be designed to build back better. This includes allowing municipalities to adapt existing infrastructure to changes in technology, the environment, society, and the local economy.

- *Growth projects should be eligible for investment*: Stimulus programs should also include growth-related capital costs that are not recovered via development charges, such as the non-growth portion of projects (i.e. benefit to existing) and post-period benefits. Clear guidance on the application of funding for DC-eligible costs would be needed to assist municipalities in communicating with developers.

- *Limit ineligible expenses*: Restrictive lists of eligible expenses erode project effectiveness. The diversity of the municipal sector is such that types of expenditures can differ across the Province and a prescriptive listing will fail to cover all local circumstances.

- *Allow stacking of funding programs:* To enable municipalities to address priority projects, stimulus programs should allow for the stacking of government infrastructure funding programs.

- *Avoid incrementality*: Experience has shown that a focus on incremental projects can distort strategic capital plans. Municipalities often select projects outside of asset management plans to prove their incremental nature. This has the effect of redirecting municipal funding away from priority infrastructure projects.

Reporting and robust processes and procedures are key to ensuring accountability. However, these become a costly burden when they are overly prescriptive and fail to recognize that municipalities are an order of government led by elected officials. Infrastructure stimulus programs have a greater chance of succeeding as intended if

[20] For more information, refer to Ontario Regional and Single Tier Treasurers (ORSTT) & Regional Public Works Commissioners of Ontario's (RPWCO) 2018 letter to the Ontario Ministry of Infrastructure on Phase II Infrastructure Funding Implementation. Appendix A provides Peel Region's analysis of per unit costs of specific pipe sizes for both watermain replacements and sewer projects, comparing per unit costs during the last stimulus funding period (Infrastructure Stimulus Fund – ISF 2010) to periods without federal-provincial funding (2008-2012, excluding 2010).

municipalities are granted the flexibility to strategically pursue the programs' objectives.

9.1.3 Release information quickly

Municipalities are expert planners. Responsible for more than half of public infrastructure but recipient of only 10 cents of every tax dollar, the sector has learned how to plan strategically and optimize limited resources.[21] To do this effectively, however, they require complete and timely information from their provincial and federal counterparts.

While municipalities appreciate early indications of grant and transfer programs, they are unable to act until they have complete information. The faster the program details are finalized, the faster projects stimulate economic activity and increase employment. The provision of program details or municipal funding allocations too late in the process can lead to crummy consequences. For example, municipalities could miss construction seasons because they were not provided with enough lead time. This situation is felt more strongly in remote and Northern communities that have shorter construction seasons and fewer suppliers competing for contracts.

Late information also ties up money in reserve funds that could be better employed elsewhere, such as shoring up cash flow deficits during a pandemic. MFOA has heard from members that have set funds aside for years as they wait for decisions from other orders of government on infrastructure grant applications. This is not an optimal use of scarce funds.

For an infrastructure program to work as intended and stimulate the economy now, **MFOA recommends that complete information, including timelines, about infrastructure programs past and present be released as soon as possible.**

9.1.4 Expand the definition of infrastructure

Municipal infrastructure is more than roads. "The definition of infrastructure includes any fundamental facilities and systems that serve a community or a wider geography, including the services necessary for an economy to function."[22]

The federal stimulus programs that followed the 2008/9 financial crisis primarily focused on the funding of "hard" infrastructure (See Appendix C). While arguably an appropriate response to the Great Recession of 2008/9, the current crisis is different.[23] It has acted as a great magnifying glass highlighting the weak spots of our existing systems and forced residents and business to rethink their priorities. Broadband Connectivity, already near the top of the list, leapfrogged its competitors as everyone, grown up employees and school-aged children, were forced to work

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[21] FCM. (2019). The case for growing the Gas Tax Fund A report on the state of municipal finance in Canada.
[22] Zurawski, Lu. (June 18, 2020). It's Not The Size Of Your Infrastructure Stimulus Package That Matters. It's What You Do With IT. Forbes.
[23] For an alternative view, refer to the Fraser Institute's June 2020 bulletin: Is Fiscal Stimulus an Effective Policy Response to a Recession? Reviewing the Existing Research

from home. The current pandemic also demonstrated the importance of public health infrastructure to community health.

Women have been disproportionately impacted by the pandemic and a focus on 'hard' infrastructure favours men.[24] In response to the trends identified at the start of this paper, economists are looking at alternative paths to support recovery like childcare to get parents back to work and "good family policies that make it easy to raise a family in Ontario" to attract global firms to the Province.[25]

Similarly, AMO, in their submission to the Standing Committee on Finance and Economic Affairs, pointed to other areas for consideration, including: connectivity, flood protection and stormwater infrastructure, energy conservation and green energy, affordable housing, and childcare. Many of these areas align strongly with provincial priorities to: improve transit and infrastructure, build the healthcare system of the future, and make Ontario more competitive; as well as federal priorities of promoting: strong middle class, environment and climate change, and sustainable infrastructure.[26,27]

Looking inwardly, the pandemic has forced municipalities to adapt quickly to an ever-changing environment. Ideally these piece-meal adaptions would be formalized following the pandemic. Our concern is that without funding, municipalities will have a harder time embedding lessons learned into their organizational culture and future proofing their infrastructure.

The pandemic is unprecedented. As Mike Moffatt, Senior Director at the Smart Prosperity Institute, stated in a post called "This isn't your older brother's recession: 2020 vs. 2008", "We need to make sure we're solving the problems of this recession, not fighting the last war."[28] An investment in 'social' infrastructure, i.e. infrastructure that supports the delivery of social services, as well as infrastructure that supports IT and pandemic preparedness can assist achieve this objective.

MFOA recommends that the definition of infrastructure be expanded beyond 'hard' infrastructure to include 'social' and IT infrastructure.

9.1.5 Revisit cost-sharing arrangements

Traditional cost-sharing arrangements must also be revisited. Municipalities bore a sizeable share of the costs of the infrastructure stimulus programs that followed the 2008/9 financial crisis. For municipalities severely affected by the current crisis, some of which have needed to defer capital projects and/or leverage capital reserve funds to pay operating costs, traditional cost-sharing arrangements will not work. These municipalities will not have the funds immediately available to participate in the program.

[24] Alini, Erica. (May 9, 2020). Welcome to the 'she-session.' Why this recession is different. Global News.
[25] McGrath, John Michael. (July 21, 2020). Can Ontario's economy recover if the U.S. can't get COVID-19 under control? TVO.
[26] Province of Ontario. (n.d.). Doug Ford, Premier of Ontario: A Government working for the People.
[27] Government of Canada. (n.d.). Mandate Letter Tracker: Delivering results for Canadians.
[28] Moffatt, Mike. (May 1, 2020). This isn't your older brother's recession: 2020 vs. 2008. Medium.

While borrowing may be an option for some, they will need to carefully evaluate the long-term implications of increasing debt servicing costs. We have heard from members that it took many years to recover from the 2008/9 crisis. When it comes to the recovery, municipalities are also challenged by the nature of their primary source of revenue.

> Local government revenues will not increase automatically with the growth in the economy, as they will at the federal or provincial level. That is because property taxes are not an elastic source of revenue in the same way as income or sales taxes.[29]

As such, the effects of borrowing are felt differently at the municipal level in comparison with other orders of governments that receive income taxes.

One additional issue we have heard from members is that cost-sharing amounts committed by other orders of government are often based on preliminary cost estimates. With changing safety precautions and so much uncertainty, costs are currently coming in higher than originally estimated. We recommend that commitments be based on actual market prices, not first estimates, or else local taxpayers will bear a higher percentage of costs.

For infrastructure stimulus programs to succeed, cost-sharing arrangements must recognize the challenges posed to municipal fiscal health by the current crisis, as well as the unique challenges faced by the municipal level of government. Stimulus funding will only have a chance if each partner can afford its share of the arrangement. Providing up to 80% of the COVID-19 resilience funding stream of the Investing in Canada Infrastructure Program (ICIP) acknowledges this.

MFOA recommends that the federal and provincial governments work with municipalities to arrive at appropriate cost-sharing arrangements for infrastructure stimulus programs.

9.1.6 Use a hybrid formula-application grant allocation model

All municipalities have been affected by the pandemic. From modifications to service levels to capital plan deferrals to significant drops in revenue, no municipality is immune from the ripple effects of the current crisis. But as outlined in the paper's review of trends and fiscal impacts, the experience of every municipality, resident and business is unique. It is impossible to identify a single indicator that encapsulates local needs for stimulus.

A hybrid formula-application allocation model recognizes that the residents and businesses of all municipalities have been impacted by the crisis, while targeting specific areas of need, like broadband. As noted below, program designers must ensure that the application component is not onerous to allow for the quick delivery of commitments.

[29] Slack, Enid. (July 2020). *What COVID-19 teaches us about municipal responsibilities and how to pay for them*. Municipal World.

MFOA recommends that infrastructure stimulus programs use a hybrid formula-application model.

9.1.7 Streamline process and reporting

As discussed in MFOA's first report on the pandemic, it is not business as usual. Municipal staff are under incredible pressure to address issues arising from the current crisis and do not have the capacity to complete regular reporting duties as required. In addition, municipal hiring freezes and furloughs of employees have further reduced municipalities' internal capacity. While we support accountability, we believe that reports should be kept at a high level when appropriate. Data is not free and detailed reports require more resources. Further, prescriptive reporting can focus too much on the minutiae missing the big picture. One method of streamlining reporting is to provide municipalities with lump sums and allow them to report back afterwards how the money was spent. This method recognizes municipal autonomy.

9.2 Other infrastructure funding considerations

Municipalities need a permanent, stable, and sufficient source of infrastructure funding. While municipalities appreciate the existing patchwork of application and formula-based funding, it is not enough to keep infrastructure in a state of good repair, while addressing climate change, technological change, and changing social norms. As people move away from driving, there is also a concern about the sustainability of the provincial gas tax program.

Public infrastructure is the foundation of daily life for Canadians and over the past 65 years, it has become primarily the responsibility of local governments. While we agree with the importance of matching fiscal tools with infrastructure types, we are also cognizant of the limited set of revenue tools available to municipalities.[30]

Looking to the future when the immediate crisis has passed, **MFOA recommends the provincial and federal governments build on the current momentum and engage with their local counterparts in a national conversation about infrastructure, including what types of infrastructure will be needed in the future and how best to fund them, based on lessons learned from the pandemic.**

10. Conclusion

As stated by the Ontario Minister of Municipal Affairs and Housing, Steve Clark, "Ontario's municipalities are the backbone of our great province".[31] Unfortunately, the pandemic has wreaked havoc on much of our backbone. Not only has the current

[30] Slack, Enid and Tassonyi, Almos. (2017). Financing Urban Infrastructure in Canada: Who Should Pay? Institute of Municipal Finance and Governance.
[31] Office of the Premier of Ontario. (July 27, 2020). Historic Agreement Delivers up to $4 Billion to Support Municipalities and Transit.

crisis had a negative impact on many municipalities' fiscal health and capital plans, but it has also exposed the weaknesses of existing municipal systems. The silver lining is that with this knowledge, comes opportunity.

Taking a holistic approach that balances short term recovery with long-term financial sustainability, governments can leverage today's crisis to build back better. This can only be accomplished, if the designers of infrastructure stimulus programs understand where we have been, where we are now, and where we want to go. Infrastructure decisions must take the current state of the world into consideration, as well as lessons learned from the past. Municipal finance officers are well positioned to help other orders of government design infrastructure stimulus programs and are eager to engage with their provincial and federal peers.

Appendix A – MFOA Paper #1 on COVID-19 and Municipalities

MFOA submitted the following comments to the Standing Committee on Finance and Economic Affairs on July 13, 2020. A copy of MFOA's first paper is available here.

MFOA | MUNICIPAL FINANCE OFFICERS' ASSOCIATION OF ONTARIO

July 13, 2020

Mr. Amarjot Sandhu, MPP
Chair, Standing Committee on Finance and Economic Affairs

RE: Study of the recommendations relating to the *Economic and Fiscal Update Act, 2020* and the impacts of the COVID-19 crisis on the Municipalities, Construction and Building sector

Dear Chair,

I am writing on behalf of the Municipal Finance Officers' Association of Ontario, and the municipalities it serves, to provide you with the Association's perspective on the financial impacts of the COVID-19 pandemic on municipalities.

The Municipal Finance Officers' Association of Ontario (MFOA) represents individuals who are responsible for handling the financial affairs of municipalities. MFOA promotes the interests of its members through advocacy, research and analysis, sector engagement, and by providing professional development opportunities.

The pandemic has had a major impact on municipal finances by reducing revenues, increasing costs, and disrupting municipal cash flows. While cost mitigation strategies are being pursued by municipalities, they almost always produce insufficient savings to cover the added costs and lost revenues being experienced across the Province.

Ontario is a vast province composed of diverse urban, rural, and northern municipalities that not only face distinct economic, geographic, and demographic challenges, but also deliver different suites of services. A "one size fits all" policy approach will not be an equitable process to mitigating the pandemic's impact on municipal finances.

Focus should be on providing flexible policy tools that allow municipal leaders to use funds and resources where they are needed most in their communities. Flexibility is one of the principles guiding MFOA's first report on the financial implications of the COVID-19 pandemic for municipalities. The recommendations documented in this first report are intended to:

1. Leave municipalities in a financial position to continue to offer vital services with no ongoing major financial burdens that will impair them for years; and
2. Maintain essential services during the pandemic and into the recovery period.

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MFOA's Report #1: Municipal Finance Implications of the COVID-19 Pandemic

The report is a preliminary analysis as we are still in the early days of understanding the full implications on municipal fiscal health of a pandemic that is not fully behind us. We expect to provide further updates to this report as time goes on and more information becomes available. The first update to the report can be found in the appendix. The report's recommendations are as follows:

- *MFOA supports FCM's recommendations to the federal government in principle.*

  In a time of crisis, support programs should be easy to administer and help money flow in a timely way to those that need it. Leveraging the existing administrative infrastructure of the federal Gas Tax Fund, where possible, achieves this objective. FCM's recommendations account for the disproportionate impact of the pandemic on transit providers, while providing support to all municipalities across the country.

- *That the Province establish a support grant to compensate municipalities for targeted net lost revenues resulting from the COVID-19 emergency. Targeted revenue streams include transit and recreation.*

  With the deferral of major revenue sources and the need for service modifications without compensating decreases in costs, some municipalities are facing significant cash flow issues. For some revenue streams, the money will never be recovered. For example, the loss of user fees from operating transit systems is permanent; as is the loss of penalties and interest for municipalities that waived these charges on property taxes and utility bills. We suggest that a support grant be targeted and related to demonstrable net lost revenues.

- *That the provincial or federal government provide forgivable interest-free loans to municipalities to address revenue shortfalls of a temporal nature.*

  We also suggest that the Province or federal government provide interest-free forgivable loans to municipalities to address current revenue shortfalls that are more temporal in nature. For example, it is likely that property taxes and utility bills will eventually be paid, but may be deferred. Deferred payments, however, can cause cash flow problems that can be alleviated by interest free loans if and when municipalities require them.

- *That the Province establish an emergency cost recovery grant to compensate municipalities for increased costs directly related to the COVID-19 emergency.*

  Many municipalities in the Province are experiencing increased costs directly related to the pandemic. Such costs include:
  - additional PPE for essential frontline workers;
  - IT-related expenses to accommodate work from home;

- additional staffing costs related to the province's emergency measures (e.g. redeployments and the inability of employees to work at multiple long-term care homes);
- and more rigorous cleaning services.

In the past, the Province has provided a level of compensation for costs incurred to deal with emergencies, like natural disasters and the SARS pandemic. We recommend a continuation of this approach with respect to the current pandemic.

- *That the provincial and federal governments, under existing programs, maintain committed transfer payments to each municipality as planned for in 2020 to 2022.*

  Federal and provincial transfers are an important source of revenue in almost all Ontario municipalities and a major source in many. We recommend that funding from existing transfers remain stable in the coming years. Material drops in transfer payments places more upward pressure on municipalities' existing tax base during the recovery, when residents and businesses may continue to experience the effects of the pandemic. This pressure could result in decreases in service levels or continued deferral of capital projects in the near term, both of which could hurt the recovery process.

- *That the Province extend statutory and non-statutory reporting deadlines: 1-year deferrals for new requirements and 6-month deferrals for existing reporting deadlines. Timelines should be reviewed in tandem with the easing of restrictions.*

  At the onset of the Province's State of Emergency, municipalities were quick to mobilize staff and resources towards implementing the measures as well as provide relief and reassurance to the community where possible. Simultaneously, municipal staff have had to adjust to social distancing rules by working from home with little to no access to municipal offices. Given these pressures, municipal staff currently do not have the capacity to complete regular reporting duties as required, both for legislative requirements and for non-statutory requirements, such as transfer payment agreements. Last year, the provincial government successfully worked with municipal associations to reduce the reporting burden. Despite this work, the issue persists. As such, MFOA recommends that the Province extend their reporting deadlines. In the short-term, this will help municipalities focus on pandemic management. In the long-term, extending timelines will ensure municipalities can produce meaningful work that embodies the spirit of the required reporting.

- *That the Province continue to work closely with its municipal partners to learn "on the ground" lessons of the financial impacts of the pandemic and to plan for future recovery.*

> The pandemic is unprecedented and its impact on municipal finance is sweeping. MFOA has found that in a policy environment that is moving and changing as rapidly as this, that wide-spread and frequent dialogue is required.

Other Considerations

With respect to pandemic financial assistance, municipalities still do not know if they will receive meaningful financial assistance from the provincial and federal governments. This is challenging. Very soon if not now, hard-hit municipalities will make decisions to address this year's deficits and next year's budgeting uncertainty. In numerous cases, these decisions will require draconian service cuts or tax increases or both in the absence of financial assistance.

Leveraging reserves and reserve funds will not be enough for many municipalities. While some municipalities appear to have overall strong levels of reserves, "the majority of reserves are restricted for specific purposes and are not intended for use as fiscal stabilization mechanisms. (…) Drawing on these funds to alleviate coronavirus-related shortfalls would result in long-term financial pressures to finance the projects they were originally designated for."[1]

All three orders of government have a shared responsibility for the wellbeing of Canadians. Municipalities appreciate the assistance provided to date and look forward to additional support through the crisis and its recovery. Support for the vital services municipalities provide acknowledges that there is only one taxpayer and that all governments are in this together.

We hope that our paper will build on the existing desire to work together over the coming months that will include dealing with the pandemic and the subsequent economic recovery. Please contact MFOA Executive Director, Donna Herridge (donna@mfoa.on.ca) should you wish to follow up on any issues identified in the letter.

Sincerely,

Trevor Pinn, CPA, CA
President

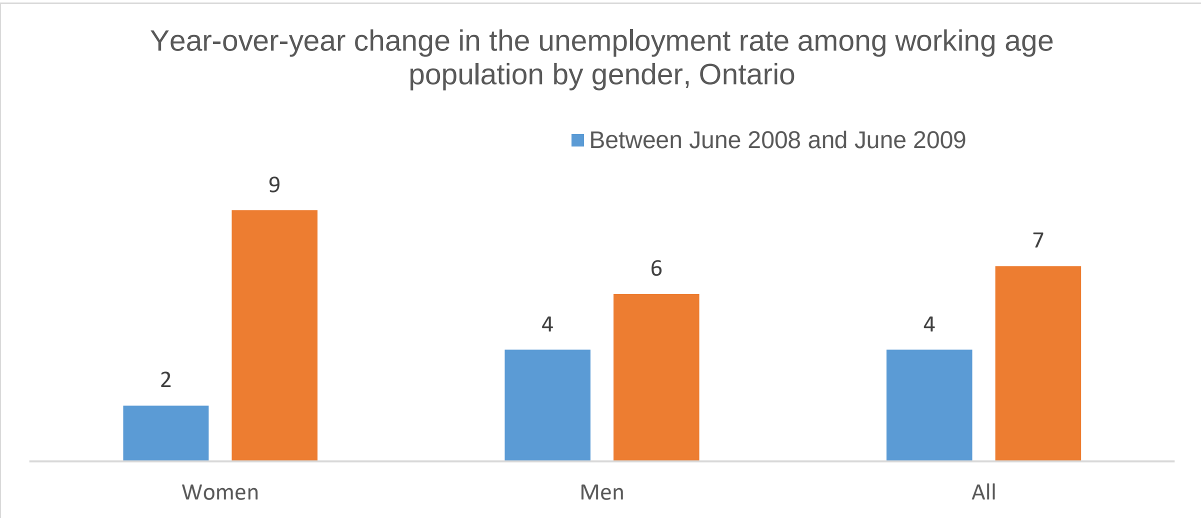
[1] Moody's Investor Services. (July 2020). Sub-Sovereign – Canada: FAQ on pandemic-driven credit pressures facing public-sector entities

Appendix B: 2008/9 crisis vs. 2020 crisis

Source for information below: Statistics Canada. Table 14-10-0022-01 Labour force characteristics by industry, monthly, unadjusted for seasonality (x 1,000)

Gender and economic sector categories explaining 75% of job losses in Ontario	
June 2008 to June 2009	June 2019 to June 2020
Manufacturing (38% of job losses) Manufacturing (12%) Professional, scientific, tech. services (11%) Construction (5%) Business, building and other services (5%) Wholesale and retail trade (4%)	Accommodation and food services (13%) Accommodation and food services (11%) Transportation and warehousing (7%) Information, culture and recreation (7%) Wholesale and retail trade (7%) Professional, scientific and tech services (7%) Health care and social assistance (7%) Educational services (5%) Construction (5%) Manufacturing (5%)

Legend: Men (yellow); Women (green)



Appendix C: Highlights of Infrastructure funding provided by the federal government following the 2008/9 financial crisis

Name	Year	Focus	Cost-share
Building Canada Fund – Communities Component Top-Up	2009 – 2011/12	Population < 100,000 The fund supports the construction, renewal, and enhancement of basic infrastructure such as potable water, wastewater treatment, local roads, and other infrastructure needs of small communities	Generally, 33/33/33 Federal/ Provincial/ Municipal
Building Canada Fund – Major Infrastructure Component	2008/9 – 2019/20	2/3 targeted to larger infrastructure projects of national or regional significance: water, wastewater, public transit, the core national highway system, and the green energy	Generally, 33/33/33
Infrastructure Stimulus Fund	2009/10 – 2011/12	Improved, renewed and rehabilitated existing infrastructure and new infrastructure projects in the following categories; water, wastewater, transit, roads, culture, parks and trails, and community services.	Generally, 33/33/33
Green Infrastructure Fund	2009/10 – 2021/22	Supports environmental infrastructure projects that promote reduced greenhouse gas emissions, cleaner air, cleaner water and cleaner land. Eligible categories: wastewater, green energy generation, green energy transmission, solid waste, and carbon transmission and storage	Federal up to 50%