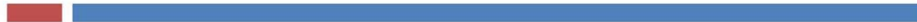


Understanding Urban Municipalities



- Thank you for the opportunity to share some information about the challenges faced by Alberta's municipalities and the opportunities to help them address those challenges.

Municipal Services



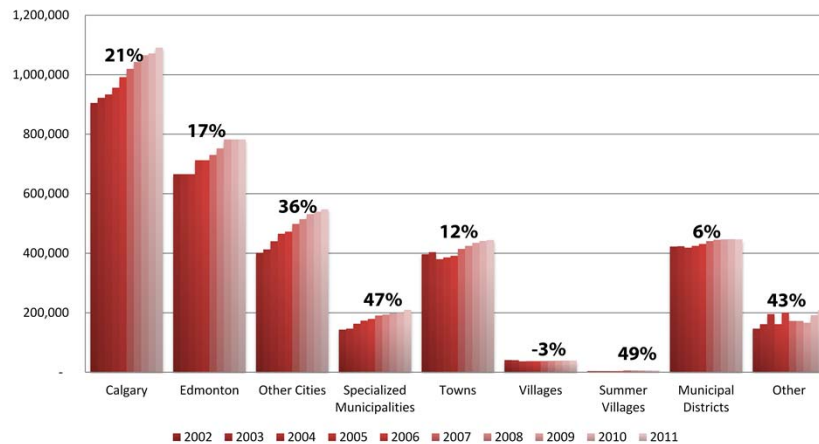
- As you see on this slide, Alberta’s municipalities are diverse and increasingly complex.
- Municipal services include land use, water and wastewater management, transportation and transit, housing, crime prevention, economic development, culture and recreation – the list goes on.

Municipal Challenges



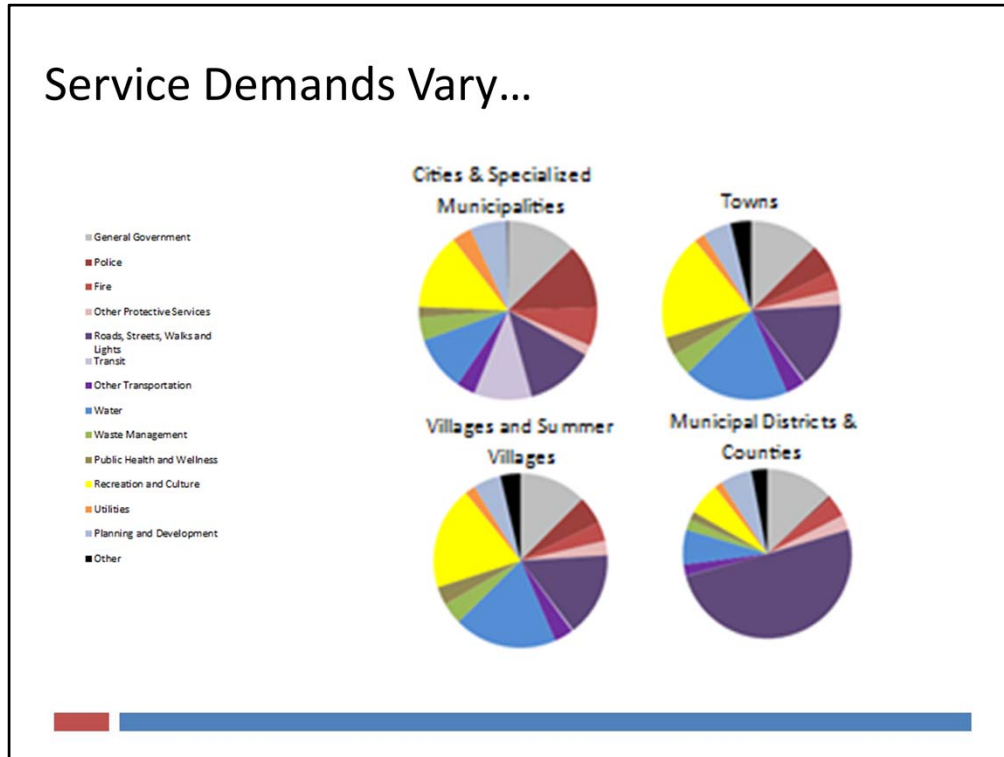
- Municipalities are facing a number of challenges:
 - Rapidly rising populations in much of the province combined with changing demographics.
 - Increasing service level expectations.
 - Rising costs for municipal infrastructure.
 - A limited tax base.
 - And reliance on unstable funding from the provincial and federal governments.

Population Drives Service Demands in Urban Municipalities



- Urban municipal service requirements are driven by population increases and the need to provide the necessary infrastructure to support our natural resource economy that in turn is the economic engine for Canada.
- 10 of Canada's 15 fastest growing populations are in Alberta and you may be surprised to learn what communities those are – communities like Okotoks (42.9%), Wood Buffalo (27.1%), Strathmore, Sylvan Lake, Grande Prairie, Cold Lake, Lloydminster, Lethbridge and Camrose.
- Population growth puts tremendous pressure on our communities as newcomers do not bring their own housing, cultural and recreational facilities, libraries, water systems and roads with them when they come to our province.
- This creates pressure in terms of financial resources and capacity.
- In contrast, some rural communities have low or even negative population growth. For example, the population in villages declined by 3% from 2002 to 2011 while the population of municipal districts and counties was significantly below the average population growth for the province, representing a loss in their population share.

Service Demands Vary...

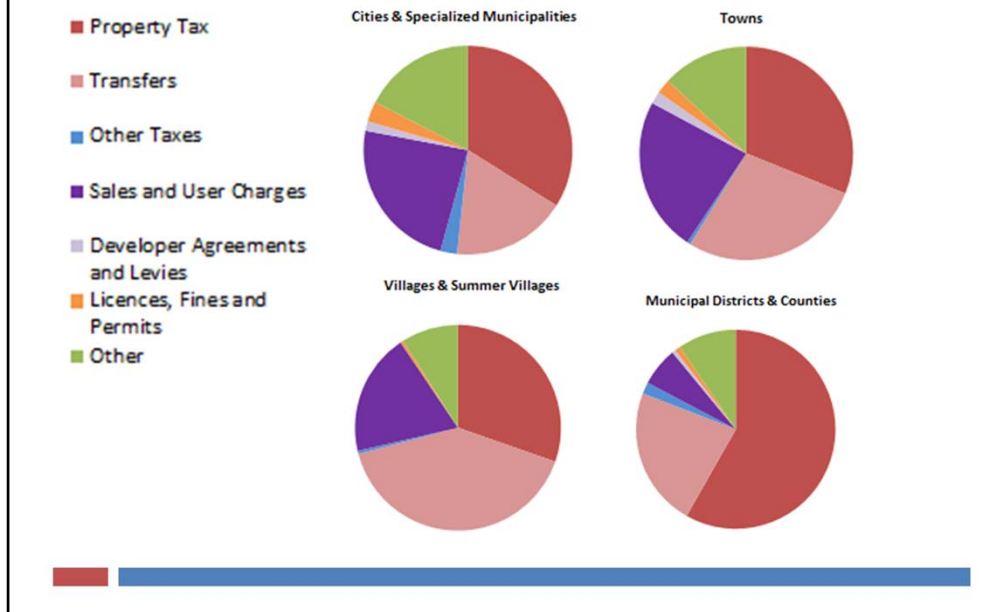


- So what are the service demands faced by municipalities?
- Well, the answer is - it depends!
- Alberta's municipalities are complex and diverse as you see in this picture of the expenditures by type of municipality.
- While rural municipalities' expenses are largely dominated by roads and bridges (i.e., the purple color), you can see that the more populous a municipality, the more diverse their expense base is.
- While urban municipalities may lack the lengthy number of kilometers of roads and water systems as their rural counterparts, they are confronted with cost pressures associated with their larger population. These cost drivers include:
 - The need for more complex and costly road networks to build and maintain. Urban municipal roads while less lengthy, require large complex intersections, over and under passes, multiple lanes, etc. It also requires the establishment of transit to help address the costs of added congestion.
 - Large scale water treatment, water distribution system, stormwater management and sewage systems that not only ensure the health and safety of large populations relying on limited water allocations, but also protect the environment from this usage.
 - Adequate garbage control to protect against disease and pestilence.
 - Adequate social supports (e.g., affordable housing), emergency response and crime prevention.
 - More complex land use and environmental planning.
 - The need for recreation and culture facilities to make our municipalities livable

and to attract the labour supply our economy requires to sustain our growth.

- These costs are often driven by increasing population, while the costs in municipal district and counties are typically driven by their large area.
- This diversity clearly demonstrates why a one-size-fits-all/formulaic approach to funding does not work and highlights the need for a diverse set of revenue authorities that recognizes the fundamental differences between municipalities.

How are Services Funded?

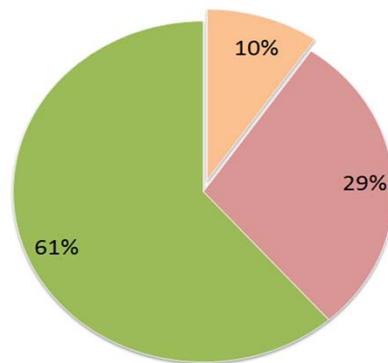


- So how do municipalities fund their services and infrastructure?
- Well, rural municipalities rely more heavily on property tax, likely due their larger linear base, while the more urban a municipality becomes, the larger the reliance on user charges and service fees.
- Unlike the federal and provincial governments, municipalities have only one significant tax source (i.e., Property Taxes) and very few other funding options.

How are Services Funded?

Total Tax Collected By Level of Government in Alberta

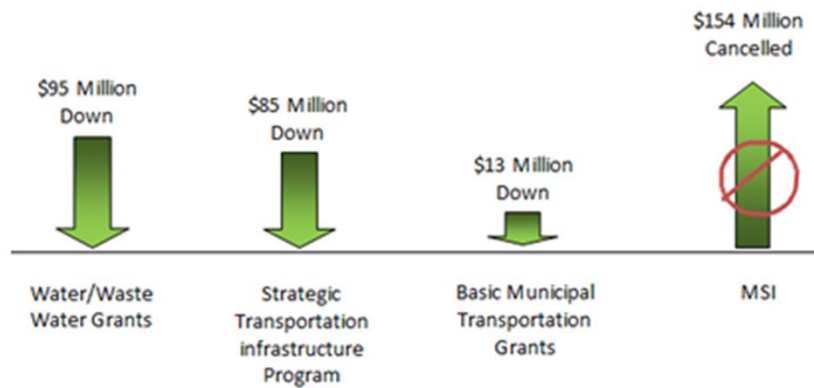
Local Provincial Federal



Based on tax revenue collected in the 2010-11 fiscal years, except for local governments which are based on 2010 data.

- In fact, Municipalities only directly collect 10% of the tax revenue in Alberta.
- The result is that all municipalities regardless of their type are increasingly forced to rely on the generosity of other levels of government to benefit from the resource wealth generated in Alberta.
- This creates instability in municipal revenues as changes in the fiscal situation of the provincial or federal governments often impact municipalities.

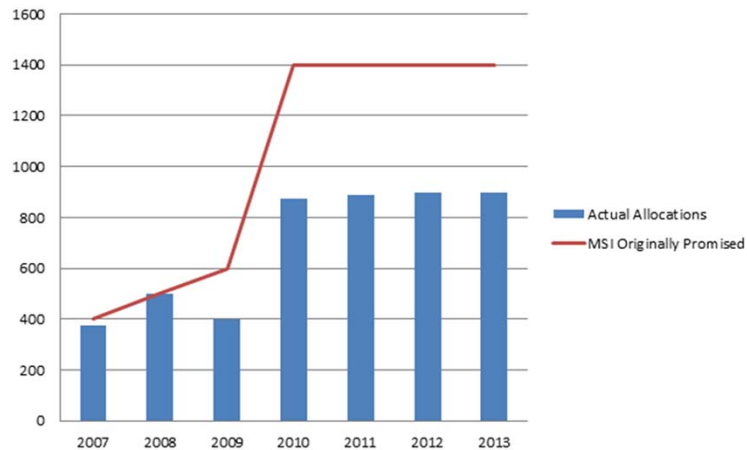
Funding is Not Keeping Pace...



- An example of unstable provincial funding was evident with Budget 2013 where the province made significant reductions in municipal funding with no advance warning to municipalities – in fact there was a promise from the Premier not to balance the budget on the backs of municipalities:
 - Water/wastewater grants were reduced by \$95 million.
 - The Strategic Transportation Infrastructure Program was put on hold...\$85 million.
 - The Basic Municipal Transportation Grant was reduced by \$13 million.
 - And the much counted on \$154 million increase to the Municipal Sustainability Initiative did not occur.

Example: Municipal Sustainability Initiative

Municipal Sustainability Initiative
(promised vs actual)



- While the MSI funding has benefited many Alberta communities, the program does not provide the predictable and stable source of funding municipal governments need. Between Budget 2009 and Budget 2013, the province cut its MSI transfer to municipalities by some \$200 to \$500 million each year.
- These cuts, in addition to adjustments to the MSI formula and the expectation that municipalities should support non-profit groups out of their MSI funding, have meant an erosion of the predictability and capacity for long-term planning that the grant was designed to encourage.

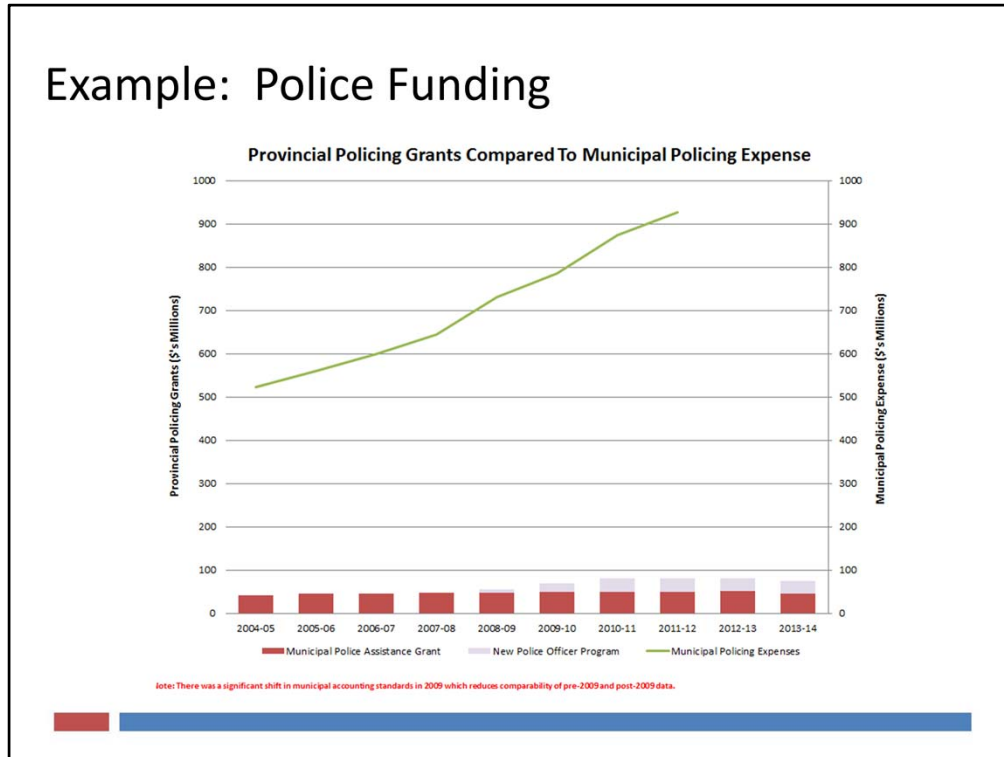
Example: Family & Community Support Services

- Provincial funding = \$76 million.
- Not the 80/20 funding commitment
- No recognition of cost increases.



- The Family and Community Support Services (FCSS) is another example of a program pressure.
- FCSS was supposed to reflect an 80/20 funding partnership between the Government of Alberta and municipalities.
- Even though the program costs continue to grow, the province has not increased funding to keep pace.
- The shortfall often falls on the backs of municipalities.
- The result is that many of our urban municipalities are contributing amounts far greater than the 20%.

Example: Police Funding



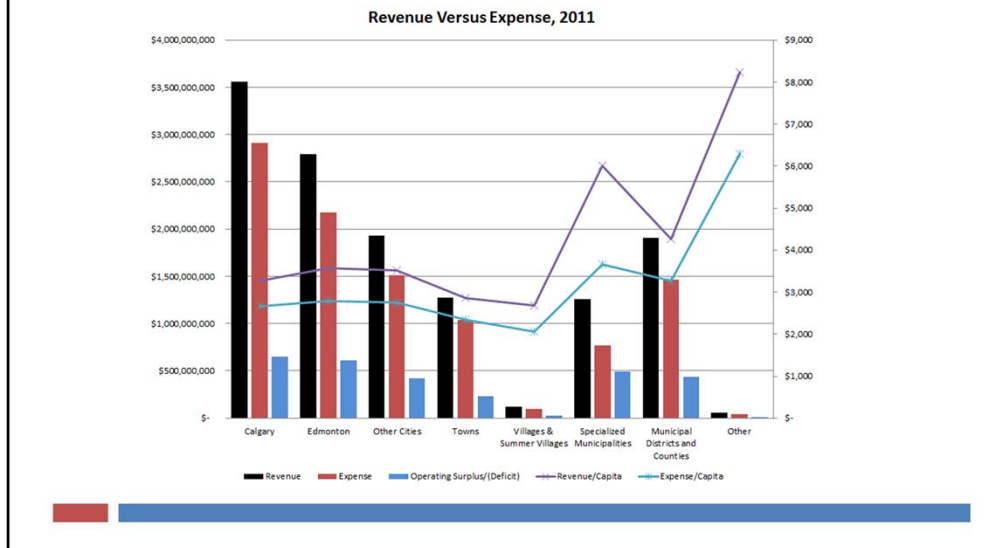
- There are currently significant issues with the current funding model for police services in Alberta.
 - The Municipal Police assistance Grant represents a very small share of the total cost of providing police services in urban municipalities and municipal policing expenses have consistently grown faster than the provincial municipal assistance grant. While municipalities appreciated the introduction of the New Police Officer Program in 2008-09, we are once again seeing the trend that grants are not keeping pace with costs.
 - Urban municipalities over 5,000 population are required to pay for policing services while rural municipalities do not pay.
 - The current model that requires some municipalities to pay while others have their costs fully covered by the province is inequitable.
- AUMA believes that immediate increases to the MPAG grants are required to address provincial funding shortfalls.

How Are Municipalities Coping?



- Alberta's municipalities really only have a few choices to manage their budgets.
 - Option 1: Implement cost controls and service reductions.
 - Option 2: Take on debt.
 - Option 3: Defer maintenance.
 - Option 4: Raise Taxes.
- Let's take a closer look at the options.

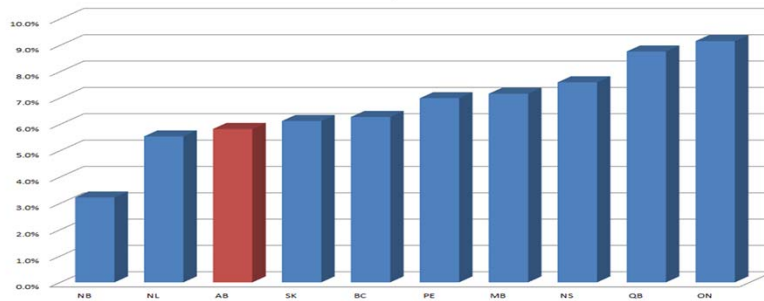
Option 1: Cut Spending Not All Pictures Tell A Story...



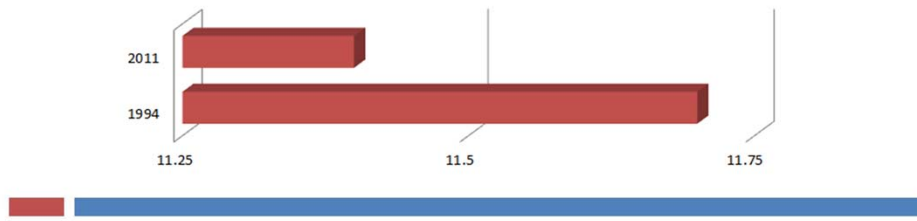
- In terms of operating revenues and expenses, virtually all of Alberta's municipalities show higher revenues than their expenses.
- While it looks like our municipalities are in pretty good shape, this does not tell the whole story, as the MGA legislates that municipalities in general cannot have an operating deficit ...so it is no surprise that the data shows that municipalities have operating surpluses.
- The problem is that this picture does not tell the real story of the critical municipal expenses that are being deferred or eliminated in order to remain within the legislated boundaries. In other words, it does not capture the true level expenses that would be required to run municipalities effectively and efficiently.

Alberta's Municipalities Are Not Big Spenders...

Municipal Current Expense (Includes Capital Cost Allowance) to GDP Ratio, 2009

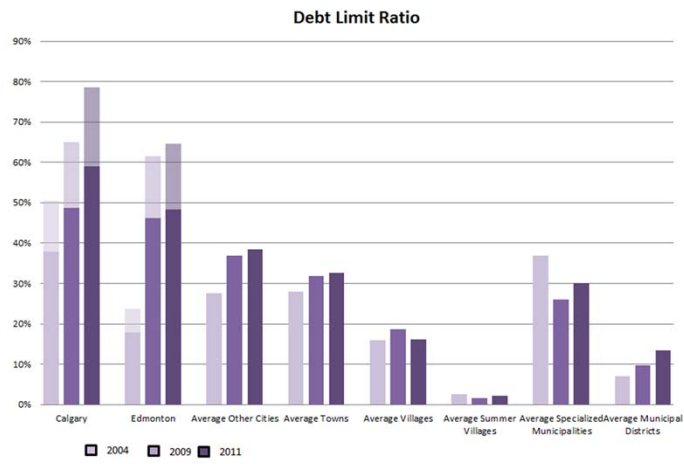


Municipal FTEs Per 1,000 Population - Yesterday and Today



- The misconception that Alberta municipalities are “big spenders” needs to be eliminated.
- Alberta municipalities have been working to reduce costs for a long time.
- Despite having to respond to rapid economic growth and an infrastructure back-log caused by the Klein era cuts, Alberta municipalities:
 - Spent less as a percentage of GDP than municipalities in most other provinces.
 - Have far fewer FTE’s than they did in the 1990’s when compared to population.
- About 78% of our budgets are dedicated to protective services, transportation, water and wastewater and parks and recreation. These are essential services that citizens value as being required to sustain our economic growth and prosperity.

Option 2: Taking on Debt

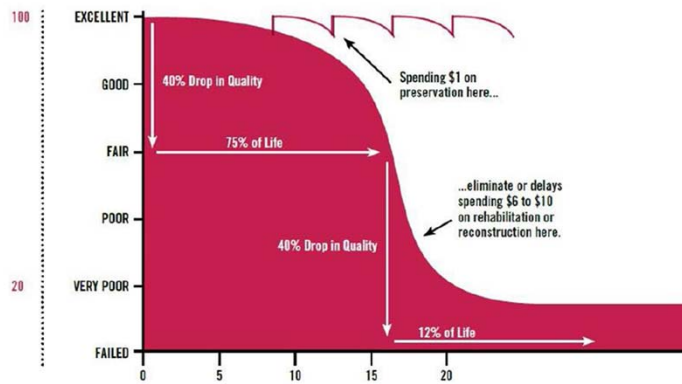


Edmonton, Calgary, Medicine Hat and Woodbuffalo have a debt limit based on 2 times revenue compared to 1.5 times for other jurisdictions. The shaded areas above Edmonton and Calgary show their debt limit ratio had it been on the 1.5 times revenue basis.

- With shortfalls in federal and provincial funding, municipalities have been taking on debt.
- However, this is a short-term solution that is not sustainable.

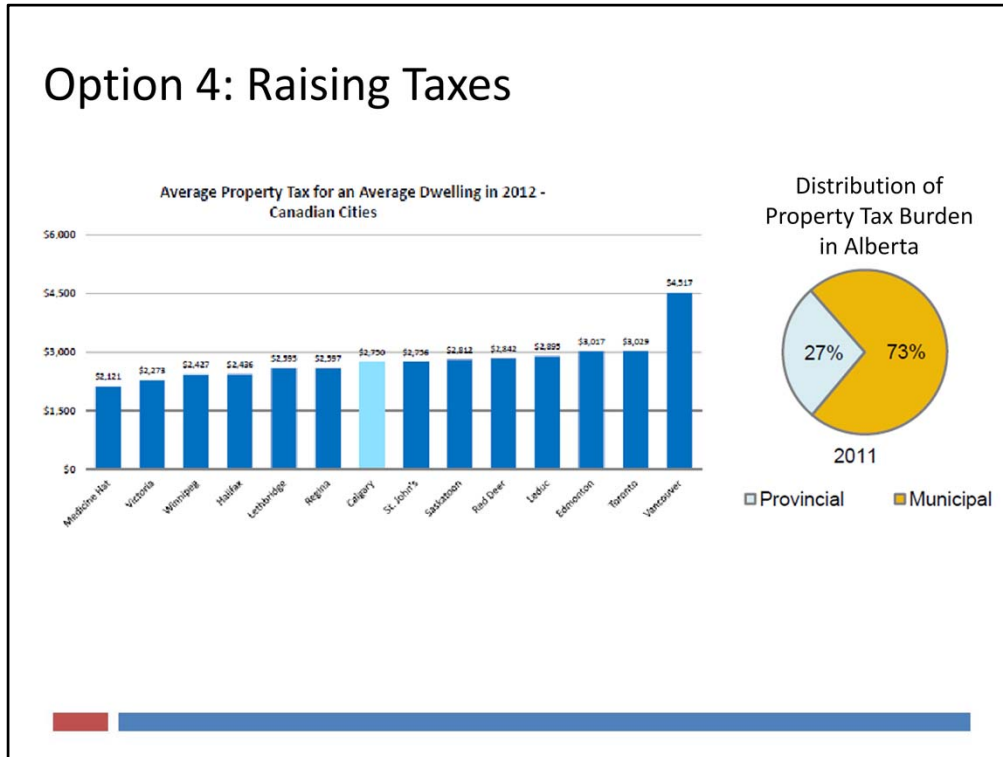
Option 3: Deferring Infrastructure

Typical service life for roads



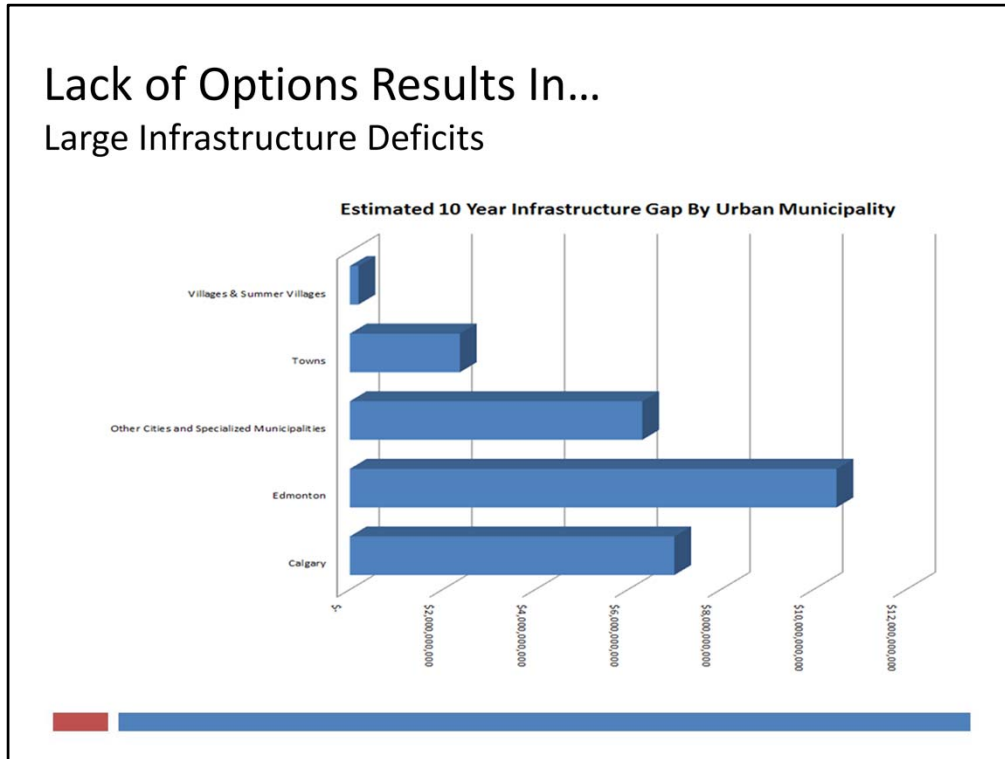
- Deferring maintenance (or not performing repairs at all) leads to much higher rates of deterioration and repair bills that can equal the cost of the original asset.
- As this example from the National Infrastructure Report Card shows failing to spend \$1 on road preservation today can lead to the need for \$6 to \$10 in rehabilitation or reconstruction costs in the future.
- Simply put...the inadequacy of municipal revenue authorities to meet the pressures of rapid energy driven growth is in the long run costing taxpayers more.
- Ironically, the provinces desire to ensure Albertans maintain a strong tax advantage...is in this case leading to the need for higher taxes in the future.

Option 4: Raising Taxes



- And simply raising property taxes presents other challenges:
- About 30% of the current property tax collected is handed over to the province. This creates significant issues with transparency.
- Property taxation often hits low income families and seniors disproportionately. Statistics Canada (July 2003 Perspectives) estimates families with income in excess of \$100,000 paid 28.6% in income taxes but only 1.8% in property taxes.
- Property taxes alone are insufficient to meet the infrastructure backlog.
- From a competitiveness standpoint Alberta's residential property taxes on a average home are in the middle of the pack. However, an increase of as little as \$50 per month could put our municipalities near the top in Canada.

Lack of Options Results In... Large Infrastructure Deficits

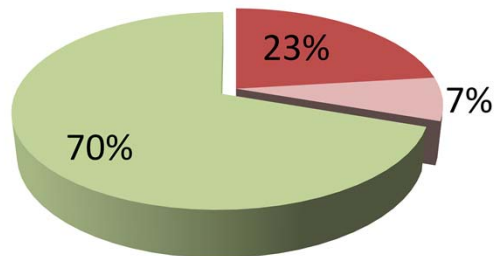


- With all options being problematic, the result of this situation is that Alberta's urban municipalities have been accumulating large infrastructure deficits.
- AUMA estimates that the current urban municipal infrastructure deficit in Alberta is in the range of \$26 billion over the next 10 years, which annually equates to \$2.6 billion.

Lack of Options Results In... Financial Sustainability Being at Risk

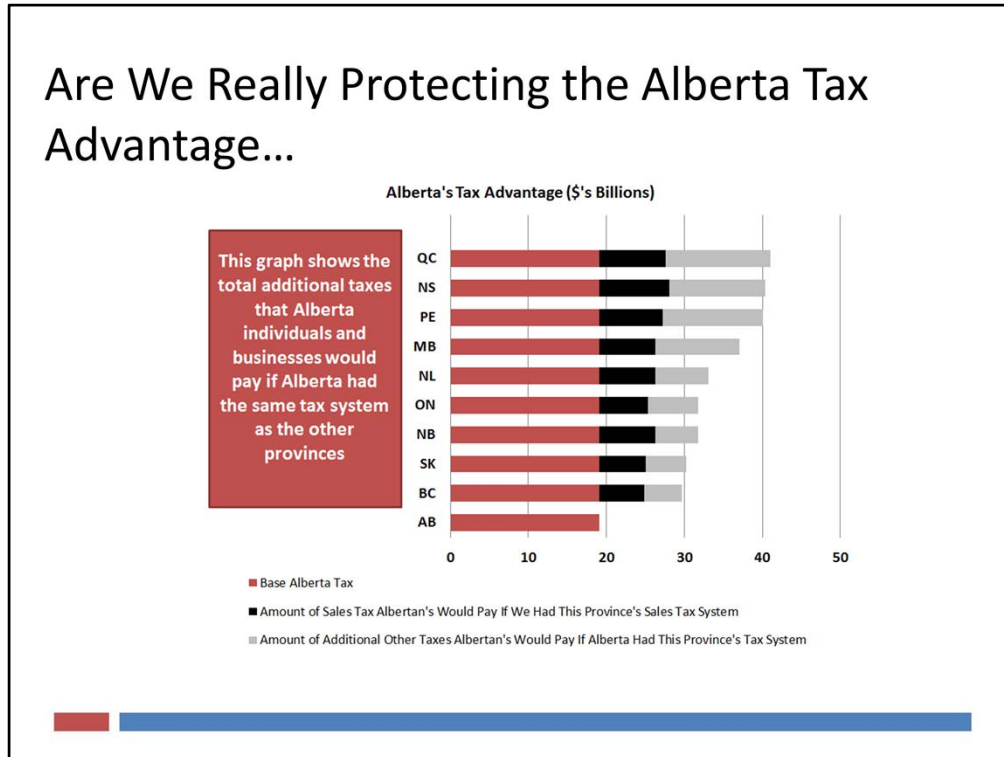
Small Municipalities Financial Status

- Currently in Deficit Position
- Will Be Put in Deficit Position As A Result Of MSI Changes
- Currently in Surplus Position




- And many of our small urban municipalities are struggling financially.
- Approximately 23% of our small communities (those under 2,500) are currently in deficit position, where their revenues are less than their operating costs.
- An additional 7% of small municipalities will be added when the MSI Operating grant is terminated.
- As a result it is questionable whether about 30% of existing small communities are truly viable on an ongoing basis.
- And these results can be skewed downward as municipalities are prohibited legislatively from running multiple operating deficits. Consequently, the real number of municipalities struggling to maintain an operating surplus could be even higher.

Are We Really Protecting the Alberta Tax Advantage...

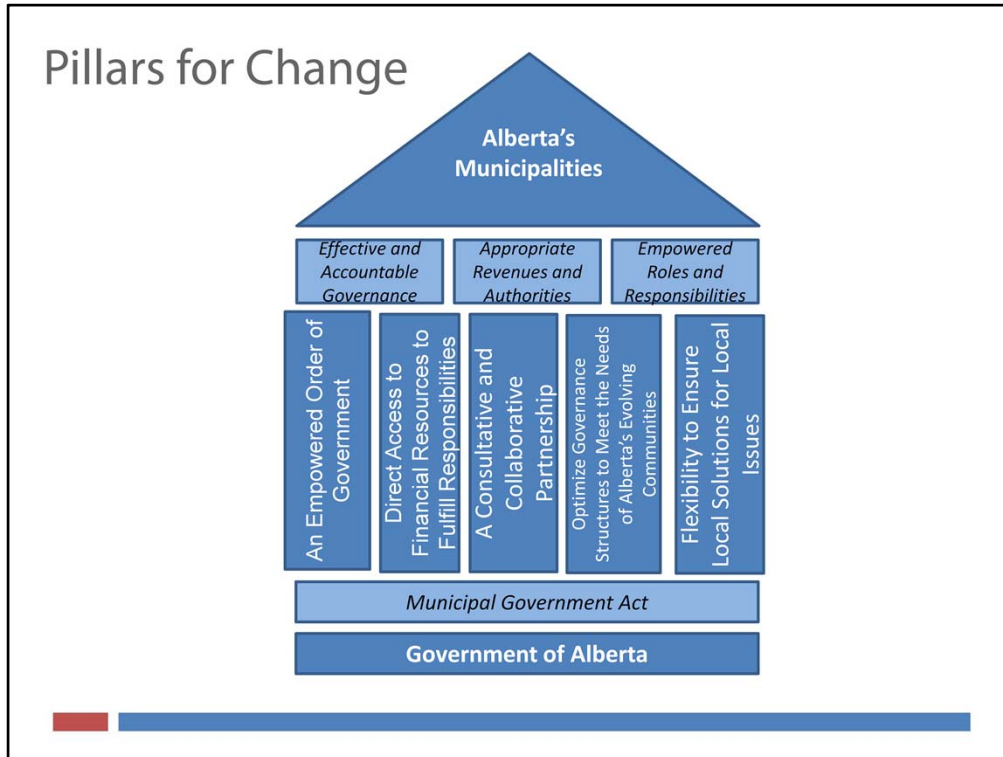


- Alberta has a significant tax advantage.
- According to Alberta Treasury Board Albertans and our businesses would pay about \$11 billion more in tax each and every year if we had our closest competitors tax system.
- And Alberta's municipalities value this competitive advantage.
- Unfortunately, many external stakeholders argue that giving municipalities more revenue authority will erode this advantage.
- However, this is not borne out by the facts:
 - Municipalities currently have the authority to raise property taxes as much as they want and despite that authority Alberta has a competitive property tax system.
 - Unfortunately however, given the lack of revenue sources in municipalities (Almost 60% of municipal revenues come from grants and transfers and property tax), it is becoming increasingly evident that raising property tax is the only remaining option for many municipalities. Looking at the tax system holistically, would property taxes (given issues of fairness for low income Albertans and seniors) really be the first choice for a tax increase?
 - If not, why are we forcing this to occur by default?
 - And more importantly, as discussed earlier the cost of deferring infrastructure repairs leads to rapidly increasing costs in the future...which will inevitably lead to even higher taxes than if we simply got on with fixing the problem today.

MGA Principles

- **Governance:** Local governments are open, responsive, and accountable.
 - **Roles & Responsibilities:** The respective roles and responsibilities of the provincial and municipal orders of government are clear and appropriate.
 - **Revenue Sources and Authorities:** Local governments have predictable, diverse, and sustainable revenue sources (including taxation) to deliver programs, services, and infrastructure.
- 

- We worked with our members to develop guiding principles that should inform our work on the MGA review, ensuring that we protect our current successes while enabling greater sustainability in the future.
- These principles set out the desired outcomes in three key areas – governance, roles and responsibilities, and revenue sources and authorities.
- We shared these principles with the ministry last year.



- Building on the principles that were developed through last year's consultations with members, we have developed this diagram as a visual depiction of the pillars for change.
- These pillars include:
 - An empowered order of government
 - Direct access to financial resources to fulfill responsibilities
 - A consultation and collaboration partnership
 - Optimize governance structures to meet the needs of Alberta's evolving communities
 - Flexibility to ensure local solutions to local issues