

## 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 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.
- 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.

### 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 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.
- 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.
- 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 funding?

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

## What current funding-related issues are impacting rural Alberta?

### *Long-Term Municipal Funding*

- As the Municipal Sustainability Initiative will expire in the 2021-22 budget year, it is critical that the Government of Alberta ensure a replacement funding approach is in place far enough in advance to support long-term municipal planning.
- Any long-term funding program must support equity among municipalities of all types and sizes, and funding allocations between Alberta's largest cities (Edmonton and Calgary) and other municipalities must be linked to population and asset responsibilities.
- With so many types and sizes of municipalities in Alberta, fairly distributing long-term municipal funding is a challenge. The Government of Alberta must continue to work with RMA and the Alberta Urban Municipalities Association to ensure that long-term municipal 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.
- 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 gas companies has major fiscal consequences for many rural municipalities.
- In the 2018 tax year, rural municipalities faced an unpaid property tax burden of at least \$81 million from the oil and gas sector.

### *Cannabis Legalization Costs*

- The Municipal Cannabis Transition Program (MCTP) is intended to assist Alberta municipalities in addressing enforcement and administrative costs related to cannabis legalization.

However, MCTP funding is available to only 52 Alberta municipalities although all municipalities are required to amend land-use bylaws, amend workplace policies, conduct public consultation, among many other tasks.

- Cannabis production facilities are currently assessed as agricultural properties although they operate much more similarly to industrial properties which result in considerable servicing costs for municipalities.

### *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 Collaboration 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.



# POSITION STATEMENT

- 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.
- 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 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.

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