Municipal Funding

Issue

Businesses across Alberta are growing increasingly concerned about municipal tax burden and the state of municipal infrastructure. Municipal governments are heavily reliant on transfers from the provincial and federal governments to cover the cost of replacing local infrastructure, which businesses rely on for transportation, water services and drainage services. Alberta's primary infrastructure funding to municipalities, the Municipal Sustainability Initiative (MSI), is currently set to end in March 2019. Without a replacement, Alberta's municipalities are more likely to rely on local property taxes to fund the replacement of infrastructure or not do the work at all.

Background

According to a 2016 survey completed by the Canadian Federation of Municipalities (FCM), municipal governments own nearly 60 percent of Canada's core public infrastructure[1]. The value of these core municipal infrastructure assets is estimated at $1.1 trillion[2].

Municipally owned infrastructure assets include but are not limited to[3]:

- water systems;
- roads and bridges;
- buildings;
- sport and recreation facilities; and
- public transit.

FCM estimates that the backlog of upgrade and expenditure of the existing municipally owned infrastructure in Canada will exceed $123 billon[4].

Communities also face financial challenges from increasing standards and regulations without adequate financial mechanisms to pay for them. The primary revenue resource at the municipal level is property tax. Canadian businesses pay a much higher property tax rate than residential taxpayers. Significant increases in property taxes are not affordable either for Canadian businesses or for residents.

Today communities only collect eight cents on every tax dollar collected by all levels of government, significantly down from 24 cents a decade ago. Communities, industry and businesses rely on utilities, transportation and power systems to sustain business operations. Business interruptions due to broken water mains, poor roads, inadequate transit and other disruption causes economic loss to businesses and limits our ability to attract new businesses to communities.

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[1] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 5

[2] Federation of Canadian Municipalities (2016) Informing the Future: Key Messages, page 2

[3] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 5

[4] Federation of Canadian Municipalities (2015) Policy Statement Municipal Infrastructure and Transportation Policy, page 2

Municipal built environment or infrastructure is critical to the economic capacity and livability of communities and the viability of Canadian businesses within them. Government support at all levels is required to renew public infrastructure as well as assist with paying for new and increased regulations and standards[5].

In Alberta, beyond property taxes, municipalities are reliant on MSI to fund capital infrastructure. MSI was launched in 2007 to deliver $11.3 billion to municipalities over ten years. At the end of ten years, the province had only delivered $7.53 billion of MSI funding and opted to extend the program two more years to end in March 2019.

The Alberta Urban Municipalities Association (AUMA) has been calling on the province to develop a new model for municipal funding. AUMA emphasizes the importance of predictable and adequate funding to address municipal infrastructure needs, and the recognition that funding levels must be responsive to the growth and realities of the province's own revenue streams. Predictability is particularly important since the new *Municipal Government Act* (MGA) requires municipalities to adopt three-year financial plans and five-year capital plans. As well, the new MGA outlines requirements for Intermunicipal Collaboration Frameworks (ICF) which will have a component relating to cost-sharing for common infrastructure. As such, a new funding model must allow municipalities to forecast their funding levels on a rolling five-year period.

The Federal Government is currently committed to providing $180 billion over the next 12 years for five key infrastructure priorities: public transit, green infrastructure, social infrastructure, trade and transportation infrastructure, and rural and northern communities' infrastructure. The Federal Government is currently proposing a 40/33/27 federal/provincial/municipal split on projects under the funding. AUMA and FCM have both advocated for a 40/40/20 federal/provincial/municipal split. This split is based on municipalities collecting a significantly smaller percentage of taxes and are responsible for considerably more infrastructure. The province is currently in bilateral negotiations with the federal government on what that split will look like and how funding will be decided.

Given municipalities would have to turn to property taxes to cover their share of infrastructure funding, it's important that the province meet the 40 per cent commitment proposed by AUMA and FCM.

The Alberta Chambers of Commerce recommends the Government of Alberta:

1. Develop a new overall funding formula for municipalities that is dependent upon rigorous budgeting principles that produce transparent, accountable, long term, predictable, and sustainable funding for municipalities.
2. Maintain municipal funding at such a level that municipalities can fully take advantage of the Investing in Canada money being made available by the Federal Government.
3. Support the 40/40/20 federal/provincial/municipal funding split proposed by the Alberta Urban Municipalities Association for the Investing in Canada fund.

[5] Federation of Canadian Municipalities (2016) Informing the Future: Canadian Infrastructure Report Card, page 6