

Municipal Finances

Municipal finances garner considerable public attention because citizens are directly affected through their responsibility to pay property taxes. Councils must allot those revenues in a fiscally responsible way that balances the needs and wants of citizens.

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

- 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.

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

- 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 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 expenses for most municipalities in the province. As an alternative measure for funding formulas, RMA advocates for the composition of municipal assets, 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 some cases, a municipality's use of unrestricted reserves creates a misperception of wealth. Where appropriate, the RMA supports the use of restricted reserves in which municipal funds are formally dedicated to specific future uses, while recognizing that unrestricted reserves often function as a contingency plan in the event that an unexpected municipal cost arises.
- Rural municipalities make substantial financial contributions to their urban neighbours through various inter-municipal financial arrangements. 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.
- In both 2014 and 2015, rural municipalities contributed \$160 million per year to their urban neighbours through inter-municipal financial arrangements, which is an increase of 23% since 2010, the last year in which complete data was gathered.
- In some cases, municipalities struggle to collect unpaid property taxes on all property types. Provincial and federal legislation must empower municipalities to collect these important revenue sources by broadening the available collection tools.

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

- The RMA monitors legislation and budgets to identify areas of concern related to municipal funding and sustainability.
- The RMA works collaboratively with all levels of government and other stakeholders to develop solutions to support sustainable municipal funding (e.g. *Municipal Government Act (MGA)* review, Municipal Sustainability Initiative (MSI), and cannabis excise tax revenue sharing).

What current funding-related issues are impacting rural Alberta?

Cannabis Excise Tax Revenue Sharing

- In the 2018-19 provincial budget, the Government of Alberta projected a loss of \$90 million over two years related to cannabis legalization. Municipalities have yet to hear what, if any, revenue will be shared once revenues are collected. The RMA has taken the position that 50% of the federal cannabis excise tax revenues that the Government of Alberta receives from the Government of Canada should be shared with municipalities to cover the costs of cannabis legalization.
- Cannabis legalization has required municipalities to amend land-use bylaws, amend workplace policies, conduct public consultation, among many other tasks. The RMA advocates that all costs incurred

by municipalities in relation to cannabis legalization should be covered by the excise tax revenue collected by the Government of Canada.

Grants

- Grant funds are a major source of municipal revenues, including the substantial provincial investment made through the Municipal Sustainability Initiative (MSI). Such grant funding must be long-term and predictable in order to properly support municipal planning needs. RMA is encouraged by the Government of Alberta's commitment to consult with municipalities before determining the structure and mechanism of the long-term predictable funding upon the completion of the MSI after 2020.
- Changes to provincial or federal grants, including program requirements, funding levels, or the consolidation of grants often have unintended local consequences and add complexity to rural municipal financial management. RMA requests governments consult with rural municipalities before making changes to grants, and subsequently be transparent in providing that information.
- Population based grants fail to recognize the needs of rural municipalities which are often characterized by extensive infrastructure networks and relatively low population densities. Grants should be focused on municipal needs best identified by municipal assets.

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. Indigenous relations consultation, cannabis, intermunicipal collaboration frameworks [ICFs], and Family and Community Support Services [FCSS]).

Infrastructure Deficit/Increased Service Demands

- 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.

Intermunicipal Collaborative Frameworks

- The RMA encourages its members to commit themselves to finding local solutions to best address local and regional needs. Within Intermunicipal Collaborative Frameworks (ICFs), cost sharing arrangements are preferable to revenue

sharing because they are relatively easy to administer, and creates equity, accountability, effectiveness, and efficiency.

- Intermunicipal Collaboration Frameworks (ICFs) must recognize that expenses associated with infrastructure maintenance and service provision are often much higher in rural municipalities than in urban, and as such all frameworks and agreements must reflect this reality.

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.
- The downturn in Alberta's economy has resulted in significant impacts to rural municipalities, specifically a reduction in industrial taxation revenues. This has a negative impact on service delivery and their ability to support regional initiatives.
- RMA recognizes the financial challenges faced by municipalities in Alberta; however, the RMA advocates for all discussions on rural municipal finances to include an examination of both net revenues and expenditures.
- The RMA has opposed centralization of industrial assessment and has expressed concerns over the accuracy of future assessments, loss of local expertise and knowledge, and disruption to municipal staffing. Through the process of centralization, it is important that rural municipalities continue to receive revenue from industrial property assessments to ensure local infrastructure can be maintained.

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. The RMA's capacity building workshops for



POSITION STATEMENT

elected officials and municipal staff can help develop this buy-in.

- RMA looks forward to working with the Government of Alberta to implement the provincial plan for developing asset management that is linked to continued federal Gas Tax funding.

Taxation Authority

- RMA supports the expansion of the current revenue tools available to municipalities. Municipalities need additional revenue sources to both diversify their current revenue streams, and to gather additional revenue to maintain and repair rural Alberta's critical infrastructure.

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