

# New Municipal Growth Framework: FCM Presentation

Presentation to the Region of Waterloo

October 4, 2023

# Presentation outline

- 1) Limitations of the current framework
- 2) Policy priorities: housing, community safety and climate
- 3) Overview of revenue options
- 4) Criteria for evaluating new revenue options

***FCM Annual Conference  
Resolution - May 2023***



# Municipal finance 101: Balanced budgets and reserves do not mean “Everything is OK”

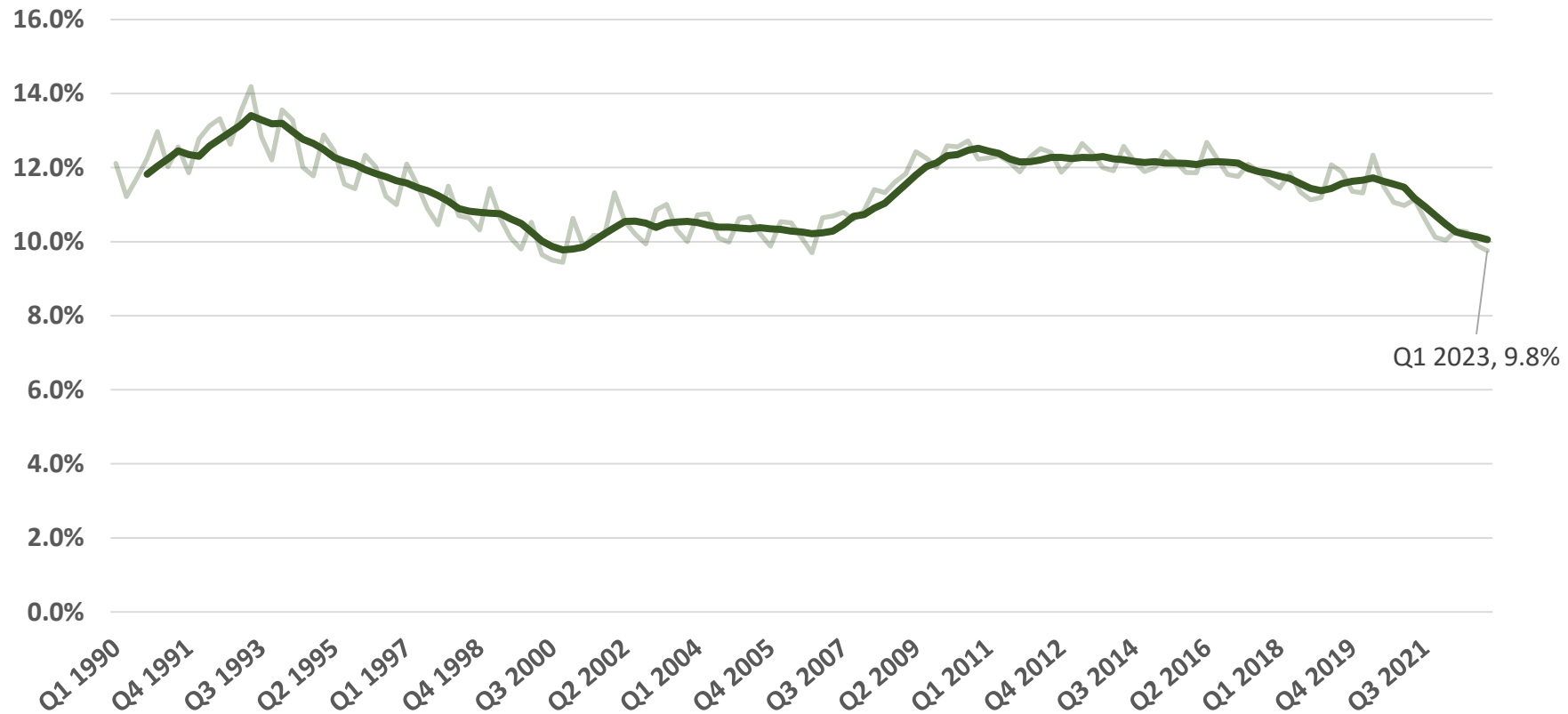
## Balanced municipal budgets

- Municipalities are generally required to balance annual operating budgets.
- Municipal budgets are generally a statement of “what will be done” and not necessarily an indication of “what needs to be done.”

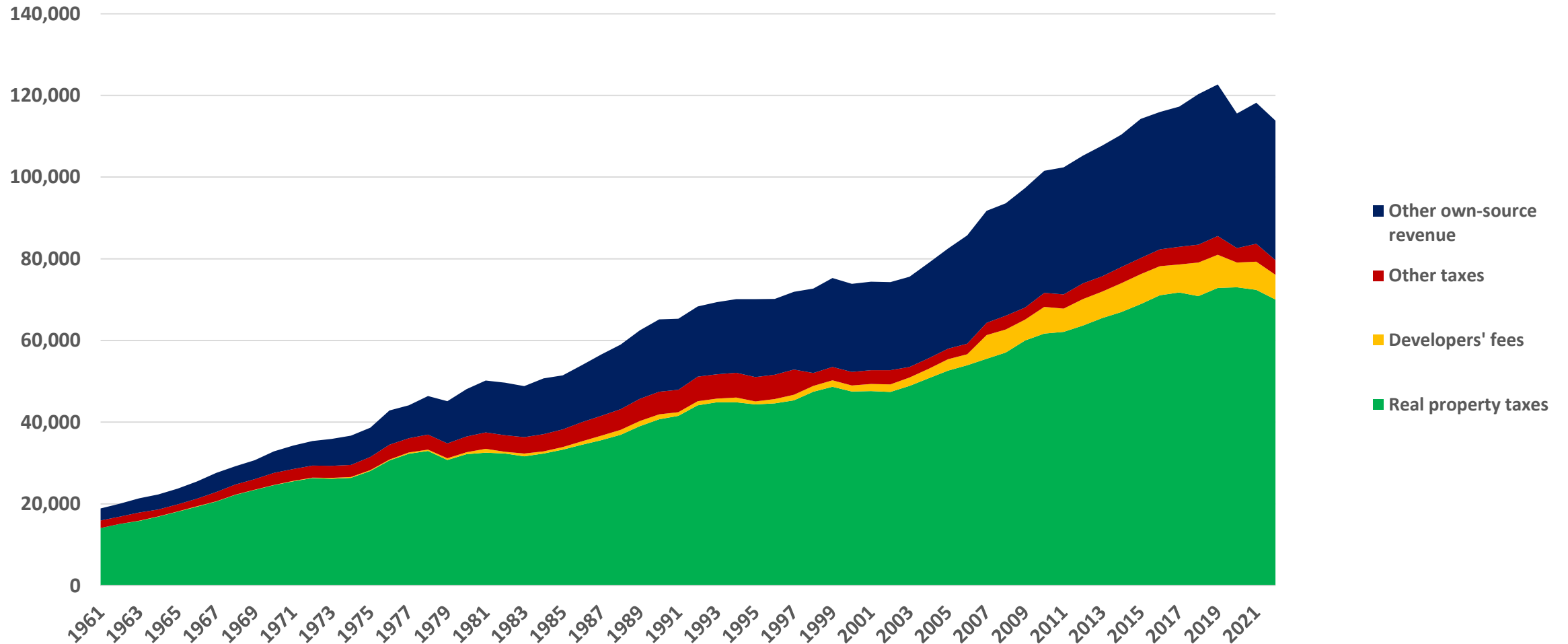
## Reserves and reserve funds

- Municipalities also have requirements to maintain reserves. Generally, there are two categories:
  - **Operating:** Reserves are used to avoid short-term borrowing
  - **Capital:** Reserve funds are generally used to offset the cost of debt financing and earmarked to specific projects.
- Reserves and reserve funds should not be understood as “surpluses” as they are not generally available for discretionary purposes.

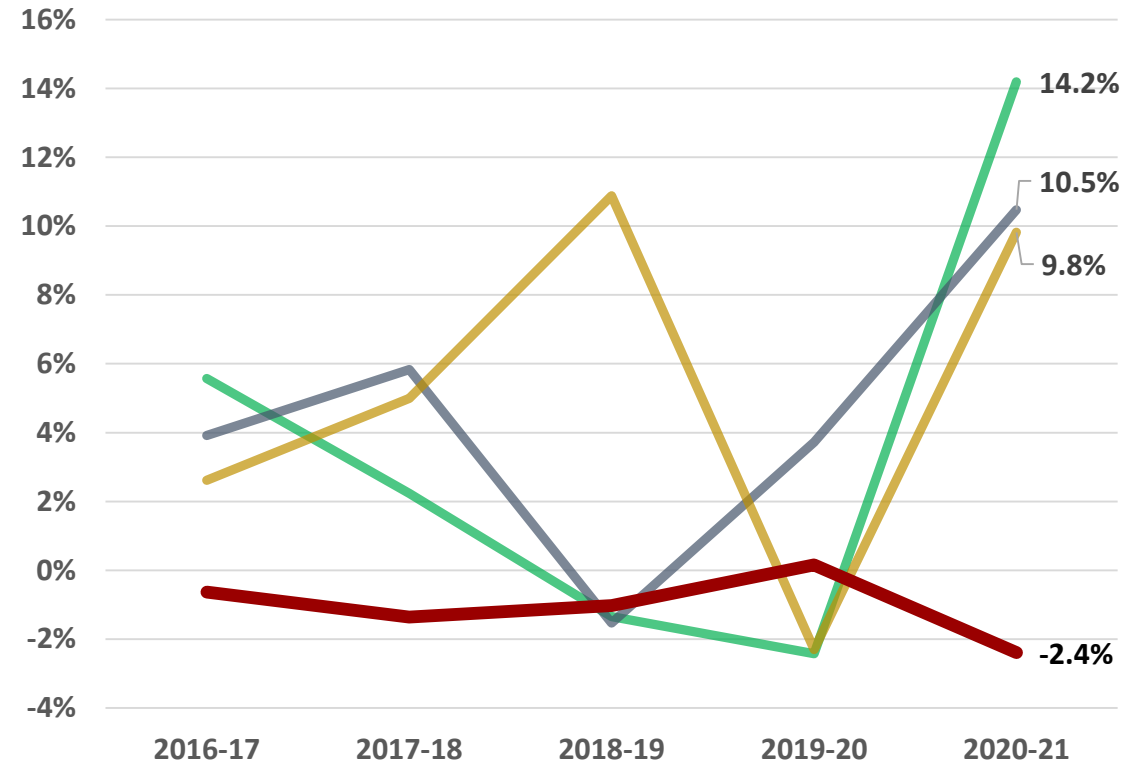
# Local government share of consolidated government tax revenue, 1990 to 2023



# Own-source revenue of local general governments, adjusted for inflation (M, indexed to 2021 dollars) and seasonality (Q2 SAAR), 1961 to 2022



# Percent change in municipal property taxes and non-municipal taxes, adjusted for inflation (indexed to 2021 dollars)



- General taxes on goods and services
- Taxes on income, profits and capital gains
- Taxes on payroll and workforce
- Municipal taxes on property

# Limitations of the property tax

- It was designed to cover the cost of municipal infrastructure and services related to property
- Doesn't grow in line with economic growth or inflation
- It's regressive – disproportionate impact on lower-income Canadians and small business
- Adds to the overall cost of housing
- Commercial property tax revenue is declining



# Public policy priorities

1. Housing affordability and infrastructure
2. Homelessness
3. Public safety
4. Climate change – Adaptation
5. Climate change – Pathway to Net Zero

# Public policy priorities

## Housing & Infrastructure

- CMHC goal of building 5.8 million housing units by 2030 – 3.5 million over and above current construction rates
- FCM is calculating the level of investment in municipal infrastructure required to build 5.8 million homes.
- Currently, municipalities pay for the majority of the infrastructure related to new housing development through property taxes and development charges.

# Public policy priorities

## Rehabilitation and renewal of infrastructure

- The cost to replace all assets rated in poor or very poor condition was estimated at almost 13% of the total replacement value, amounting to **\$170.3 billion**.
  - On average, this equates to more than **\$10,500** per private dwelling in Canada.
  - Nearly half of the backlog was attributable to potable, storm, and wastewater assets
- Rural municipalities accounted for nearly a third of all municipally-owned infrastructure in need of rehabilitation or renewal.

# Public policy challenges

## Homelessness

- Clear and consistent indications of increase of homelessness across Canada in recent years
- Cost savings - Housing First Data
  - Housing First vs. Treatment as usual
  - System costs
  - Cost savings



\$10,900  
Hospital bed



\$4,333  
Provincial jail



\$1,932  
Shelter bed



\$701  
Rental supplement



\$200  
Social housing

# Public policy priorities

## Public safety

Canadian cities' police spending ranges from 10% to 30% of total budgets

- Growing Demand for Services
- Personnel Costs
- Equipment Modernization Costs

Key crime and justice indicators are on the rise

| Crime Severity Index<br>(2022) | Police-reported crime<br>rate per 100k population<br>(2022) | Violent Crime Severity<br>Index<br>(2022) | Youth crime rate<br>(2022) |
|--------------------------------|---|---|----------------------------|
| <b>78.1</b>                    | <b>5,668</b>  | <b>97.7</b>                               | <b>2,576</b>               |
| 4.3% ↑<br>(annual change)      | 5.0% ↑<br>(annual change)                                   | 4.6% ↑<br>(annual change)                 | 17.8% ↑<br>(annual change) |

# Public policy priorities

## Climate change - Adaptation

- Severe weather in 2022 caused \$3.1 Billion in insured damage—making it the 3<sup>rd</sup> worst year in Canadian history
- Urgent need to scale up investment in resilient public infrastructure—\$5.3 billion per year cost-shared between all orders of government
- Invest in systemic transformation in public decision-making through climate risk assessments and asset management, build effective collaboration and climate governance practices

# Public policy challenges

## Climate change – Net Zero – Public Transit

- The transportation sector accounts for 25% of Canada's GHG emissions
- Current public transit services in Canada reduce net GHG emissions by between 6.1 and 14.3 megatonnes a year - equivalent to taking over three million cars off the road
- Each additional \$250 million invested in transit operations could reduce GHG emissions from cars and trucks by the equivalent of taking between 57,000 to 120,000 cars off the road
- To electrify all of Canada's transit vehicles will cost \$3 billion per year for 10 years

# Key objectives for a Municipal Growth Framework

1. Existing **tax revenue is more fairly redistributed between orders of government** relative to expenditures and service delivery, and/or more fairly redistributed between forms of taxation.
2. Municipal **revenue is linked to national population growth and economic growth**, and the services that municipalities provide.
3. Municipalities have revenue tools that support the full range of services they provide, **including capital and operating costs**.
4. Municipalities have **diverse, adequate and predictable sources of revenue** that enable them to respond to priority public policy challenges: housing affordability, homelessness, climate resilience, net-zero GHG emissions.

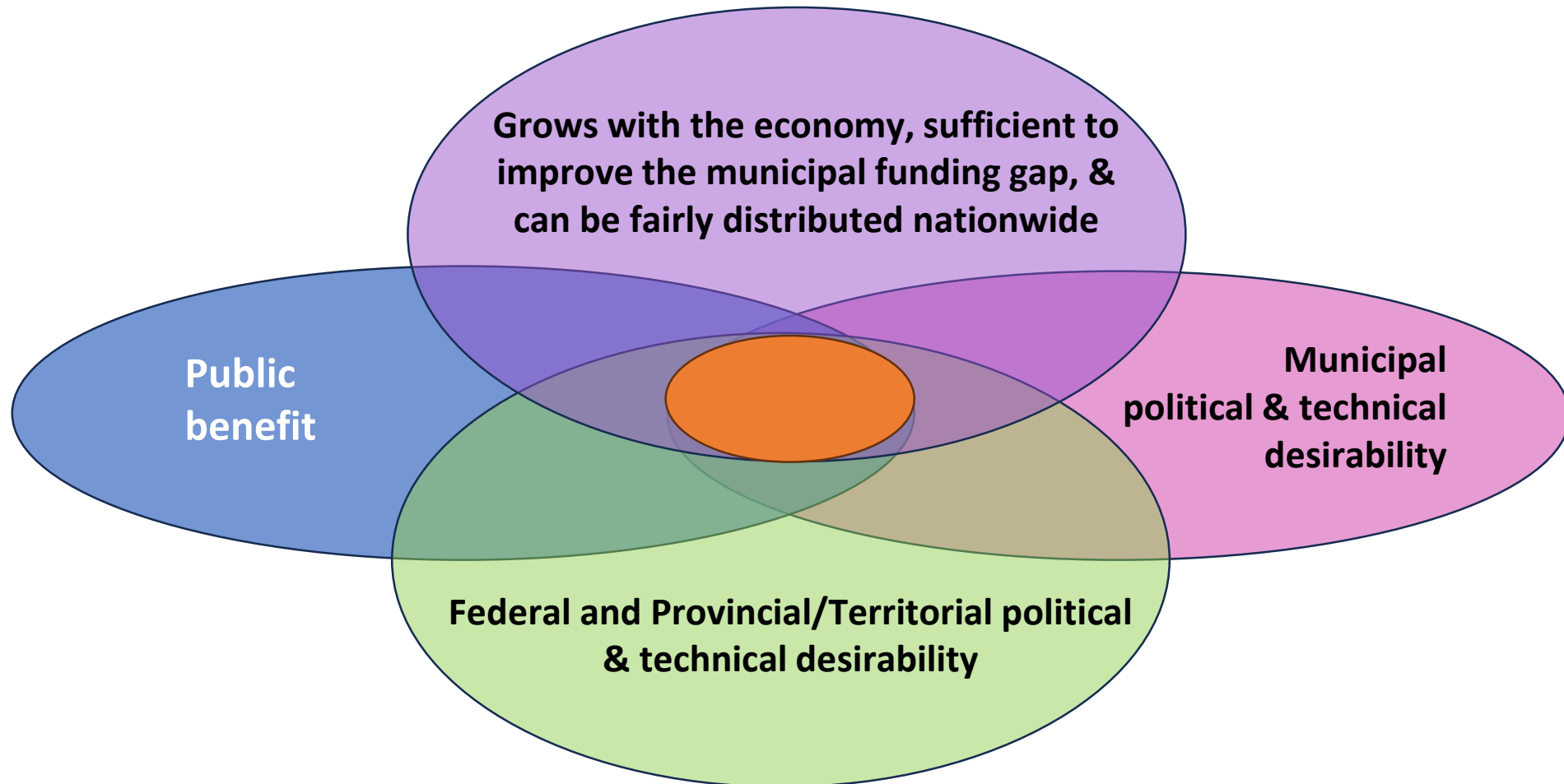


# Options for a Municipal Growth Framework

1. Maximize existing sources of municipal revenue
2. Provide municipalities with new sources of revenue
3. Enhance existing federal, provincial-territorial transfers to municipalities
4. Create new federal, provincial/territorial transfers to municipalities

# Evaluation criteria

A workable solution must be sensitive to these four categories of attributes:



# Provincial advocacy

**City of Montreal** – Montreal Mayor Valerie Plante's summit on the need for a new “pacte fiscal”

**City of Toronto** – Report on long-term financial pressures; land transfer tax, parking fees approved; Working Group

**Alberta Municipalities** – Future of Local Government Project

**Association of Municipalities of Ontario** – Municipal Finance Working Group

**New Brunswick** – Provincial-Municipal Finance Summit

**Federation of PEI Municipalities** – Municipalities receive only 2 cents on the dollar; advocating for increased share



FEDERATION  
OF CANADIAN  
MUNICIPALITIES

FÉDÉRATION  
CANADIENNE DES  
MUNICIPALITÉS

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Presentation to the FCM Municipal Growth Consultation

September 28, 2023