

RESEARCH NOTE

CANADA'S MUNICIPAL DEVELOPMENT AND LOAN FUND (1963-1966)

This Research Note provides an overview of the Municipal Development and Loan Fund, in place in Canada from 1963 to 1966. The Fund is one of the innovative ways by which the federal government has helped to finance infrastructure projects in the past. It also provides an example of how the Government of Canada has successfully levered results in other priority areas through investments in public infrastructure.

Background

The Municipal Development and Loan Act (MDLA) was passed by the Pearson government on August 2, 1963. The primary objective of the Act was to promote increased employment and production during the following two years by offering loans and incentives to municipalities to accelerate and expand their capital works programmes. The Act was deemed to be temporary, with the potential of becoming permanent. For a general timeline of the Municipal Development and Loan Act, refer to Appendix A.

The MDLA established a \$400 million fund to be administered by a board and used to finance municipal capital projects through loans, thereby increasing employment in the construction industry. To be eligible for a loan, municipal projects had to constitute an addition to, or an acceleration of, an intended programme of municipal capital works.

When the bill was discussed in the House of Commons on June 11, 1963, Mr. Walter Gordon (the then Finance Minister) had given the assurance that the loans would be extended only with the approval of the provinces. However, legislation was then prepared without consultation with the provinces. The provinces felt that the federal government had breached a promise to respect provincial rights by unilaterally establishing the municipal loan fund.

At a later conference, the Municipal Development and Loan Fund was salvaged, but it was agreed that the amount of the fund, \$400 million, would be divided among the provinces according to population. This decision seemed ineffective and not aligned with the objective of increasing employment in the construction industry. The reason for this is that while more of the fund would have been allotted to a province with a higher population, this province may not have had a high unemployment rate.

The Act finally came into effect September 5th, 1963. The initial lending rate was set at 5.25% for the first three months ending December 31st, 1963. Loans were awarded for periods not to exceed the useful life of the project, up to a maximum of 50 years.

To ensure that these municipal projects would be commenced with a minimum of delay and thus stimulate employment quickly, the Act made provision for partial cancellation (and what the Board called "forgiveness") of the loan amount, with the degree of forgiveness related to the amount of construction work completed by a specified date. The Board was authorized to forgive the repayment of up to 25 percent of each loan, based on the costs incurred by the municipalities.

Administration of the Fund

Four provinces, Québec, Ontario, Manitoba, and Saskatchewan, opted to directly administer the Act themselves in accordance with agreements that had been negotiated. In these provinces, the provincial government itself made the original loan and approved subsequent increases as became necessary, and borrowed the appropriate amounts from the Municipal Development and Loan Board. In the case of the remaining six provinces, Central Mortgaging and Housing Corporation acted on behalf of the Municipal Development and Loan Board in providing advisory services to the municipalities, and in processing loan applications and subsequent payment requests to the Board. The Comptroller of the Treasury performed certain auditing functions for the Board and was responsible for the collection of the annual amounts due back to the Board.

The Minister of Finance and the Receiver General were designated to act as the Minister for the purposes of the Act and as the appropriate Minister under the Financial Administration Act with respect to the Municipal Development and Loan Board. The Deputy Minister of Finance, the Deputy Receiver General, the President of CMHC, and the Under-Secretary of State formed the Municipal Development and Loan Board.

The Municipal Development and Loan Fund had always been set to expire on March 31st, 1966. The reason for this was that they felt it would not be necessary to continue with the Act due to the substantial funds that would become available to the provinces through the Canada Pension Fund. The Municipal Development and Loan Fund was eventually extended an additional 6 months until September 30th, 1966, at which point it expired.

Results Achieved

From the inception of the Municipal Development and Loan Fund in 1963 up to March 31, 1969, the Municipal Development and Loan Board approved 2,429 loans to 1,262 municipalities for a total value of \$396,952,194¹. At the end of the programme, just over \$3 million of the loan remained uncommitted. Since the Board loans did not cover the entire cost of municipal projects, the total amount of construction stimulated by the program was considerably higher. Provinces estimated that the cost of projects stimulated by the Fund was around \$752.1 million. The additional employment was heaviest in 1965. A breakdown by year of direct employment attributable to the Municipal Development and Loan Fund (MDLF) loans is as follows:

Calendar Year	Man Years
1964	8,000
1965	22,000
1966	8,500
1967	2,000
1968	350
Total	40,850 ²

¹ "Annual Report of the Municipal Development and Loan Board." (1968/69).

² Although no new loans could be approved after March 31, 1966, adjustments continued to be made for loans that had been previously approved and thus there were additions to "Man Years" in the years 1967 and 1968.

For Canada as a whole, over a third of the Fund was used to help finance water and sewer projects. An equal amount was used to help finance such services as schools, roads and bridges, rapid transit systems and civic administration buildings. A smaller portion of the Fund was used to finance park developments, recreation facilities, hospitals, and power distribution projects.

Relevance for Infrastructure Canada

The Municipal Development and Loan Fund was used for a short period of time to stimulate employment in Canada. The results of the Fund can be viewed as mixed since the Fund did stimulate employment, but because the Fund was allocated based on population, it may not have had the full effect that was originally intended. In either case, the Fund provides an example of an alternate approach used by the federal government to stimulate employment and to finance infrastructure projects in Canada.

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APPENDIX A: TIMELINE OF THE MUNICIPAL DEVELOPMENT AND LOAN FUND

June 11, 1963: Municipal Development and Loan Act introduced in the House of Commons.

July 19, 1963: Provincial opposition to the Fund was overcome through the agreement by the provinces that the \$400 million would be divided among the provinces according to population.

August 2, 1963: Royal Assent of the Municipal Development and Loan Fund.

September 5, 1963: Proclamation of the commencement of the Fund.

October 31, 1963: Governor-in-Council approval of the regulations concerning the loans under the Municipal Development and Loan Act.

March 1966: Parliament approved a change in the formula for calculating loan forgiveness and extended by six months the date up to which loan forgiveness could be earned.

March 31, 1966: Planned expiration date of the Act (it was later extended by 6 months).

September 30, 1966: Actual expiration of the Municipal Development and Loan Fund.

1966 – 1969: Adjustments continued to be made in the loan amounts of previously approved loans.