RMA
RURAL MUNICIPALITIES of ALBERTA

POSITION STATEMENT

Municipal Finances

Municipal finances garner considerable public attention because residents and businesses are directly affected through their responsibility to pay property taxes. Councils must allot those revenues to manage infrastructure and provide services in a fiscally responsible way.

What is RMA's position on the importance of municipal finances?

- Municipalities must operate according to the highest standards of financial transparency and accountability because taxation revenue is a municipality's primary source of funding. Municipalities must determine their local priorities and cover their operating and capital expenses with available tax revenues, and find alternative sources (ex. grants, loans) to cover the rest.

- In comparison to federal and provincial/territorial levels of government, municipalities receive only eight to ten cents of each tax dollar collected in Canada but are responsible for services and infrastructure expenses that significantly exceed those revenue levels.

- It is vital that the provincial and federal government support municipalities through long-term, predictable, and stable revenue sharing. Without predictable and consistent revenues, it is difficult to plan capital projects, to service interest payments, and to provide consistent levels of service to citizens.

- Non-payment of municipal property taxes causes municipalities significant planning and financial challenges. Alberta's current legislation allows for different tax recovery powers for different property types. Due to the importance of property taxes to municipal sustainability, municipal tax recovery powers must be clarified and applied consistently across property types.

- Alberta's rural municipalities rely on a stable, fair and transparent property assessment regime to ensure they can collect the taxes needed to provide residents and businesses with municipal infrastructure and services. Any changes to Alberta's assessment regime must not proceed without an understanding of how they will impact the ability of municipalities to generate adequate revenue.

What financial considerations do rural municipalities have with respect to municipal finances?

- Discussions on municipal finances cannot only focus on revenues. To accurately compare the finances of urban and rural municipalities, both revenues *and* expenditures must be considered. This is because expenses in rural

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municipalities are often higher than in urban municipalities due to extensive road networks, bridges, and both water and wastewater systems that need to be maintained.

- Population is a weak predictor of infrastructure expenses for most municipalities in the province. RMA supports the use of municipal assets as a primary funding formula measure, as these are often a stronger indication of need.

- To effectively plan and budget, municipalities rely on the Government of Alberta to provide timely and accurate assessment information, such as annual assessment year modifier rates. Delays or untimely changes to this information can cause municipalities significant financial and planning challenges.

- In order to support financial planning and decision-making, municipalities require long-term, sustainable funding from other levels of government that is distributed in a way that recognizes the complex and diverse cost-drivers for municipalities of different types and sizes.

- Rural municipalities make substantial financial and service delivery contributions to their urban neighbours through various inter-municipal financial arrangements (which are currently being formalized through the development of intermunicipal collaboration frameworks). Through these agreements, rural municipalities work with their municipal neighbors to meet regional needs. These local solutions are often the best solutions, and the RMA supports local decision making to meet local and regional needs.

- As of January 2020, Alberta's rural municipalities are facing approximately $173 million in unpaid taxes from the oil and gas industry. The *Municipal Government Act* lacks tools to allow municipalities to recover unpaid taxes, and as such, many municipalities are being forced to reduce service levels or raise tax rates on other property types to subsidize the shortfall.

- Most municipalities do not have sufficient annual revenues from taxation and grants to build and maintain needed infrastructure. Each year, this infrastructure deficit grows while citizens' expectations increase. Prior to the initiation of any change in governance structure (annexation, amalgamation, dissolution), the infrastructure deficits of all impacted municipalities must be considered, as adding additional responsibilities to an already over-extended municipality may have unintended negative consequences.

How does the work of RMA support the sustainability of municipal finances?

- RMA works collaboratively with all levels of government and other stakeholders to develop solutions to support sustainable municipal funding (e.g. Municipal Fiscal Framework, Assessment Model Review).

- RMA collaborates with partner organizations (such as the Alberta Urban Municipalities Association and the Alberta Assessors' Association) to advocate on behalf of municipalities for fair, transparent and accountable assessment and taxation legislation and policies to support municipal sustainability.

- RMA does not support the assumptions made by the Government of Alberta and the oil and gas industry that the current assessment model is unfair and that municipal property taxes are a driving contributor to the oil and gas industry's struggles.

What current funding-related issues are impacting rural Alberta?

Municipal Financial Reserves

- Financial reserves are an effective tool to support municipal asset management planning, as they allow for funds to be set aside to manage assets throughout their lifecycle.

- Financial reserves are not a measure of wealth, but rather are a planning tool used in different ways and to different extents by municipalities.

- Municipalities are not permitted to run deficit budgets, so reserves allow municipalities to save money for major infrastructure projects while abiding by their legislated financial management requirements.

- While municipalities can finance capital projects through debt, the amount of debt municipalities may incur is limited. Additionally, due to interest requirements, debt results in higher costs for municipalities and less efficient use of tax dollars.

- Municipalities are required to develop three-year operating and five-year capital plans. The development of long-term planning requires that municipalities have the ability to set aside funds for use on major projects in future years.

Long-Term Municipal Funding

- As the Municipal Sustainability Initiative will expire in the 2021-22 budget year, the Government of Alberta has announced the Local Government Fiscal Framework, which will provide all municipalities other than Edmonton and Calgary with a combined $405 million beginning in 2022.

- With so many types and sizes of municipalities in Alberta, fairly distributing Local Government Fiscal Framework funding will be a challenge. The Government of Alberta must work with RMA and the Alberta Urban Municipalities Association to ensure that the funding is distributed among municipalities in a way that is transparent and simple, balances predictability with flexibility, treats all municipalities equitably, and is neutral to local decision-making.

Taxation and Assessment Issues

- Any changes to Alberta's municipal taxation and assessment regime must occur through collaboration with municipal and industry stakeholders.

- The property assessment system is intended to determine objective property values for the purpose of taxation. Politically-motivated changes to taxation levels for certain property types should not occur through modifications to the assessment system, but rather through adjustments to tax rates.

- Alberta's property assessment system should not be used as a tool to reduce costs for struggling industries. Municipalities depend on a stable, fair and transparent assessment system to budget and provide services, and arbitrarily reducing assessments to support specific property owners is not only unfair, but may have unintended consequences such as reduces services or municipal viability risks.

- Municipalities must have access to detailed assessment data for all property types to support municipal informed budgeting and forecasting.

- As Alberta's oil and gas industry continues to struggle, it is critical that municipalities be recognized as secure creditors for all property types, as a lack of tools and power to recover unpaid linear property taxes from bankrupt oil and has companies has major fiscal consequences for many rural municipalities.

- As of January 2020, rural municipalities faced an unpaid property tax burden of approximately $173 million from the oil and gas sector.

Defunding/Downloading

- When responsibilities are downloaded from the federal or provincial government to municipalities, they should be accompanied with the necessary resources and funding to finance that service delivery or responsibility (e.g. police costing).

Intermunicipal Collaboration Frameworks

- Intermunicipal Collaboration Frameworks (ICFs) must recognize that expenses associated with infrastructure maintenance and

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service provision are often much higher in rural municipalities than in urban, and as such all frameworks and agreements must reflect this reality.

- Changes to Alberta’s assessment regime, and corresponding reductions in taxation revenue for rural municipalities, will impact the completion of intermunicipal collaboration frameworks (ICFs), as many rural municipalities will be forced to reduce their financial commitments to supporting infrastructure and service delivery in neighbouring municipalities.

Industrial Taxation

- Industrial taxation is critical to the financial viability of Alberta’s rural municipalities. The taxes that industries operating in rural Alberta pay to municipalities help maintain the roads and bridges that provide access to the natural resources that drive Alberta’s economy.

- Rural municipalities receive the majority of industrial taxation revenue in Alberta because that is where Alberta’s heavy industries are located. These industries often strain or damage rural municipal infrastructure because of the continuous use. Additionally, they are subject to fluctuating commodity prices which can impact rural municipal revenues.

Asset Management

- By properly monitoring the age and condition of infrastructure and developing a long-term plan for maintenance and replacement, municipalities will increase accountability and efficiency in both managing their assets and improving their service levels.

- Due to the long-term nature of asset management planning, it is critical to establish buy-in throughout the municipality, from council to front-line employees.

- Municipal financial reserves are critical to supporting effective asset management planning and allowing for long-term maintenance and repair of infrastructure assets to maintain adequate service levels.

- Asset management practices are becoming more common in municipalities across Canada and are becoming mandatory in some jurisdictions. RMA has prioritized building member capacity in asset management to prepare for possible future asset management requirements in provincial and federal grant funding.

Contact

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