

STRONG COMMUNITIES

BUILD ALBERTA

Municipal Funding Framework

Spring 2019 Municipal Leaders' Caucus

March 27, 2019



Agenda

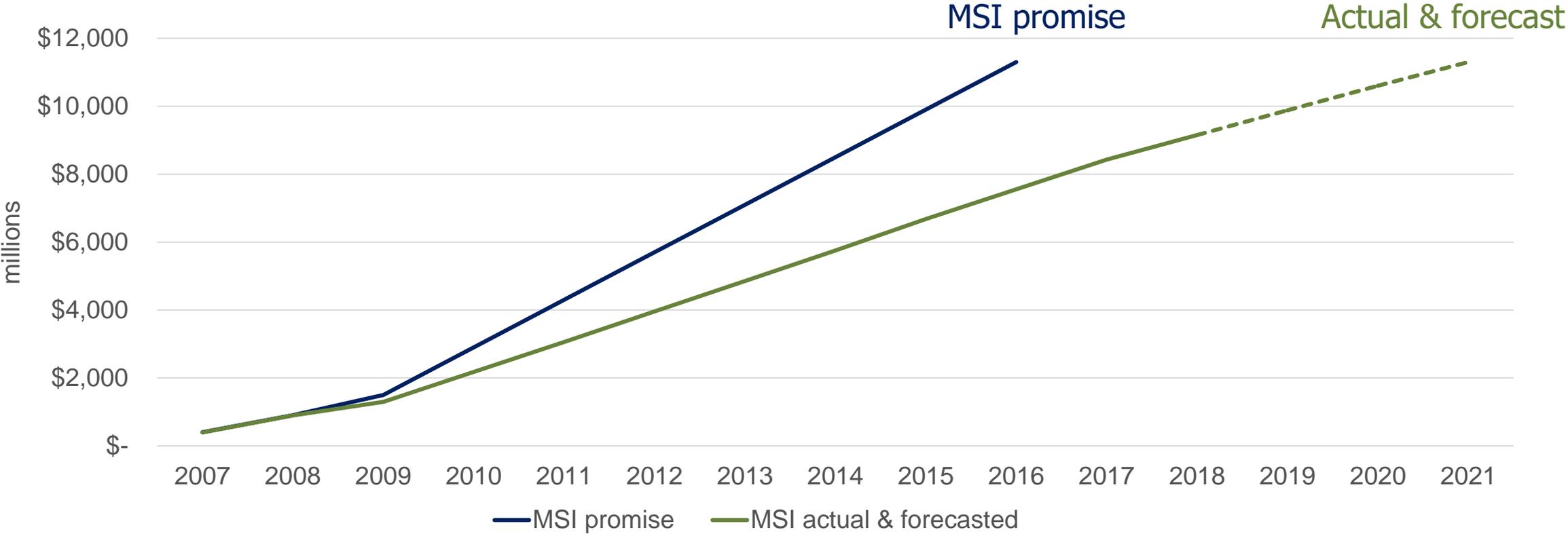
Part A

- Funding pool
- City Charters Fiscal Framework

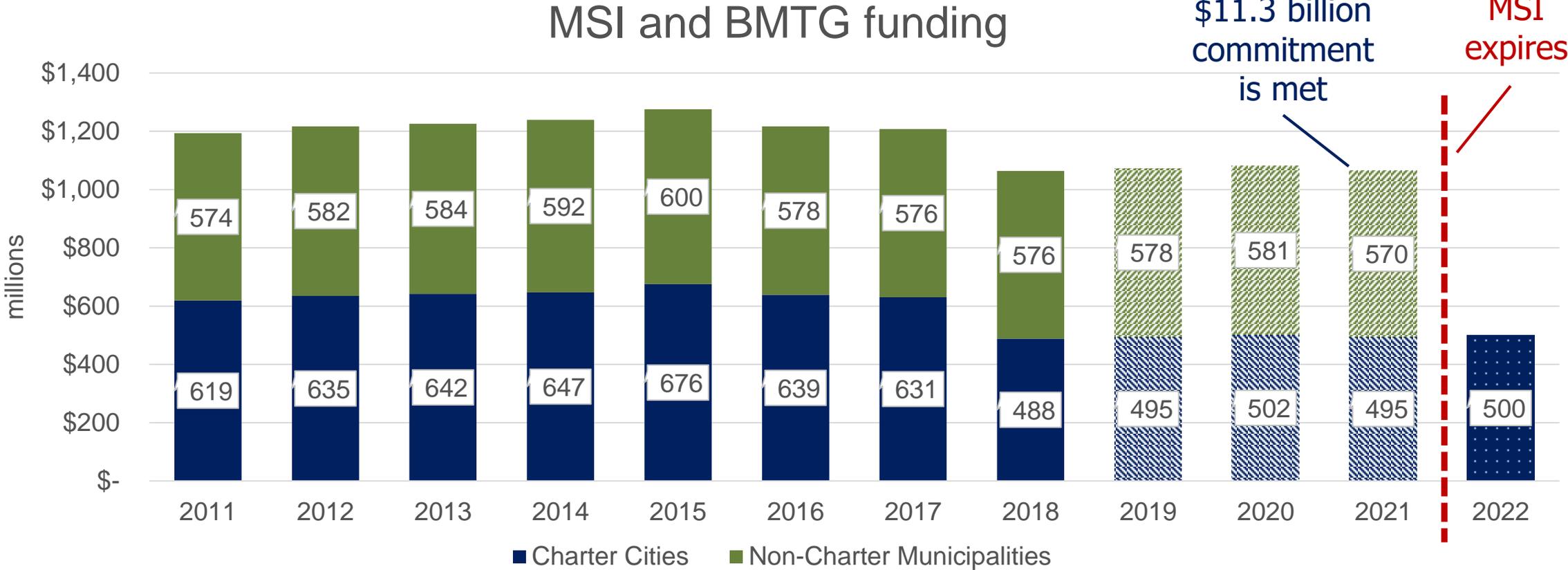
Part B

- Allocation formula
- Input from you

Delay in the \$11.3 billion MSI commitment



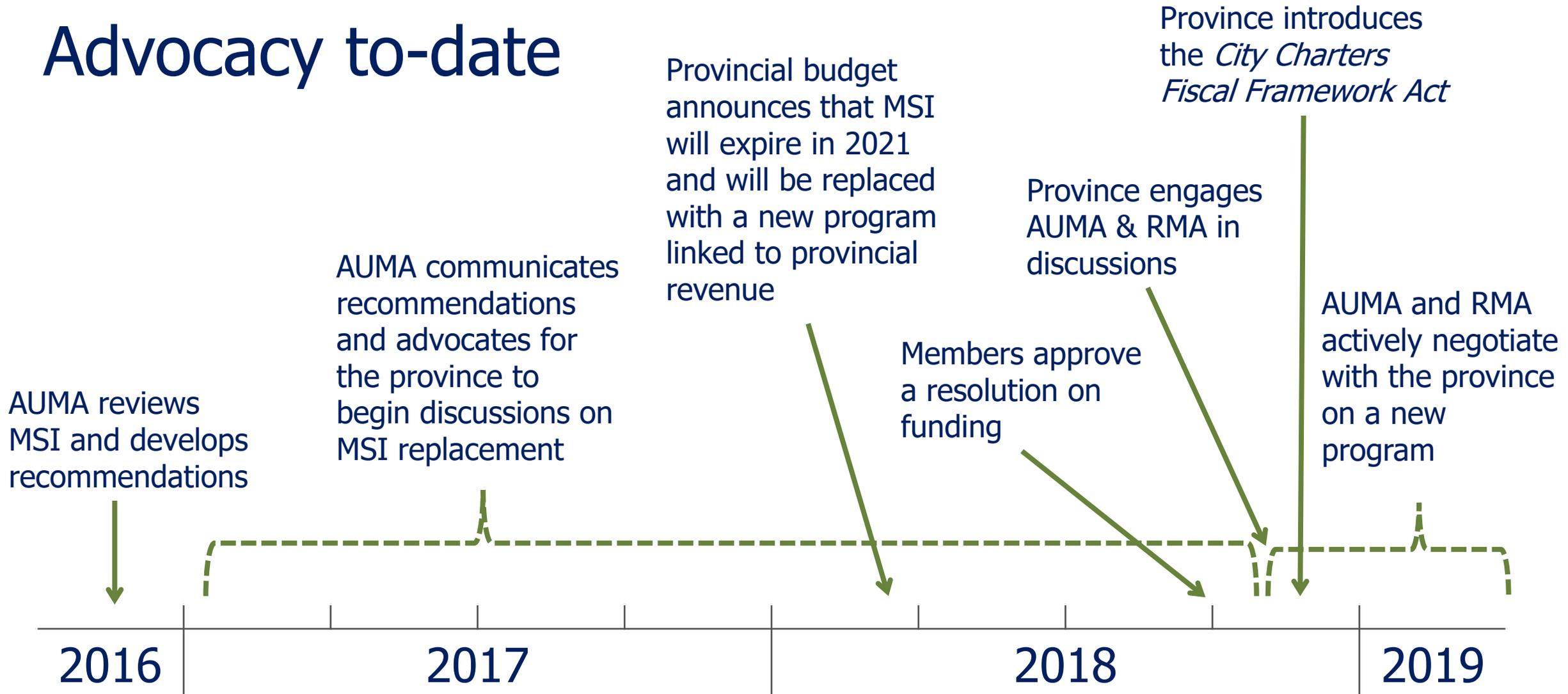
MSI should remain stable until its end in 2021



Note: The March 2018 advance of \$800 million in MSI capital is presented as \$400 million in 2018 and \$400 million in 2019 as was intended for use by municipalities.



Advocacy to-date



AUMA's vision and principles for a new equitable infrastructure funding framework

Vision

Alberta municipalities have an enduring partnership with the Government of Alberta that recognizes our shared responsibility to fund the infrastructure that Albertans rely on to maintain economically, environmentally and socially resilient communities.

Principles for new infrastructure funding pool

Revenue adequacy

Predictability

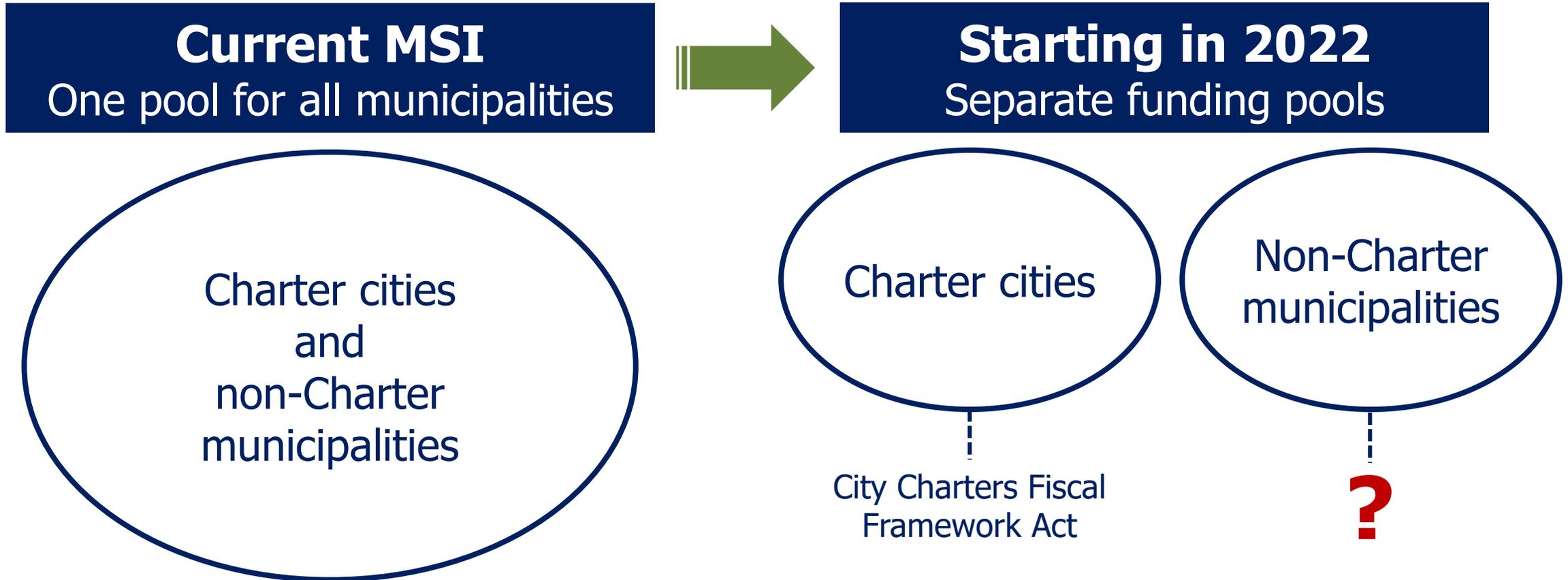
Responsive

Honour prior commitments

Embedded in legislation



Today versus the future...



City Charters Fiscal Framework

Legislated in the *City Charters Fiscal Framework Act*

1

Baseline funding

\$500 million

Replaces MSI & BMTG
in 2022

2

Climate leadership
funding

\$400 million

Replaces existing long-
term transit funding
in 2027

Not legislated

3

Regional
infrastructure
funding

\$50 million

New program
in 2022



City Charters Fiscal Framework Act: 2022 baseline funding of \$500 million

Revenue component

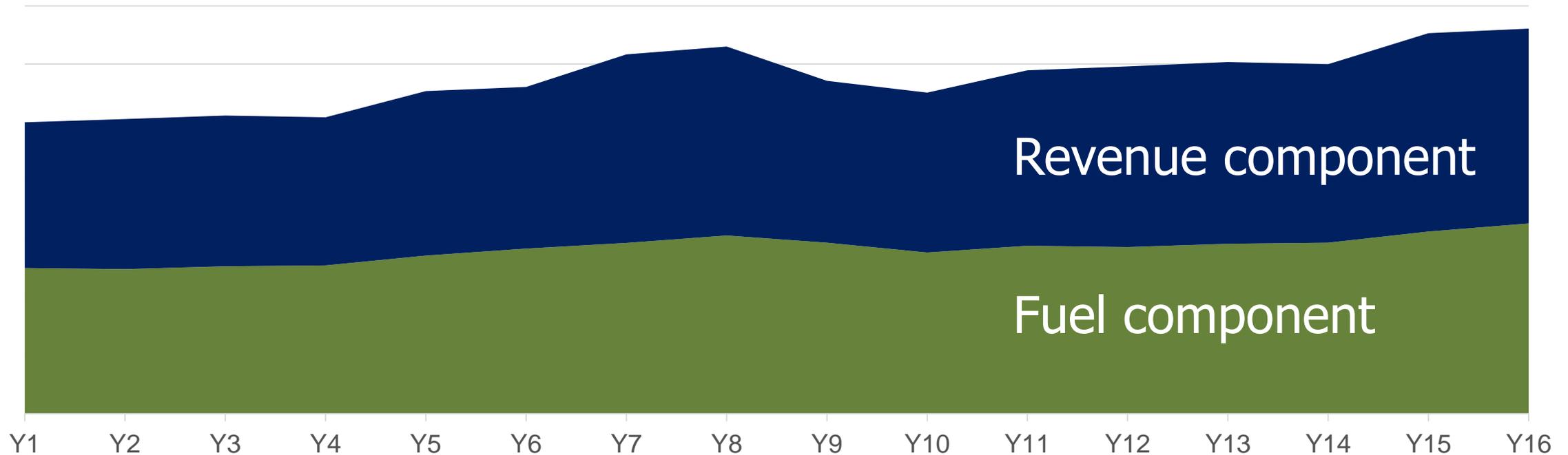
Fuel component

Funding amount	<ul style="list-style-type: none"> • \$252 million in 2022 	<ul style="list-style-type: none"> • \$248 million in 2022
How the funding grows?	<ul style="list-style-type: none"> • The funding will increase/decrease annually based on the change in the province's total revenue, excluding Climate Leadership Plan revenues 	<ul style="list-style-type: none"> • The funding will increase/decrease annually based on the change in sales of gasoline and diesel in Alberta
Restrictions	<ul style="list-style-type: none"> • Annual growth is constrained on a sliding scale until 2033-34 • Growth is exempt from one-year changes in revenues that exceed \$100 million per revenue stream 	<ul style="list-style-type: none"> • No restrictions
How is predictability created?	<ul style="list-style-type: none"> • Annual funding is calculated on the actual figures from three years prior. This means the Charter cities have confirmed funding amounts for the upcoming two years, plus the ability to forecast future year amounts. 	



The revenue component and fuel component will grow at two different rates and have different levels of volatility, but over the long-term will generally keep pace with Alberta's economy.

Graph produced using historical growth rates for visual purposes



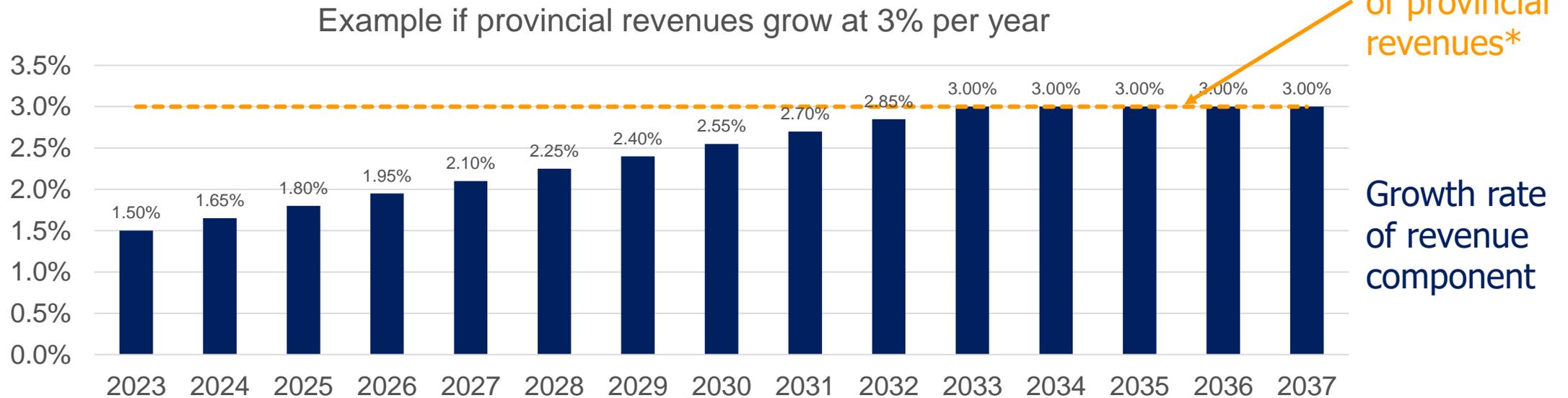
Revenue component

Fuel component



Restriction: Revenue growth constraint factor

For the first 10 years, the revenue component will grow at a reduced rate of the growth of provincial revenues. Alternatively, if provincial revenues decline, the revenue component will decline at a slower rate. After 10 years, the revenue component will grow at the same rate as provincial revenues.



Constraint factor	50%	55%	60%	65%	70%	75%	80%	85%	90%	95%	n/a	n/a	n/a	n/a	n/a
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*The future growth of provincial revenues is unknown. The rate of 3% is only used for example purposes.



Restriction: Exemption for fiscal policy changes

- Any change in fiscal policy that causes a provincial revenue source to increase/decrease by more than \$100 million in that fiscal year will be exempt from the growth/reduction of the revenue component in that particular year
- The exemption only applies in the year that the \$100 million threshold is triggered

Purpose

- In general, it eliminates the potential for municipal funding to significantly increase in a year when the province changes or creates a new tax or fee
 - > e.g. An increase in tax rates or introduction of a provincial sales tax

Example: \$100 million exemption

Calculating the 2023 funding

	<u>2022</u>	<u>2023</u>	<u>Growth rate</u>
Provincial revenue (millions)	\$50,000	\$55,000	10.0%
Less: new revenue from increasing the personal income tax rate		(3,000)	
Adjusted revenue for calculating the municipal revenue component	\$50,000	\$52,000	4.0%

Calculating the 2024 funding

	<u>2023</u>	<u>2024</u>	<u>Growth rate</u>
Provincial revenue (millions)	\$55,000	\$56,000	1.8%
Less: new revenue from a fiscal policy change	n/a	-	
Adjusted revenue for calculating the municipal revenue component	\$55,000	\$56,000	1.8%



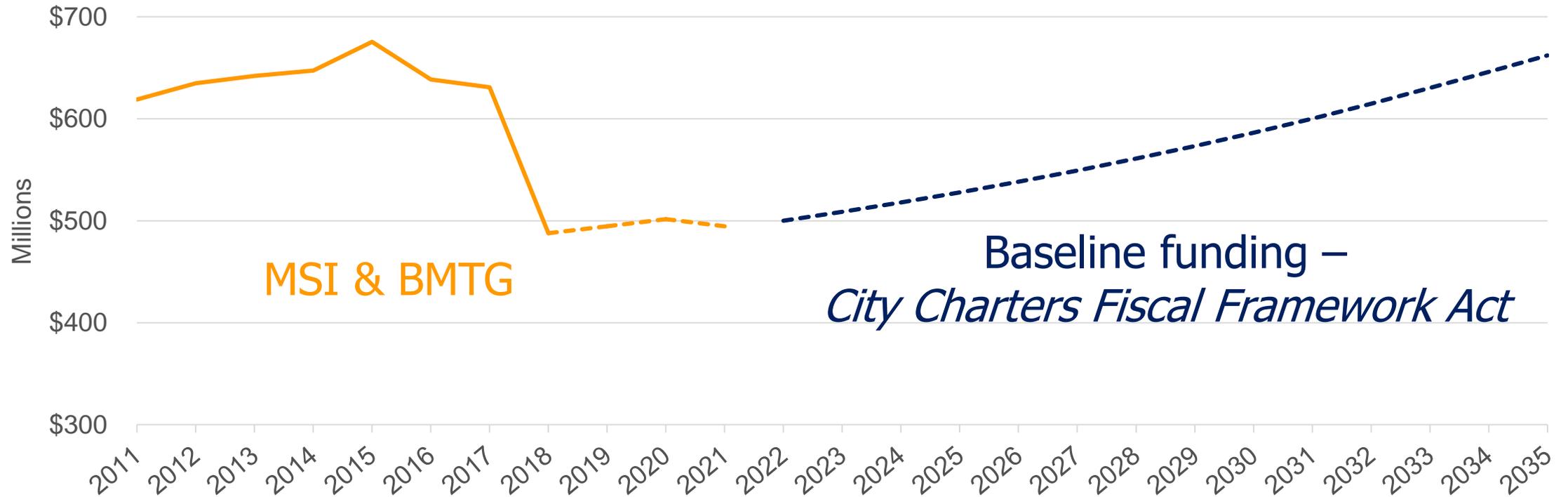
Increased predictability – baseline funding will be calculated on the actual figures from three years prior



	<u>2023</u>	<u>2024</u>	<u>2025</u>	<u>2026</u>	<u>2027</u>
2023 capital budget funding	Confirmed	Confirmed	Forecast	Forecast	Forecast



Charter cities: Historical vs. forecasted funding



Note: The forecast in baseline funding assumes that provincial revenues will grow by an average of 3.0% per year and fuel sales will grow by an average of 2.0% per year.



City Charters Fiscal Framework – baseline funding

Principle/objective	AUMA rating	Note
Revenue adequacy		The Charter cities will experience a 20.7% reduction in funding compared to 2017
Increased predictability	✓	Know funding two years in advance
Responsiveness	✓	Indexed to provincial revenue
Honour prior commitments	✓	MSI is legislated for the remaining years
Legislated	✓	<i>City Charters Fiscal Framework Act</i>

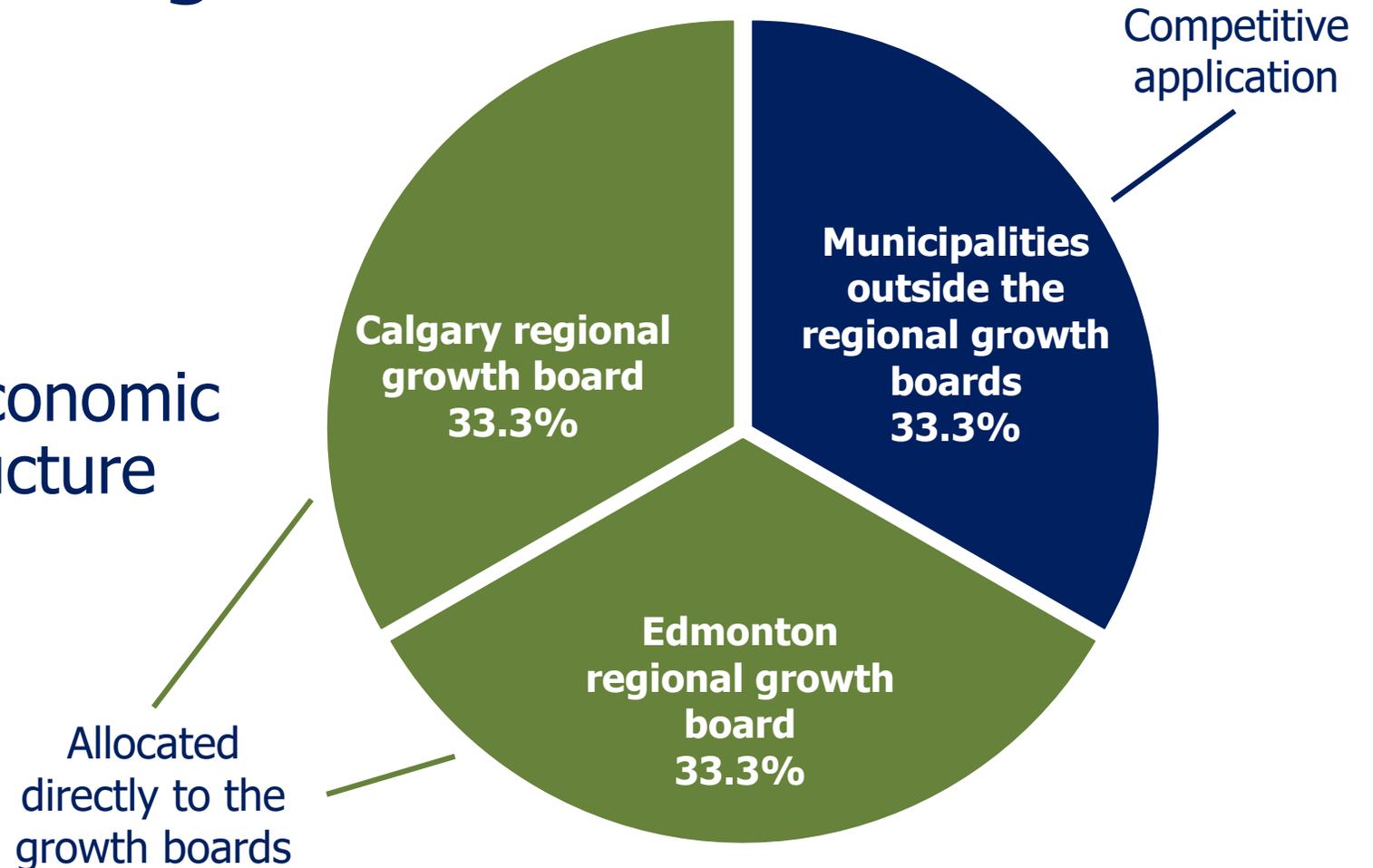


Climate leadership funding

- Funding starts in 2027
- \$200 million per year to Calgary
- \$200 million per year to Edmonton
- Eligible for projects that are consistent with the purposes of the *Climate Leadership Act*
 - > Broadly defined and subject to Minister's discretion

New regional funding

- Starts in 2022
- \$50 million per year
- Purpose is regional economic development infrastructure projects
- Not legislated



Summary: City Charters Fiscal Framework

Legislated in the *City Charters Fiscal Framework Act*

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funding

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in 2022



Proposed framework for non-Charter municipalities (1 of 2)

#	Element	Description	Status
1	Components of baseline funding	<ul style="list-style-type: none"> • Baseline funding to be comprised of two components: <ul style="list-style-type: none"> > Revenue component > Population component • Amounts will increase/decrease annually based on changes in provincial revenues and changes in population 	Aligned
2	Amount of baseline funding	<ul style="list-style-type: none"> • There is agreement that the baseline funding must be equitable and proportional between the Charter cities and non-Charter municipalities • The actual amount to achieve this is yet to be determined 	Not aligned
3	Definition of the revenue component	<ul style="list-style-type: none"> • Calculated on total provincial revenue, excluding Climate Leadership Plan revenues • Exempt from one-year changes in revenue that exceed \$100 million per revenue stream 	Aligned
4	Definition of the population component	<ul style="list-style-type: none"> • Calculated on the population of municipalities, excluding the Charter cities 	Aligned



Proposed framework for non-Charter municipalities (2 of 2)

#	Element	Description	Status
5	Growth factors for the baseline funding	<ul style="list-style-type: none"> Growth of the revenue component is constrained on a sliding scale until 2033-34 Calculated on the actual figures from 3 years prior 	Aligned
6	Legislate MSI & BMTG	<ul style="list-style-type: none"> Remaining MSI and BMTG is legislated up to 2021-22 	Aligned
7	Program administration for baseline funding	<ul style="list-style-type: none"> Application and reporting requirements will be similar to the MSI program, subject to refinements 	Aligned – on the condition that a review is upcoming
8	Review	<ul style="list-style-type: none"> The legislation is reviewed every 10 years 	Aligned
9	Regional funding	<ul style="list-style-type: none"> 2/3rd of \$50 million allocated to the Calgary/Edmonton regional growth boards and 1/3rd rolled into the baseline funding for all other municipalities 	Aligned
10	Equitable long-term infrastructure funding	<ul style="list-style-type: none"> Non-Charter municipalities require funding that is equitable to the Charter cities' 2027 climate leadership funding 	Aligned in principle



Next steps

- Use the election campaign to highlight the importance of funding for community infrastructure
- Restart negotiations with the elected government



Questions about the funding pool?



PART B

Designing a new allocation formula

Core principles for a new allocation formula

1. Transparent and simple
2. Balance predictability and stability in funding with responsiveness to changing needs in municipalities
3. Equitable funding for all municipalities
4. Neutral to local decisions

#1 Transparent and simple

Municipalities should be able to understand:

- What factors are used to allocate the funding
- Why their funding amount differs from that of other municipalities

#2 Balance predictability and stability in funding with responsiveness to changing needs in municipalities

Predictability

- Funding for the next two years are always known and will not change
- There is an ability to reasonably forecast your funding in years 3-5

Stability

- The formula should minimize significant year-to-year fluctuations (other than what is naturally expected of annual changes to the total baseline funding pool)

Responsiveness

- Formula factors should be responsive to the evolving needs within individual municipalities

#3 Equitable funding for all municipalities

- “Equitable” may involve consideration of multiple factors such as:
 - Existing infrastructure
 - Fiscal capacity to fund the replacement of infrastructure
 - Other factors
- Formula factors should respond to needs that are common to large numbers of municipalities
 - The formula should not attempt to address unique factors that only occur in a few municipalities.



#4 Neutral to local decisions

- The formula should not incent practices that would significantly increase a municipality's funding in the short or long term
 - e.g. purposely letting infrastructure fail in order to receive more funding
- In cases of municipal restructuring, funding levels should continue during a transition period to minimize the influence of funding on residents' decision on whether or not to support dissolution or amalgamation

Proposed principles

1. Transparent and simple
2. Balance predictability and stability in funding with responsiveness to changing needs in municipalities
3. Equitable funding for all municipalities
4. Neutral to local decisions

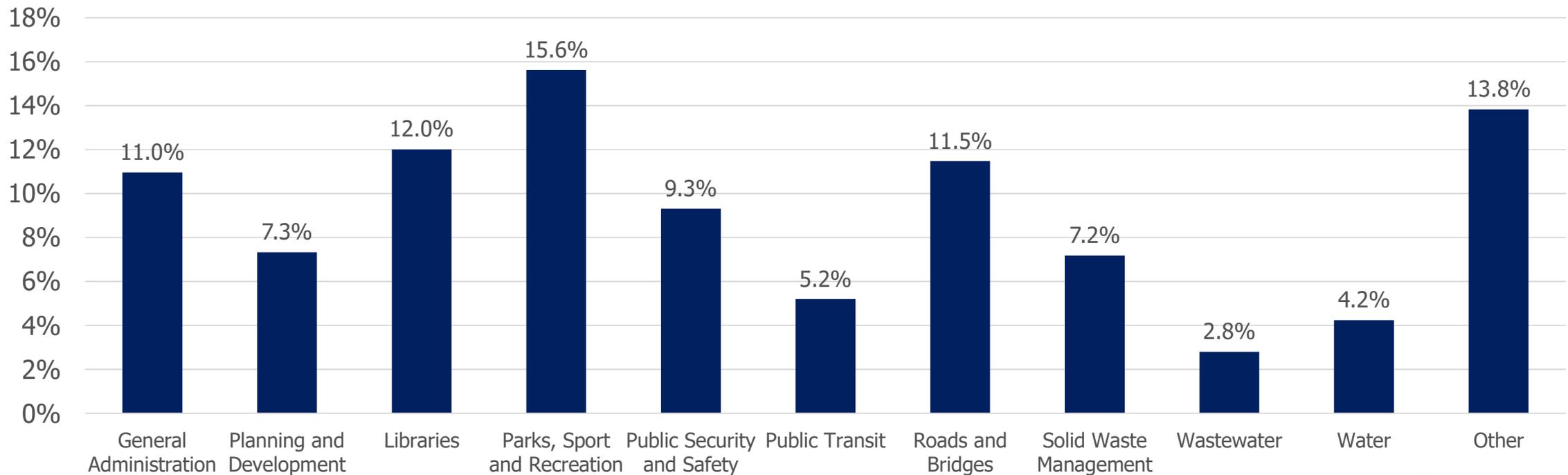
Questions

1. Do you support the principles as presented?
2. What changes would you make to improve the principles for a new allocation formula?

How MSI operating has been spent

When broken down by the type of municipality, cities and towns have invested more of their MSI operating into libraries and parks, whereas villages and summer villages have invested more in water and solid waste services.

MSI spending 2012-2018, all municipalities*



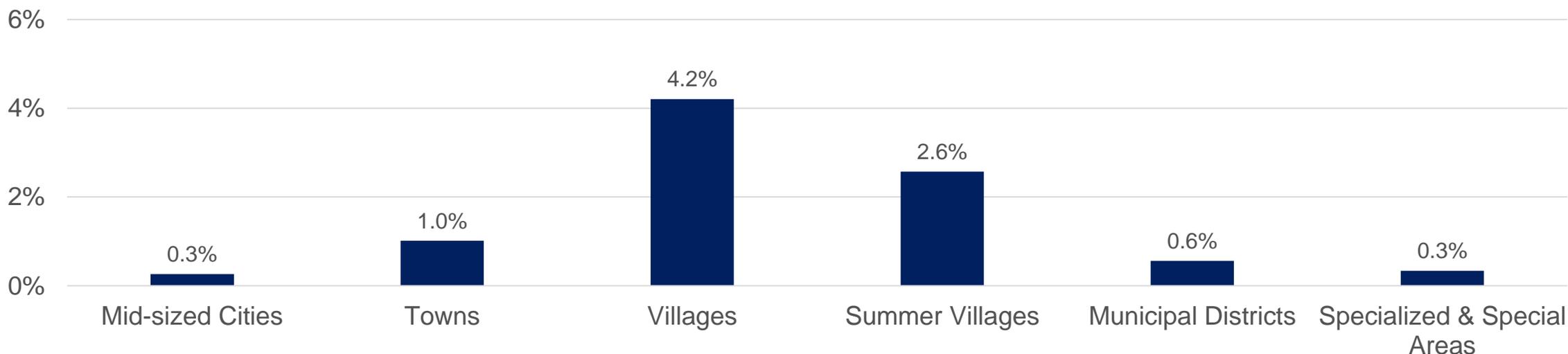
*Metis Settlements and the Townsite of Redwood Meadows are not included in the figures



MSI operating in relation to total spending

For some municipalities, MSI operating represented 0.1% of their 2017 budget, but for others, it represented up to 9.0% of their budget. In general, smaller municipalities rely on MSI operating to a much greater extent.

2017 MSI operating as a percentage of each municipality's 2017 total expenditures
(expressed on a median basis by municipal type)



Questions on the allocation formula

Question #3

Should the new funding framework include operating funding?

Assume operating funding continues – how important is it compared to capital infrastructure funding?

Option 1



Option 2



Option 3

The current split between MSI operating funding and capital funding is appropriate.

Questions on the allocation formula

Question #4

Would you like to spend more of your current MSI funding on operating activities or capital infrastructure?

Question #5

Should the new allocation formula provide an incentive to collaborate on a regional basis?



Questions

Still looking for answers?

Email us at advocacy@auma.ca

