

TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING AUGUST 26, 2014
FROM:	MARTIN HAYWARD MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	FEDERAL GAS TAX ALLOCATION

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and the City Treasurer, Chief Financial Officer:

1. The allocation of Federal Gas Tax Funds **BE RECEIVED** for information as per Appendix A, noting that these funds were accounted for and reflected in the 2014 Capital Budget and 2015 to 2023 Capital Forecast as approved by Council on February 27, 2014.
2. Civic Administration **BE AUTHORIZED** to reallocate the funds as necessary to higher profile projects that meet the following criteria:
 - Provide recognizable community benefit;
 - Identified as high priority under the City's Asset Management Plan;
 - Larger, more visible and impactful; and,
 - Reflect Council's Strategic Priorities;

Noting that the existing Capital Plan fully utilizes Federal Gas Tax funding and any reallocation would result in a change to the Approved Capital Plan.

PREVIOUS REPORTS PERTINENT TO THIS MATTER
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- **Municipal Funding Agreement Related to the Transfer of Federal Gas Tax Funds** (Corporate Services Committee, May 27, 2014)
<http://sire.london.ca/agdocs.aspx?doctype=agenda&itemid=27026>
- **Federal Gas Tax Allocation – 2010-2014** (Board of Control, November 4, 2009)
<http://council.london.ca/CouncilArchives/Agendas/Board%20Of%20Control%20Agendas/Board%20of%20Control%20Agendas%202009/2009-11-04%20Agenda/Item%207.pdf>

BACKGROUND

In November 2009, Council approved the distribution of expenditure priorities for Federal Gas Tax revenue for 2010 to 2014 as outlined in Table 1 below.

History

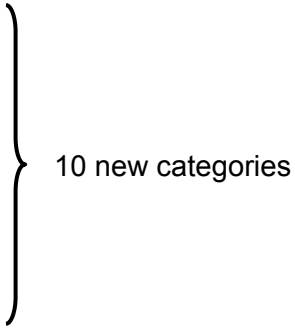
The transfer of Federal Gas Tax revenues for cities and communities was introduced in 2005. The Federal Gas Tax is the only permanent, stable and predictable source of funding for the municipal infrastructure. As of April 1, 2014, the Federal Gas Tax has been extended to 2023. The new agreement will provide Ontario's municipalities a total of \$3.8 billion between 2014 and 2018 and will be allocated on a per-capita basis each year. AMO will continue to administer the Federal Gas Tax in Ontario on behalf of the Government of Canada. Projects are chosen by local governments according to local priorities. Municipalities can pool, bank and borrow against this funding, providing significant financial flexibility.

Changes in the New Agreement

There are a number of changes in the new Agreement as follows:

1. The Federal Gas Tax is now permanent federal legislation.
2. The Municipal Funding Agreement is 10 years rather than 5. Although the new agreement runs from 2014-2023, only the 2014-2018 municipal allocations have been published at this time.
3. Municipalities can invest in 17 eligible categories rather than 7.
4. The focus of outcomes has shifted to recognize community benefits rather than solely environmental outputs.
5. Allocations to municipalities will be based on population where 2014-2018 will be based on the 2011 Census and 2019-2023 will be based on the 2016 Census.
6. Municipal allocations will increase in 2016 and 2018 due to the introduction of partial indexation where the Federal Gas Tax will increase 2% per year in \$100 million increments.
7. Municipalities now have up to five years after the year the money was received to spend the funds on an eligible municipal infrastructure project.
8. Municipalities no longer have to complete an annual audit or submit a Treasurer's Certificate. Instead, AMO will increase its random audits of municipalities.

Particulars of the New Agreement

1. As of April 1, 2014, municipal infrastructure projects may fall within the following 17 categories:
 - i. local roads and bridges (including active transportation)
 - ii. public transit
 - iii. drinking water
 - iv. wastewater
 - v. solid waste
 - vi. capacity building
 - vii. community energy systems
 - viii. short-sea shipping
 - ix. short-line rail
 - x. regional and local airports
 - xi. broadband connectivity
 - xii. brownfield redevelopment
 - xiii. sport
 - xiv. recreation
 - xv. culture
 - xvi. tourism
 - xvii. disaster mitigation
2. Municipalities must clearly demonstrate that projects are prioritized based on an Asset Management framework.
3. Municipalities will receive two equal payments a year, typically in July and November however it can change from year to year.
4. Requirements of the Agreement include annual reporting, outcomes reporting and demonstrating progress on Asset Management.
5. Municipalities can continue to use Federal Gas Tax dollars to fund 100% of project costs, bearing in mind that the Federal Gas Tax is considered federal funds. Therefore if other federal infrastructure programs have restrictions on the use of federal funds, they must be adhered to.

2010-2014 Federal Gas Tax Allocation & Spending

In November 2009, Council approved the following distribution of expenditure priorities for federal gas tax revenue for 2010 to 2014.

Table 1 - Federal Gas Tax Allocation for 2010 to 2014 (in \$000's)

	2010 Allocation	2011 Allocation	2012 Allocation	2013 Allocation	2014 Revised Allocation	Total Allocation 2010-2014
Waste Water Rehabilitation	\$ 5,500	\$ 5,500	\$ 5,500	\$ 5,500	\$ 5,500	\$ 27,500
Water Rehabilitation	\$ 419	\$ 419	\$ 419	\$ 419	\$ 419	\$ 2,095
Road Rehabilitation	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 7,000	\$ 35,000
Bridge Rehabilitation	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 2,000	\$ 10,000
Transit	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,500	\$ 1,750	\$ 7,500
Solid Waste	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 3,500	\$ 17,500
Bicycle Lanes & Thames Valley Parkway	\$ 700	\$ 700	\$ 700	\$ 700	\$ 700	\$ 3,500
Energy Efficient Facilities and Infrastructure	\$ 500	\$ 500	\$ 500	\$ 500	\$ 413	\$ 2,663
Energy Efficient Fleet	\$ 150	\$ 150	\$ 150	\$ 150	\$ 150	\$ 750
Brownfield Rehabilitation	\$ 350	\$ 350	\$ 350	\$ 350	\$ 350	\$ 1,750
	\$ 21,619	\$ 21,619	\$ 21,619	\$ 21,619	\$ 21,782 *	\$ 108,258

* Note that the City of London's allocation for 2014 was reduced by \$415,000 (1.9%) due to the per capita guidelines in the new agreement however it was increased by \$577,599 for an administrative cost savings distribution by AMO.

Since many capital projects span multiple years, actual spending may not follow the same pattern as the original allocation or the annual budget. Table 2 provides continuity on actual federal gas tax spending and is based on annual returns made to AMO.

Table 2 - Federal Gas Tax Actual Spending Continuity (in \$000's)

Details	2010	2011	2012	2013	2010-2013 Summary	Committed Funding	Allocated 2014	Total
Opening Balance of Unspent Funding	18,898	9,045	10,857	16,731	18,898		0	18,898
Add: Received from AMO	21,619	21,619	21,619	21,619	86,476		* 21,782	108,258
Add: Interest earned	108	111	145	286	650		0	650
Total Revenue	40,625	30,774	32,620	38,636	106,023		21,782	127,805
Less: Eligible Expenditures								
Wastewater Rehab	4,327	4,148	2,703	1,357	12,535	10,495	5,500	28,530
Water	0	101	526	420	1,048	628	419	2,095
Road Rehab	8,680	6,746	7,484	4,489	27,399	2,536	7,000	36,935
Bridge Rehab	1,540	1,012	901	2,772	6,224	2,030	2,000	10,255
Bus Replacement	3,000	1,500	1,500	1,750	7,750	0	1,750	9,500
Solid Waste	12,159	4,535	1,040	2,156	19,890	3,844	3,500	27,234
Bicycle Lanes and Thames Valley Parkway	465	291	1,090	158	2,004	2,285	700	4,989
Energy Efficiencies	184	94	476	392	1,147	1,367	413	2,926
Hybrid Vehicles	25	49	0	45	119	530	150	798
Brownfield Incentives	1,200	1,441	169	10	2,820	700	350	3,870
Total Expenditures	31,580	19,918	15,889	13,549	80,936	24,415	21,782	127,133
To be allocated in 2015 Budget								672
Total Expenditures and Committed								127,805
Closing Balance of Unspent / Unallocated	9,045	10,857	16,731	25,087	25,087		0	0

As indicated in Table 2, of the \$127.8 million available Federal Gas Tax between 2010 and 2014, \$127.1 million has been spent or committed to spending on various projects as approved. The difference will be allocated in 2015. All projects are reported to AMO upon completion using appropriate performance metrics. These submissions are in addition to the required annual reports.

Reporting to AMO

Annual reporting is provided to the Association of Municipalities of Ontario (AMO) to account for expenditures. As projects are completed, the City is required to report on appropriate outcomes as a measure of success. Some of the major projects undertaken in the past five years and reported on under the old measures are:

- a) Material Recovery Facility (\$17.8 million) - the construction of a new Material Recovery Facility
 - expand the City's recycling program and meet goal of 60% diversion rate
 - facility to serve London and surrounding areas
 - reduce greenhouse gas emissions
- b) Bus Replacement Program (\$7.8 million) – replacement buses are purchased each year
 - maintain assets in a state of good repair
 - mitigate vehicle maintenance costs
 - support service reliability
- c) Road Rehabilitation (\$30.8 million) – annual road rehabilitation projects
 - restoration and rehabilitation avoids the need to replace the entire road at a greater cost
 - eliminates load restrictions thus decreasing travel times and associated greenhouse gas emissions

An audit by AMO of the expenditures made by the City of London has been undertaken each year with no significant areas of non-compliance discovered. Going forward there is no requirement for annual audits however AMO is going to increase the number of random audits performed each year.

In addition to the annual reporting to AMO, municipalities are required to ensure that an Asset Management Plan is in place prior to December 31, 2016. The City of London has already completed a draft plan and is expected to have the plan approved and in place prior to December 31, 2014.

Federal Gas Tax Allocation to the City of London

The Federal Government has released specific Federal Gas Tax allocations for the period 2014 through 2018 (see Table 3 below). As indicated previously in this report, the annual amounts are per-capita based and will be partially indexed. As noted in Table 2 above, the introduction of the per-capita allocation resulted in a slight decrease in the City's allocation for 2014 and 2015, from \$21.6 million down to \$21.2 million, because London's growth in the 2011 Census was lower than the average Ontario municipality; however the partial indexation results in the increases seen in Table 3 below from 2016 to 2018.

On May 29, 2014, AMO announced that through an efficient and innovative delivery model administrative costs were less than expected resulting in a distribution of \$15.7 million in surplus Federal Gas Tax back to 443 Ontario municipalities to invest in infrastructure. Representing its share of the \$15.7 million, the City of London received a one-time contribution of \$577,599 over and above the previously announced contribution of \$21.2 million. This distribution more than offsets the decrease in allocation for 2014 discussed above for the revised per capita allocation.

Table 3 - Federal Gas Tax Allocation to the City of London

2014	\$21.8 Million
2015	\$21.2 Million
2016	\$22.3 Million
2017	\$22.3 Million
2018	\$23.3 Million
Total	\$110.9 Million

Note: An estimate of the allocation and schedule of payments for the latter five (5) years of the agreement (2019-2023) will be provided at a later date.

Allocation of Federal Gas Tax to City of London Capital Projects

In 2009, Council approved the distribution of expenditure priorities for federal gas tax revenue for 2010 to 2014. In 2009, Administration recommended allocating federal gas tax across many service areas (as seen in Table 1 above). This met the priorities at the time for both the City of London (infrastructure renewal and expansion, progressive transportation system, environmental leadership, community vitality, financial stability) and the Federal Government (reduce greenhouse gas, clean air, clean water), but Administration is recommending a more focused approach going forward to better address some new priorities as detailed below.

The new Municipal Funding Agreement is more flexible. There are now 17 eligible categories for investment rather than just 7. The focus of outcomes has shifted to recognize community benefits rather than just environmental outputs. These changes provide a greater range of investment opportunities.

There is also a mandate in the new agreement that the City's Asset Management Plan be used to guide infrastructure planning and investment decisions and how gas tax funds are being used to address priority projects. Projects that are targeted by the Asset Management Plan will reduce the infrastructure gap and improve sustainability. The Asset Management Plan is scheduled to be in place by December 31, 2014.

In the past, significant Federal Gas Tax funding was allocated to projects that were not easily visible such as sewer replacement. Although these projects are vitally important for infrastructure sustainability and met the Federal Gas Tax program priorities of the time, the community benefit of these projects is not as noticeable. In future the City will focus on larger, more visible and impactful projects that can be more easily identified for reporting and communication purposes.

As with all projects in the capital plan, projects must also reflect Council's Strategic Priorities of:

- A Strong Economy
- A Vibrant and Diverse Community
- A Green and Growing City
- A Sustainable Infrastructure
- A Caring Community

As a result of the changes in the new agreement and the input we have received regarding project visibility, Administration is proposing that Federal Gas Tax funds be used, where possible, for more significant capital projects that meet the following criteria:

1. Provides recognizable community benefit
2. Identified as high priority under the City's Asset Management Plan
3. Larger, more visible and impactful
4. Reflect Council's Strategic Priorities

This change in strategy should be achievable given the addition of 10 new eligible categories introduced as well as the broader focus to capture community benefits rather than simply environmental outcomes. This approach will allow for more readily identified impacts that the Federal Gas Tax has made on the infrastructure gap and/or sustainability initiatives. It will also streamline the reporting process regarding Federal Gas Tax.

Given that the full amount of Federal Gas Tax funds has been built into the 10 year capital plan using the previous, more restrictive agreement, it will take some time to transition to this new strategy. In the interim, administration will reassign Federal Gas Tax funds to areas such as, but not restricted to, recreation and broadband connectivity in an effort to promote community benefit and economic development.

In order to facilitate appropriate use of the gas tax funding and ensure benefits are maximized under the amended agreement, Administration is recommending the allocation as attached in **Appendix A** for the next five years (2015 – 2019), with the understanding that administration can reallocate the funds as needed to projects that meet the criteria listed above. Allocation changes will not change the capital plan for any service area.

Conclusion

The Federal Gas Tax program injected \$141.2 million into London from 2005 to 2013. Commitments in the new agreement for 2014 to 2018 will see a further \$110.9 million invested in London with additional funds through 2023 as well, the sum of which is unknown at this time. There have been significant changes made to the new agreement with regard to eligible projects, measures of outcomes and reporting requirements. For these reasons, Administration recommends that they be authorized to reallocate the Federal Gas Tax funds to larger, high profile projects, where possible, without impacting the capital plan by service area.

The Federal Gas Tax funds will continue to be used to achieve the goals established by the Federal Government, namely to address infrastructure gaps and sustainability issues faced by municipalities. This investment will also support the goals of Council's Strategic Priorities and the City's Asset Management Plan.

Acknowledgements:

This report was prepared with support from Sherri Hanley, Special Advisor External Relations.

Prepared By:	Reviewed By:
Tanya Landry, Manager, Financial Modelling, Forecasting & Systems Control	Alan Dunbar, Manager, Financial Planning & Policy
Concurred By:	Recommended By:
Larry Palarchio, Director of Financial Planning & Policy	Martin Hayward, Managing Director, Corporate Services and City Treasurer, Chief Financial Officer

APPENDIX A

FEDERAL GAS TAX ALLOCATION (\$000's) 2015 -2019

	2014 Approved Allocation	2015	2016	2017	2018	2019	Total Allocation 2015-2019
Waste Water Rehabilitation	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$5,500	\$27,500
Water	\$419	\$404	\$414	\$414	\$425	\$425	\$2,082
Road Rehabilitation	\$7,000	\$6,600	\$7,650	\$7,650	\$8,700	\$8,700	\$39,300
Bridge Rehabilitation	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$2,000	\$10,000
Bus Replacement	\$1,750	\$1,500	\$1,500	\$1,500	\$1,500	\$1,500	\$7,500
Solid Waste	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$3,500	\$17,500
Bicycle Lanes & Thames Valley Parkway	\$700	\$700	\$700	\$700	\$700	\$700	\$3,500
Energy Efficiencies	\$413	\$500	\$500	\$500	\$500	\$500	\$2,500
Hybrid Vehicles	\$150	\$150	\$150	\$150	\$150	\$150	\$750
Brownfield Incentives	\$350	\$350	\$350	\$350	\$350	\$350	\$1,750
	\$21,782	\$21,204	\$22,264	\$22,264	\$23,325	\$23,325	\$112,382

Note 1: The introduction of the per-capita allocation resulted in a slight decrease in the City's allocation for 2014 and 2015 because London's growth in the 2011 Census was lower than the average Ontario municipality; however the partial indexation results in the increases seen in 2016 and 2018. The decrease in 2014 is offset by an administrative cost savings distribution by AMO.

Note 2: The 2014 Municipal Funding Agreement for Federal Gas Tax Funds covers the period of 2014-2023 however only the 2014-2018 municipal allocations have been published at this time therefore the 2019 allocation is an estimate based on 2018.