Executive Summary

Vision 2020

This report is the second in the Vision 2020 project series. Vision 2020 is a multi-year project intended to provide insight on how demographic changes may impact Alberta's economic, social and policy landscape and to track how government responds to the challenges that these changes present.

Scope of Phase II

Many Alberta communities face long-term challenges related to population changes and infrastructure finance. "At risk" communities can be placed into one of two main categories: 1) those where recent and ongoing population growth, which is expected to continue in the long-term, is outpacing infrastructure financing, management and delivery capability and 2) those where declining economic activity and population outflows are contributing to fiscal challenges. This phenomenon is not unique to Alberta.

Population migration to concentrated corridors of economic activity will continue to change our provincial landscape over the next twenty years – affecting public service delivery capacity and finance in the magnet areas, as well as the areas losing population. The challenges associated with these changes should be dealt with in a thorough, comprehensive manner, so as to enhance Alberta's competitive position relative to other countries, both developed and emerging. We don't have twenty years to get this right; change is needed now!

Intent of Phase II

Phase II of Vision 2020 reviews how Alberta and competing jurisdictions – both Canadian and international – fund municipalities. It looks into the finance reform options that have been suggested for Canada generally, and Alberta specifically, to help address the challenges associated with population concentration in growth corridors.

An integral part of this paper is a discussion of the "stressed" Alberta communities. They face the divergent risks of stress from decreasing population and fiscal difficulties in one group made up of largely rural and northern communities, and rapidly increasing population and fiscal difficulties in the other group including major cities and their connecting corridors. The focus here will be to identify characteristics of each group, explain why both have challenges related to municipal finance, and look for solutions that can address these challenges while getting the maximum benefit for taxpayers' money.

Overview of Research Findings and Recommendations

Alberta's population is increasingly concentrated in urban areas. This transformation, whereby roughly 81 per cent of the population lives in urban areas, has been coupled with a decrease in the local share of total government spending. Municipalities bear most of the costs associated with economic growth, while senior orders of government reap the rewards because their tax base is more comprehensive than municipalities' property tax base. Demographic changes, under-funding of infrastructure, and large decreases in federal and provincial transfers in the 1990s have seen the development of a large infrastructure debt in Alberta and Canada as a whole.

Based on population, Alberta's share of the estimated infrastructure debt ranges from $5.7 billion for the local municipal sector alone, to $12.5 billion for all governments. Not only does this debt need to be addressed, but also the underlying causes of the annual and continuing infrastructure deficit urgently need attention. Provincial and federal government actions to address the infrastructure debt are planned under the existing municipal finance structure, but do not include allowing any changes to how municipalities fund the services they provide.

Municipalities Under Stress

Municipal stresses caused by population declines or rapid growth, as well as expenditure growth in excess of revenue growth, are reviewed in this paper. Specifically, municipalities with negative population growth and those with population growth more than twice the provincial average over the period 1995 through 2003 were identified as being under population stress. Fiscal data for these groups were analyzed and municipalities were also identified as being under fiscal stress if operating expenditure growth exceeded operating revenue growth for the period 1995 through 2003.

Negative Population Growth

There are 21 municipal districts (MDs) and special areas (SAs) and 22 towns that saw population declines between 1995 and 2003. Taken together, the MDs lost 4,738 people (5.6 per cent) from 84,540 in 1995 to 79,802 in 2003, and the towns lost 2,867 people (5.2 per cent) from 54,762 in 1995 to 51,895 in 2003. In addition to losing population over the period, eight of the 21 municipal districts, representing 31 per cent of the aggregate population and 17 of the 21 towns (75 per cent of the population), saw spending grow faster than revenues.

High Population Growth

Two cities, two municipal districts, two specialized municipalities, and 11 towns saw population increases more than twice the provincial average between 1995 and 2003. In contrast with the municipalities that lost population, the strong growth group tended to have a strong relationship with a Census Metropolitan Area (CMA) or a Census Agglomeration (CA), often within the Calgary-Edmonton Corridor (CEC). However, not all of the strong growth areas are close to the CEC. The Regional Municipality of Wood Buffalo grew by 53 per cent between 1995 and 2003, Grande Prairie grew by 38 per cent and the municipal district of Mackenzie saw growth of 33 per cent. In addition to rapid population growth over the analysis period, nine of the 17 municipalities, representing 62 per cent of the aggregate population, saw spending grow faster than revenues.

In addition to tackling the infrastructure debt, the current municipal finance system is in need of reform to address weaknesses. The system needs long-term, sustainable solutions. Many possibilities for reform have been suggested as of late, with focal points ranging from accounting and information systems to capital finance and taxation. Some reforms, such as adjustments to property taxes and user fees, could be undertaken within existing arrangements, while those focused on new revenue tools for municipalities including income and sales taxes, hotel/motel occupancy taxes, and fuel tax sharing would require action by senior order governments.

From this list of options, recommendations are made for: changes to accounting and information systems; user fees and the property tax; capital finance; gas tax revenue sharing; and, linking transfers to provincial personal income tax revenue.

The reform options represent a wide range of possibilities and are a dramatic shift away from standard municipal practice in the 20^{th} century. Therefore, a longer-term recommendation is for the reform process to include a widespread public consultation to get Albertans’ views about what services they expect from their municipal governments, and how they would prefer government be organized.

Local governments shared the pain of fiscal retrenchment in the 1990s, and could face large and unpredictable cuts to their funding again if senior orders of government run into another funding crunch, perhaps derived from financing health care. A long-term solution to the infrastructure debt – involving fixing the current finance system – will benefit Alberta and the country as a whole.