RMA RURAL MUNICIPALITIES of ALBERTA

POSITION STATEMENT

Winter 2023

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. Municipal financial decisions are influenced by many factors including economic conditions, service level expectations from residents and businesses, and long-term municipal goals. Municipal finances are much more than numbers; they embody the purpose and priorities of a municipality.

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

- A complete and accurate understanding of municipal finances must consider differences in service types, service levels and infrastructure responsibility among municipalities. Due to their large size, low population, and intensive industrial activity that is reliant on municipal roads and bridges, Alberta's rural municipalities spend much more on transportation compared to other municipalities in Alberta and across Canada. For example, according to municipal financial statistics available in each province, in 2018 Alberta's rural municipalities spent nearly 50% of their total expenses on transportation costs, compared to just under 20% for all Alberta municipalities, and approximately 10% for municipalities in Ontario and British Columbia.
- 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.
- According to the Federation of Canadian Municipalities, 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 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 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. In rural municipalities, infrastructure investments are commonly driven by industrial development that is not reflected in per capita metrics.
- 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.

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- Rural municipalities make substantial financial and service delivery contributions to their urban neighbours through various inter-municipal financial arrangements, such as 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.
- 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.
- Municipal finances differ widely among municipalities within Alberta, as well as those in other parts of Canada. These differences are the result of the wide array of funding tools available to municipalities in some jurisdictions but not others, as well as different levels of provincial government financial support for municipalities. Additionally, municipalities in Alberta provide a wider range of services than those in neighbouring provinces, which also contributes to differences in both revenue-generation and expenses.
- Alberta's rural municipalities are unique in Canada in terms of their physical size. According to provincial and Statistics Canada data, the average rural municipality in Alberta has an area of over 8,000 square kilometres, which is over eight times as large as the average municipality in any other Canadian province. Providing services over this extremely large area introduces unique financial challenges and responsibilities.

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

- The RMA works collaboratively with all levels of government and other stakeholders to develop solutions to support sustainable municipal funding (e.g. Local Government Fiscal Framework).
- The RMA provides the Government of Alberta with the rural municipal perspective on municipal finances during the development of provincial financial accountability tools such as the Municipal Measurement Index and Municipal Indicators.

What current funding-related issues are impacting rural Alberta?

Local Government Fiscal Framework

- As the Municipal Sustainability Initiative will expire after the 2023-24 budget year, the Government of Alberta has announced the Local Government Fiscal Framework (LGFF) as Alberta's primary municipal capital grant program. Beginning in 2024-25, the LGFF will provide all municipalities other than Edmonton and Calgary with a combined $370 million in capital funding. The LGFF is formalized through the *Local Government Fiscal Framework Act*.
- The $370 million 2024-25 LGFF funding amount represents a 37% reduction in funding from the average MSI allocation over the last 10 years. This reduction results in a funding amount that is inadequate to support municipalities in Alberta to build and maintain infrastructure to accommodate population growth and economic development.
- The current annual funding escalator clause in the *LGFF Act* is insufficient and does not reflect a true provincial-municipal partnership. The clause results in LGFF funding growing annually at a rate of 50% of provincial revenue growth. As municipal infrastructure plays a direct and important role in support

economic development, the 50% ratio is unfair and should be replaced with a 100% ratio to reflect a true municipal/provincial partnership.

- In 2022, the Government of Alberta requested that the RMA work with Alberta Municipalities to develop an allocation formula for LGFF funding. RMA ultimately proposed its own formula based on the following principles:
  - Fiscal responsibility
  - Transparent
  - Equitable funding
  - Balance stability with responsiveness
  - Neutral to local decisions
- RMA's proposed formula includes factors within four themes. When considered together, the themes are intended to balance various drivers of municipal need present in municipalities of various sizes and types across the province. The themes include:
  - Capital stock: The more assets a municipality has, the greater allocation of funding should be apportioned.
  - Capital maintenance: The more investment that is required to maintain a municipality's capital assets, the greater allocation of funding should be apportioned.
  - Growth pressure: The greater the relative impact of factors external to the municipality's control to manage capital expenditures, the greater allocation of grant funding should be apportioned.
  - Fiscal capacity: The lower a municipality's ability to invest in capital projects related to other municipalities, the greater allocation of grant funding should be apportioned.

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.

Municipal Measurement Index

- To properly support municipal transparency and accountability, the Municipal Measurement Index must include an educational component to ensure readers understand the meaning of the various statistics included, as well as why data may differ among municipalities of different types.

- The Municipal Measurement Index does not include information on the different services that municipalities deliver, and the role that service levels and infrastructure responsibilities play in influencing municipal financial decision-making. Without this information, the Municipal Measurement Index is at high risk of providing misleading information to Albertans.

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.

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