

COMMITTEE OF THE WHOLE – FEBRUARY 4, 2008

TAX-FREE MUNICIPAL BONDS

Recommendation

Councillor Tony Carella, recommends the adoption of the following resolution:

WHEREAS the future financing of the costs for the maintenance and replacement of aging municipal infrastructure is of ongoing and increasing concern to all Canadian municipalities; and

WHEREAS the discussion of the need to ensure an adequate source for such funding can only benefit from the consideration of any new municipal financing options; and

WHEREAS the use of tax-free municipal bonds as a mechanism for such funding is common practice in other jurisdictions.

NOW THEREFORE BE IT RESOLVED that the Council of the City of Vaughan endorses in principle the proposal by Senator Jerry Grafstein, that the Business Development Bank of Canada be granted the authority to issue tax-free bonds for the purpose of financing capital infrastructure projects on behalf of Canadian municipalities that choose to avail themselves of this option; and

That this resolution be communicated to Senator Grafstein, to the Ministers of Finance of Canada and Ontario, the members of Parliament from York Region, the members of provincial Parliament from York Region, the Council of the Regional Municipality of York, and the councils of the municipalities which comprise the Region of York.

Economic Impact

Nil

Purpose

To lend support to a not-yet-considered option for increasing funds available to municipalities, to meet the future costs of infrastructure maintenance and replacement.

Communication Plan

The Corporate Communications Department will issue a media release upon the adoption of this resolution by Council.

Background – Analysis and Options

The cost of maintaining and replacing municipal infrastructure is---in the words of Sir Robert Walpole---a “sleeping dog”, one that cannot be relied on to play dead forever. Indeed, it is arguably the most important issue that Canadian municipalities will confront over the next few decades, given the evidence of the need for such maintenance and replacement. Witness the spectacular and costly collapses of highway bridges in Montreal and Minneapolis, Minnesota this past year. Reasonable estimates put the total of funds needed to meet infrastructure replacement requirements across Canada at \$200 billion.

Proposals to address this issue are growing, most recently those that seek the redirection of one percent of the Goods and Services Tax to municipal coffers. Senator Grafstein's proposal, that the Business Development Bank be granted the authority to issue, on behalf of municipalities, tax-free bonds, is one that is common in many jurisdictions. The fact that such bonds would be tax-free, means that municipalities could pay less interest on the money raised while still providing an attractive investment opportunity for Canadians looking for a secure place to "park their money". According to Senator Grafstein, the plan he proposes would limit the investment of proceeds to projects that would generate revenue (e.g., transit lines, water mains, toll roads, etc.).

While the proposal would mean less revenue for federal and provincial coffers, such losses would be, according to Senator Grafstein, recouped through the sales and income taxes generated by the wave of construction activity the proposal would result in.

Regional Implications

Nil

Relationship to Vaughan Vision 2007

This report is consistent with the priorities previously set by Council and the necessary resources have been allocated and approved.

Conclusion

Council of the City of Vaughan supports consideration of another option for financing municipal infrastructure maintenance and replacement.

Attachments

None

Report prepared by:

Councillor Tony Carella

Respectfully submitted,

Tony Carella
Councillor – Ward 2