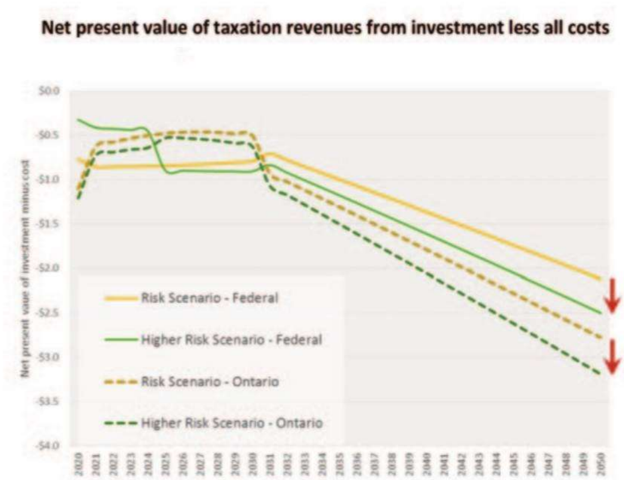
Photo by Ron de Vries Photography

RCCAO report warns of effects of funding inactivity

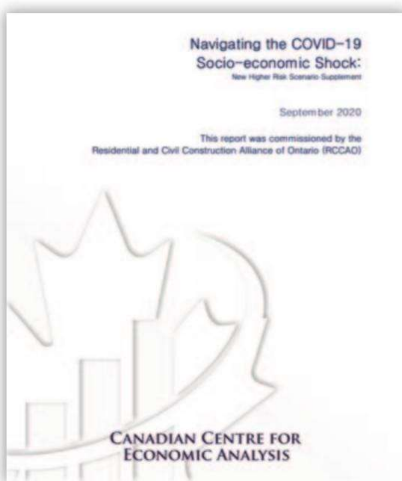
'We are running out of time to get important municipal projects built this fall,' says RCCAO executive director Any Manahan as his association links the effects of infrastructure investment levels on long-run economic activity.



A new report issued by the Residential and Civil Construction Alliance of Ontario suggest that if the federal government delays, or rolls back, infrastructure funding as a result of the COVID pandemic, Ontario could suffer significant economic losses.

The report, *Navigating the COVID-19 Socio-economic Shock: New Higher Risk Scenario Supplement*, builds on the findings of a report issued by the RCCAO and prepared by the Canadian Centre for Economic Analysis (CANCEA) in June. It updates the projections of that early-summer report with new data that suggests municipalities are facing even-worse budget shortfalls than anticipated three months ago, despite funds announced under the federal Safe Restart Agreement.

The updated report adds a new higher-risk scenario to its findings. In it, the federal government invests $5.2 billion less than planned in Ontario infrastructure over the next five years. If this were to happen, CANCEA economic models suggests Ontario could lose out on 60,300 jobs and $22 billion in provincial and federal government revenue over the next 10 years, and nearly 90,000 jobs and $98 million in revenue over 30 years.



"This report offers compelling evidence that the federal government must step up to the plate and provide appropriate funds for infrastructure and to help offset municipal deficits that have accrued as a result of the COVID-19 pandemic," says RCCAO executive director Andy Manahan. "We know that municipalities have state-of-good-repair projects ready to go and federal funding needs to flow to get the ball rolling. The alarm bells are ringing and we are running out of time to get important municipal projects built this fall."

10- and 30-year outcomes of the Risk Scenario compared to baseline

Risk	10 Years	30 Years
Average Change in Employment	-55,000 jobs	-79,000 jobs
Cumulative Federal Government Revenue decline	-$8 billion	-$36 billion
Cumulative Ontario Government Revenue decline	-$12 billion	-$51 billion

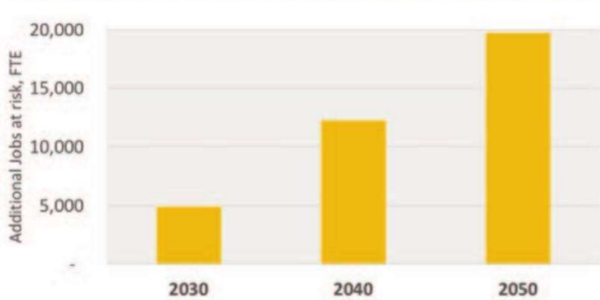
Since RCCAO and CANCEA released their June report, concern has been mounting among stakeholders that infrastructure investment may be at risk. The federal government is expected to invest $16 billion in Ontario infrastructure over the next five years—about $2.6 billion less than what otherwise would have been expected if the COVID- 19 crisis had not occurred. As it turns out, that figure is on par with the risk scenario proposed by RCCAO and CANCEA in their June report.

The June report suggests that level of under-investment could cost Ontario 10,000 jobs and $20 billion in lost revenue over the next 10 years, and 79,000 jobs and $87 billion in lost revenue over 30 years. That scenario assumes the federal and provincial governments adjust their infrastructure spending to the economic downturn and contribute the same share of GDP to infrastructure as they had pre-crisis (0.4 percent and 2.4 percent, respectively), with municipal operating deficits being covered using funds from Ontario's capital budget.

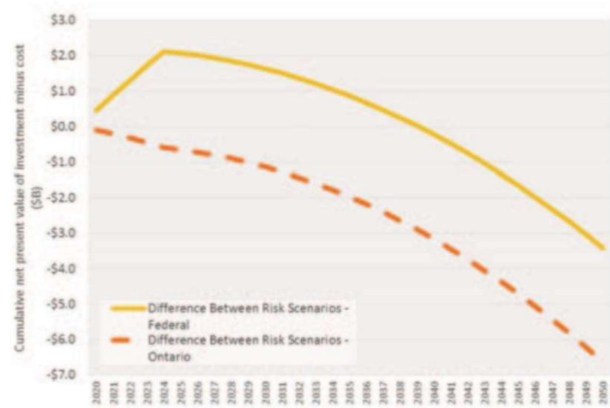
A new, higher-risk scenario described in the September report suggests that risks are magnified by further spending contractions. If the federal government delays or rolls back infrastructure investment from 0.4 percent of expected Ontario GDP to 0.33 percent, if Ontario continues to invest at 2.4 percent of its GDP, and if municipal deficits are covered with funds from Ontario's capital budget, the spending reduction could have an annual negative return of 4.7 percent.

A preferred scenario described in the June report projects the benefits of the federal and provincial governments investing the same amount in infrastructure as was planned pre-crisis, while the senior levels of government also pay off municipalities' operating deficits, thereby ensuring that municipalities maintain their capital plans.

Additional jobs at risk from the Higher Risk Scenario compared to Risk Scenario



Difference between Risk Scenario and Higher Risk Scenario
Net present value of taxation revenues from investment less costs



In that scenario, Ontario creates 61,000 jobs on average per year, as well as $22 billion in tax revenues in just 10 years, and 189,000 jobs and $209 billion in taxation revenues in 30 years.

The analysis concluded that holding back on infrastructure investment in Ontario at this critical juncture could exacerbate the effects of the current crisis and hamper the recovery of the province.

"RCCAO is pleased that the federal government is providing funds to the provinces and territories through the Safe Restart Agreement, but it is not nearly enough," says Manahan. "This is a critical period and it's not the time for the federal government to pull back on infrastructure funds. Our economy needs a kick-start and we must get going, especially on state-of-good-repair projects."

Although there are projects ongoing, Ontario contractors report that many municipalities are pulling back on tendering capital works projects because they are unsure about funding. The construction industry employs about 400,000 people in Ontario, but a considerable part of the sector could be lost if there is a cutback on infrastructure investments.

"We are looking at a very bleak time if the federal government doesn't open up the tap for infrastructure projects," says incoming RCCAO board chair Peter Smith, executive director of the Heavy Construction Association of Toronto. "It's a high-stakes gamble to ignore the construction industry. The sector employs a lot of people in Ontario and such inaction will have a significant trickle-down effect."