



February 19, 2016

Honourable Danielle Larivee
Minister of Municipal Affairs
204 Legislature Building
10800 – 97 Avenue
Edmonton, AB T5K 2B6

Dear Minister Larivee:

As mentioned during our recent meeting, the review of the Municipal Government Act continues to be the highest priority for our members. We are keen to provide input and insight on the spring amendments and during the development of key regulations as outlined in Attachment 1. We also look forward to participating in the consultations across the province this summer.

As requested, we accelerated our work on the linear property tax review and are pleased to enclose a summary of our recommendations, along with some context on why the current approach is problematic (see Attachment 2). Our recommendations consist of the outcomes, principles and strategies for realizing the required changes to align service responsibility with the associated resources. These recommendations apply to linear tax revenue as well as cost sharing since both components are part of ensuring appropriate intermunicipal funding arrangements are in place.

Thank you for continuing to engage with AUMA and our members so that we can develop effective and forward-looking legislation for municipalities.

Sincerely,

A handwritten signature in blue ink that reads 'Lisa Holmes'.

Lisa Holmes
AUMA President

Enclosures

Priority Regulations for AUMA's Engagement

Ministry's Bundle One

- Council Meeting Regulations (as referenced under Bill 20);
- Municipal Corporate Planning Regulation;
- Regional Services Commission Debt Limit Regulation;
- Subdivision and Development Appeals Board Regulations for Training;
- Amalgamations;
- Accountability and Code of Conduct of Elected Officials; and
- Annexation principles.

Ministry's Bundle Two

- Debt Limit Regulation; and
- Financial Information Return Regulation.

Ministry's Bundle Three

- Community Aggregate Payment Levy Regulation;
- Principles and Criteria for Off-site Levies Regulation;
- Subdivision and Development Regulation; and
- Regulations relating to Inclusionary Zoning.

Results of AUMA's Linear Tax Symposium

January 2016

Executive Summary

The following approaches will enable the effective planning, delivery and governance of infrastructure and services that are used at an intermunicipal or regional level.

- Municipalities should be obligated to enter into revenue and/or cost sharing agreements to equitably share in the capital and operating costs of infrastructure and services that are located in another municipality, but used by their residents and property owners.
- Revenue and cost sharing agreements should be long term and outlined in intermunicipal or regional service plans. The funding arrangements should not be vulnerable to intermunicipal relationships, unexpected termination or unjustified change.
- While some province-wide guidelines would be beneficial, municipalities should be enabled to determine arrangements according to their local and regional needs. In the event that municipalities are unable to come to agreement in a timely manner, a process for binding arbitration should be available.
- Linear tax revenues should be pooled at a regional level and shared with all municipalities within each defined region with the exception of Edmonton and Calgary. All other urban municipalities (i.e., mid-sized cities, towns, villages and summer villages) should be eligible to share in the linear revenue. Edmonton and Calgary should have access to other revenue opportunities as they are discussing with the province.
- A revenue-sharing formula should be developed for each region and should use data that is easily accessible and credible.
- Where possible, cost-sharing agreements should be based on the actual cost to provide a service, and the method to allocate costs should be based on the estimated usage of services or the percentage of rural population that resides around each urban municipality.

Background

Through the MGA Review, AUMA called for a number of changes to the municipal funding model, including the need to reform the property assessment and taxation system. One of the required reforms is to share linear taxes at a regional level to more appropriately align the provision of municipal services to revenue sources.

AUMA was pleased that the provincial government recognized the issues associated with linear tax revenue and committed to review this matter. To support the government in their review, AUMA hosted two Symposiums in January 2016 so that our members (cities, towns, villages, summer villages and regional municipalities) could discuss and develop solutions.

Disconnect between linear property revenue and municipal infrastructure and services

Linear properties encompass pipelines (including gas distribution system), wells, telecommunication systems and cable distribution, and electric power systems.

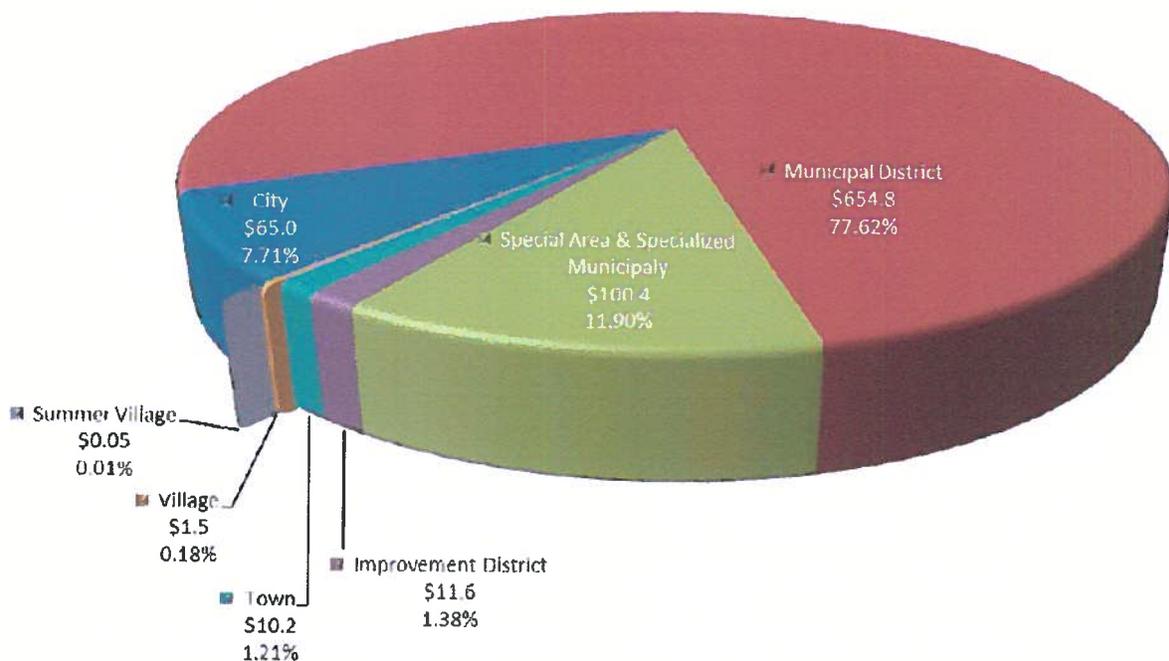
These properties generate nearly \$1 billion in tax revenue which is about 13 per cent of the total property taxes.

2015 Linear Property

- Pipelines (42.0%)
- Wells (38.5%)
- Electrical power generation (8.6%)
- Electrical power systems (8.0%)
- Telecommunications (2.5%)
- Cable distribution (0.4%)

Due to the location of most linear property, rural municipalities (municipal districts and counties) collect the majority of linear taxes.

Allocation of 2015 Linear Property Tax Revenue by Municipal Type
(as provided by Municipal Affairs)



Because many urban municipalities do not significantly share in this tax revenue, they bear the costs of providing infrastructure and services for the associated activities and workforce pertaining to linear properties. This is a particular impact during the construction phase of these properties. Ultimately these costs are then downloaded on the residents of the urban municipality, either in the form of their taxes or in the forgoing of other infrastructure and services that cannot be pursued because the municipality has to absorb these costs.

Resulting need for intermunicipal funding agreements

To resolve this problem, urban municipalities have attempted to work with their rural counterparts to develop intermunicipal funding agreements to more equitably distribute resources. These funding agreements acknowledge that infrastructure and services provided

by one municipality are used by residents and property owners in neighboring municipalities. Funding agreements span a range of infrastructure and services such as fire and emergency services and recreation and culture to mention just a few. Agreements can be between two municipalities or they may more broadly be entered into at a regional level involving a number of municipalities. While some agreements encompass revenue sharing, a significant portion relate to cost-sharing (e.g., 67 per cent of 2015 intermunicipal funding was cost sharing compared to revenue sharing).

Issues

Insufficient, inequitable and unstable intermunicipal funding agreements

Attendees at the Symposium indicated that a key challenge with intermunicipal funding agreements is that progress has been too slow as they are not widely embraced in a meaningful and sustainable manner by rural municipalities. This is illustrated by the fact that of the \$140 million of inter-municipal transfers in 2014, 75 per cent came from only 41 per cent of the rural municipalities. Only three municipalities contributed over \$10 million with many others contributing very small amounts (e.g., \$10,000) or nothing at all. The end result is that only 17 per cent of linear tax revenue collected by municipal districts and counties is shared.

As well, funding is volatile and not maintained or advanced over the long term. This is largely due to funding agreements being optional and highly dependent on intermunicipal relationships rather than upon any sort of objective and measured approach to defining common use infrastructure and services and their associated costs. Many urban municipalities indicate that they have had to plead with their rural neighbors for several years to secure funding. Most of the few municipalities that are fortunate to have an agreement are unable to ensure that their funding arrangement is appropriate (i.e., linked to the costs of providing infrastructure and services to areas that benefit). Discussions with the funding municipality very much reflect a “be satisfied with what you are receiving” approach. As well, municipalities hesitate to engage in the usual healthy debate and discussion of regional municipal matters as they are concerned that their actions may be perceived as being critical of their neighboring municipality and cause that municipality to invoke a “good neighbor” termination clause in their funding agreement.

Other urban municipalities indicate that their rural counterparts refuse to discuss the subject of revenue or cost sharing. These rural municipalities will not enter into any sort of agreement despite being presented with information about the services provided to their residents and property owners. This is unfortunate since there are some good examples of revenue and cost sharing between municipalities that could be used as guides.

In other cases, some urban municipalities who had a long standing funding agreement suddenly lost that funding when their neighboring municipality unexpectedly cancelled the agreement, putting the urban municipality at financial risk. This illustrates the fragile nature of these agreements and the subjective decisions that can influence outcomes. Given that municipalities are now required through Bill 20 to provide long term financial plans (i.e., five year capital and three year operating), this volatility is particularly problematic.

Disparity for property owners

Because many rural municipalities have significant revenues from linear taxes, they can afford to set their residential tax rates very low. This significant disparity between urban and rural residential rates is creating incentives for urban-type residents and businesses to locate in the rural municipalities, just outside the urban boundaries, which creates further disparity, intermunicipal competition and land-use planning issues.

As well, this trend towards residential development in rural areas is challenging the previous sentiment that residential is urban and commercial/industrial is rural. Annexation challenges are becoming more common and complex, especially in the absence of intermunicipal development plans.

Shortcomings of Intermunicipal Development Plans

Intermunicipal development plans (IDPs) are not an appropriate vehicle to define regional boundaries as they only focus on the fringe areas around an urban municipality and do not account for people-intensive industrial operations or residential areas that are located outside of those fringe areas.

In order for IDPs to be useful, they would need to be re-conceptualized in both process and scope to gain a more regional context.

Divisive forces

It is clear that the linear tax structure and shortcomings in intermunicipal funding arrangements are a divisive and highly distracting force amongst Alberta municipalities. This divisiveness is a significant barrier to intermunicipal collaboration and to regional approaches for municipal services. Alberta cannot afford to have its municipalities in disarray or at odds at a time when they need to be more collaborative.

Conclusion

While the handful of urban municipalities that have a funding agreement are concerned that the linear tax review could cause them to lose the funds that they now receive, the majority of urban municipalities strongly believe that the current voluntary revenue/cost-sharing approaches are not a workable or long-term solution and must be reformed. Urban municipalities are therefore calling for some mandatory processes to be in place, especially for situations where voluntary agreements cannot be reached. The outcomes and strategies for these mandatory processes are described below.

Desired Outcomes

The following outcomes will enable the effective planning, delivery and governance of infrastructure and services that are used at an intermunicipal or regional level.

- Linear property tax revenue should be pooled at a regional level and distributed according to the related municipal infrastructure and service responsibilities (i.e., the revenue should be shared amongst municipalities according to the infrastructure and services that directly or indirectly support the linear property).

- Municipalities should equitably share in the cost of infrastructure and services that are located in another municipality but used by their residents and property owners.
- Revenue and cost sharing are an obligation in order to enable and advance intermunicipal and regional service delivery (i.e., they are not discretionary).
 - Revenue and cost sharing are separate components of intermunicipal funding arrangements. Depending on the nature of the infrastructure and services, some municipalities may only revenue share. Others may only cost share. Some may do both.
 - The degree of sharing is dependent upon the infrastructure and services that are used.
 - The degree of sharing should not be dependent on inter-municipal relationships. Rather it should be based on an objective and transparent methodology that encompasses capital and operating costs as appropriate.
- Revenue and cost sharing agreements must be long term and outlined in intermunicipal or regional service plans.

Strategies to Realize Outcomes

Intermunicipal and regional service plans

Members are calling for the MGA to provide a regulated approach whereby municipalities are obligated to come together to develop intermunicipal or regional service plans that outline funding arrangements for infrastructure and services that are used by residents and property owners of another municipality. As part of this approach, there must be a transparent and equitable method of determining funding arrangements which could take the form of revenue sharing, cost sharing or both. As well, the funding arrangements must be long term and not vulnerable to unexpected termination or unjustified change.

The principles that AUMA members approved earlier for property assessment and taxation reforms can be used as a basis for legislation pertaining to these intermunicipal and regional service plans.

Principles for Intermunicipal and Regional Service Plans

Fairness & Equity

Municipalities are obligated to enter into revenue and/or cost sharing agreements to equitably align resources with the capital and operating costs of infrastructure and services that are used by their citizens and property owners. While some province-wide guidelines are beneficial, municipalities will determine arrangements according to their local and regional needs. In the event that municipalities are unable to come to agreement in a timely manner, arbitration will occur.

Openness & Transparency

The agreements should be readily available to citizens and property owners and must explain the rationale for the funding arrangement (i.e., the commonly used infrastructure and services) as well as the associated formula for revenue and/or cost sharing. While this formula should be periodically reviewed to ensure it remains responsive to how the infrastructure and services are used, the agreements themselves should be long term (i.e., minimum of five years to align with Bill 20's capital planning timeframes).

The agreements should also outline how the commonly used infrastructure and services will be governed (e.g., through the use of intermunicipal or regional advisory committees or periodic reports to funding municipalities, etc.).

Sufficient Capacity

Guidelines and templates should be available to efficiently and effectively formulate service plans without an undue administrative burden, while still accommodating customization to reflect local needs. Clear timelines for reaching agreement should be established. There should be an efficient and timely arbitration process so that disputes can be resolved and are not barriers to collaboration on intermunicipal and regional approaches.

Through this approach, appropriate funding arrangements can be determined according to local needs. Neighboring municipalities will cooperate and collaborate rather than compete. This is

turn will build more sustainable regions. Furthermore, changes will create better equity in taxation through reducing the disparity of residential tax rates between urban and rural municipalities and creating a system in which rural residents help to pay for the infrastructure and services they utilize in their local urban communities.

It is recognized that revenue sharing and cost sharing are two very different but often inter-related approaches and that significant changes are required to both approaches.

Attributes for Revenue Sharing

- Linear tax revenues should be pooled at a regional level and shared with all municipalities within each defined region with the exception of Edmonton and Calgary. All other urban municipalities (i.e., mid-sized cities, towns, villages and summer villages) are eligible to share in the linear revenue.
- The revenue-sharing formula will be developed by each region and should use data that is easily accessible and credible.

Attributes for Cost Sharing

- Where possible, cost-sharing agreements should be based on the actual cost to provide a service and the method to allocate costs is based on the estimated usage of services or the percentage of rural population that resides around each urban municipality.

It is assumed that the requirements for revenue and cost sharing agreements would be outlined in regulations that would be developed in 2017. While the Symposiums provided an opportunity to discuss some of the approaches that could be considered for these regulations and/or for best practice guidelines, there was no clear consensus. See the enclosed Appendix for further details.

AUMA intends to hold further discussions with our members later this spring and summer to further explore these approaches and how they align with the proposed principles for intermunicipal and regional funding arrangements. We would be pleased to share the results with the province.

Required Further Analysis for Intermunicipal and Regional Service Plans

Defining Regions

Issue

How should regional boundaries be defined for the sharing of linear tax revenue?

Summary of Discussions

Members agreed that there is no existing model that accurately defines the regions of Alberta for the purposes of revenue-sharing.

Many members felt that regions should be defined based on service or trade areas to capture the relationship between those that pay for and those that utilize services. This could include concepts such as 'infrastructure-shed' or 'commuter-shed' where funds are linked to the cost-drivers for each municipality. There were several suggestions regarding the process by which to defining a service area, likely that would result in a similar outcome:

- Start with existing municipal district boundaries because those municipalities already work together and they best define the local region/community.
- Use the urban municipality as the starting point, and "radiate out" as far as the service area extends.
- Ask each urban and rural municipality to self-identify their perception of their service areas, and have the province look at alignments and determine solutions for outlier regions on a case-by-case basis.

It was expressed that in major metropolitan areas (i.e. Calgary and Edmonton), that the growth management boards would best serve as the defined areas.

While a few members supported the use of provincial electoral boundaries, most members disagreed with this approach because electoral boundaries often separate trading areas and are subject to changes based on population shifts.

Other suggestions for regional boundaries included the former health regions, existing school board divisions, housing authorities, FCSS regions, seniors' boards, or regional services commissions (RSCs).

Some members suggested that regions should be large and linked to the province's land-use framework or the former planning regions.

Design of Regional Funding Models

Issue

What approaches should be regulated, how should the allocation formula be determined and should there be any restrictions on the use of the funding?

Summary of Discussions

There was consensus that the distribution of linear revenue should be done on a regional basis. While members indicated that a regulated formula by the province would reduce disputes and stabilize funding streams, it appeared that approaches would need to be determined on a regional basis in order to consider local needs and opportunities. Members agreed that municipalities should have unrestricted use of the revenue.

The majority of members identified that a formula should provide each municipality with a base amount of funding but there were mixed views on the appropriate metrics to be used in a formula. Most agreed that a formula based only on per capita would be inequitable as it would shift disproportionate amounts of funding to the major urban centres. Suggestions included using some variation on equalized assessment (either with inclusion or exclusion of linear assessment in the calculation), combining equalized assessment and population, or using the existing Municipal Sustainability Initiative (MSI) formula.

Some members suggested that if linear assessment was appropriately redistributed in each region, then the regions with less linear could be compensated through additional funding from the MSI program. Others felt that the issue of sharing linear could be disregarded if the MSI formula was adjusted to shift MSI funding away from municipalities with large amounts of linear property and transferred to municipalities with minimal linear assessment. However, this approach would depend on the annual provincial budget and may not provide certainty.

Many members suggested that the province should provide general guidance, principles and templates to support best practices in the development of cost-sharing agreements for core shared services. Where possible, many members expressed the importance of using cost sharing formulas that are based on the usage of facilities or services to maintain equity and transparency for taxpayers. As a result, members noted that there may be instances where funding may also flow from an urban to a rural. Members also shared consensus that cost sharing agreements should include both operating and capital costs to reflect the lifecycle costs of municipal assets. In addition, members felt that provisions should be made to account for inflation of costs throughout the term of the agreement.

Some members emphasized that the financial position of a particular municipality should not be considered in a cost-sharing formula as it may create an incentive to overspend rather than be prudent with financial resources. Other members felt that if a municipality has a greater ability to pay then it should cover a larger portion of the cost. Some members noted that some costs could be excluded from agreements where only the urban municipality uses a service.

A few members suggested that municipalities should be audited to ensure that cost-shared funding is used on the priority services identified in any inter-municipal agreements.

Governance

Issue

How should service and funding plans be governed and disputes addressed?

Summary of Discussions

While members generally felt that regulation by the province would reduce disputes, it was recognized that intervention would be required where there were disagreements. Members discussed various options. While some members favored a peer-based mediation process, possibly through AUMA and AAMDC, most members felt a more robust and objective arbitration would be required through avenues such as the Municipal Government Board, provincial-appointed arbitrators or the use of 'base ball arbitration'. There seemed to be a general pattern of views – i.e., those that have had relatively amicable intermunicipal agreements tended to support peer-based meditation and those that had not been able to reach agreement supported a formal arbitration process. There were mixed views on the degree of ability to set out dispute resolution processes at a local or regional level versus employing a standard approach across the province.

Some members proposed to develop regional governance boards that would have a mandate to decide how each region's linear revenue should be used to fund priority services in both the urban and rural areas of the region. This idea reflects Ontario's model of a two-tier government system for regional and local service planning. Others felt that regional governance boards would create unnecessary administrative costs or present challenges in determining a fair model for representation on each board. It was also noted that regional governance boards could be used to manage the costs of shared services.

There was consensus among members that legislation should set a deadline for when funding agreements should be in place.

In order to allow for stability in funding streams, members suggested that agreements should more objectively establish criteria for termination so they are not subject to intermunicipal relationships or a municipal election. As well, agreements should allow for an agreement to be opened for review if both parties are in agreement or if changes in the model occur.

Some members agreed that municipal funders should have input on the development and delivery of the commonly used infrastructure and services (e.g., through advisory committees). Other members felt that contributors should not have any direct decision-making ability but should receive financial reports that confirm how funding was used.