Allocation of the Local Government Fiscal Framework

Spring 2022 Municipal Leaders' Caucus

March 10, 2022

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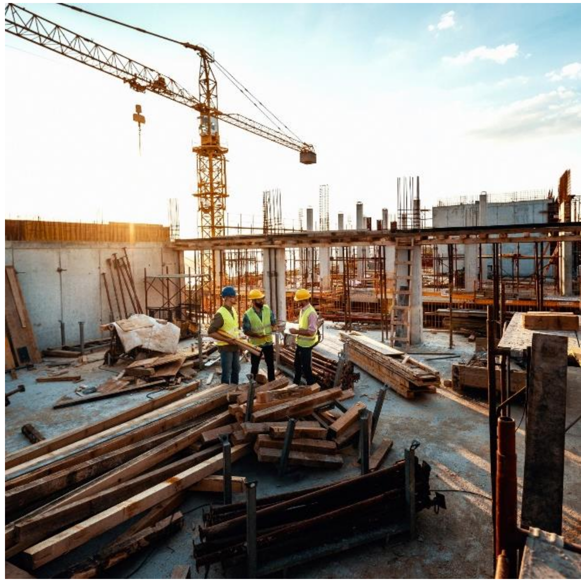
Why this session is important?

- LGFF will be the primary source of infrastructure funding starting in 2024.
- Municipal Affairs plans to start engaging municipalities on the design of the LGFF allocation formula this year.
- Learn what our research has found and our proposal for allocation.
- Help us formalize our position on LGFF allocation.



Agenda

Part 1

Overview of the Local Government Fiscal Framework

Part 2

Preliminary Concept for Allocation of the Local Government Fiscal Framework

a) Q&A
b) Provide your input

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PART 1

Overview of the Local Government Fiscal Framework

The Funding Pot

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Today versus the future

Today

Municipal Sustainability Initiative (MSI)

MSI allocation formula applies to all municipalities

Basic Municipal Transportation Grant (BMTG)

BMTG allocation formula applies to all municipalities

Starting in 2024

Local Government Fiscal Framework

Charter Cities

Allocation formula is set for Calgary and Edmonton

Non-Charter Municipalities

Allocation formula to be determined

An Overview of LGFF: The Funding Pot

Starting in 2024

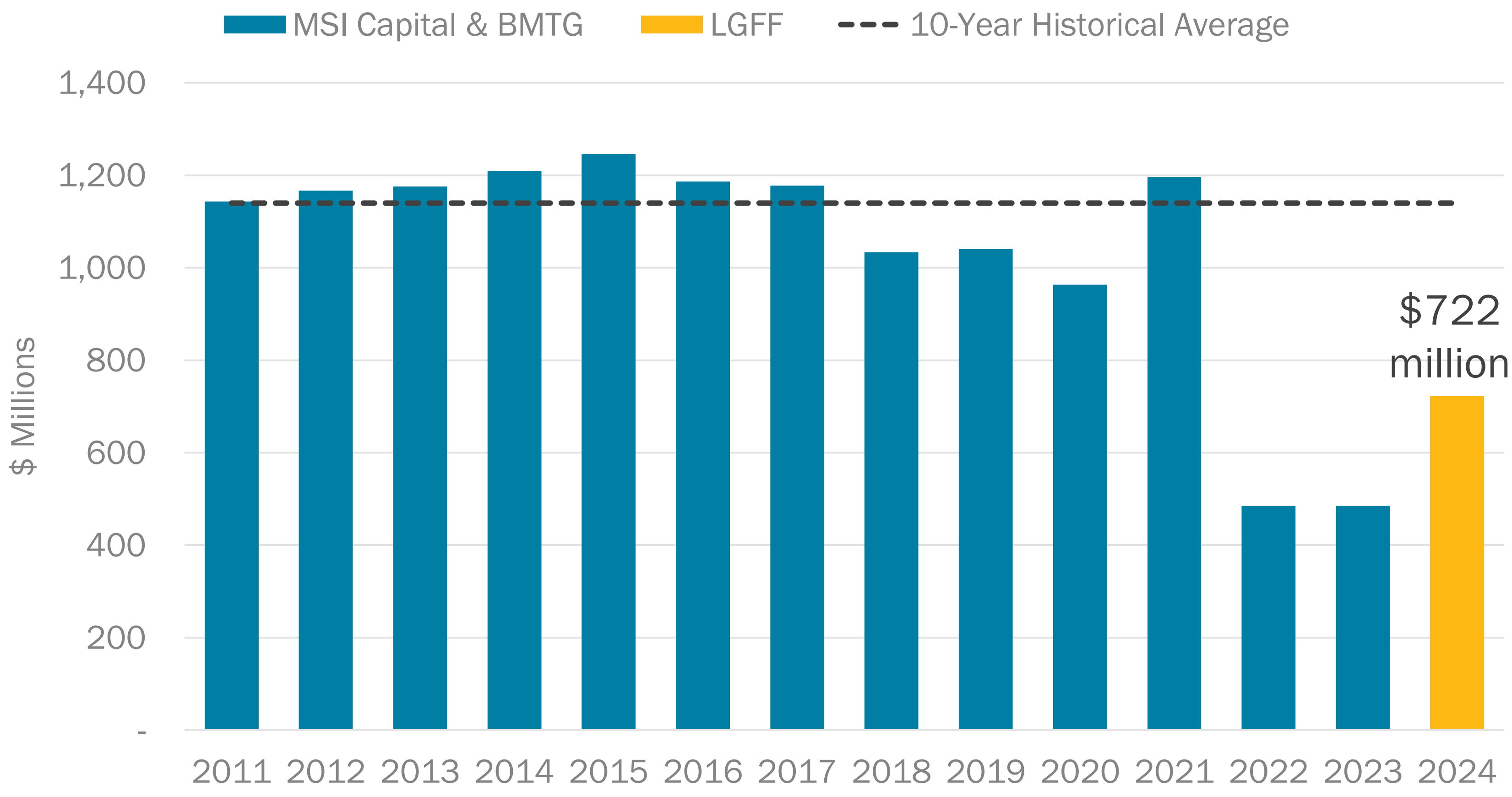
Local Government Fiscal Framework

Charter Cities

Non-Charter Municipalities

- ✓ Funding will grow with Alberta's economy, not political priorities of the day.
- ✓ Funding pot will grow at 50% of changes in provincial revenue *(ABMunis continues to seek removal of the 50% limit).*
- ✓ Increased predictability – you will always know your next two years of funding.
- ✓ Legislated for improved stability and transparency.
- ✗ Funding level is inadequate. LGFF will be 37% less than the annual average of MSI and BMTG funding over the last ten years.

At its start, LGFF will deliver 37% less funding than the annual average of MSI and BMTG over the last 10 years



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An Overview of LGFF: The Funding Pot

Starting in 2024

Local Government Fiscal Framework

Charter Cities
$382 million

Non-Charter Municipalities
$340 million

Today's focus…
how to allocate this funding pot?

- ✓ Increased predictability – you will always know your next two years of funding.
- ✓ Funding will grow with Alberta's economy, not political priorities of the day.
- ✓ Funding pot will grow at 50% of changes in provincial revenue *(ABMunis continues to seek removal of the 50% limit).*
- ✓ Legislated for improved stability and transparency.
- ✗ Funding level is inadequate. LGFF will be 37% less than the annual average of MSI and BMTG funding over the last ten years.

ABMunis' Municipal Financial Health Working Group

- Sought applications for representatives in May 2021.
- 11 representatives met monthly since August 2021.
- Deliverables include:
    1. Recommend a framework of metrics to provide a holistic assessment of a municipality's financial health for comparability purposes.
    2. Recommend the methodology for allocation of the Local Government Fiscal Framework for the non-charter municipalities.
    3. Recommend messaging and materials for explaining municipal finances to stakeholders (e.g. provincial officials and media).

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PART 2

Local Government Fiscal Framework

Preliminary Concept for Allocation

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Keep in mind

- Allocation is entirely separate from how the funding pot is determined.
- We are only talking about capital funding.
- Allocation excludes the charter cities.
- This is a complicated issue!
- There is no perfect formula.

What is the current status of an allocation formula for LGFF?

- You are the first to see this proposal!
- We wanted your input before it is presented to Alberta Municipal Affairs and the Rural Municipalities of Alberta.
- Plan to engage Municipal Affairs and RMA this spring.

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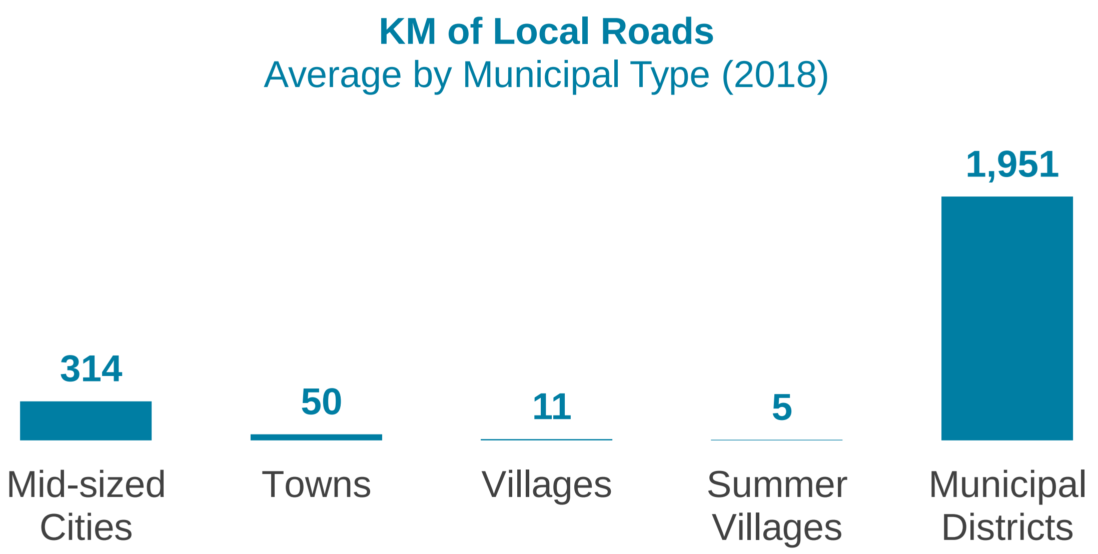
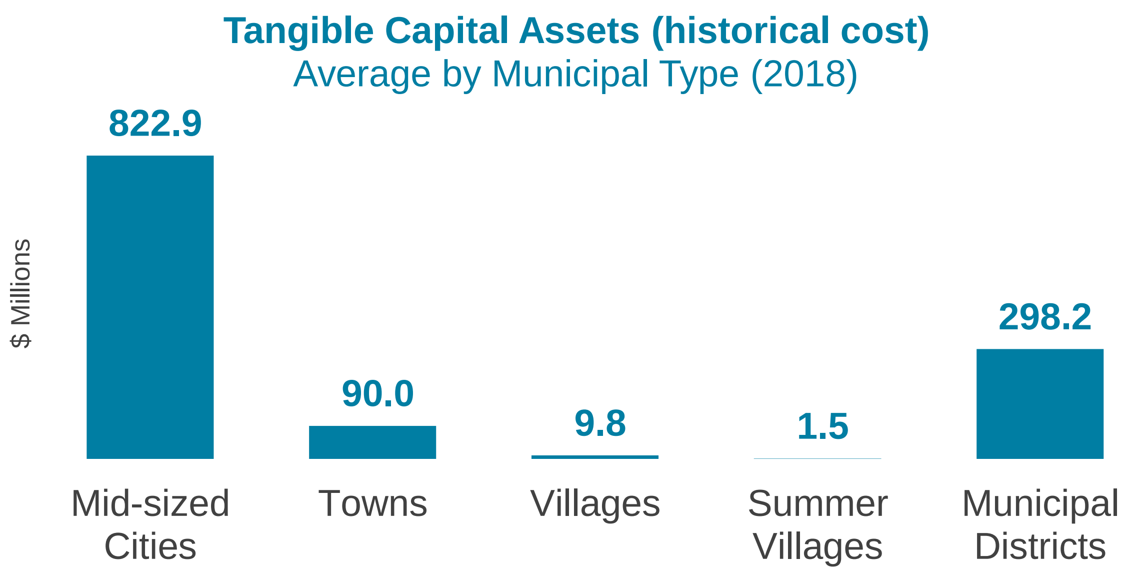
What does KM of road include?

- Linear kilometres of road under your municipality's boundary.
- Reported by municipalities annually.
- Does not account for the type of road surface or number of lanes.



What is tangible capital assets (TCA)?

- The value of non-financial assets owned by your municipality that have a useful life beyond one year.
- Examples include roads, water lines, buildings, vehicles, park equipment, etc.
- Reported by municipalities annually based on historical cost and the depreciated amount.



ABMunis’ principles for LGFF allocation

Transparent and simple

- Easily linked to the broader goals of the program.
- Easy for municipal officials to understand why a municipality’s funding differs from other municipalities.

Balance predictability and stability with responsiveness to changing needs

- Minimize significant year-to-year swings in allocations (excluding impact from changes in provincial revenue).
- Formula factors should be responsive to evolving needs within individual municipalities (e.g. community growth).

Equitable funding for all municipalities

- “Equitable” may involve factors such as existing infrastructure, fiscal capacity to fund infrastructure, geography, or other factors.
- Funding should correspond to infrastructure needs, while providing a meaningful amount to all municipalities.
- Formula factors should be based on needs that are common to municipalities, rather than attempting to recognize unique local factors (e.g. tourism).

Neutral to local decisions

- The formula should not incent practices that would significantly increase a municipality’s funding.
- In cases of municipal restructuring, funding should continue during a transition period to minimize influence on local decisions regarding dissolution or amalgamation.

ABMunis' goals for LGFF allocation

The LGFF allocation formula should:

1. Account for the scope of existing infrastructure in each municipality,
2. Account for growth pressures in each municipality,
3. Account for each municipality's fiscal capacity to fund infrastructure, and
4. Support the principles of effective asset management.

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Concerns with the MSI Capital formula

MSI Capital Formula

Base amount of $110,000 each, except for summer villages which is $55,000.

Remainder is allocated based on:

- 48% population
- 48% education property taxes
- 4% KM of roads

Concerns

- Almost half is allocated based on the principle of returning education tax dollars to each municipality.
- Municipalities with higher assessment receive higher funding with no direct correlation to infrastructure needs.
- Small municipalities report that the base amount is insufficient to fund high cost projects.
- Limited consideration of cost differences between municipalities for infrastructure.

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An example of how MSI supports high assessment municipalities

Town A		Town B
Equal	Population	Equal
	Education Property Tax Requisition	+59%
	MSI Capital & BMTG Allocation	+11%

= **Town B receives ~$160,000 more per year.**

Note 1: The example is based on actual data for two Alberta towns. The degree of difference in funding for similar sized municipalities ranges from 0-50%. This above-example is representative of the more common differences in funding.
Note 2: The example excludes KM of road for purposes of simplicity and that it only represents 4% of MSI Capital.
Note 3: Calculations are based on 2018 data with a funding pool of $340 million.

Urban municipalities with lower education taxes per capita tend to have older infrastructure

Cities, Towns, & Villages	Top 50	Lowest 50
Education tax requisition per capita	$368 - $1,282	$98 - $210
Who makes this up this group?	Primarily cities and larger towns	Primarily villages under 500 pop.
Average remaining value of TCA	**64%**	**54%**

Municipal Districts	Top 30	Lowest 30
Education tax requisition per KM of road	$2,383 - $32,568	$433 - $2,133
Average remaining value of TCA	**47%**	**45%**

Based on calculations using Municipal Affairs' 2018 financial information return data.

Concerns with the BMTG formula

BMTG Formula

- Non-charter cities and urban service areas receive a fixed rate per capita and fixed rate per KM of primary highway under the municipality's jurisdiction.
- Towns, villages, summer villages, and improvement districts receive a fixed rate per capita.
- Municipal districts is based on KM of road, population, equalized assessment, and terrain.

Concerns

- Not compatible with LGFF because the BMTG formula sets the size of the funding pool. LGFF's funding pool is set based on changes in provincial revenue.
- Different formulas for each type of municipality without explanation.
- Funding for municipal districts has been fixed since the early 2000's.
- Limited consideration of cost differences between municipalities for infrastructure.

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Evaluation of MSI Capital and BMTG against the principles and goals for LGFF

Principles for LGFF Allocation	MSI	BMTG
1. Transparent and simple.	✓	X
2. Balance predictability and stability with responsiveness to changing needs.	✓	X
3. Equitable funding for all municipalities.	X	X
4. Neutral to local decisions.	✓	✓

Goals for LGFF Allocation	MSI	BMTG
1. Accounts for the scope of existing infrastructure assets in each municipality.	Partial	Partial
2. Accounts for growth pressures in the municipality.	✓	Partial
3. Accounts for the municipality's fiscal capacity to fund infrastructure.	X	X
4. Supports the principles of effective asset management.	X	✓

What formula options did ABMunis consider?

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Types of formula variables considered

Existing Infrastructure	Growth Needs	Equitable Outcomes
• Assessment • Education tax requisitions • KM of road • KM of water, wastewater, and storm drainage mains • Population • Tangible capital assets	• Population • Population including shadow populations	• Assessment per Capita • Assessment per KM of road, water, wastewater, and storm drainage mains infrastructure • Assessment per TCA • Base amount • Debt limit available • Distance to major centres • Own-source revenue to assessment • Property taxes • Remaining value of TCA • Reserve levels available

Pros and cons: existing infrastructure

Existing Infrastructure	
Assessment	No direct correlation with infrastructure needs.
Education tax requisitions	No direct correlation with infrastructure needs.
KM of road	Indicates scope of road infrastructure, but not the costs.
KM of water, wastewater, and storm drainage mains	Does not support the principle of full-cost recovery utilities.
Population	Strong correlation with infrastructure costs, particularly in urbans.
Tangible capital assets	Direct correlation with infrastructure costs, but not current values.

Pros and cons: growth needs

Accounts for changes in community size that will necessitate more funding, but may not capture needs for industrial development.

Growth Needs

- Population
- Population including shadow populations

Same as population but indicates additional needs based on workforce. Shadow population data is not available.

Pros and cons: fiscal capacity (equity)

	Equitable Outcomes
Challenges in comparisons based on different municipal types.	Assessment per Capita
Does not account for the full scope of infrastructure and does not support the principle of full cost recovery through utility fees.	Assessment per KM of road, water, wastewater, and storm drainage mains infrastructure
Offers potential, but concern with too much linkage to TCA.	Assessment per TCA
Minimum funding for every municipality. Helps small municipalities.	Base amount
Violates the principle of neutrality in local decisions.	Debt limit available
Challenge to quantify. Some already receive northern living allowance.	Distance to major centres
Indicates the revenue burden on ratepayers & potential capacity.	Own-source revenue to assessment
Violates the principle of neutrality in local decisions.	Property taxes
Does not align with the goal of effective asset management practices.	Remaining value of TCA
Violates the principle of neutrality in local decisions.	Reserve levels available

Narrowing of the formula variables

Existing Infrastructure	Growth Needs	Equitable Outcomes
• Assessment • Education tax requisitions • KM of road • KM of water, wastewater, and storm drainage mains • Population • Tangible capital assets	• Population • Population including shadow populations	• Assessment per Capita • Assessment per KM of road, water, wastewater, and storm drainage mains infrastructure • Assessment per TCA • Base amount • Debt limit available • Distance to major centres • Own-source revenue to assessment • Property taxes • Remaining value of TCA • Reserve levels available

Recommendation

Principle/Goal	Formula Variable
Equitable funding	**Base amount**
Scope of infrastructure & growth pressures	Population
Scope of infrastructure	Kilometres of local roads
Scope of infrastructure	Tangible capital assets
Equitable funding	Own-source revenue to assessment

- Guarantee's a minimum level of funding for every municipality.
- Supports equitable outcomes for small municipalities.

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Recommendation

Principle/Goal	Formula Variable
Equitable funding	Base amount
Growth pressures & scope of infrastructure	**Population**
Scope of infrastructure	Kilometres of local roads
Scope of infrastructure	Tangible capital assets
Equitable funding	Own-source revenue to assessment

- Accounts for changes in community size.
- Well-accepted practice in grant funding.
- Reliable source of data.

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Recommendation

Principle/Goal	Formula Variable
Equitable funding	Base amount
Growth pressures & scope of infrastructure	Population
Scope of infrastructure	**Kilometres of local roads**
Scope of infrastructure	Tangible capital assets
Equitable funding	Own-source revenue to assessment

- Offsets a weakness in TCA if a municipality has old road infrastructure with low TCA value.
- Roads account for 39% of municipal infrastructure.

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Recommendation

Principle/Goal	Formula Variable
Equitable funding	Base amount
Growth pressures & scope of infrastructure	Population
Scope of infrastructure	Kilometres of local roads
Scope of infrastructure	**Tangible capital assets**
Equitable funding	Own-source revenue to assessment

- Accounts for all infrastructure.
- Accounts for cost differences.
- Offsets weakness in the KM of road variable, which does not account for the type, size, or cost of the road.
- Audited by an external body.

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Recommendation

Principle/Goal	Formula Variable
Equitable funding	Base amount
Growth pressures & scope of infrastructure	Population
Scope of infrastructure	Kilometres of local roads
Scope of infrastructure	Tangible capital assets
Equitable funding	**Own-source revenue to assessment**

- Indicates capacity to generate revenue compared to other municipalities.
- Accounts for a municipality's full scope of revenue sources, which ensures that LGFF does not incentivize changes in local taxation policies.

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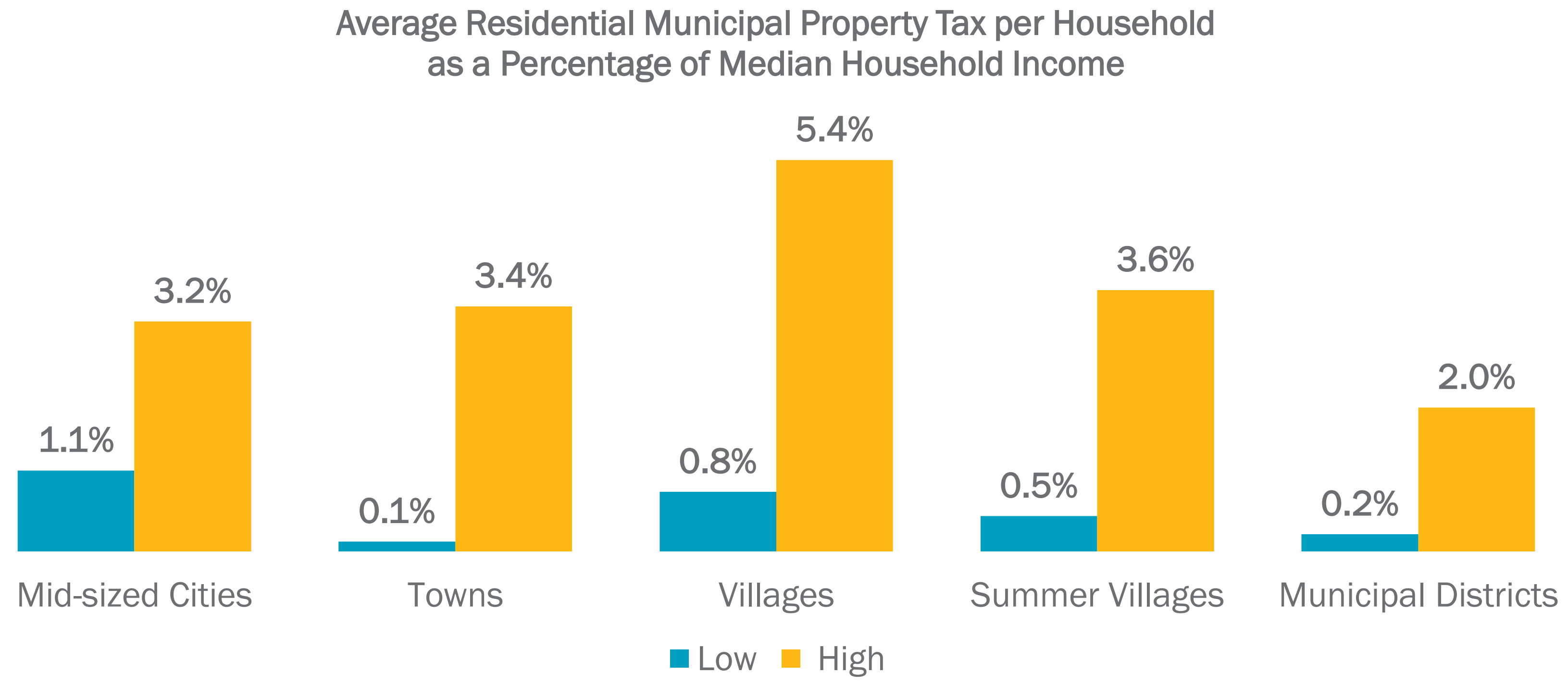
Why do we care about equitable funding?

The level of residential municipal property taxes varies across Alberta. Some communities pay more in municipal property taxes as a percentage of their household income than others…but that isn't the full story.



Based on calculations using Municipal Affairs' 2018 financial information return data for equalized assessment, number of dwellings/residences, and municipal residential property tax rates and Statistics Canada's 2015 data for median household income. Figures for municipal districts is only based on residential assessment for comparison purposes (i.e. excludes property taxes on farmland).

What is Own-Source Revenue?

All sources of revenue that a municipal government has control over to manage its financial affairs.

Revenues Included

- Municipal property tax
- Business tax
- Business revitalization zone
- Special tax
- Local improvement tax
- Sales to other governments
- Sales and user charges
- Penalties and costs on taxes
- Licenses and permits
- Fines
- Franchise and concession contracts
- Returns on investments and rentals
- Developer agreements & levies
- Other revenues

Sales and User Charges consists of:

- Council, legislative, general administration
- Police
- Fire
- Disaster, emergency, ambulance
- Bylaws enforcement Equipment pool
- Roads, streets, lights,
- Airport
- Public transit
- Storm sewers and drainage
- Water supply and distribution
- Wastewater treatment
- Waste management
- Family and community support
- Daycare
- Cemeteries
- Land use planning
- Economic/agricultural development
- Subdivision and land development
- Land/building rentals
- Parks and recreation
- Culture, libraries, museums
- Other

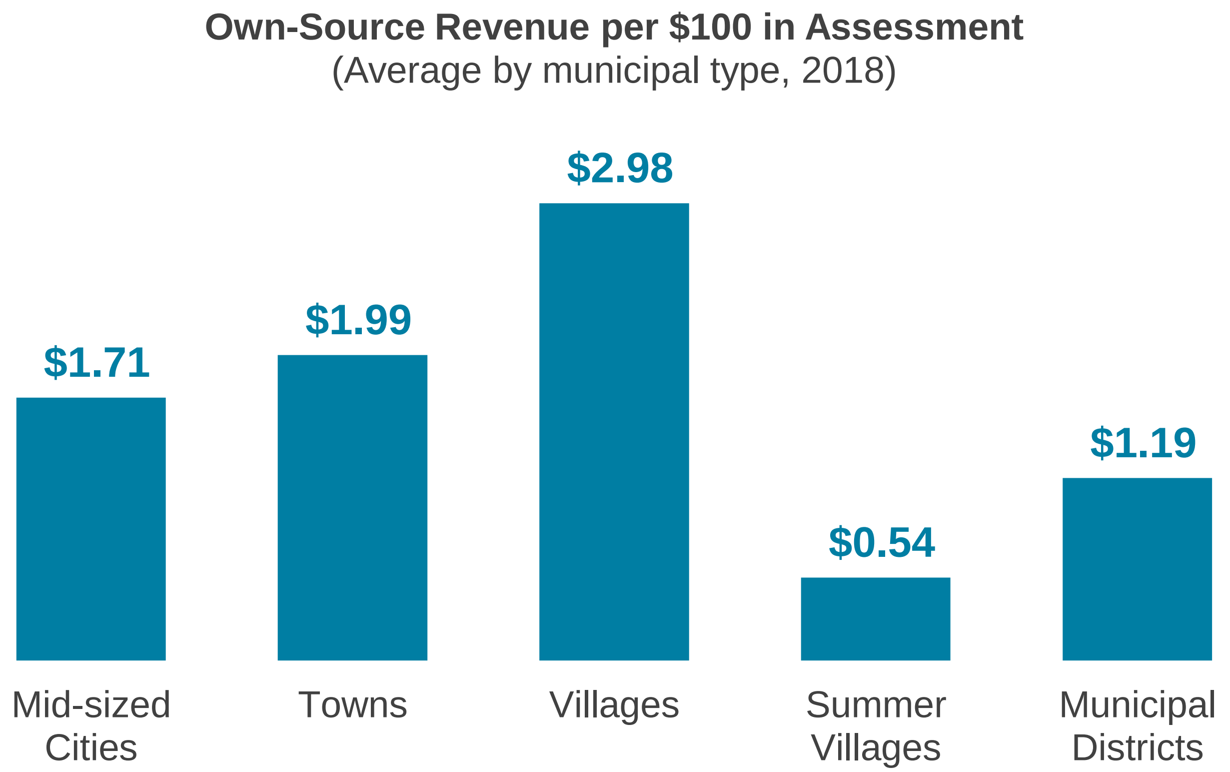
Revenues Excluded

- Well drilling equipment tax
- Insurance proceeds
- Net gain on sale of TCA
- Contributed and donated assets
- Federal transfers
- Provincial transfers
- Local government transfers
- Transfers from local boards
- User charges for gas utility systems
- User charges for electricity utility systems

Own-Source Revenue to Assessment highlights municipalities that have more or less capacity to generate additional revenue for infrastructure

The average village collects $3 in own-source revenue for every $100 in assessment.

This is notably higher than other municipalities and indicates that most villages have less capacity to raise additional revenue for infrastructure in comparison to other municipalities.



How would Own-Source Revenue to Assessment work?

	Own-Source Revenue	Assessment	Own-Source Revenue per $100 in Assessment	What does this mean?	Result
		Provincial Average	$1.80		
Municipality A	$10,000,000	$750,000,000	$1.30	Below the provincial average --- higher capacity to raise revenue.	Receives zero or less funding under this formula variable.
Municipality B	$8,000,000	$325,000,000	$2.50	Above the provincial average --- less capacity to raise revenue.	Receives a higher top-up of funding under this formula variable. This supports more equitable outcomes in quality of infrastructure.

Evaluation against the principles and goals for LGFF

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

Goals for LGFF Allocation	
1. Accounts for the scope of existing infrastructure assets in each municipality.	✓
2. Accounts for growth pressures in the municipality.	✓
3. Accounts for the municipality’s fiscal capacity to fund infrastructure.	✓
4. Supports the principles of effective asset management.	✓

Funding proportions by formula variable

Formula Variable	MSI Capital		MSI Capital + BMTG	LGFF
Base amount – standard	$110,000		$110,000	TBD
Base amount – summer villages	$55,000		$55,000	TBD
Population	48%	→	58%	TBD
Education tax requisitions (MSI) / Assessment (BMTG)	48%	→	30%	-
KM of local roads	4%	→	12%	TBD
KM of provincial highway	-	→	~1%	-
Terrain	-	→	~1%	-
Tangible capital assets	-		-	TBD
Own-source revenue to assessment	-		-	TBD

Note: Percentages are based on 2018 figures after the allocation of $34,595,000 in base funding.

The proposed allocation formula may result in changes in individual funding compared to the MSI and BMTG formulas

Funding may ↑ for municipalities that have:

- Above average TCA in comparison to assessment
- Less capacity to raise revenue

Funding may ↓ for municipalities that have:

- Above average education tax requestions in comparison to TCA

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Final comments

- This is a complicated issue!
- There is no perfect formula.
- Technical approach to improve upon today's funding formulas.
- Focus on integrity in data.
- Focus on supporting equitable outcomes in the state of infrastructure across Alberta.

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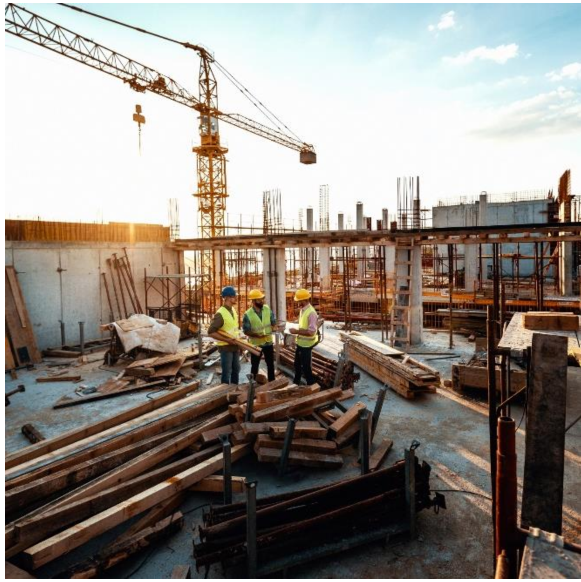
Questions

Time for your input!

1. Go to: www.menti.com
2. Enter code: ________________

Your municipality must be a regular member to vote.

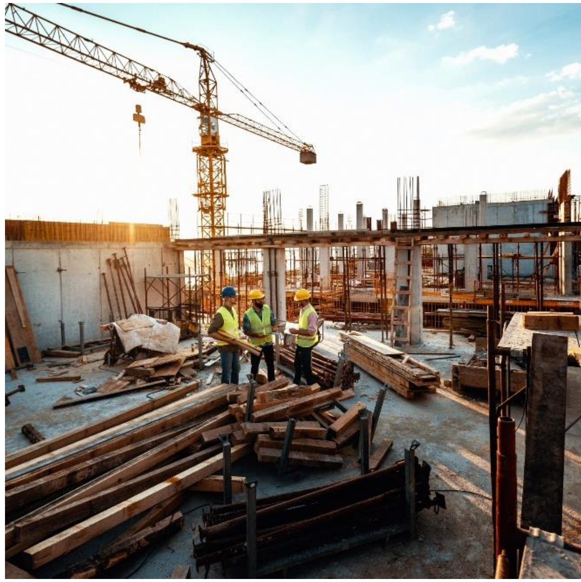


Question 1

A component of the MSI Capital formula is founded on the principle of returning tax dollars to each municipality based on the amount of your education tax requisition (48% of MSI Capital).

Do you support moving away from a focus of returning tax dollars to each municipality and instead focus on funding municipalities based on:

- scope of infrastructure,
- growth pressures, and
- capacity to fund infrastructure compared to other municipalities?



Question 2

Is population the best variable to account for growth needs?

Potential Variables for Growth Needs
• *Population* • Population including shadow populations

Question 3

Is the combination of population, kilometres of road and tangible capital assets the best variables to account for existing infrastructure?

Potential Variables for Existing Infrastructure

- Assessment
- Education tax requisitions
- *KM of road*
- KM of water, wastewater, and storm drainage mains
- *Population*
- *Tangible capital assets*

Question 4

Is the combination of a base amount plus own-source revenue to assessment the best variables to provide equitable levels of funding to municipalities that have less capacity to raise revenue?

Potential Variables to Support Equitable Outcomes

- Assessment per Capita
- Assessment per KM of road, water, wastewater, and storm drainage mains infrastructure
- Assessment per TCA
- *Base amount*
- Debt limit available
- Distance to major centres
- *Own-source revenue to assessment*
- Property taxes
- Remaining value of TCA
- Reserve levels available

Question 5

If you have concerns with any of the proposed formula variables, please tell us which one(s) and why.

If you have suggestions for alternative variables for allocating LGFF, please enter that information on your device.

Question 6

Changing to a new allocation formula could cause an individual municipality's funding to increase or decrease by up to 15% compared to the amount it would receive under the MSI allocation formula.

Based on the proposed principles and goals for allocation, could you support a formula that may result in your municipality receiving up to 15% more or less funding compared to maintaining the MSI allocation formula?

Principles for LGFF Allocation
Transparent and simple.
Predictability, stability, and responsiveness.
Equitable funding for all municipalities.
Neutral to local decisions.

Goals for LGFF Allocation
Existing infrastructure
Growth pressures in the municipality.
Support those with less fiscal capacity.
Supports effective asset management.

Send questions or input to:

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