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 2020 Alberta's rural municipalities spent nearly 60% of their total expenses on transportation costs, compared to 30% 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, the 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.
- Many provincial and federal grant programs allocate funding to municipalities based on population or require funds to be used on projects with a direct benefit to residences. As rural municipalities often undertake capital projects that will provide benefit only to industrial property owners, such grant programs are often inaccessible or the amount of funding available does not reflect rural infrastructure needs.
- 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 advocates on behalf of members to all levels of government and other stakeholders on the importance of developing funding frameworks that recognize the unique cost drivers and economic contributions of rural municipalities (e.g. Local Government Fiscal Framework, next generation federal infrastructure funding).
- 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 2024, the Government of Alberta released a new LGFF funding formula. The new formula does not adequately reflect RMA's input into the formula development process or address the needs of rural municipalities adequately.
- The LGFF allocation formula was developed primarily around the needs of high-growth municipalities. This overlooks the fact that residential growth is often supported by developer-contributed infrastructure and offsite levies, both options that are much less accessible in low-growth municipalities or for industrial growth.
- Providing any single factor with disproportionate weighting within a formula risks unpredictable long-term impacts on formula outcomes if the value of that factor changes significantly in future years. This unpredictable long-term impact of population as the dominant factor within the formula introduces a risk of the formula not being suitable for long-term use.
- The LGFF allocation fund needs to be reviewed on a regular basis to identify areas of growth and improvement. Areas for consideration should include:
    - Recognition of non-residential growth
    - Incentivization of asset management

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.

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.

Assessment Model Review

- The assessment model review (AMR) process is scheduled to last several years, beginning in 2024 with the creation of assessment model principles and reviews of the Construction Cost Reporting Guide and assessment year modifier methodology.
- Municipalities depend on equitable, efficient, and transparent assessment system to budget and provide services. Any changes to the assessment model should enhance the consistency and accuracy of regulated property valuation.
- The ongoing process of centralizing industrial assessment responsibility within the Government of Alberta should not result in a reduction in the quality and accuracy of assessments. The RMA is concerned with reports that centralization has led to a reduction in in-person assessments, an increased reliance on industry self-reporting, A lack of an assessment audit mechanism, municipal difficulties in accessing assessment information, and in some cases, reduced taxation revenues for municipalities.
- RMA is hopeful that the AMR process will lead to a regulated assessment system which proxies market value assessment as closely as possible.

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