

INFRASTRUCTURE BACKGROUNDER

COVID19 has caused a swift and significant downturn on a scale not seen since the Great Recession in 2008.

One of the major outcomes of the economic downturn has been that, since spring 2020, there has been a steep decline in the revenues of Ontario municipalities. The problem is especially acute in municipalities with large transit systems that remain operational but are experiencing significant ridership decline as millions of people work remotely and are not using public transit.

The federal and provincial governments can run operational deficits to make up for the revenue shortfall. Municipalities, however, do not have the same degree of fiscal flexibility and thus, cannot run deficits – they must pass balanced budgets **by the end of February**.

To address this, municipalities have been raiding their capital budgets to address operating constrains and pass balanced budgets. This has a detrimental impact on needed infrastructure projects going out the door. Industry has seen a steady decrease of municipal project tenders since March 2020 and hundreds of construction workers have already been laid off.

However, the consequences of holding back infrastructure spending are projected to be much more devastating. RCCAO's recently commissioned report, [*Averting a Crisis: The Need to Protect Ontario's Infrastructure Investment*](#), found that 41,000 construction-related jobs will be lost if deferrals and cancelations continue.

In 2020, through the cooperation of the federal and provincial government and their partnership on the Safe Restart Agreement, municipalities received the necessary financial assistance to help them address their budgetary shortfalls for that year.

However, with the pandemic continuing, municipalities are still projecting significant deficits for 2021 and will have no choice but to continue to raid their capital funds to balance their budgets. For example, in the City of Toronto a total of \$800 million of capital funds will be used to cover the 2021 deficit in the absence of a Safe Restart Agreement this year.

RCCAO is urging the federal and provincial governments to develop and execute a Safe Restart Agreement 2.0 or provide assurances of additional financial support to municipalities. This needs to take place early this year to ensure that capital projects are tendered in time for the 2021 construction season.

Unfortunately, many of the existing infrastructure programs, such as the Investing in Canada Plan, rely on federal and provincial funding to be matched by municipalities. Given the current financial challenges experienced by municipalities, they are not able to take advantage of these programs.

Investing in infrastructure is one of the best ways to help Ontario recover from the effects of COVID-19. In addition to the social benefits of infrastructure, each dollar of infrastructure

spending has a positive effect on the economy: in the short-term, by supporting jobs and businesses, leading to lower levels of unemployment and a higher level of economic growth; and, in the long-term, by boosting the competitiveness of businesses, thus leading to greater wealth creation and higher living standards.

Increased investment in infrastructure also spreads throughout the economy via a series of multiplier effects. For every \$1 billion in infrastructure spending, GDP is boosted by an average additional \$1.46 billion, or an average multiplier effect of 1.46.

KEY MESSAGES

- It is imperative that the Government of Canada and the Province of Ontario work together on a Safe Restart Agreement 2.0 for municipalities in 2021.
- This funding agreement, or at least assurances of additional financial support to municipalities, must take place early on in 2021 to ensure that infrastructure projects are tendered in time for this year's construction season.
- The crisis can be averted. However, failure by the Federal and Provincial government to provide financial assistance to municipalities will result in 41,000 lost construction jobs in Ontario and significant deterioration of state-of-good-repair projects that will only worsen the current infrastructure deficit in the province.