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The Gas Tax Fund: Chronology, Funding and Agreements

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Jean Dupuis

Economics, Resources and International Affairs Division
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THE GAS TAX FUND: CHRONOLOGY, FUNDING AND AGREEMENTS

1 INTRODUCTION

Public infrastructure, which includes facilities for transportation, communication, power generation, water distribution, public sanitation and pollution abatement, is essential to a nation's economic vitality and the welfare of its people. Governments are responsible for keeping public infrastructure in good working order and for replacing these assets as they reach the end of their lifespan or become obsolete. However, the upkeep of public infrastructure is often too costly for a single level of government to undertake. This is particularly true for Canadian municipalities, which own approximately 60% of all public infrastructure¹ but have limited sources of revenue, usually restricted to property taxes and user fees, at their disposal.²

This is why the federal government introduced, in 2005, the Gas Tax Fund (GTF), a predictable and permanent source of infrastructure funding support for municipalities. This document provides an overview of the GTF, including the growth of the program since its inception, categories of expenditure eligible for funding, and a summary of funding agreements.

2 CHRONOLOGY AND FUNDING

The name of the GTF reflects the fact that the funds it dispenses originally came from revenues raised by the federal gasoline excise tax. Currently, allocations are set by legislation, and the source of revenue is the Consolidated Revenue Fund.

The GTF was launched with Budget 2005,³ which announced an allocation of \$5 billion over five years, starting in fiscal year 2005–2006.⁴

Budget 2007 announced that the federal government would extend the GTF to provide \$2 billion per year to municipalities from 2010–2011 to 2013–2014, for a total of \$8 billion.⁵

In Budget 2008, the federal government announced that the GTF would be extended beyond 2013–2014 and would be made permanent to ensure stable, long-term funding to municipalities.⁶

Budget 2011 announced the federal government's intention to legislate a permanent annual investment of \$2 billion through the GTF.⁷

In Budget 2013, the federal government introduced amendments to the enabling legislation⁸ to increase the GTF payments at a set rate of 2% per year, starting in 2014–2015, with increases to be applied in \$100 million increments.⁹

Most recently, in Budget 2016, the federal government announced that it would be transferring uncommitted funds from older existing infrastructure funds to municipalities through the GTF in 2016–2017 to ensure that funds are directed toward municipal infrastructure priorities in the near term.¹⁰

Table 1 shows the total annual voted appropriations and statutory spending under the GTF since 2005–2006.

Table 1 – Gas Tax Fund, Voted Appropriations and Statutory Spending, 2005–2006 to 2014–2015 (\$ millions)

Fiscal Year	Voted Appropriations	Statutory Spending
2005–2006	581,928	581,928
2006–2007	610,566	590,205
2007–2008	802,848	778,203
2008–2009	1,012,134	984,812
2009–2010	1,974,980	1,872,374
2010–2011	2,104,380	1,750,984
2011–2012	2,327,848	2,205,848
2012–2013	2,096,452	1,964,039
2013–2014	2,106,865	2,106,865
2014–2015	1,973,269	1,973,269
Total	15,591,270	14,808,527

Source: Table prepared by the author using data obtained from the Receiver General for Canada, Public Accounts of Canada: *Volume II – Details of Expenses and Revenues*, 2005–2006 to 2014–2015.

3 EXPENDITURE CATEGORIES

Under the GTF, capital expenditures eligible for funding vary according to municipality size and region. In large urban communities, the GTF funding was initially directed toward the following infrastructure categories:

- local roads and bridges;
- public transit;
- water and waste water treatment;
- treatment of solid wastes; and
- community energy systems.

For smaller communities, eligibility for capital expenditure funding under the GTF was more broadly defined to afford greater flexibility in meeting infrastructure priorities.¹¹

In Budget 2013, the list of infrastructure expenditure categories eligible for funding under the GTF was expanded to include the following:

- highways;
- local and regional airports;
- short-line rail;
- short sea shipping;
- disaster mitigation;
- broadband and connectivity;
- brownfield redevelopment;
- culture;
- tourism;
- sports; and
- recreation.¹²

4 GAS TAX FUND ALLOCATIONS

The federal government initially concluded GTF agreements with the provinces, the territories, the Association of Municipalities of Ontario, the Union of British Columbia Municipalities, and the City of Toronto; these were in effect from 2005–2006 to 2013–2014. GTF agreements have been renewed and signed for the permanent GTF, starting in 2014–2015.¹³

GTF payments are governed under GTF funding agreements, which establish an accountability framework that allows the Government of Canada to make GTF payments twice a year to signatories. The total amount is distributed on a per capita basis to the provinces, territories and First Nations, but a minimum level of funding is assured for the least populated regions and is set at an amount equal to 0.75% of the total funding, or \$78 million over five years (see Table 2).¹⁴ The federal government provides the GTF funding to provincial and territorial governments, which in turn make allocations to municipalities according to the terms of the funding agreements.

For their part, municipalities decide which projects to prioritize within the established investment categories. To provide significant financial flexibility, municipalities may bank and borrow against the funds they receive and may also pool funds. Eligible recipients are required to report annually on their use of funds and their compliance with the terms and conditions of their respective GTF agreements.¹⁵

Table 2 – Gas Tax Fund Projected Allocation to the Provinces, Territories and First Nations (2014–2015 to 2018–2019) (\$ millions)

Jurisdiction	2014–2015	2015–2016	2016–2017	2017–2018	2018–2019	Total
Newfoundland and Labrador	29.9	29.9	31.4	31.4	32.9	155.3
Prince Edward Island	15.0	15.0	15.8	15.8	16.5	78.0
Nova Scotia	53.0	53.0	55.9	55.9	58.6	276.8
New Brunswick	43.3	43.3	45.5	45.5	47.7	225.3
Quebec	458.2	458.2	481.1	481.1	504.0	2,382.7
Ontario	744.9	744.9	782.2	782.2	819.4	3,873.7
Manitoba	65.5	65.5	68.7	68.7	72.2	340.5
Saskatchewan	56.3	56.3	59.1	59.1	61.9	292.7
Alberta	208.7	208.7	219.1	219.1	229.5	1,084.9
British Columbia	253.3	253.3	265.9	265.9	278.6	1,317.0
Yukon	15.0	15.0	15.8	15.8	16.5	78.0
Northwest Territories	15.0	15.0	15.8	15.8	16.5	78.0
Nunavut	15.0	15.0	15.8	15.8	16.5	78.0
First Nations	26.7	26.7	28.1	28.1	29.4	139.0
Total	2,000	2,000	2,100	2,100	2,200	10,400

Notes: Allocations from 2014–2015 to 2018–2019 are based on census 2011 data. For 2019–2020 to 2023–2024 the allocations will be based on 2016 census data. Totals may not sum because of rounding.

Source: Infrastructure Canada, [Gas Tax Fund Allocation Table](#).

5 AGREEMENTS

Table 3 shows the allocation formulas for each of the federal–provincial/territorial agreements.

Table 3 – Gas Tax Fund (GTF) Allocation Formulas, by jurisdiction, 2014–2015 to 2023–2024

<i>Gas Tax Fund Agreement</i>	<i>Allocation Formula</i>
Canada–Newfoundland and Labrador	<ul style="list-style-type: none"> 68.91% to be divided equally among local governments (excluding Regional Service Boards), of which 10% is to be given as a base amount and the remaining 90% is to be allocated on a per capita basis (2014 to 2019 is based on 2011 census data and 2020 to 2024 will be based on 2016 census data) 28.49% to the Newfoundland and Labrador Provincial Waste Management Strategy 1.43%, on an application basis, to the Provincial Water and Wastewater Initiative 1.17% to cover administrative expenses
Canada–Prince Edward Island	<ul style="list-style-type: none"> 53% allocated on a per capita basis to the 26 municipal governments that provide water and/or waste water services, with a base amount of \$100,000 30% of funding directed to the funding of roads and bridges 13.67% of funding to the municipal strategic component that covers the needs of local governments and unincorporated areas 3.33% of funding allocated on a per capita basis to the 48 local governments that do not provide water and/or waste water services The per capita allocation for the 2014 to 2019 period is based on 2011 census data, and the allocation for the 2020 to 2024 period will be based on 2016 census data.

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<i>Gas Tax Fund Agreement</i>	<i>Allocation Formula</i>
Canada–Nova Scotia	<ul style="list-style-type: none"> • 98.6% to local municipalities according to a formula based on a weighted average of the population for each individual municipality divided by the provincial population (25%); the portion of the number of dwelling units for each municipality divided by the provincial dwelling count (25%); and a five-year rolling average of standard expenditures for each municipality divided by five-year rolling average of standard expenditures for all municipalities in the province (50%) • 0.4% to cover capacity-building projects related to development and implementation of the Asset Management Plan • 1.0% to cover administrative expenses
Canada–New Brunswick	<ul style="list-style-type: none"> • 98.65% to be split between Incorporated Areas (80%) and Unincorporated Areas (20%), as follows: <ul style="list-style-type: none"> ▪ For the ultimate recipients found in the Incorporated Areas, the allocation will be determined on a per capita basis (2014 to 2018 is based on 2011 census data and 2019 to 2023 will be based on 2016 census data). ▪ The government of New Brunswick will administer the 20% allocation to Unincorporated Areas according to a five-year Capital Investment Plan for Unincorporated Areas that identifies eligible projects of regional priority. • 1.35% to cover administrative expenses
Canada–Quebec^a	<p>For 2014 to 2018:</p> <ul style="list-style-type: none"> • Municipalities of 6,500 inhabitants or more will be allocated a sum of \$289.39 per capita, based on 2014 census data.^b • Municipalities of fewer than 6,500 inhabitants will be allocated \$226.13 per capita, based on 2014 census data, and a basic amount of \$427,500.
Canada–Ontario–Association of Municipalities of Ontario (AMO)–City of Toronto	<ul style="list-style-type: none"> • The AMO will receive GTF funding representing the per capita amount for municipalities excluding Toronto. Municipal allocation will be on a per capita basis, and allocations will be made on a 50:50 basis to upper- and lower-tier municipalities, where they exist. • Toronto will receive any such GTF funding representing the per capita amount of Toronto. • Ontario will receive any such funding representing the per capita amount for the benefit of unincorporated areas. Funding provided to unincorporated areas will be based on the kilometres of public roads managed by each local road board.
Canada–Manitoba	<ul style="list-style-type: none"> • 90% on a per capita basis to ultimate recipients • 9.5% on a per capita basis to the transit communities of the City of Winnipeg and the City of Brandon • 0.25% for an application-based Small Communities Transportation Fund • 0.25% to cover administrative expenses
Canada–Saskatchewan	<ul style="list-style-type: none"> • Each municipality will receive an allocation, on a conditional basis, based on census data (2014 to 2019 is based on 2011 census data, and 2020 to 2024 will be based on 2016 census data). • Before determining GTF funding allocations to ultimate recipients, the Government of Saskatchewan may deduct funding for administration expenses.

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<i>Gas Tax Fund Agreement</i>	<i>Allocation Formula</i>
Canada–Alberta	<ul style="list-style-type: none"> • 99.7% to be calculated annually and allocated in the following manner: <ul style="list-style-type: none"> ▪ Funds will be allocated to each local government on a per capita basis according to the previous year's Municipal Affairs Population List. ▪ Summer villages will receive \$5,000 per year in addition to the per capita amount. ▪ Local governments, with the exception of summer villages, will receive a minimum allocation of \$50,000 per year. • 0.3% to cover administrative expenses
Canada–British Columbia–Union of British Columbia Municipalities (UBCM)	<p>Federal GTF funding received by the UBCM is to be delivered through three programs: the Community Works Fund (CWF), the Greater Vancouver Regional Fund (GVRF) and the Strategic Priorities Fund (SPF), as follows:</p> <ul style="list-style-type: none"> • The CWF will deliver \$519 million between 2014 and 2018 according to a per capita formula, with a funding floor (\$50,000 in the first year of the agreement and \$50,000 plus an indexed amount in each subsequent year). • The GVRF will deliver \$652.4 million between 2014 and 2018 to regional transportation projects. • The SPF will deliver about \$150 million to projects outside the Greater Vancouver Regional District.
Canada–Yukon	<ul style="list-style-type: none"> • The Association of Yukon Communities will allocate 68% to municipal governments. • The Yukon First Nations will decide on the 25% of GTF funding going to Yukon First Nations communities. • The Yukon government will determine the 7% of GTF funding going to unincorporated communities. • Before determining GTF funding allocations to ultimate recipients, the Yukon government may deduct funding for administration expenses.
Canada–Northwest Territories	<ul style="list-style-type: none"> • 97% to local governments • 1.25% to cover administrative expenses • 1.75% for capacity-building projects
Canada–Nunavut	<ul style="list-style-type: none"> • 15% to Tax Based Municipalities (i.e., municipal taxing authorities). The government of Nunavut will consider a <i>Capital Funding Agreement</i> for each Tax Based Municipality and will confirm the eligibility of a range of eligible projects included therein. • 82.9% to Non-Tax Based Municipalities. Non-Taxed Based Municipalities will submit their infrastructure priorities to an advisory committee made up of municipal and government representatives for review and consideration. The government of Nunavut will then determine which eligible projects are to be funded based on the recommendations and available GTF funding. • 2.1% to capacity-building projects

- Notes:
- a. The Government of Quebec added an amount representing 41.3% of the amount provided by the federal government.
 - b. Affaires municipales et Occupation du territoire Québec, [Décret de population](#).
 - c. For the amounts allocated to individual communities, see [Union of BC Municipalities Gas Tax Agreement Community Works Fund Allocations Year 1 – Year 5](#).

Source: Infrastructure Canada, [Gas Tax Fund Agreements](#).

NOTES

1. Federation of Canadian Municipalities, [Infrastructure](#).
2. Department of Finance Canada, [The Budget Plan 2004: New Agenda for Achievement](#), Ottawa, 2004, p. 171.
3. Department of Finance Canada, [The Budget Plan 2005](#), Ottawa, 2005, p. 202.
4. All year ranges in this document refer to fiscal years.
5. Department of Finance Canada, [The Budget Plan 2007: Aspire to a Stronger, Safer, Better Canada](#), Ottawa, 19 March 2007, p. 162.
6. Department of Finance Canada, [The Budget Plan 2008: Responsible Leadership](#), Ottawa, 26 February 2008, p. 131.
7. Department of Finance Canada, [The Next Phase of Canada's Economic Action Plan: A Low-Tax Plan for Jobs and Growth](#), Budget 2011, Ottawa, 6 June 2011, p. 101.
8. [Economic Action Plan 2013 Act, No. 1](#), S.C. 2013, c. 33, s. 233.
9. This indexing is projected to provide an additional \$1.8 billion in infrastructure funding support over 10 years. For more details, see: Infrastructure Canada, [The Federal Gas Tax Fund: Permanent and predictable funding for municipalities](#).
10. Department of Finance Canada, [Growing the Middle Class](#), Budget 2016, Ottawa, 22 March 2016, p. 89.
11. Department of Finance Canada (2005), p. 202.
12. Department of Finance Canada, [Jobs, Growth and Long-Term Prosperity: Economic Action Plan 2013](#), Budget 2013, Ottawa, 21 March, 2013, p. 173.
13. Infrastructure Canada, "[Gas Tax Fund Agreements](#)," *Provincial–Territorial Agreements*.
14. GTF allocations for 2014–2015 to 2018–2019 are based on 2011 census data. GTF allocations for 2019–2020 to 2023–2024 will be based on 2016 census data.
15. Infrastructure Canada, "Transfer Payments under the Gas Tax Fund (GTF)," in [Report on Plans and Priorities, 2016–2017 – Supplementary Information Table: Details of Transfer Payment Programs](#).