



**Red Deer Chamber of Commerce
Municipal Funding presentation for Alberta's Role in Confederation Meeting
7:00 PM, February 4, 2004**

Funding Options for Canada's Urban Municipalities

Good evening Mr. McClelland, Mrs. Jablonski, other presenters and members of the public.

It is a pleasure to participate in such important discussions.

I am Glenn Simon, President of the Red Deer Chamber of Commerce. Our organization and its more than 860 business members want to maintain our country's economic strength.

Alberta can play a significant leadership role in this. Other Chambers of Commerce around the province will be participating in these public hearings. They will be addressing a number of important issues including:

- speaking in favour of an Alberta Pension Plan; and
- Encouraging the provincial and federal governments to develop and implement an Agreement on Internal Trade that provides an effective way to remove inter-provincial trade barriers.

Like The Red Deer Chamber of Commerce, a number of other Chambers will also be speaking to the critical issue of municipal funding.

Just when municipalities are finally gaining recognition as the means for economic and social growth in Canada, an increasing number are finding themselves unable to accept the task.

Cities face many obstacles that cause problems for their growth and prosperity. They include:

1. An over-reliance on property taxes and legislation that restricts the type of revenue models cities can use,
2. Downloading of responsibilities and services from other levels of government, and
3. A need for a consistent, reliable and adequate source of funding to rebuild, improve and accommodate record levels of urban growth.

This is forcing tough choices – choices between

- Building roads or paying the police,
- Supporting public health programs or digging sewers,
- Reducing homelessness or supporting the arts.



It goes without saying that urban municipalities must work even harder to find sustainable solutions on their own. This is fundamental to the Red Deer Chamber of Commerce's recommendations.

With that philosophy in mind, the Red Deer Chamber of Commerce urges Alberta to take a leadership role in addressing the short falls in the current system.

- I. The first challenge we identified has to do with the limitations urban municipalities have with respect to expanding revenue sources beyond property taxes.

According to TD Economics and a June 2002 cover story in Maclean's magazine about the state of cities, municipalities rely on property taxes for approximately half of their annual revenues. However, based on assessable property rather than the owner's ability to pay, property taxes are a poor instrument to finance the long-term needs.

In addition, municipalities do not benefit as much from good economic times since property taxes do not increase automatically with economic growth.

Since the mid-1990s, municipal revenues have increased by 14 per cent, barely the rate of inflation. During that same period, federal and provincial government revenues grew by more than 38 percent and 30 percent, respectively. To their credit, the two upper tiers of government looked to the long term and applied their income tax revenues towards deficit reduction.

The Red Deer Chamber of Commerce recommends that the Governments of Alberta and Canada consider giving municipal governments access to a broader range of revenue sources than property taxes and user fees. These could include a portion of the fuel tax, gaming tax, royalties, and personal income tax. This would enable local governments to fund and be accountable for local services based on those revenue sources.

The federal government's GST relief announcement in Monday's Speech from the Throne, is a good start. **We urge Alberta to work with the Government of Canada to introduce fuel tax revenue to the municipal revenue mix within the next year.**

In the United States, state and federal governments are providing a higher level of funding support to municipalities and granting them increased powers to secure new revenue sources and methods of borrowing. Maclean's reports that the U.S. federal government annually contributes almost \$84 per resident to municipalities, while the Canadian government offers up only \$16 in support of similar services.

As a result, U.S. municipalities have become highly effective in using a variety of new revenue generating and management mechanisms, including tax-exempt bonds, tax-increment financing and public-private partnerships (PPPs).



We recommend that Alberta take the lead with the Federal government to undertake a review of the American options. The goal should be to establish new, sustainable funding sources which can be implemented by 2006.

2. Alberta should take a leadership role to help address the second challenge identified by the Chamber.

One of the ways that the federal and provincial governments have improved their own fiscal houses is by downloaded services. As a result, the responsibility for funding now lies with local government which has the lowest ability to pay. This is particularly apparent in things like low-cost housing and social service delivery.

We strongly encourage Alberta to work with the Government of Canada to acknowledge the financial problem this causes for municipalities. As we move forward to solve them we must keep in mind that any solutions MUST NOT create an additional layer of income tax, or added cost that will have to be paid with property tax revenues.

The Chamber believes that an adequate amount of tax revenue exists within the current system to meet the needs of all levels of government. What is needed is a redistribution of government revenues, where the two senior governments reduce their levels of taxation to create the required room for municipalities to raise revenue.

This is justified on the basis that the federal and provincial governments have downloaded programs and services to municipalities and therefore, should be making do with less tax revenue.

3. Finally, and most importantly, the Chamber is concerned about how urban municipalities will refurbish worn-out infrastructure at the same time as we have to provide infrastructure for our tremendous growth.

The Federation of Canadian Municipalities and McGill University have estimated Canada's municipal infrastructure deficit at more than \$40 billion. This is extremely serious when it is estimated that 50 to 60% of all infrastructure is the responsibility of our urban municipalities and the costs of this infrastructure far exceed the ability for municipalities to raise funds through property taxes.

Urban municipalities across Canada need a consistent, reliable and adequate source of funding to meet these needs. In the short-term, increased provincial and federal government grants could relieve some of the financing burden on municipalities.

Ultimately, however, local governments are closer to their residents and should be able to meet most local needs without going cap-in hand to senior levels of government.

The Red Deer Chamber of Commerce urges Alberta to work with the federal government to allocate at least \$1 billion annually for strategic infrastructure projects in



urban centres. A good portion of this should flow to mid-sized cities. In Alberta, federal support should be matched with provincial dollars to cover necessary investment in existing and new infrastructure.

In summary, the time is NOW to recognize that Canada's economic power comes from our urban municipalities. While municipalities must work even harder to find sustainable solutions on their own, we must ensure that they can continue to enhance Canada's economic strength.

The opportunity exists for Alberta and the federal government to take a long-term approach and provide municipalities with much-needed sources of funding to help maintain the downloaded programs and core infrastructures that cities clearly cannot afford to sustain on their own.

Alberta can and should play a leadership role in creating the new deal for urban municipalities.