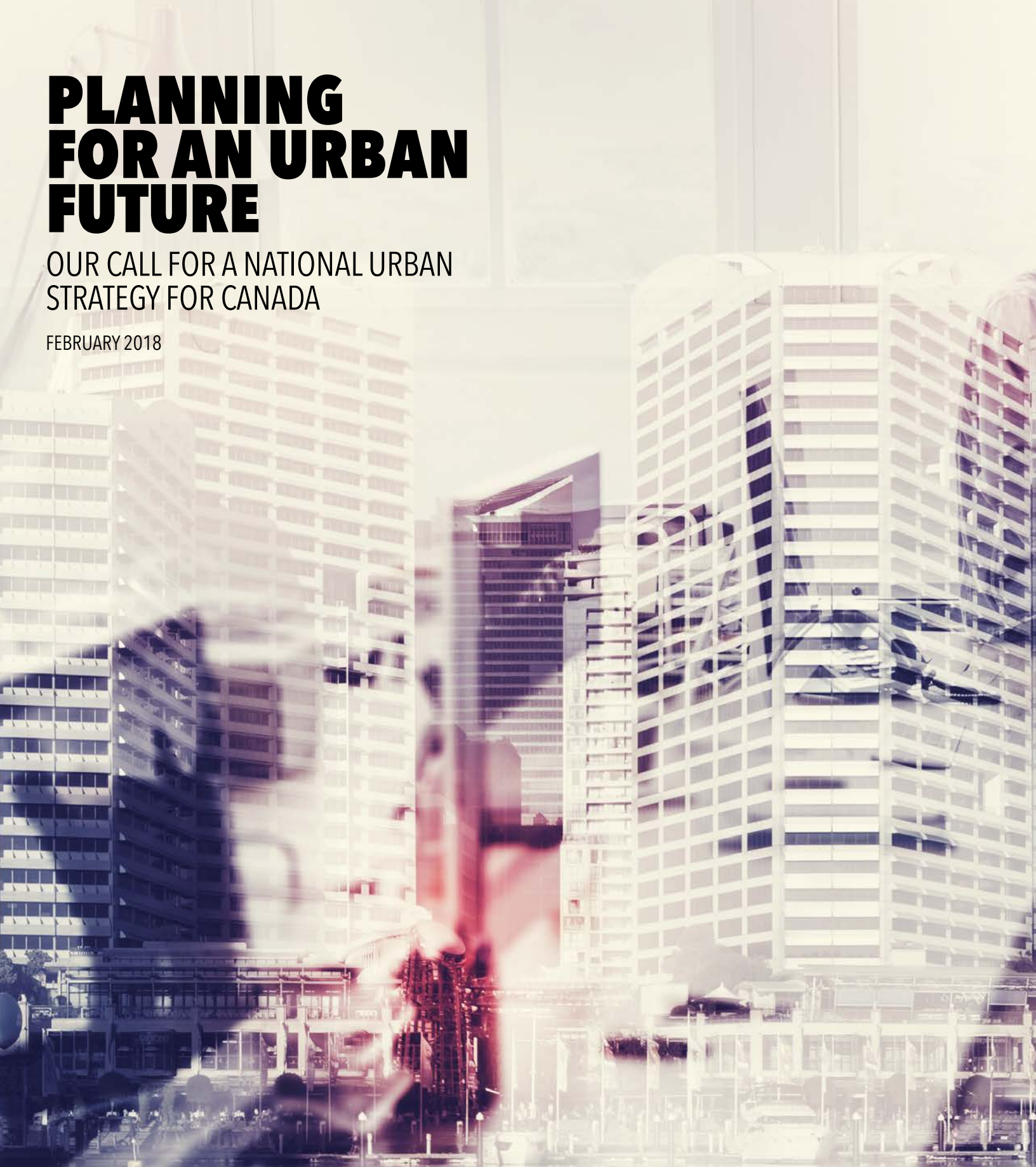


# PLANNING FOR AN URBAN FUTURE

OUR CALL FOR A NATIONAL URBAN  
STRATEGY FOR CANADA

FEBRUARY 2018



CHAIR



**Calgary Chamber**







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Canada is an urban nation without an urban strategy. On several fronts, federal government support for Canadian city-regions is growing — but too often, from one government to the next, that support has also been improvised, piecemeal and ad hoc. This is the reality, whether federal support is for urban transportation infrastructure, disaster resilience, water and energy infrastructure, housing, or competitive trade, research and economic infrastructure.

Over the last quarter-century, city governments, civic leaders and supportive federal officials have pushed for federal aid for cities to address three long-term problems: to compensate for the fiscal weakness of cities when it comes to capital investment, to catch up on years of underinvestment in infrastructure maintenance, and to help our cities become competitive with global cities around the world. Without a coherent strategy to specifically achieve those goals, federal investment and leadership has not been as effective a catalyst as it could have been to address these challenges.

The Canadian Global Cities Council (CGCC) is a new organization, founded in 2015 to unite Chambers of Commerce and Boards of Trade in several major Canadian cities. CGCC members continue to support Canadian mayors in their call for more federal resources to address all three of these goals, especially through accelerated investments in urban social and economic infrastructure. Without that support, Canada risks falling behind other countries — especially those in Asia and Europe — that have leveraged investments in urban infrastructure to deliver competitive advantages in productivity and quality of life. Increased support could come through higher transfers to cities, or through a dedicated share of existing growth revenues. However, the CGCC also believes a change in approach to — how those investments flow — can also help to deliver better results in the decades to come.

At present, most Canadian federal resources allocated for urban policy challenges are invested or distributed through top-down pro-

grams, which must be applied for and approved project-by-project. The major exception — gas tax transfers — flow through the provinces indirectly, based on individual provincial deals, with some of the drawbacks seen in other project-based programs.

The result is a maximum focus on process, announcements and commitments, at the cost of greater focus on deliverables, problem-solving and capacity management. To make matters worse, federal project funding is almost always distributed based on a cost-shared formula that treats unequal levels of government as if they have equal access to financial resources. While the current govern-

ment has made positive changes to some programs — especially transit financing — to attack this problem, the imbalance remains largely in place and even the improved funding ratios are ultimately unsustainable. Further, to take advantage of funding from the federal government, local and provincial resources are often diverted away from more urgent local priorities to fit federal program silos. Canadian city-regions face very different priorities from coast to coast, and each brings very different resources to the table. The one-size-fits-all approach is a poor fit for all.

In many other national and federal systems, these issues are addressed with a single, coherent strategy. Governments elsewhere are far more prone to organize national investments in cities from the bottom up, based on the identification and prioritization of each city-region's unique needs, rather than from the top-down, based on program silos and competitive

applications for funding.

In this approach, every major Canadian city or city-region would be expected to have a long-term plan for urban economic and social infrastructure, developed in partnership with the provinces, elected officials from all levels of government, business partners and economic leaders. Federal governments would invest what they can in the execution of plans that meet national objectives instead of into individual projects. This shift can lead to a more regionally-sensitive use of resources, better prioritization and a greater focus by all orders of government on clear, specific goals and outcomes.

**“ONE HUNDRED AND FIFTY YEARS AFTER CONFEDERATION, CANADA HAS CHANGED RADICALLY. BUT FROM A LOCAL, URBAN PERSPECTIVE, THE FORM AND DESIGN OF CANADIAN FEDERALISM HAS NOT KEPT PACE WITH THAT REALITY.”**

# PART 1: **FEDERAL-URBAN RELATIONS AFTER "THE NEW DEAL"**



Bytown in 1853, looking east along Wellington St. Wellington Street near Bank Street, Ottawa, 1853.

*Library and Archives Canada, Acc. No. 1992-675-2*

## 150 YEARS OF URBANIZATION

At the moment of Confederation in 1867, Canada was anything but an urban country. Our largest city – Montreal – was home to fewer than 150,000 people, and it was the only Canadian municipality with a population of more than 100,000. A traveller on the present-day path of Bloor Street in Toronto would still see woodlots and farms if he or she looked south in 1867, and Rosedale was quite literally a dale. Ottawa's total population was roughly the same as the crowd at the average Senators game in 2017, while the most common classification of ship handled by the Port of Halifax was "schooner." A visitor from Eastern Canada hoping to reach the sites of present-day Edmonton, Calgary or Winnipeg by an all-Canadian route would need months for the journey to each, and on arrival, they would find colonial forts built beside First Nations or Métis communities, without a hint of the skyscrapers to come. In British Columbia, the colonial capital of New Westminster was a clapboard boomtown with a population smaller than some city blocks in present-day Vancouver.

These facts are not merely points of historical interest. They also describe the kind of country that Canada's system of federalism was built to govern. As the core legal document in Canada's modern constitution, the *British North America Act* of 1867 was written for an era where one in every six Canadians was in the agricultural workforce as a farmer, a working member of a farmer's family, or a farm labourer. Now, it is one in eighty-three. The political structure of many Canadian city governments is still directly derived from the 1847 *Municipal Corporations Act*, better known as the Baldwin Act. To put that in perspective, Baldwin's legislation was enacted a year before the City of Montreal first issued uniforms to its local police force, forty years before the City of Toronto first paved any streets with asphalt, and more than fifty years before the City of Winnipeg bought its first public water utility.<sup>1</sup>

One hundred and fifty years after Confederation, Canada has changed radically. But from a local, urban perspective, the form and design of Canadian federalism has not kept pace with that reality. Local governments are now the largest maintainers and largest builders of infrastructure in our federation. Cities and city-regions are the economic drivers of national growth. Even Canada's famed resource

industries are ultimately dependent on major cities for financing, sales, labour, training, processing and services.

Yet Canada's cities still muddle through with the agrarian, mining-town era strictures of 19<sup>th</sup> Century Confederation. Municipalities – which often govern and serve populations larger than many provinces – are literally spoken of as "creatures" of provincial law thanks to Canada's deferential adherence to a century-old U.S. legal principle.<sup>2</sup> Our cities must still rely overwhelmingly on regressive property taxes to pay the bills, just as their town council ancestors did in the 1800s, even though the profile of urban services and expenses has radically changed. Combined with the continued use of property taxes to fund schools, the result is that Canadian local governments collect more regressive property taxes as a share of GDP – 3.2% in 2015, up from 3.0% in 2008 – than any other country in the developed world.<sup>3</sup> By comparison, the average in the European Union is less than 2% of GDP. While higher orders of government offer transfers to compensate for this reality, the funding that comes is often uncertain, conditional and arbitrary.

In an ideal world, some Canadians might support legal or even constitutional changes to empower cities as fuller partners within Confederation. However, changes to city-level constitutional authority are controversial at best, and unlikely at worst. In one recent – and blunt – academic assessment, when it comes to local autonomy, "few countries in the world have senior levels of government that have been so reluctant to loosen restraints and regulations from local governments... [Canada is] a comparative laggard when it comes to advances in local autonomy."<sup>4</sup>

In the face of resistance to structural change, urban Canadian federalism has muddled through with a series of policy improvisations instead. These have ranged from informal contacts between federal ministers to formal federal contracts to fund specific projects and programs. The odds of a more radical, constitutional solution to these challenges are low. However, the Canadian Global Cities Council (CGCC) believes it is time for Canadian governments to consider a more practical alternative. We can formalize the improvised framework of federal interventions. We can create more robust city and city-region partnerships, so all levels of government can cooperate in the delivery of urban policy objectives, directly integrating city priorities into a national urban plan.



## THE IMBALANCE IN CANADIAN FISCAL FEDERALISM

Canadian mayors frequently remind audiences that they access roughly one in every ten dollars in tax revenue.<sup>5</sup> This represents a disconnect in the Canadian constitutional order. Political scientists often call this a “vertical fiscal imbalance.”<sup>6</sup> As noted above, some of this imbalance is a historical legacy, as increased expectations of local government have not been matched by growth in tax authority, transfers or legal authority for those governments to compensate. Local governments carry significant costs, including operating costs for local policing, fire suppression and, emergency response, alongside construction and maintenance costs for over half of Canada’s infrastructural capital stock.

Over and above this long-standing historic imbalance, two policy trends embraced by higher orders of government aggravated this problem in recent years. First, several provincial governments downloaded major costs – capital, operating, or both – onto the urban property tax base. Downloaded costs have included responsibility for social housing, some social services, and/or transit operating costs that were traditionally subsidized by provincial governments. This trend was exacerbated nationally by the federal withdrawal from housing policy in the 1980s and 1990s.

Further, higher orders of government have also pushed a *de facto* download of debt and financing costs by institutionalizing a formula in which all three levels of government should finance major projects equally, based on a “one-third/one-third/one-third” formula (hereafter ‘the unbalanced equal partnership’ model, or UEP). This division of costs has been sold as if it represents fair and sustainable sharing of responsibilities. In truth, the local

government partner in these deals faces debt limits, severe revenue constraints and limits on direct returns from taxation<sup>7</sup> that the other two levels of government do not. It is as if a law firm expected an administrative assistant to buy into their partnership on the same basis – and at the same price – as a practicing lawyer might, but without any of the financial benefits of partnership.

The response of provincial governments across Canada to these issues varies. But to the credit of successive federal governments, there is at least a growing national recognition that the unbalanced equal partnership approach is unfair and unsustainable. To give credit where it is due, the current government’s latest round of urban transit funding is designed to trigger a reduced percentage contribution from cities for major urban transit projects. However, this shift has not been applied to all infrastructure programs, and the success of the shift ultimately still depends on intergovernmental cooperation. Further, the issue of downloading has not been addressed, aside from spot-funding to support specific projects in housing and other downloaded sectors. (A federal housing strategy is being implemented as this paper goes to press).

Different Canadian regions, cities and stakeholders see the solution differently, even if the challenge is largely the same from coast to coast. In some cities and regions, there is more support for new tax authority and greater urban autonomy to remedy the problem, provided any new funds raised are transparently dedicated to infrastructure work. In other cities, concerns about the local tax burden mean stakeholders would only support solutions built around additional transfers or shared revenues.

Critically, there are also significant differences in legal and structural fiscal capacity in different cities. Some cities receive higher transfers from their provincial governments than others. Some cities work within a metro or regional government structure that divides resources. In recent years, some cities (like Halifax and Montreal) have been given new charter authority, while others (like Brampton) have not. It is important to note these distinctions because they reinforce the problem with a one-size-fits-all approach; in some cities (like Metro Vancouver or Montreal), dedicated, provincially-authorized revenue streams for transit offer a local and regional foundation for major project financing that is unavailable in other cities.

Whatever the local situation, and whatever the preferred remedy, the disconnect built into our current model of fiscal federalism remains largely unchanged, and unfixed. This is the case despite a quarter-century of action by the federal government to offer at least some intervention to compensate.

Vancouver’s  
Lion’s Gate bridge,  
first built as a  
private toll bridge  
in 1938  
City of Vancouver  
Archives CVA 586-462





**“TO BE ABSOLUTELY CLEAR,  
THE CGCC RECOGNIZES AND APPLAUDS  
THE IMPORTANT CONTRIBUTION  
THESE FEDERAL INVESTMENTS HAVE  
MADE TO THE PROGRESS OF CANADA'S  
GROWING CITIES.”**

### **THE “NEW DEAL” FOR CITIES IN RETROSPECT**

In the early 1990s, as the scale of the imbalance in local responsibilities grew more obvious, organizations like the C5 mayors, the Federation of Canadian Municipalities (FCM) and the Canada West Foundation<sup>8</sup> began to debate alternatives to Canada’s municipal fiscal imbalance. Through the C5’s leadership, the notion of a new fiscal arrangement for cities came to be known as the call for a “New Deal.” This effort was targeted at both higher orders of government. Advocates pushed for more support from wherever it might come, be it from federal or provincial governments, be it in the form of increased fiscal autonomy, increased transfers or both.

Provinces responded on a piecemeal basis, often adding one or two new revenue tools to the civic mix, but usually with significant limits. Over and above several rounds of project-based infrastructure investments, the federal government responded with three long term initiatives that have survived two changes in government.

The first change – built on the foundation of federal infrastructure funds created in the 1990s – was the delivery of a series of project-based federal programs for major civic or provincial infrastructure initiatives, awarded on a competitive basis. These funds included the Infrastructure Canada Program (2000–07), the Canada Strategic Infrastructure Fund (2002–13), and the Building Canada Fund (2007–14).

The second initiative was the creation of a series of silo-based funds for the same purpose, often but not always targeted at urban areas. These included the Border Infrastructure Fund (2002–14), the Asia–Pacific Gateway and Corridor Initiative (2006–14), the Gateways and Border Crossings Fund (2007–14), the Public Transit Fund (2005–07), and the Public Transit Capital Trust (2006 and 2008).

The third change was the assignment of long-term commitments of gasoline tax revenues to cities – launched by Prime Minister Martin under the umbrella of a “New Deal for Cities” in 2003-2004. Notably, the terms for these transfers have changed from one government to the next, even if the flow of investment has continued. The federal government clearly intended for these dollars to help with city infrastructure, but the terms and conditions for gas tax transfers are all negotiated directly with each province.

By one federal government measure, Canada spent an estimated \$55b<sup>9</sup> in additional funding on municipal, regional and urban infrastructure since 2002. As suggested earlier, far too much of this funding has been released on a silo-by-silo, program-by-program, project-by-project basis that has not coherently addressed differences in priority and capacity in each city-region. Even the parameters for gas tax transfers changed repeatedly since the program’s inception. Worse, the existing model for federal intervention on a range of urban issues literally gives cities an incentive to avoid long-term planning, prioritization and benchmarking, since all local policymakers know that program commitments are likely to be disrupted by changes in government, changes in funding models, new funding opportunities or other political uncertainties.

To be absolutely clear, the CGCC recognizes and applauds the important contribution these federal investments have made to the progress of Canada’s growing cities. To understand why the CGCC still feels the need for a National Urban Strategy to channel future investments, it helps to assess the limits of the progress provided by these interventions based on a review of outcomes, rather than just by dollars spent.

## GOALS AND OUTCOMES: WHAT HAS INTERVENTION ACHIEVED SINCE THE “NEW DEAL”?

The first federal investments into infrastructure began in 1994. The “New Deal for Cities” initiative at the federal level began in 2003-04. Significant provincial-level changes to infrastructure funding policy have been scattered through the years since. These included the B.C. government’s assignment of gas tax surtax authority to Metro Vancouver’s Translink in 1998, the Quebec government’s tax on vehicle registrations to finance regional transit in 2011, and the Ontario government’s recent commitment to increase provincial gas tax transfers in 2018-2019.

At first glance, these steps represent progress, even if the progress is inconsistent from one city-region to the next. However, the progress is limited if we measure whether these policies moved the needle against any measurable local or national objectives, rather than simply measuring them against the standard of increased funding.

The fact that there are no agreed-upon measures of what success looks like against shared objectives is part of the problem. Even as the federal government spends more on infrastructure and other urban initiatives, it continues to bypass any effort to establish common goals or standards to assess those investments. Instead, we are forced to rely on third-party or anecdotal measures to make the larger point.

### Measuring progress on new infrastructure construction

While new investments have been welcome, it is unclear how well recent interventions improved the relative quality of our infrastructure. There are two available measures of success on this front:

- Are cities attaining a desired level of *new* infrastructure construction given our desire to be economically competitive with other global cities?
- Are Canadian cities keeping up with their competitors abroad?

On the first question, the best available metrics are the FCM’s own effort to measure the infrastructure deficits, and measures of infrastructure shortfalls within individual cities. In addition to tracking of maintenance shortfalls, the FCM has also produced separate estimates of the anticipated (and often unfunded) cost of future local needs. The figures collected typically represent all FCM member municipalities; however, the bulk of costs considered are for major urban areas.

In 2007, the FCM’s priced estimated future needs at \$115b. Partly in response to criticism that new infrastructure goals did not really represent an ‘infrastructure deficit,’ the

FCM has not consistently tracked this gap. To put the demand for new infrastructure in context, note that Toronto has \$2b in unfunded transit maintenance on its capital plan as of mid-2017. That “deficit” grows to \$15b once adopted plans for new construction are added. Projects that have not yet been fully approved or designed – like the Eglinton West LRT to Pearson Airport – are not included in that total.<sup>10</sup>

On a case-by-case basis, Canada clearly has developed more infrastructure since federal investments in infrastructure accelerated in the 1990s. For example, project-based funding has succeeded in building out the LRT network in Alberta’s two major cities faster than transit construction in comparable American cities.

However, measured against infrastructure growth in comparable European and Asian cities, Calgary and Edmonton’s transit networks both fall behind, and the state of new Canadian urban infrastructure in general remains weak relative to our counterparts abroad. The Pembina Institute found that Vancouver, Calgary and Toronto collectively built an additional 91km of rapid transit service over the previous twenty years.<sup>11</sup>

By comparison, with roughly the same population, metropolitan Madrid nearly doubled that pace of construction over the same period. On a broader level, the Global Competitiveness Report measures overall international infrastructure quality, and Canada ranked 16<sup>th</sup> in both 2015-2016 and 2017-2018 reports, well behind where we should be given both the strength of our economy globally, and our comparable performance on other indicators.<sup>12</sup>

To add to this challenge, there is no consistent measure of civic capital needs for information technology. Some cities include IT replacement in their infrastructure shortfall estimates, but many do not. The federal government and major Canadian urban centers must match their rhetoric with investments in the replacement of legacy IT systems before the potential of “smart cities” can be realized on a scale seen in other global cities abroad. Those shortfalls are rarely reflected in already-stretched civic capital plans.

### Measuring progress on infrastructure maintenance

Nowhere is the disconnect between increased intervention and the lack of measurable outcomes clearer than on infrastructure maintenance. Until recently, maintenance was excluded from consideration for most cost-shared projects. Some previous tranches of gas tax spending even prohibited the use of these transfers for maintenance. Even now, federal investments remain overwhelmingly targeted toward new infrastructure only.

In the absence of clear national targets measured against consistent standards, the FCM is still the leading voice on tracking and reporting the scale of Canada's infrastructure maintenance deficit at the municipal level.

In 2012, with the FCM's cooperation, a coalition of organizations began to publish a "Canadian Infrastructure Report Card,"<sup>13</sup> – a comprehensive survey of the state of municipally-held infrastructure in four asset classes. As of 2012, this survey found that 30% of municipal infrastructure was rated at "fair," "poor" or "very poor" quality and in need of maintenance investment. In 2016, a follow-up report found just under 35% of infrastructure assets fit those categories.<sup>14</sup> Be it financially, or in the overall quality of our asset maintenance, other civic level measures have us treading water at best. For example, Winnipeg's estimate of its ten-year infrastructure maintenance deficit has grown from \$2.84b in 2009 (in current dollars) to \$3.8b in 2017.<sup>15</sup> And despite increased investments in 'state of good repair' and one-time federal maintenance funding, the Toronto Transit Commission expects its repair backlog to grow rather than shrink from 2017-2026.<sup>16</sup>

### Measuring progress on fiscal capacity

Without the capacity to finance more infrastructure or repair work, cities cannot catch up on either new or existing infrastructure alone, especially if projects are cost-shared.

Two major challenges remain with the overall fiscal imbalance. The first is own-source revenues. Own-source revenues matter given the challenges of civic capital financing. Municipal governments traditionally avoid borrowing against provincial or federal transfers, as bond raters rightly regard these revenues as at-risk of arbitrary changes in government policy in the absence of any long-term funding guarantees. The result is that cities must either borrow against property taxes that are already high relative to those in other global cities, or they must borrow against other revenues – which are all but unavailable, and likely to remain so, in most Canadian cities.

Since lobbying began for a 'New Deal,' there has been modest change in the revenue mix of municipalities as provinces responded to this challenge. Winnipeg has a hotel tax, while Toronto and Brampton are expected to share hotel tax authority soon. Toronto earns hundreds of millions annually from a new land transfer tax authorized by the province. Montreal's transit agencies receive dedicated provincial revenue streams for transit, and Vancouver's Translink can and does use its power to charge gas taxes higher than the provincial baseline within the Metro boundary. Still, few of these modest changes have done anything to shift local reliance on property tax in any meaningful way.

In cities across Canada, the status quo on property taxation has also meant cities stubbornly retain a long-term habit of taxing business property values at rates twice, three times or even four times as high as residential properties.

As noted earlier, the "unbalanced equal partnership" approach to capital project financing has also led to unsustainable debt challenges. Of eight CGCC member cities, at least five (Vancouver, Calgary, Edmonton, Winnipeg and Toronto) would likely breach their debt targets within the next decade if infrastructure investments accelerated significantly, while Montreal and Calgary are deliberately increasing the use of cash financing to minimize further debt exposure.

If we expect cities to invest more to join in on federal-provincial projects, even a more equitable basis, we will quite literally hit an urban debt wall within a few years, as cities will be forced to constrain their long-term capital plans in anticipation of hitting their debt limit. If we want to keep building and maintaining urban infrastructure in Canada beyond that wall, there are only four possible ways around it:

- Provinces (or cities, if debt limits are voluntary) can raise debt limits without otherwise changing their financial profile, leading to a rapid hike in credit risk;
- Provinces can give cities more authority to raise alternative own-source revenues, a prospect that has faced political resistance at almost every turn;
- Higher orders of government can give cities more cash on a long-term or per-project basis, in enough quantity to avoid the need for more city debt financing; or
- Higher orders of government can guarantee debts financed by federal or provincial transfers – which means those same governments must effectively guarantee that those transfers are permanent over the life of any particular project's financing cycle. This was the approach proposed by the previous federal government in 2015 to facilitate increased use of P3 financing.<sup>17</sup>

In the United States, most major cities have charter room to increase own-source revenues to support capital debt, often conditional on voter approval. Elsewhere in the developed world, the tendency has been for greater use of direct federal financing for major plans and projects. As the Parliamentary Budget Office noted in a recent report, in Canada, the federal government is uniquely placed in fiscal terms to lead a shift to a more strategic urban finance model, as "current fiscal policy at the federal level is sustainable over the long term," while fiscal policy and capacity for 'subnational' provincial and municipal governments is not.<sup>18</sup>

### Weaknesses in the Current Model

After almost a quarter-century of lobbying, investment and intervention by higher orders of government, Canadian cities face roughly the same challenge with urban infrastructure of all types that they did in the early 1990s. This lack of substantial progress can be attributed to lack of resources. However, there is also reason to believe outcomes could be better with a long-term strategy, with or without additional resources. A change in approach would, by definition, require new federal policies to outflank a series of weaknesses that are often seen with the 'New Deal' era infrastructure model.<sup>19</sup>

These weaknesses include:

- **Staging and timing challenges.** The current approach of committing to projects rather than financing a broader plan means governments often adjust plans to fit the funding, rather than adjusting funding to fit available plans. For example, the Scarborough Subway Extension will not be shovel-ready until the mid-2020s. Yet federal funds committed to the project will remain locked-in and unused on the books as part of Toronto's share of transit investment, while construction could begin on other unfunded projects or maintenance priorities sooner.
- **Little room for maintenance.** Only recently, federal initiatives allowed for project funds to be used for limited maintenance. Maintenance of existing assets – like ongoing road and bridgework in Montreal – is often the highest evidence-based priority in many cities. Despite repeated claims by senior governments that prioritization is driven from the local level, Winnipeg was recently told that it did not have federal support for its longstanding top priority – regional road repair – from the Building Canada Fund due to a lack of provincial backing.<sup>20</sup> Given the fact that basic maintenance is almost always "shovel-ready," a better approach would always flow some portion of funds to maintenance until specific targets for asset quality were met.
- **Unnecessary delays and inflexibility on timing.** The current model requires constant renegotiation of program terms, often conducted directly with provincial governments despite the intended urban and local targets of most investments. Bottlenecks often appear at the federal-provincial level.<sup>21</sup> Federal officials routinely conduct 'due diligence' on specific projects, even though there is little basis to believe that this additional layer of oversight has been effective in adding value. For example, Canadian Infrastructure and Communities Minister Amarjeet Sohi recently admitted that prevention of bid-rigging or other corrupt practi-

es was all but outside of federal capacity.<sup>22</sup> Meanwhile, the federal government announced in October 2017 that it had to re-budget \$2b in infrastructure funding it had intended to spend quickly into later years,<sup>23</sup> while the City of Toronto had to appeal to Ottawa to change deadlines for spending on a transit fund because it could not spend the money quickly enough.<sup>24</sup>

- **Lack of common metrics or clear goals.** This is critical. While the federal government has spent tens of billions in additional funding on municipal, regional and urban infrastructure, there is no common measure of the success of these investments outside of simple political traction. In 2017, the Infrastructure and Communities ministry's chief public metric of success is quite literally the sheer number of projects it is funding (over 3,000, as of mid-year). Without a consistent national measure of financial or maintenance shortfalls, there is little incentive for provinces or cities to develop alternative approaches (like private sector partnerships or dedicated transfers) to address them.
- **Lack of flexibility for local priorities.** In Brampton and Halifax, we see two recent examples where local priorities do not fit comfortably with a series of national programs. In Brampton, the City has recently identified the need for a local post-secondary university campus as a high priority – so much so that it is budgeting its own capital, supported by property taxes, to facilitate a campus development. In Halifax, local officials believe additional investment in the Port of Halifax (a federal crown corporation) and related freight infrastructure could make the Halifax region more economically competitive. Under normal circumstances, both problems could conceivably be addressed by other levels of government in the fulness of time, through provincial or federal programs targeted at each specific silo. However, both initiatives are high city and *municipal* priorities because of their potential impact on job creation, the economy, and (in Brampton's case) on the ability of the City to serve as a cohesive urban centre.<sup>25</sup> Yet, despite a recent effort by federal officials to broaden potential uses for gas tax funding, neither city could use those funds for either priority. Ports on lakes fall under the criteria set under Canada-provincial gas tax agreements, but ports on oceans do not. Cultural, recreational and tourism projects are eligible uses, but educational and research institutions are not. While many outlier priorities which fall outside program boundaries ultimately get funded based on selective decisions, it would be easier to just change how priorities drive the funding model.

### The Canadian Infrastructure Bank

Before going further, it is important to note that the federal government is introducing a new agency to support new infrastructure initiatives. Canada's new Infrastructure Bank will be headquartered in Toronto with a clear mandate to accelerate investment across Canada.

CGCC members and major Canadian urban governments have all welcomed this initiative, and with good reason. The Infrastructure Bank's resources are significant enough to make an important difference to the overall pace of new infrastructure construction across the country. Heavy construction industry leaders also hope the Infrastructure Bank can be a leading force in the spread of industry best-practices throughout the public infrastructure sector.

However, it is critical to distinguish between new infrastructure investment in general on the one hand, and investment in infrastructure designed to drive broader long-term outcomes in Canadian urban centres on the other. When the proposal for an infrastructure bank was first raised as a campaign promise by the incoming government in 2015, the clear intention was to assist local governments in financing the construction of new infrastructure to meet their local priorities. The words of the governing party's campaign platform were clear:

"We will establish the Canadian Infrastructure Bank to provide low-cost financing for new infrastructure projects.

The federal government can use its strong credit rating and lending authority to make it easier and more affordable for municipalities to build the projects their communities need.

Where a lack of capital represents a barrier to projects, the Canada Infrastructure Bank will provide loan guarantees and small capital contributions to provinces and municipalities to ensure that the projects are built."<sup>26</sup>

Unfortunately, the original commitment attacked the wrong problem. By international standards, Canadian municipal governments have no trouble raising cheap financing. Since most provinces can often obtain cheaper credit than cities can, some provincial governments use agencies – like British Columbia's Municipal Finance Authority – to pool bond and debenture issues to obtain competitive rates. These agencies offer implied provincial guarantees on municipal borrowing. (For the record, these agencies of-

ten also serve as a vehicle for provinces to limit municipalities from borrowing for local priorities).

Even in provinces (like Ontario or Manitoba) that lack a provincial agency to facilitate municipal borrowing, Canadian cities have been able to obtain low-cost financing for decades. That trend has continued into 2017. The challenge has never been a lack of cheap borrowing or financing options, *per se*. The challenge has been that the availability of cheap financing will soon run out thanks to legal debt limits, limited cash flow to support debt from own-source revenues or transfers, or (most likely) some combination of both.

Since the election, the concept of the Infrastructure Bank evolved away from this original proposal. While it was once meant to help municipalities address the fiscal, development and maintenance goals discussed above, it is now focused on a more targeted scope of investing in projects that are likely to attract private risk capital through public-private partnerships.

This shift should offer important benefits to cities. It will mean a net increase in cash deployed for infrastructure than would otherwise have been the case. However, the change in goals and mandate also dramatically reduces the potential scope of this federal intervention in infrastructure policy. First, if cities serve as the lead on any conventional P3 financed by with the Bank, they will still face the same problems noted above with debt limits, as P3 liabilities are almost always counted alongside conventional debts under current Public-Sector Accounting Board rules.

Further, the Bank is most likely to be financing projects that are likely to generate their own revenue streams – like port and airport improvements, development projects, or transit projects with specific real estate development opportunities attached. To put it another way, the Bank may fuel investment in exactly the sort of projects that were already best-positioned to draw private partners if municipalities or agencies had offered the right deal structure to investors.

Meanwhile, areas where Canadian cities are lagging – the construction of public transit in existing, built-up areas, maintenance for roads, bridges and waterworks or the construction of flood prevention infrastructure – will again be out of scope. The Infrastructure Bank, like other projects before it, is a welcome, needed and useful initiative that will add to overall investment, but it is not a substitute for a strategy; it is at best a component of a National Urban Strategy that is not yet in place, but could be.

PART 2:  
**INTERNATIONAL  
MODELS FOR A  
NATIONAL URBAN  
STRATEGY**



Brussels, Belgium  
 Getty Images

## OTHER NATIONAL MODELS

To get better and more strategic results from federal support for cities, this paper calls for development of a National Urban Strategy for Canada. The strategy would set urban goals city-region by city-region (especially, but not exclusively, for infrastructure). It would identify short-falls in planned efforts to reach those goals, and provide a framework to correct those gaps with a flexible plan.

This is not a novel idea. The notion of a “National Urban Strategy” or “National Urban Policy” to formalize intergovernmental interventions in urban affairs is so common elsewhere that the Organization for Economic Cooperation and Development (OECD) defines, ranks and tracks their use in the developed world.

Drawing on United Nations action on urbanization, the OECD defines a national urban policy as a “coherent set of decisions,” in which governments lead and coordinate various actors to a common goal of more productive, inclusive and resilient urban development.<sup>27</sup> Overall, these policies often prioritize economic development goals, but they often also include environmental, social and urban development objectives.

Typically, the OECD does not consider a ‘national urban policy’ to be truly national unless there is a designated agency to lead it, be it a central unit within a Prime Minister’s or President’s office, a ministry, a cross-departmental unit of staff experts, or some subnational agency operating with the blessing of the national government.<sup>28</sup>

Of the thirty-five members of the OECD, a strong majority have some elements of a national urban policy

already in place. Fifteen members explicitly meet the OECD test of having a complete national urban policy or strategy. Among them, one-third are in the formulation stage, one-third are in the implementation stage, and only four have reached full implementation with monitoring and evaluation. Five of the members that partially meet the OECD test are also monitoring and evaluating their progress despite incomplete plans. South Korea has been on this track since 1972, longer than any other country, with its fourth consecutive twenty-year urban strategy due to wind up in 2020. Most tellingly, among the nine OECD members with federal systems of government, only two – Canada and the United States – do not have or are not actively pursuing a single national urban policy along these lines. Not coincidentally, these are also the two countries in which challenges in infrastructure quality are measured by private-sector engineering organizations producing so-called ‘report cards,’ rather than by government agencies measuring progress against neutral criteria.

Five countries are pursuing or have implemented national urban policies or strategies. In four – Australia, Belgium, France and the Netherlands – individual, nationally-funded city deals or city-driven contributions to a nationally-funded plan have been the chief policy tool for implementation of the strategy. The fifth – the United Kingdom – is currently engaged in a process of urban devolution, negotiating customized devolution deals with leaders in city-regions to increase local authority based on local needs.

### Belgium

The progress of Belgium's National Urban Policy should be of particular interest to Canada, given the complexity of Belgian federalism. Prior to 1999, cooperation on urban issues had been led regionally by Wallonia, Flanders and the Belgian Capital Region, in strict adherence to the principles of the national constitution.

A 1999 plan established a more consistent and explicit approach to urban policy across the whole country, albeit only within targeted policy areas. The policy tool of choice for this "Federal Big City Policy" (*Grootstedenbeleid*) was a series of contracts between seventeen cities and the national government. Each contract defined specific objectives in social cohesion, the environment, and transportation. Each contract formalized inter-ministerial cooperation on the national level as well as alignment of goals through every level of the Belgian governmental hierarchy. Contracts are renewed annually. Outside of those contract areas, Belgium's regions maintain policy leadership in any effort to work with urban centres on broader policy goals.<sup>29</sup>

### The Netherlands

Since 1994, the Netherlands has been incrementally building a national urban policy, starting with its four largest cities. Between 2005 and 2009, thirty-one large and medium cities had established agreements with the central Dutch Government in which city governments were the prime driver in deciding how to achieve nationally set goals, including improved integration and citizenship, investing in youth, improving residential districts, increasing security, and strengthening the economy.<sup>30</sup>

The most recent incarnation of this strategy is the Dutch Urban Agenda (*Agenda Stad*). Since 2015, Dutch governments have been using the Dutch Urban Agenda as a vehicle to follow up on core objectives, to reduce bureaucracy between levels of government, to tighten up agreements between the central Dutch Government and cities, and to build-in more local flexibility to achieve targets. The latest policy also increases integration with urban goals set out as part of the European Union.<sup>31</sup> The World Economic Forum ranked the Netherlands' infrastructure quality as 3<sup>rd</sup> in the developed world as of 2017.

### France

The central French Government had made many targeted interventions in urban policy since as early as 1977 with plans to address increasing needs for social housing. In 1988, the Committee for Cities was established as an inter-ministerial body to centralize management of urban

policy across all affected portfolios. Here, again, contracts between cities and the central government were the tool of choice to formalize relationships with cities. In 2007, a system of three-year 'Urban Contracts for Social Cohesion' between the central government, regional governments and cities began to replace city-level contracts. Specific goals include the improvement of conditions in "deprived neighbourhoods" with improvements sought in areas including education, access, employment, and security. The result: in 2017, the World Economic Forum ranked French infrastructure quality 7<sup>th</sup> in the developed world.

The most recent round of these agreements began in 2014, targeting resources at specific objectives for economic development, social cohesion, improved living conditions and urban renewal. The central government also reformed metropolitan governance to better divide responsibilities on urban policy.<sup>32</sup>

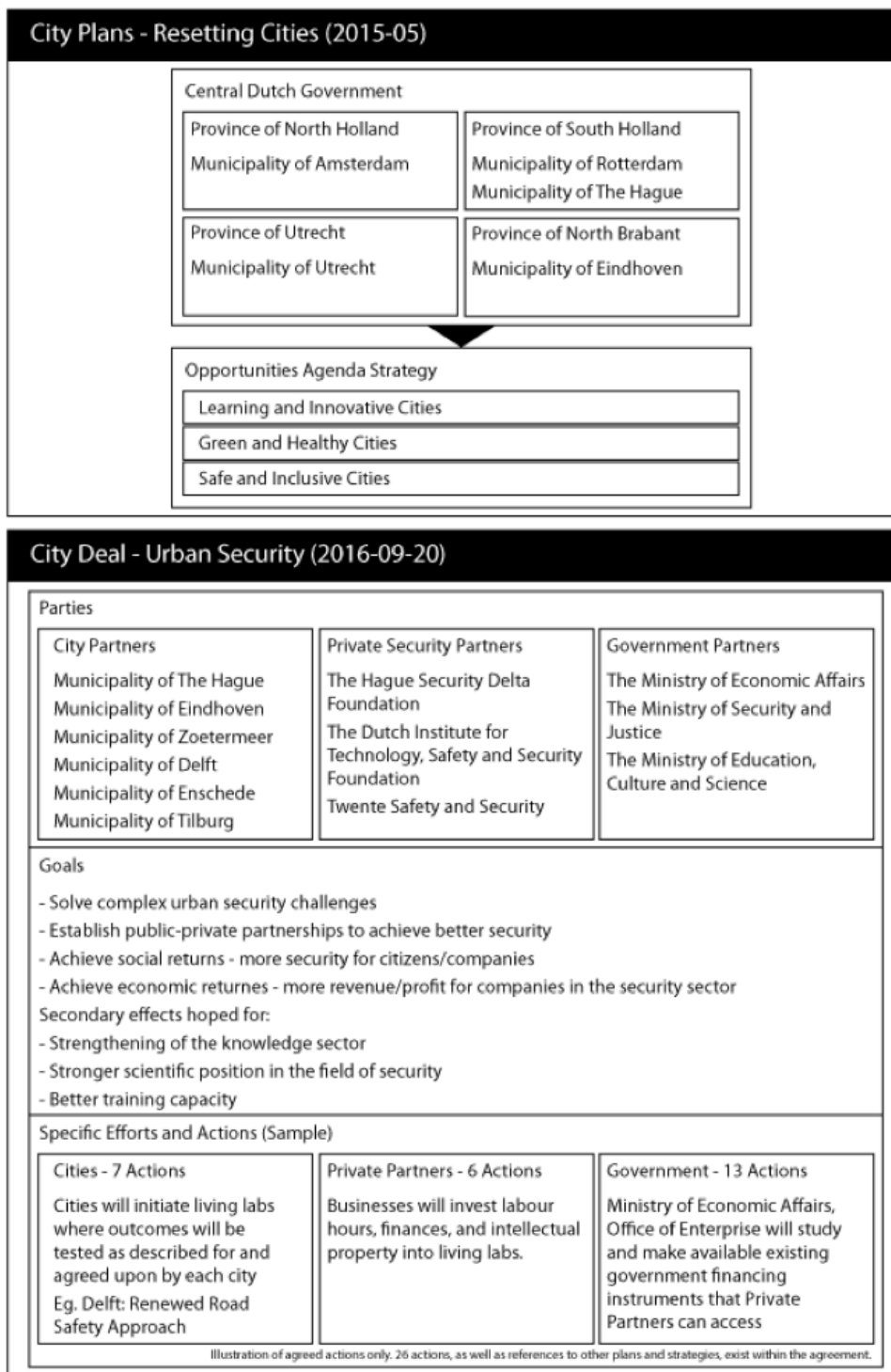
### The United Kingdom

Until recently, the United Kingdom was one of the most centralized nation-states in the western world. Since the 1990s, the UK has gradually moved some central government authority to a Greater London Authority and to regional governments in Scotland, Wales and Northern Ireland, however, that process has had little focus on urban priorities as a group. In October 2012, that changed with Lord Heseltine's *No Stone Unturned: in Pursuit of Growth* report, commissioned at the request of the Coalition government. Heseltine had been tasked with considering policy measures to broaden British economic growth outside London.

Heseltine's most far-reaching conclusion was that too little money and power was in the hands of urban and regional leaders, especially in northern England. His proposed solution: move almost £50b from Westminster directly to local and regional authorities, with a focus on transferring funding and responsibility for economic levers like transportation, education and skills development.<sup>33</sup>

Since then, the UK has embarked on an asymmetrical process of localization, formally awarding authority to deliver selected national programs and infrastructure priorities with urban value to regional authorities in Manchester, Liverpool, Birmingham and other centres through so-called devolution deals. Notably for Canadian purposes, existing local economic partnerships (LEPs) were created to formally engage local economic and business leaders were direct participants in the negotiation of these deals. Many LEPs now operate under the aegis of the devolved regional authorities.





A "City Deal" built under the Urban Agenda: the Dutch Urban Security Agreement of 2016. Source: Ev Delen, Evolution Consulting.



Aerial View of  
Sydney Harbor  
in Australia  
Getty Images

### AUSTRALIA'S "OUR CITIES, OUR FUTURE" INITIATIVE

Canadian local governments face two long-term structural challenges: a fiscal imbalance, and an imbalance of legal and constitutional authority that makes it more difficult to address that imbalance. Australia's effort to create a national urban strategy in the mid-2000s deserves recognition, since the Commonwealth's cities face similar challenges. Australian cities are also considered "a statutory creature of state government legislatures..."<sup>34</sup> even though three-quarters of Australians now live in cities with populations of 100,000 or more. Further, Australia's federation is built on what political scientist Richard Tomlinson called an "extreme vertical fiscal imbalance"<sup>35</sup> much like our own.

In December, 2007, a new Australian government was determined to outflank these barriers. To signal its interest in moving ahead on a national urban policy, it established a Major Cities Unit (MCU) within the Department of Infrastructure, Transport, Regional Development and Local Government. MCU staff were based close to

Infrastructure Australia, a new statutory body mandated to provide independent research and advice to governments. In 2012-13 the Major Cities Unit had a staff of around ten, and a budget of \$1.48 million.<sup>36</sup>

While resources were modest, the MCU was given clear authority to operate laterally – across portfolios and ministry silos - as well as longitudinally – across all orders of government and directly with the private sector and community organizations.

The Council of Australian Governments (COAG) is an organization similar in scope to Canada's Council of the Federation, but with a representative of the Australian Local Governments Association as a full member. By December 2009, the national government had persuaded the COAG to agree that by January 2012, all states and territories would develop long-term strategic plans which integrate land-use, infrastructure, and transport priorities for each of their respective capital cities. To qualify for national funding from various funding envelopes, the plans had to identify

investment priorities, implementation arrangements, and funding sources.

All three levels of government cooperated in the development of the plans to align priorities and manage expectations. One intended benefit of intergovernmental cooperation: reduce misalignment of land use plans within some jurisdictions, as well as reducing inconsistency between land use plans and infrastructure proposals submitted for consideration by Infrastructure Australia.

The Council of Australian Governments vested responsibility for developing the capital cities strategy with the COAG Reform Council, a semi-autonomous group created in 2006 to improve the effectiveness of government services, reduce prescriptions on service delivery by the Commonwealth, increase flexibility in service delivery, and provide clear specifications on roles and responsibilities of each level of government.

In their submission to the government on the development of the National Urban Policy the Council of Capital City Lord Mayors stated that a 1990's era national urban planning strategy titled Building Better Cities Program would be a good model to emulate, but that local governments must be formally included as a partner. Furthermore, a long-term planning and investment framework focusing on public transport should be part of the National Urban Policy, particularly with regards to the promotion of intercity and interstate trade productivity through better road and rail access as well as airport and port improvements.

To coordinate the development of plans across the diverse Australian federation, the national government led several studies to gather urban policy information. To support land-use dependent targets in the emerging plans, in May, 2010 the national government undertook "a benchmarking study into Planning, Zoning and Development Assessments" with a focus on compliance costs, competition, and overall efficiency and effectiveness. In December 2010, a discussion paper was released comparing the governance and planning of Australian cities.<sup>37</sup>

As the culmination of these efforts, in May, 2011 the Australian Government released their National Urban Strategy: *Our Cities, Our Future*. At the local and regional level, implementation of the strategy was devolved; a city or metropolitan region's local plan would be eligible for direct financial support from the national government if it was consistent with the broad objectives in the national plan – and again, local plans had been developed with national support (through the MCU and Infrastructure Australia) and with national political input (in the collaborative planning process). The policy sought to achieve fourteen objectives within three goal areas: "Productivity,"

"Sustainability," and "Livability," as well as to ensure good governance practices and set out short, medium, and long-term implementation strategies.

- **Productivity.** Initiatives in improving labour and capital productivity were to include strategies to address labour force demand by planning for placing employment precincts closer to existing residential areas, and cluster development by industry and city-region. Integration of land use and infrastructure was to be achieved by agreement between all orders of government on implementation of national ports and land freight network strategies as well as implementation of a strategy to protect economic infrastructure corridors. Urban infrastructure efficiency improvements with the goal of maximizing returns on new and existing infrastructure were to be achieved through initiatives including the development of a working group to increase private and pension sector investment in infrastructure.
- **Sustainability.** Protections for the natural and built environment were to include investments by the Commonwealth government to support sustainable development, as well as grants to assist municipalities with the management and conservation of heritage places. Greenhouse gas emissions were to be reduced and improvements to air quality achieved through initiatives including investments in low emissions technologies, more stringent emissions standards for new vehicles, and changes to the building code. Resource sustainability goals were to be achieved through initiatives including better consideration of water and energy use in infrastructure planning.
- **Livability.** Shared objectives for the development of affordable and accessible housing were to be met through State, Territorial and local initiatives to reduce barriers to housing construction, alongside a variety of local-specific incentives. Improvements to housing affordability were to be achieved through encouraging housing closer to facilities, services, jobs, and public transport as well as rationalization of existing Commonwealth programs and land holdings. Objectives relating to supporting community wellbeing were to be achieved through the development and adoption of an Australian *Urban Design Protocol*, promotion of healthy lifestyles, as well as other initiatives.
- **Governance.** Over and above initiatives to streamline planning, infrastructure delivery and shared data collection, the strategy launched an annual *State of Australian Cities* report to track progress of cities in achieving objectives in addition to other reports and feedback.

## THE DEMISE OF THE AUSTRALIAN NATIONAL URBAN STRATEGY - AND LESSONS LEARNED

In November 2012, the *Our Cities, Our Future* plan was circulated for another round of consultation, and implementation plans were in place by mid-2013. However, “no significant urban outcomes can be attributed to *Our Cities, Our Future*.”<sup>38</sup> The problem, as is often the case, was a matter of poor political timing. Just as the plan was coming to fruition, in September, 2013, a change in government resulted in a radical change in approach.

Some features of the strategy remain in place, including the push for a common urban design protocol, and the use of Infrastructure Australia as a neutral agency for the assessment and tracking of national infrastructure priorities. However, the new government’s anti-urban shift in policy meant that Australia’s infrastructure funding agencies would only support “projects of national significance.” Urban rail projects were cut, the city-led approach to setting priorities was jettisoned, and the Commonwealth government pulled back from a range of initiatives designed to fight congestion, promote housing development and meet environmental targets. The MCU was shut down.

The results speak for themselves. The Commonwealth government came under attack from several quarters, and infrastructure disputes between levels of government have become routine.<sup>39</sup> The politics of this descent back into ad hoc planning led to inevitable political outcomes, too. In 2016, the Commonwealth government moved to cope with the blowback with a new ‘Smart Cities’ policy that resembled a national urban strategy in scope, if not in spirit. However, the funding

model remained nationally focused, and competitive rather than strategic. In the Prime Minister’s view, “the Australian government has traditionally provided grants for infrastructure,” but grants did not provide an incentive to innovate. The Commonwealth’s new role would now be to “broker investment in landmark projects.” Despite the radical change in funding models, the plan incorporated a specific political goal: a “vision” of bringing the average Australian commute to thirty minutes or less. This effectively acknowledged that the national government did have a role in city-level outcomes after all. Notably, this latest shift away from locally-driven priority-setting remains as controversial as the initial decision to reverse course on *Our Cities, Our Future*.

The sum of the Australian experience is not ideal, on two counts. First, the initiative to build the *Our Cities, Our Future* plan took several years. Second, the untimely change in government just as the plan began to be implemented left observers with little room to assess the merits of this approach.

However, the high quality of urban infrastructure and the consistent success of urban policy in countries like Belgium and Holland attests to the value of an agreement-based, city-driven approach to implementing a national urban strategy, while the Australian *Our Cities Our Future* offer a model of delivering that approach which can overcome the challenges of Canadian federalism. Australian federalism mirrors our own, with similar legal precedents. Yet Australian leaders were able to build a plan that foregrounded local priorities and policies, without compromising on the explicit understanding that the “constitutional roles of States and Territories will be respected.”<sup>40</sup>

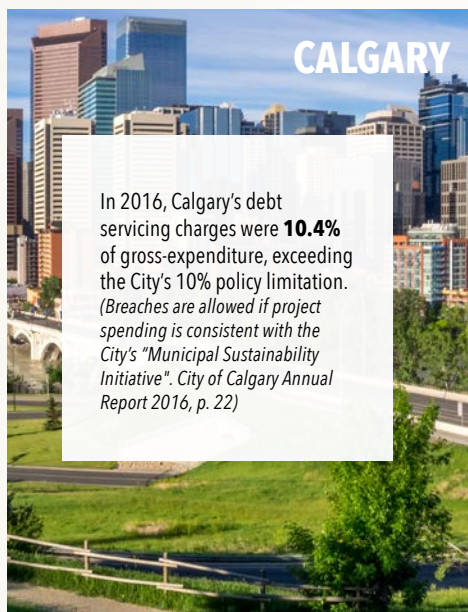
## DEBT MANAGEMENT AND DEBT LIMITS IN CGCC CITIES

Canadian cities often have provincially-imposed debt limits, formal debt limit targets adopted as policy, or both. Respecting these limits is a key component to municipal creditworthiness. These limits and targets represent a ceiling on municipal room to surge infrastructure spending that does not exist at the federal or provincial levels. Halifax and Brampton have considerable room to maneuver on debt, but other CGCC cities with larger infrastructure burdens could face medium-term challenges if forced to match federal-provincial spending power to access infrastructure investments.



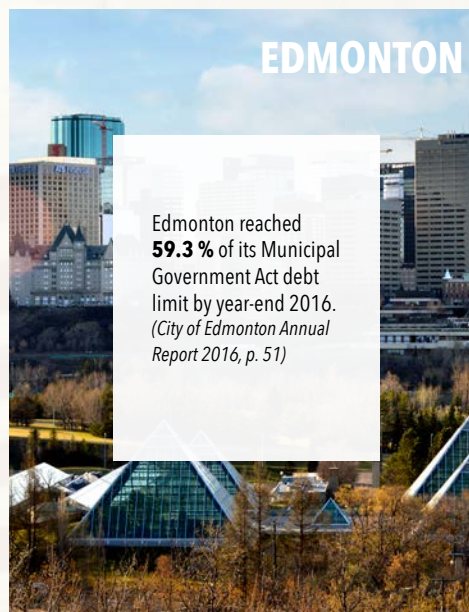
### VANCOUVER

Vancouver's current budget plan calls for the City to come close to its debt servicing target in 2020, and then stabilize at a slightly lower level thereafter. *(City of Vancouver 2018 and Five-Year Financial Plan, p 21-22)*



### CALGARY

In 2016, Calgary's debt servicing charges were **10.4%** of gross-expenditure, exceeding the City's 10% policy limitation. *(Breaches are allowed if project spending is consistent with the City's "Municipal Sustainability Initiative". City of Calgary Annual Report 2016, p. 22)*



### EDMONTON

Edmonton reached **59.3%** of its Municipal Government Act debt limit by year-end 2016. *(City of Edmonton Annual Report 2016, p. 51)*



### TORONTO

Toronto is currently projected to breach its Council-adopted debt limit in 2020. *(2018 Preliminary Operating Budget & 2018-2027 Capital Budget & Plan presentation, slide 52).*



### WINNIPEG

Winnipeg had reached **72%** of one of its adopted debt limits – gross debt as a % of tax-supported revenue – at year-end 2016. *(City of Winnipeg Preliminary 2018 Operating and Capital Budgets, slide 38)*

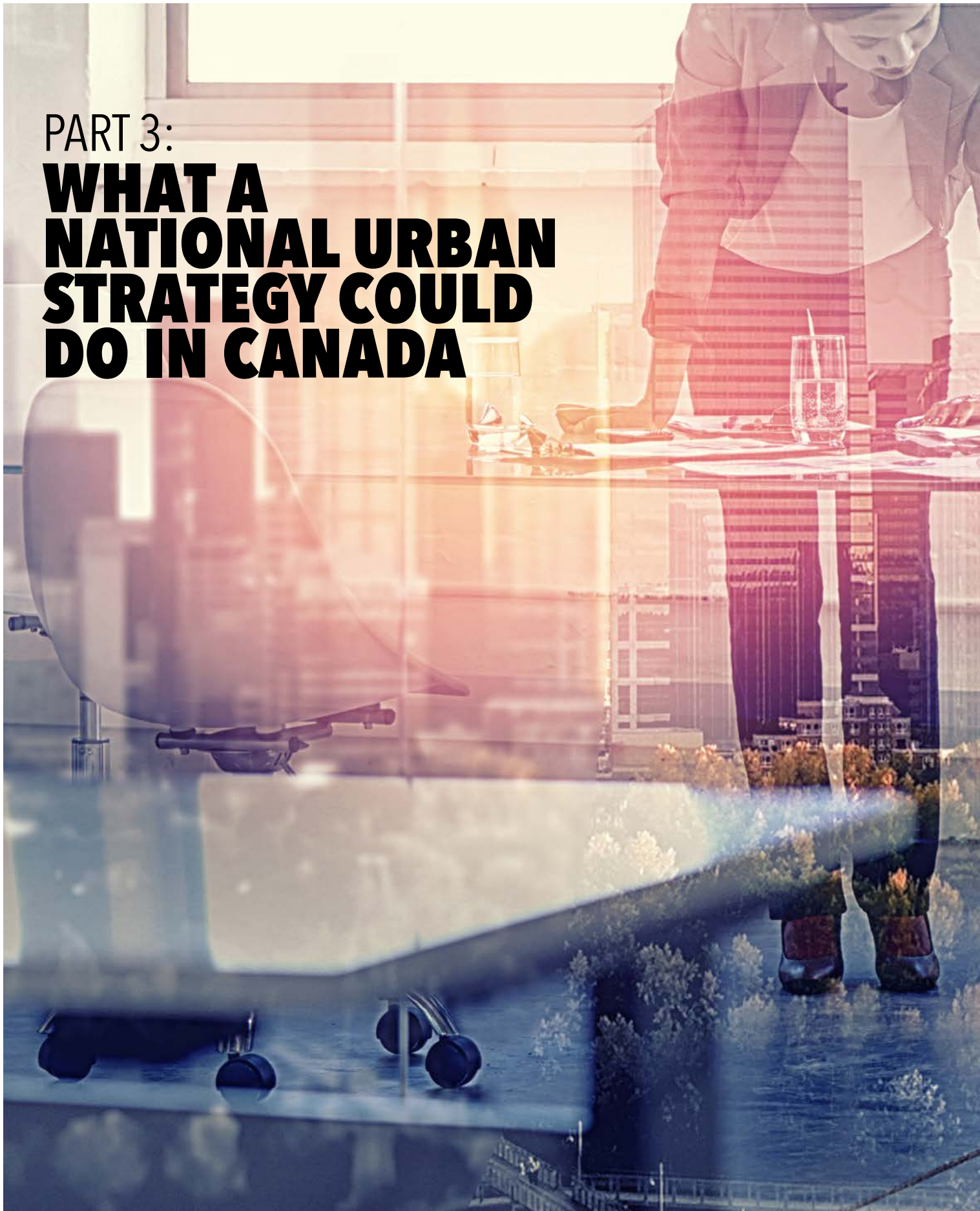


### MONTREAL

Montreal's ratio of debt to tax revenues in 2015 was the highest by far of any major city in Canada, exceeding **3:1**. Montreal is already increasing the use of cash for capital projects to limit further debt exposure. *(Almos T. Tassonyi, "The Context and Challenges for Canada's Mid-Sized Cities," University of Calgary School of Public Policy Briefing Note, Volume 10, Issue 9, May 2017 p. 12.)*

PART 3:

# WHAT A NATIONAL URBAN STRATEGY COULD DO IN CANADA





We believe a true National Urban Strategy can be a more effective alternative to a disjointed series of programs and funding envelopes. Drawing on the experience of other countries, including the Australian development of *Our Cities, Our Future*, the CGCC proposes that the federal government lead the development of a National Urban Strategy for Canada within the next two years.

As noted above, this will not require a change to our constitutional order, just as it did not in Australia. What is needed is intergovernmental recognition that current practices may not be the only approach that can work within that order.<sup>41</sup> To wit, in 2001, the federal government reportedly considered both the development of a national urban strategy and a cities ministry – but rejected both on the grounds that “cities are under the responsibility of provinces.”<sup>42</sup> Yet, it began to flow funding anyway, with the full support of the provinces, without building the management infrastructure to support those investments with a strategy.

In our view, it is more reasonable to operate as if the legal structure of Canadian municipalities is wholly within provincial jurisdiction. On the other hand, the policy challenges of urban Canada are shared between all three orders of government, and roles should be defined and respected accordingly. Setting broad national goals for the overall fiscal, economic and physical resilience of urban Canada is legitimately within the national interest, at least to the degree that national governments should be free to cooperate directly with cities, metro-regions and provinces to ensure its funding is actually invested toward those goals. If this was not the case, provinces should not have spent the last two decades accepting and rerouting billions in federal funds intended for that purpose.

Cities may be “creatures of provincial law” in structural terms, but those same laws also empower city leaders to act on behalf of their residents. It is consistent with that authority to allowing cities to take the lead on developing city-region plans, negotiated in cooperation with the provinces, other stakeholders and agencies.

A true National Urban Strategy would:

- Formally designate a departmental unit, agency or other group within the federal government to monitor, organize and develop urban policy across departmental silos. Other countries have used an office within a central agency (e.g. the PMO or Cabinet Office), a cities ministry or public service policy unit to achieve this outcome. It should be possible to create this unit from existing resources, and it should engage advisors with private sector infrastructure management experience.

*(This step would be led by the federal government)*

- Assign to this agency a true federal leadership role in problem identification, data collection, and best-practices development in the field of national urban and economic infrastructure, learning from the experience of politically-neutral public service infrastructure agencies like *Infrastructure UK* and *Infrastructure Australia*. The fact that Canadian infrastructure maintenance shortfalls are tracked by non-profit advocacy groups – and not by the federal government itself or some other central government authority – is telling weakness in the Canadian approach. Without national tracking and national identification of barriers like construction capacity, any urban infrastructure program will continue to be an ad hoc process of funding announcements, transfers and one-time measures, disconnected from the very problems it aims to solve.

*(This step would be led by the federal government, in consultation with provincial and local infrastructure and public works leaders)*

- Set broad goals that work across Canada to help measure progress against national urban priorities at the local level.

*(This step would be led nationally by the Government of Canada, at the political level, in cooperation with the new central policy unit, in consultation with provincial governments, local governments and key private and non-profit sector leaders).*

- Develop long-term, contractual agreements between cities and city-regions, the federal government, provincial partners and private and non-profit stakeholders, re-targeting existing (and, in the future, new) federal funding to deliver on adopted urban policy priorities.

*(This step would be led by local governments or metro-regions in consultation with provincial governments, economic leaders, private sector partners and local stakeholders – see below).*

These are the steps required to deliver the benefits seen from national urban strategies in other countries. It is also important to note that these steps must be supported by shifts in policy and approach to be effective.

These shifts must include:

- **Collaboration.** In the first year of a national urban strategy development process, the federal government would identify programs and initiatives with a significant urban impact across the federal sphere. It would engage city, city-region, regional agency, educational, business and provincial leaders in the development of a priority list for investments and related policy goals (e.g. construction skills development to improve local capacity, urban indigenous policy).

How federal officials organize this effort is less important than the fact that the effort transcend departmental silos, and mobilize all pertinent governments, sectors and stakeholders to collaborate on city and city-region plans. Within areas of municipal government jurisdiction, municipal leaders would be tasked with identifying priorities over the next ten and twenty years, including evidence-based targets for new infrastructure construction outside of municipal jurisdiction, city leaders would share input into the development of priorities with federal, provincial, economic, institutional and community leaders.

- **Planning.** Once goals had been set, cities would be expected to take the lead, in cooperation with provincial and regional partners, on the submission of an implementation plan. The expectation is that these plans would be more detailed than existing capital budgets, with greater focus on alternative funding opportunities, partnership goals for projects led by other actors, and realistic estimates of timing, staging, cash flow needs and capacity challenges. Where funding gaps appeared, these would be candidly identified, and work would begin to fill those gaps through alternative financial approaches appropriate to each city-region. We believe that the process of identifying specific plans and goals will facilitate the process of identifying specific solutions to dedicated funding or find new partners to achieve those goals.
- **Funding the plan, not the project.** Critical to this concept is the need for development of a *collaborative* city or city-region plan to prioritize investments. As with Australia’s *Our Cities, Our Future* model,



federal urban funding would not flow (beyond the scope of legacy project agreements already in place in 2017) unless and until there was a city- or city-region plan to which funding could flow. Funding would flow to cities and (on a regional basis) agencies to execute plans, not to pay for projects. Funds would flow on a per capita basis with minor adjustments to reflect needs. Funds should be subdivided into regional and local tranches in cases where there are metropolitan governments and/or regional transit agencies to facilitate shared funding of regional goals. If funds flowed to Metrolinx for a regional transit plan, nothing should stop Brampton from allocating funding from its own transfers to support or accelerate a local priority in partnership with Metrolinx if it can afford to do so. Municipalities would be required to track where funding flowed to ensure proper credit at every step for federal funds.

Plan agreements should be long-term (between ten and twenty years), with renewal dates deliberately staged across election cycles to create the expectation that changes will be renegotiated by new governments rather than imposed. As in the Netherlands, private sector partners, economic organizations, and even academic institutions can and should be signatories to each plan to reinforce a common sense of purpose and minimize the political risk of arbitrary disruption.

- **Measurement of outcomes.** As the shift to a national urban strategy begins, federal officials tasked to urban policy should shift their focus from approval and oversight to assessment, best-practice dissemination and mobilization. A non-partisan unit similar to the national infrastructure offices seen in Australia, Belgium and the UK should be in place in time to properly track progress from the inception of the first city or city-region plan under the National Strategy. Infrastructure Ontario is already taking on a similar role at the provincial level as the central point for receipt of asset management plans and maintenance data from municipalities. Nationally, this function could reside in the Canada Infrastructure Bank, provided the mandate for doing so was explicitly broader than the Bank's current focus on major infrastructure projects only.

Goals tracked for each plan should include specific maintenance targets, broader general goals on key indicators, and other metrics on the cost and success of major capital works. In cooperation with provincial and local leaders, federal officials should take

a leadership role in assessing national and regional capacity to build infrastructure and deliver on other urban policy goals on a range of inputs other than money, including skilled labour, raw materials and manufactured resources. Wherever possible, the federal government should also promote the seeding of best practices in urban policy and infrastructural development across jurisdictional lines; for example, federal policy can encourage densification of federal lands in cases where this is consistent with local city planning objectives.

- **Stage the transition.** Over the course of the first 1-2 years, while these plans are under development, existing programs and commitments would remain in place. In the second or third year, any uncommitted funding in various pools or funds would be redirected toward implementation of each city or city-region's plan within the broader strategy. Federal funding support would flow for execution of the plan in order of priority, rather than for individual projects, to reduce the need for duplicative oversight.
- **Identify and solve national problems.** Ministers and other federal leaders could now focus on working with provinces and city-regions on delivery of those priorities rather than funding agreements, attacking policy problems and facilitating agreements rather than micromanaging project approval and execution. Federal officials tasked with supporting each plan could support execution of those plans with a range of broader policies or initiatives. For example, they could:
  - Lead a national effort to reform the building code, provincial highway standards, Great Lakes marine standards or other legal regimes to adapt for new technologies;
  - Negotiate changes to city and city-region plans to anticipate cross-regional challenges, including (for example) improved staging and sequencing of projects to avoid labour bottlenecks;
  - Identify opportunities outside funding transfers to meet the goals of the national strategy within each city or city-region plan, through (for example) changes to federal policy on the use or disposal of federal lands along key urban transportation corridors; or
  - Identify linkages between city and city-region plans as opportunities for federal action beyond local jurisdiction, including (for example) the management of trade bottlenecks at key border points, or broadband networks.

### WHAT AN IDEAL PROCESS LOOKS LIKE WITHOUT A NATIONAL URBAN STRATEGY

What does this look like in practice? CGCC members point to the development and execution of the REM LRT proposal in Montreal as an example of what an ideal model could accomplish if the principles in use were more broadly applied.

In April, 2016, the City of Montreal announced its intention to proceed in partnership with CDPQ Infra to build a private, automated LRT, now known as REM (or Réseau électrique métropolitain). Their partnership delivered on a city priority, but in a manner that engaged both provincial approval and provincial participation. In this case, the CDPQ (Caisse de dépôt et placement du Québec) is the vehicle for provincial funding, as it has been tasked with investing public and quasi-public funds in infrastructure through appropriate partnerships. By way of comparison, in Ontario, the same provincial role could be served through Infrastructure Ontario or a line ministry. This partnership, in turn, triggered a federal commitment to \$1.3b in funding to support the project. Several distinct features make this project an ideal model to consider as a starting point:

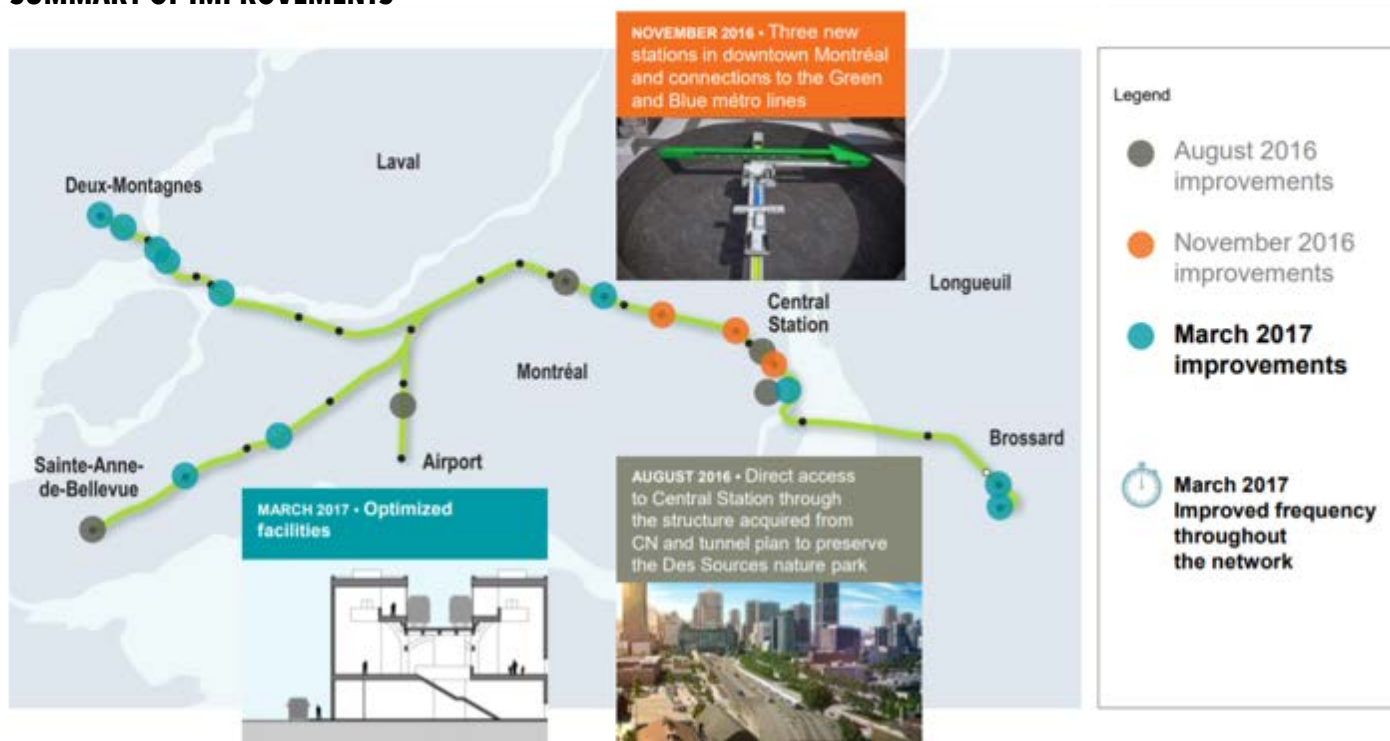
- **Manageable, minimal direct municipal funding.** The City of Montreal's role is as much a facilitator of the project's success rather than an participant through an unequal 1/3<sup>rd</sup> partnership; in addition to support for approvals, the City is contributing modest funding (\$100m) to support the construction of three transfer stations linking REM into Montreal's existing Metro network.
- **Buy-in by all three levels of government,** rather than priorities imposed at the outside by federal or

provincial program guidelines. This was an initiative led by the CDPQ and the City, but with provincial support, rather than an example of a priority imposed from above.

- **Project flexibility:** the proponents have had the flexibility to add to, change and improve the plan to address stakeholder concerns without renegotiation.
- **Speed:** even though it is slightly behind schedule (see below), construction is scheduled to begin soon – representing one of the fastest turnaround times for a transit expansion project in recent Canadian history.
- **Funding flexibility:** Federal funds are pencilled in as a grant, but with an option to change the commitment into a shareowner investment if the Infrastructure Bank deems it possible to do so. If that happens, federal grant funds freed up would be deployed elsewhere. Had a National Urban Strategy been in place, local leaders or partners could implicitly have had the same incentive to open up fiscal room by finding partners or using alternative financing mechanisms as needed, freeing cash for other priorities within its plan.

Tellingly, the primary challenge with proceeding on a high-speed timeline for the REM was legislative. Since this project is funded on a one-off basis, rather than from a pool of funds meant to improve Montreal infrastructure generally, proponents faced delay risks at two points: in the federal parliament (to ratify commitments), and in Quebec's National Assembly (to ratify the initial agreement with Ottawa).<sup>43</sup> In a model where Ottawa funds broader infrastructure plans rather than projects, this would not be an issue.

## SUMMARY OF IMPROVEMENTS



From August 2016 through to March 2017, the consortium leading Montreal's REM project announced a series of improvements to its proposal, all less than a year after the initial plan was released. This was possible because Ottawa's commitment is to fund the REM concept outside of the ponderous competitive grant process. In traditional Canadian infrastructure finance models, renegotiations would be expected before any major changes were made to adapt or improve a project, putting project financing from other governments at risk.

REM is scheduled to be operational by 2021, giving it one of the fastest transit expansion timetables in recent Canadian history.

Source: CDPQ *Infra technical briefing*, March 21, 2017.

# CONCLUSION: WHAT A CHANGE IN APPROACH CAN ACCOMPLISH

At first glance, the development of a national, strategic approach to urban policy and urban investment may seem like an abstract change. However, we anticipate that this shift can offer several specific advantages over the post-‘New Deal’ model.

The development of broad national goals and metrics will end the ‘New Deal’ era of applying resources to our urban challenges without clear goals or measurable objectives.

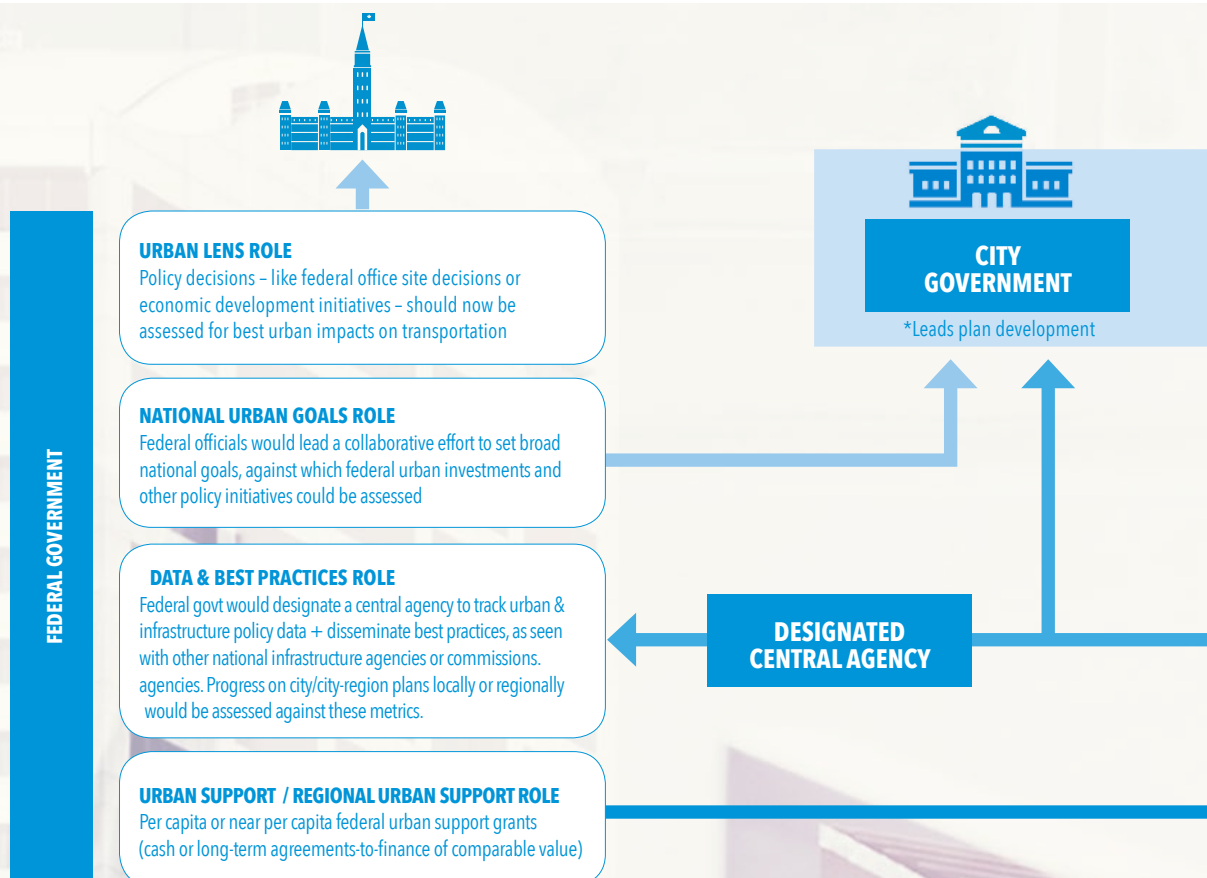
The commitment to make plans specific to cities and city-regions can help political leaders to take a more realistic and consistent approach to investments in new and existing infrastructure of all types, be it for cluster

development, transportation expansion, waterworks maintenance or trade. Specific plans will lead to the public identification of specific gaps in addressing priorities, which can in turn encourage governments to identify specific solutions or triage priorities more carefully.

The development of city-region agreements based on specific goals and targets can offer the private sector a clearer opportunity for positive engagement, both broadly as a stakeholder in the identification of trade and economic priorities in the planning process, and directly by flagging more clearly the priority opportunities for private-sector partnerships in infrastructure and project development to fill funding gaps.

## NATIONAL URBAN STRATEGY

Designated federal government roles, drawing on *Australia’s Our Cities*



Federal leadership in the development and measurement of these plans means that there can finally be a strategic approach to challenges that transcend regional boundaries for the first time, including skills development, automation, the reform of building standards and/or access to raw materials.

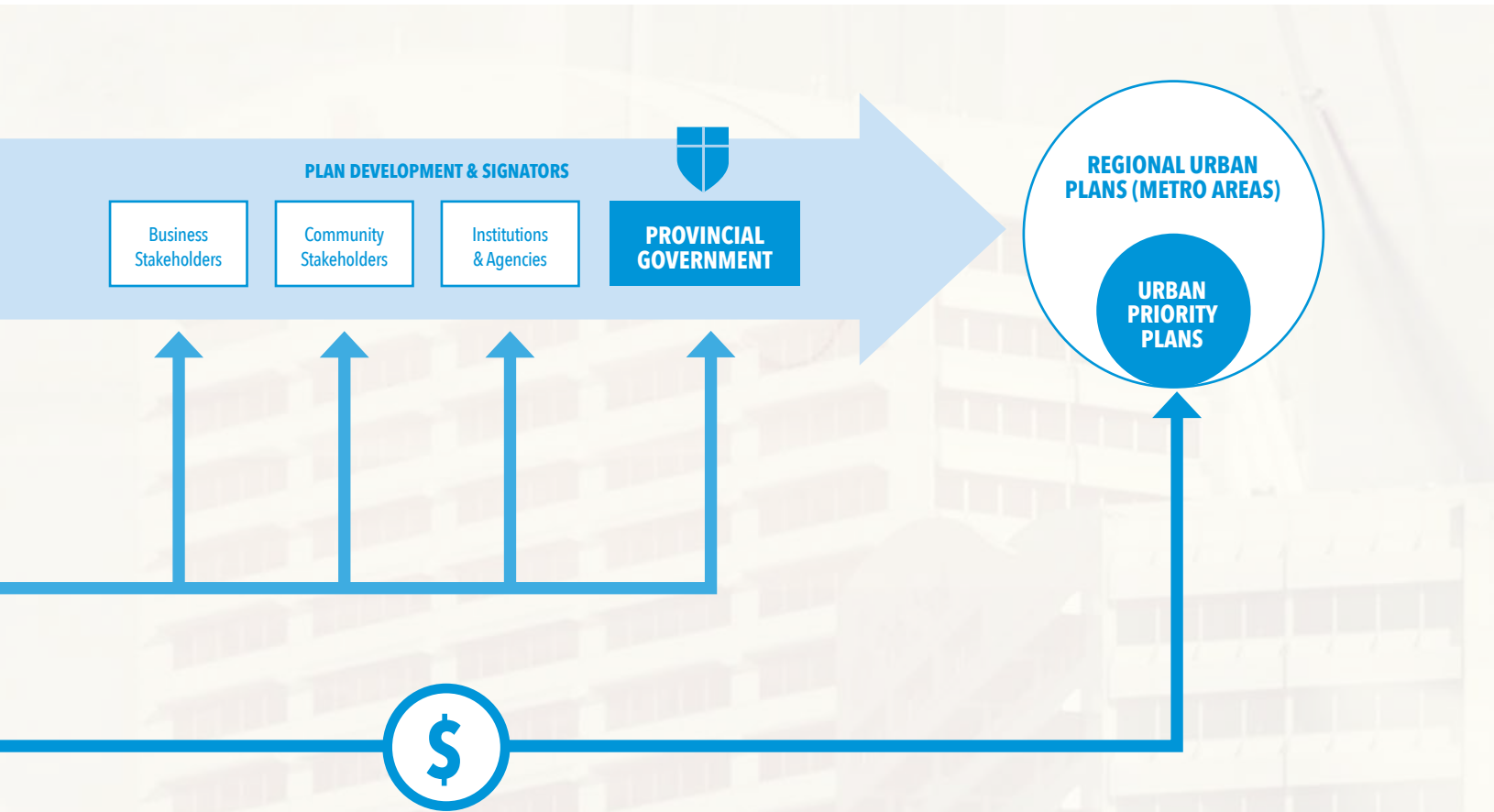
Dedicating federal funds on a fluid basis to city and city-region plans rather than projects will mean that for the vast majority of federal urban investments, there will be less need for project-specific negotiations and approvals. This can mean less time and energy wasted on duplication and renegotiation. For those concerned about the need for due diligence, federal officials in a non-partisan infrastructure office can now take on the role of setting standards and spot-auditing progress against them, rather than conducting upfront, repetitive approvals.

And, what if a new government or new party wants to change the plan from one year to the next to adapt to changing priorities? Legitimate, reasonable changes to priorities can finally be accommodated without tedious renegotiations and uncertainty. The renewal of a city or city-region plan within the overall structure of the National Urban Strategy can be a routine change in annual

funding and staging, replacing the logjams that happen now every time there is a change in government.

With this change in approach, we can finally see federal urban policy interventions – and the provincial and regional policy interventions they influence – applied to specific targets that reflect the needs and structures of every specific Canadian city. With this shift from thinking about a ‘New Deal’ for cities to a ‘New Strategy’ to support them, we can deliver better outcomes for urban Canada, with greater attention to actual city priorities, in the process.

Without this change, we are likely to continue to invest billions of federal dollars with unnecessary process, without a measurable impact on our economic competitiveness. Canada can compete with the rest of the world, thanks to the talent, the security, the diversity and the innovation in our growing cities. However, Canada is not competing effectively enough when it comes to our urban infrastructure, whether that infrastructure is economic, social or educational. We can compete, if we start by acknowledging that we need to make infrastructure investment a process of choosing real goals, and that we need a strategy before we can deliver on those goals.



# NOTES & SOURCES

1 Historical references are drawn from several sources, including Statistics Canada (1871 census notes), City of Toronto archival maps, and the City of Winnipeg and City of Montreal websites.

2 Specifically, the “Dillon rule.” Warren Magnussen, “Are Municipalities Creatures of the Province?” *Journal of Canadian Studies*, Vol. 39 No.2 (2005), p. 21

3 OECD tables at OECD-library.org, latest (2015) data. The numbers shift only slightly if all property taxes levied by all governments are included, since some national governments collect property tax for cities (as with UK business rates) and some subnational governments collect property tax for other purposes (as with Ontario’s provincially-collected business education taxes). If those numbers are factored in, Canada is in third place behind the UK and France as a collector of property tax as a % of GDP.

4 Alison Smith and Zachary Spicer, “The Local Autonomy of Canada’s Largest Cities,” *Urban Affairs Review* 1-31, 2017, p. 2

5 The figure most often in use is “eight cents of every tax dollar,” based on previous FCM calculations. However, recent figures suggest the number may now be slightly higher, ranging as high as twelve cents; recent (January 2017) press releases by the FCM now use the “less than ten cents” as the metric. Some critics

argue that these figures leave out the federal and provincial transfers; for example, the CFIB suggested that cities control as much as 15% of government spending in a press release (“Cities take almost double what they claim, still cry poor,”) on February 24, 2014. None of these figures change the fact that in addition to operating costs on their own services, cities are carrying more than half of Canada’s infrastructure burden, and they are mostly doing it with Canada’s most unpopular a revenue stream in the form of property tax.

6 *Canadian Infrastructure Report Card: Informing the Future*, Federation of Canadian Municipalities et al, 2016, p. 6

7 Canadian municipal leaders often complain that their level of government’s reliance on property tax over sales or income tax means that grants for a new construction project or a major public event will generate a direct return on investment for federal and provincial governments, but not for the local government.

8 See, for example, Casey G. Vander Ploeg, “Big City Revenue Sources: a Canada-US Comparison of Municipal Tax Tools and Revenue Levers,” Canada West Foundation, 2002.

9 Industry Canada website, “Infrastructure Canada Projects and Programs (since 2002).”

- 10 Ben Spurr, "Toronto still more than \$7 billion short for transit projects even after federal budget funding," *Toronto Star*, March 25, 2017.
- 11 Cherise Burda and Geoffrey Singer, "Fast Cities: a comparison of rapid transit in major Canadian cities," the Pembina Institute, Sept. 5, 2014, p. 2.
- 12 World Economic Forum, *Global Competitiveness Report 2015-2016* (page 28) and *Global Competitiveness Report, 2017-2018*, online tables at [www.weforum.org](http://www.weforum.org).
- 13 *Canadian Infrastructure Report Card: Federation of Canadian Municipalities*, 2012, p. 2.
- 14 *Canadian Infrastructure Report Card: Informing the Future*, Federation of Canadian Municipalities et al, 2016, p. 6.
- 15 Briefing note, City of Winnipeg Council Seminar, "the City of Winnipeg Infrastructure Deficit," July 10, 2009 and Association of Manitoba Municipalities briefing note, "Issues: Infrastructure" (current to 2017).
- 16 City of Toronto, 2017 Capital Budget Briefing Note: State of Good Repair (SOGR) Backlog (BN#1 December, 2016), p. 7.
- 17 Brian Kelcey, Ottawa's New Transit Fund: a Weapon of Mass Construction," *National Post*, April 27, 2015.
- 18 *Fiscal Sustainability Report 2017*, October 5, 2017, Office of the Parliamentary Budget Officer, p. 2.
- 19 These examples represent a sample list of challenges identified by the authors through interviews, government experience and sources cited in the text. Provincial experiences vary, depending on the party in office in federal government, provincial priorities and other distinctions. However, readers interested in a third-party examination of how these challenges play out from the perspective of one province should see, for example, Joan Grace, "Building from the Ground Up: Funding the Infrastructure Deficit in Manitoba," *Manitoba Law Journal*, Vol. 37 No. 2 (2014) p. 399-424.
- 20 Joyanne Pursaga, "Big ticket items for city left off feds' wish list," *Winnipeg Sun*, October 10, 2017. The story notes that other priority projects were set aside for funding in favor of lower priorities as well.
- 21 See, for example, Gordon Isfeld, "Local governments to Ottawa: End 'confusion and delays' of \$14-billion infrastructure program," *Financial Post*, June 2, 2014; Canadian Press, "Billions in federal infrastructure money yet to flow to five provinces," *Financial Post*, August 15, 2016, and Michael Atkinson, "Federal Infrastructure Delays," *Construction Business*, February 20, 2017. These examples were deliberately chosen to cross partisan lines, covering the term in office of two different parties.
- 22 James Munson, "Mostly up to cities to stop infrastructure bid-rigging: Sohi" *Ipolitics.ca*, October 5, 2017.
- 23 Jordan Press, "Liberals to delay billions in planned infrastructure spending," *Cbc.ca* and Canadian Press, October 30, 2017.
- 24 David Shum, "Toronto eyes deadline extension for \$121M in unused federal transit money," *Global News*, October 24, 2017.
- 25 Given its urban form, limited transit capacity and its unusually young demographic mix, the location of a campus in Brampton is effectively a transportation and urban development initiative, not just an economic and educational initiative, insofar as it can reduce cross-border traffic to other post-secondary sites in the Greater Toronto Area.
- 26 [www.liberal.ca](http://www.liberal.ca), "Canada Infrastructure Bank"
- 27 OECD (2017), *National Urban Policy in OECD Countries*, OECD Publishing, Paris, p. 12.
- 28 *Ibid*, p. 13.
- 29 *Ibid*, p. 29 – 31.
- 30 Simone Pekelma, "National Urban Policy of the Netherlands," European Urban Knowledge Network, May 9, 2012.
- 31 OECD, *Ibid*, p. 95-96.
- 32 *Ibid*, p. 57-59.
- 33 The full report is available at <https://www.gov.uk/government/publications/no-stone-unturned-in-pursuit-of-growth>. See also Nick Robinson, "Heseltine report calls for action to stimulate growth," *BBC.com*, October 21, 2012.
- 34 Brian Dollery, "The State of Play in Australian Local Government," University of New South Wales School of Economics, *Working Paper Series in Economics*, 2005-05, p. 3.
- 35 Richard Tomlinson, "New name, new look for latest national urban policy, but same old problem," *The Conversation*, May 16, 2016.
- 36 Cameron Jewell, "Axing of Major Cities Unit widely condemned." *The Fifth Estate*, September 28, 2015.
- 37 These policy steps are referenced in OECD, *Ibid*, p. 21-22 and in online notes exchanged with the authors with Anthony Albanese, the Minister for Infrastructure and Transport in office during development of the plan.
- 38 Tomlinson, *Ibid*.
- 39 To name just a few examples, the City of Sydney is in a long and ongoing dispute over a A\$16b WestConnex freeway project into Sydney, Queensland openly bickered with the Commonwealth over funding formulas for highway construction, and Melbourne and the State of Victoria proceeded with self-financing a light rail project, in protest against Commonwealth cuts to the project and underfunding of Melbourne-area projects on a per-capita basis, despite limited capacity to do so.
- 40 *Our Cities, Our Future — A National Urban Policy for a productive, sustainable and liveable future*, 2011, Ministry of Infrastructure and Transport, Commonwealth of Australia, p. 15.
- 41 For more on this, see Magnussen, *Ibid*, which is widely regarded as one of the defining academic challenges to the need for a "creatures" doctrine on most practical matters of intergovernmental cooperation.
- 42 OECD, *Ibid*, p. 34.
- 43 Jason Magder, "Trudeau confirms \$1.283 billion in federal cash for REM train," *Montreal Gazette*, June 15, 2017.

Founded in 2015, the Canadian Global Cities Council (CGCC) is a coalition of Presidents and CEOs of the eight largest urban regional Chambers of Commerce and Boards of Trade in Canada: Brampton, Calgary, Edmonton, Halifax, Montreal, Toronto, Vancouver and Winnipeg. Representing 52% of Canada's GDP and more than half the country's population, CGCC collaborates on international and domestic issues impacting our regions' competitiveness.

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