RMA
RURAL MUNICIPALITIES of ALBERTA

POSITION STATEMENT

2025- Volume 1

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 aging infrastructure, allocate funding for new 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. Increasingly, municipal finances are also shaped by a complex interplay of provincial, federal, and geopolitical factors, along with external influences such as international conflicts, extreme weather events, and health crises. Municipal finances are much more than numbers; they embody the purpose and priorities of a municipality in an ever-changing environment.

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 geographical areas, 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 on average spent more than 50% 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. With cuts to provincial grant funding, coupled with downloading from the provincial government, 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 funding. Without predictable and consistent revenues, it is difficult to plan capital projects, to service interest payments, maintain and attract business and investment, and to provide consistent levels of service to residents.

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 culverts, and both water and wastewater systems that need to be maintained.

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- Population is a weak predictor of infrastructure expenses for most municipalities in the province. In rural municipalities, infrastructure investments are commonly driven by the substantial demands of industrial development that are 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.
- 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 neighbours 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 residents' 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, Strategic Transportation Infrastructure Program, 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

- With the Municipal Sustainability Initiative winding down after the 2023-24 budget year, the Government of Alberta has launched the Local Government Fiscal Framework (LGFF) as Alberta's primary municipal capital grant program. The LGFF is formalized through the *Local Government Fiscal Framework Act*.
- The 2025 LGFF funding allocation for RMA members is approximately $170.5 million, approximately $20 million more than in 2024. However, the 2025 LGFF allocation is a 27.2% reduction in provincial funding compared to the average Municipal Sustainability Initiative allocation between 2013 and 2023; accounting for inflation, the difference is nearly 40%. This heavily reduced amount of funding is wholly inadequate to support Alberta's rural municipalities as they attempt to build and maintain infrastructure to accommodate population growth and economic development.
- 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:
    - Clarification the objectives of the LGFF program to ensure alignment with the needs of municipalities
    - Recognition of non-residential growth and associated cost-drivers
    - Incentivization of asset management

Assessment Model Review

- The Assessment Model Review (AMR) process seeks to update Alberta's regulated property assessment system based on up-to-date methodology and reflecting modern construction technologies The AMR process is scheduled to last several years and began in 2024 with the creation of assessment model principles, and reviews of the Construction Cost Reporting Guide and assessment year modifier methodology. Starting in 2025, the process will shift to update the costs, practices, and technologies in the assessment model for various property types such as telecommunications and cable, railway, electric power, machinery and equipment, pipelines, and wells.
- Municipalities depend on an equitable, transparent, and stable assessment model 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.

Mature Asset Strategy

- The Government of Alberta's Mature Asset Strategy (MAS) is intended to bring government and stakeholders together to develop approaches to support the viability of Alberta's mature oil and gas assets. The process commenced from an assumption that property taxes and surface leases are barriers to the productivity of mature assets and growth of the oil and gas industry.
- The RMA has several concerns with the strategy, including the lack of definition of a "mature asset", how success of the strategy is largely defined through an industry lens, the rushed process and lack of information-gathering, and the focus on changes to municipal property tax and assessment processes to support mature asset viability.
- The assessment model is complex, non-transparent, and designed to establish the value of an asset, not to respond to specific economic or other trends. The MAS is not an appropriate venue to be contemplating changes to municipal assessment processes, especially given the fact that a complex and in-depth review of the assessment model is already ongoing separate from the MAS.
- The MAS process is based on an assumption that municipal taxes present an unreasonable or disproportionate financial burden on mature asset operators relative to other operating costs, and relative to property taxes paid on other oil and gas properties. The RMA has pointed to several other high-impact factors affecting industry viability, such as regulatory hurdles, royalty costs, remediation liabilities, and a lack of available capital. These factors should be given more consideration than proposed changes to the municipal taxation system, as rural municipalities are heavily reliant on property tax revenue generated by the industries operating within their boundaries, with much of this revenue used to maintain roads, bridges, and other essential services that support industry operations.

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, and has advocated to the Government of Alberta to provide funding and other supports to prepare for possible future asset management requirements in provincial and federal grant funding applications.

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.

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