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To: Infrastructure Renewal & Public Works (IRPW)

From: Chris Lorenc, B.A., LL.B., President, Manitoba Heavy Construction Association (MHCA)

Subject: **2020 Public Works Budget Recommendations**

I will speak to the recommendations associated with the Local and Regional Street Renewal Program.

We recognize they are part of discussions on how to balance council priorities against the challenges and financial realities that Winnipeg works with every year.

What we are looking at however, is beyond challenging. It is the very definition of unsustainable. It is not accompanied by a plan - the purpose of multi-year budgeting.

A plan would set out to the method by which to meet the needs of our streets. Yet what we see is a recommendation for severe cuts -- $36.2 million, against forecasts, through to 2025 – even though our streets budget already falls far short of sufficient[1]. This, as the City is getting $100 million additional from federal government, up to 2023. So, if we think it's bad now…worse is just around the corner.

Why? Where are we going? What's the fix?

These are the very questions requiring your answers as you deliver your multi-budget responsibility – to manage city finances and revenues against the pressure of service demands.

Let's start with 'why' we are in this predicament? This after 7 years of yearly dedicated tax hikes that were supposed to resolve the streets investment deficit. Why are we still $1.9 billion[2] short of the goal?

There are many factors. First is the stark reality of what Winnipeg and all municipalities face, and that is, that you lack the ability to raise the revenues needed to fund core services. I will speak to that issue in a moment.

The other rests with the string of decisions made by successive councils to the local and regional street renewal program. The deal Council made in 2013 and in 2014 with Winnipeggers was that it would raise taxes by 2% every year and put those revenues ***as part of a package of revenue streams*** directly to the streets budget.

While progress was made, each year, elements of the original workable deal, steadily fell away, undermining its end objective of sustainable funding.

Cash to capital funding has been wiped out. Base funding – the budget the new revenues would augment – is all but gone. The plan to shift away from annual tax hikes to the frontage levy for local streets is no longer mentioned; the frontage-levy hikes were supposed to be the bedrock of the local street repair budgets, starting in 2022.

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[1] See attached Appendix A

[2] City of Winnipeg, 2018 State of the Infrastructure Report

So, here we are: 40% of Winnipeg streets are not in good condition[3] and the city is nowhere near to reaching an sustainable level of funding for street repairs.

A "sustainable" annual funding level is $80 million for local streets[4]. The 2020 recommendation is $58 million -- $20 million of which is the second tranche of the **one-time**, 2019 federal gas tax top-up payment. Thank heaven for the top-up because it backfills the hole left by the withdrawal of provincial roads funding, underscoring another reason for this predicament. Without the top-up this year, the 2019 local streets program would have been almost entirely gutted.

The 2019 budget furor should have caused Council to take a hard look at how far it has strayed from the original plan to address the streets investment deficit. Instead, it seems, Council looked away.

Why do I say that? Because, rather than regrouping and recommitting to the plan, last spring Council voted to load more deficit onto the program. It approved using the street renewal reserves to fund bridges – without any prior impact assessment. This despite the fact that bridge work in any one year can consume most or all the additional revenue raised by the 2% tax hike[5]. This despite that bridges have a $1.1-billion investment deficit[6]. The 2% tax-hike plan was never designed to address a $3-billion-plus deficit.

So instead of accepting there has to be another way to repair our infrastructure, the City says it's time to settle for less, that we'll always have some bad roads. That's the deal going forward, the 'where we are going' part.

So, I ask: When you asked Winnipeggers whether they are okay with rewriting the deal, if they will settle for less than good, what was their answer? Did you ask?

I stress that none of these developments resulted out of ill-will. Council has grappled with the streets budget each year. Further, last year it got the federal and provincial governments to sign on to putting $100 million each into accelerated regional street renewal.

Unfortunately, that meant all provincial roads funding shifted to regional street renewal, to the detriment of the local streets program.

And now I want to address the elephant in the room – the city cannot propose reliable, sustainable multi-year budgets for its public works programs, if it cannot rely on predictable funding transfers from its provincial partner.

The demands of infrastructure investment are too great for this or any city to go it alone; provincial and federal funding must be predictable, for any city to plan its infrastructure investments.

Coming out of the 2019 provincial election, we noted that lost in the campaign discussion of provincial responsibility to the economy, to municipalities and to taxpayers, was the need to revisit the nature of the fiscal relationship between the provincial and municipal governments.

This is most pressing as it relates to infrastructure, the costliest public asset and most critically important to economic growth. Core infrastructure - streets, water & sewer systems, drainage, bridges and structures – is the collection of essential services municipalities provide their citizenry and businesses. It is the platform on which to grow the local economy.

[3] City of Winnipeg, 2018 City Asset Management Plan
[4] 2014 Adopted Capital Budget, Appendix 6, 3-21
[5] Appendix 2, MHCA, Impact of Bridges on L&R Renewal Reserve
[6] City of Winnipeg, 2018 State of the Infrastructure Report

But Manitoba's largest municipality is undercutting its infrastructure, as is on display here with the budget recommendations.

And now to the '*fix*' part of this predicament.

Like social infrastructure programs - healthcare and education - core infrastructure requires a comprehensive, appropriately shared investment approach. Ignoring this threatens our economy's ability to generate wealth, and therefore the capacity to fund critical services, such as police and fire, and our arts, cultural and recreation programs.

But we are forcing our municipalities to struggle to meet the demand for services, to extract impossible sums of money to maintain and enhance core infrastructure, while working with a turn-of-the-century funding model.

Winnipeg estimates in its 2018 State of the Infrastructure Report that its total infrastructure deficit is $6.9 billion. Estimates of the rural municipal core infrastructure deficit are in the vicinity of $7 billion[7].

Winnipeg needs a sustainable plan - with federal and provincial partners - to address the core infrastructure investment deficit.

The first step should be a review of municipal taxing authority and access to revenues, mindful that municipalities collect only 10 cents of every tax dollar raised, with a long-term goal of matching revenues to defined needs.

Discussions of 'new' funding sources are fraught with suspicion. The public understandably is resistant to tax hikes, new levies or charges. ***Yet, ultimately, this is a basic proposition:*** We either find a way to appropriately raise and share access to revenues, and share responsibilities between governments, or face declining services. That would limit the generation of wealth and therefore governments' abilities to fund our social services.

Concurrent we must rebalance and appropriately share responsibilities between the three levels of government for capital and ongoing maintenance funding of municipal core infrastructure.

What are the next steps? You need to develop, adopt and ensure *disciplined-to-purpose* execution of a strategy which has at least three public component elements.

<u>First, with respect to the City's budget</u>:

1. So as not to gut your local streets program, affirm allocation of the remaining $20.5 million of federal gas tax funds to it, as outlined in the March 2019 budget process;
2. Request a report within 60 days, updating with recommendations to achieve long-term sustainable funding for local and regional streets, <u>and</u> a parallel strategy for the city's bridges.

<u>Second, at the provincial level</u>, Premier Pallister has set a goal of restructuring of everything government, righting the fiscal imbalance, and returning to sustainable economic growth.

Consistent with those goals, let's support a 'from the ground up' review of the roles and a responsible sharing of the funding burden between Manitoba's municipalities and the province, and by extension Ottawa.

<u>Third, at the federal level</u>, as called for by the FCM, press Ottawa to permanently double the gas-tax fund revenues augmented with annual 2-3.5% increases. What made sense in 2019, certainly makes sense generally. The need will be no less next year.

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[7] Measured in 2009 dollars and reported in the 2011 Infrastructure Funding Council (IFC) report.

Our economy, our jobs and social wealth depend on your success on the above three points. I remind of a business coalition which has since 2015 advocated for strategic investment in core infrastructure as a necessary pillar upon which to grow the economy. You should harness its support.

This is not to relieve you of your immediate responsibility, which is to grapple with a growing deficit in streets investment. However, loading the deficit for bridge repairs onto the streets program is simply, irresponsible.

This is intended to recognize your multi-budget planning process, at its core, is hollow unless municipalities adopt transparent long-term plans, are given modern tools, new approaches and hope for a better deal with higher levels of government.

We ask you to rally Winnipeggers to demand that from Broadway and Ottawa.

Thank you,

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