

SPECIAL REPORT:

MUNICIPAL INFRASTRUCTURE — the Need for Alternate Revenue

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Introduction



Tyler MacAfee, AMM Director of Policy & Communications

This issue of The Municipal Leader includes a special report on municipal revenues. As we ring in 2009 it is clear that, more so than any time in history, municipalities are concerned about their revenue sources. The demand is growing each day as municipalities are expected to deliver bigger and better services and tame the infrastructure deficit, all the while holding the line on property taxes. In fact, when you look at most of the top municipal issues, a lack of available revenue is at the heart. We saw this at the recent AMM Convention, as new revenue sources were front-and-centre in the debate. While other core issues were raised, they all include the underlining need for added revenues.

This report will highlight some of the key questions raised when municipalities talk about additional revenues. The limits of property tax are explained, as are the growing needs of municipalities. We also explain where the AMM is going and provide an update on what some municipalities have done to find creative new ways to tackle some of these issues.

This report will try to provide answers to a few key questions and hopefully in the end get you – as municipal officials – thinking about options for your community.

So what is the problem?

In simplest terms, the need is greater than the available revenue. Municipalities today are directed, by both citizens and other orders of government, to take on more and more responsibility, but are left with the same revenue sources to do it. So the problem is two-fold – there is more to do, and not enough money to do it.

What do we mean by more to do?

Municipal government today plays a major role in the lives of Manitobans. There was a time when your municipality was in charge of not much more than picking up the garbage and plowing the streets. Municipalities still plow the streets and collect the garbage (and recyclables in many cases), in addition to providing many, many more services. Today's council is involved in community economic development, land-use planning, and infrastructure renewal and development along with many other issues. In fact, today's councils are involved in nearly every aspect of the lives of Manitobans.

Not enough to do it

So there is more to do, but the real problem is there isn't enough to do it *with*. While responsibilities have grown exponentially over the years, financial resources

have not. In fact a strong argument can be made that municipal government has not had the resources required since its inception. You need only look back to the resolutions from the first meetings of the Union of Manitoba Municipalities in the early 1900s to see municipal revenues were at the forefront. Now more than ever municipalities need new tools to deal with new responsibilities and new expectations.

Can you give an example?

Here is a great example of how municipalities play an important role in your everyday life, and of how quickly things change when you think about limited revenues.

You get the family up in the morning for your child's hockey game. You take a quick shower, where the water first comes from a municipal water plant or reservoir, and then is returned back to a municipal wastewater treatment facility. You head off to the game at the municipally owned, operated and funded community recreation complex. It's a nice day so some family members decide to bike along the new municipal bike path, while the rest travel along the recently patched municipal road to the arena.

Regrettably, during the game your child is injured, and it is off to the nearest clinic.

You've heard about doctor shortages and are hoping that you don't have to wait forever to see a physician. Luckily, there is a new doctor on call, who was recruited with financial assistance from the municipality.

After the doctor treats your child and sends him on his way, it's off to the municipally owned and maintained park for a family picnic. You check out the playground equipment that was recently installed (by municipal staff) to replace the aging swings and slides. You also notice the lack of mosquitoes, before recalling that the municipality began a mosquito control program this year.

Now consider, another scenario: You begin your day by filling the kettle several times as your community has been under a boil water order for weeks. You find out that this morning's hockey game has been cancelled because an engineering report has deemed the local arena unsafe. So you drive to the park instead, slowly, because the potholes seem to be growing larger by the day.

At the park, your child falls off of the aging teeter-totter and must be rushed to the emergency room – but it is closed. The local doctor relocated, and the community is having trouble recruiting a new physician. And on it goes.

“There is no doubt that Manitoba’s municipal infrastructure is in need of an upgrade.”

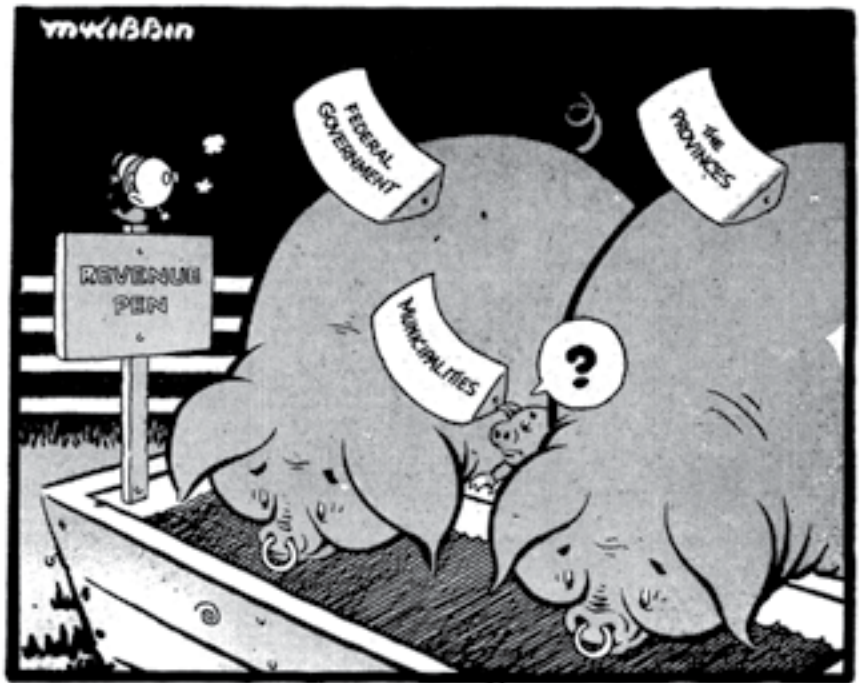
While fictitious, this case shows the reality many communities face. As the needs continue to grow, more and more communities will be faced with these kinds of challenges. By taking on additional responsibilities in areas ranging from health care to environmental protection and beyond, local councils are maturing into a more essential producer of necessary services than ever before. The problem is municipal revenue streams haven’t caught up with the growth spurt in service delivery. This creates what is called a “fiscal imbalance” resulting in councils having to make decisions that may have detrimental effects on their communities – much like those in the above story.

So what is the major cost driver for municipalities?

Infrastructure – there is no doubt that Manitoba’s municipal infrastructure is in need of a major upgrade. Nationally it is estimated that the municipal infrastructure deficit is \$123 billion for existing infrastructure and another \$115 billion for what communities *should* have. In Manitoba we estimate this number to be close to \$7 billion. Most alarming is that the national rate has more than doubled in less than five years. This skyrocketing infrastructure deficit is smothering many municipalities and hindering their ability to deliver services.

In 2007 the FCM worked with **Professor Saeed Mirza** on quantifying the municipal infrastructure deficit. His report *Danger Ahead: The Coming Collapse of Canada’s Municipal Infrastructure* was reprinted in part in the Winter 2008 issue of *The Municipal Leader*. Professor Mirza has since done further work in this area. Read on for his latest piece.

But This Little Pig Had None



Source: **Winnipeg Tribune** (August 26, 1947). The cartoon is featured in the AMM’s book **With One Voice** and was referenced often during the one-cent sales tax debate at the AMM 10th Annual Convention.



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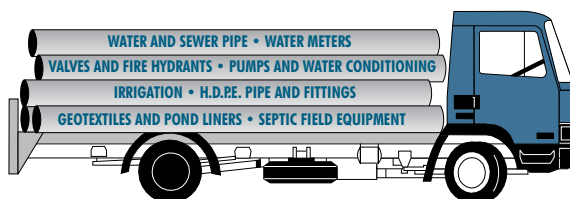
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Canada's infrastructure deficit a sad legacy for future generations

Saeed Mirza, Ph.D., Professor of Civil Engineering and Cristian Sipos, Ph.D. Candidate, McGill University
Previously printed in *Western Canada Water*, Winter 2008. Used with permission)

The health, socio-economic well being and the quality of life of Canadians depend on basic infrastructure systems such as roads, highways, bridges, water supply systems, sewers, airports, telecommunications facilities and transit systems. Most of Canada's infrastructure was constructed between the 1950s and 1970s in response to the population growth due to the "baby boom," high immigration levels and rapid urbanization.

However, the rapid inflation and high interest rates in the late 1970s and the early 1980s, and the resulting recession led to scarcity of funds for maintenance, which was deferred routinely leading to accelerated deterioration of infrastructure assets. In some cases, the escalating deterioration has resulted in catastrophic failure. For example, de la Concorde Overpass collapsed in Laval in September 2007 killing five people and injuring a number of others. There have been serious problems with water supply in some communities, such as Walkerton, Ontario and North Battleford, Saskatchewan and a few others resulting in both loss of life and significant number of sickness cases.

Aging infrastructure

The above situation was worsened further by the gradually increasing infrastructure age and the competing fiscal demand on the available resources for socio-cultural and other municipal services. In addition, the above recession led to the resulting annual rate of infrastructure growth to decrease dramatically from 4.8% between 1955 and 1977 to only 0.1% between 1978 and 2000. The consequences of the decreased rate of growth and lack of investment in infrastructure are evident in the observation by the Technology Road Map (CSCE 2003) that only 41% of Canada's infrastructure was less than 40 years old (Figure 1), with another 31% between 40 and 80 years old, while the age of the remaining 28% was between 80 and 100 years; therefore a considerable part of Canada's infrastructure is well past its intended service life (FCM-McGill 2007).

FCM-McGill Surveys (1996-2007)

Currently, the federal, provincial and municipal shares of the tax dollar are 50%, 42%

and 8%, respectively. The Canadian municipalities draw their authority from their respective provincial governments and they cannot raise any taxes independently. The resulting gross financial imbalance and the resulting lack of investment has made it very difficult to manage the increased infrastructure responsibilities, and has resulted in a serious maintenance and rehabilitation backlog, leading to continuously increasing infrastructure deficits. A detailed Federation of Canadian Municipalities-McGill University survey (FCM-McGill 1996), based on 28% municipal response and representing 55% of Canada's population in four distinct population groups, ranging from less than 10,000 to more than 400,000, estimated a national municipal infrastructure deficit of \$44 billion, with the roads, bridges and sidewalks being in the greatest need of repairs.

Funding shortage was noted as the most serious impediment to successful rehabilitation and replacement of the infrastructure. The survey recommended some immediate steps to halt the infrastructure decline and to meet growth without jeopardizing the provision of any needed new facilities. It also recommended a greater emphasis on maintenance and rehabilitation of infrastructure rather than construction of new infrastructure. The Federal Government was also urged to renew the Canada Infrastructure Program, subject to a set of recommended principles, shared equally between the three levels of government.

In 2007, FCM recognized the need to revise the current infrastructure deficit estimates because of its rapid aging and escalating deterioration, evident in certain categories of infrastructure assets. It was noted that Canada had used up about 79% of the total service life of its public infrastructure. It was emphasized that the cost of upgrading the deteriorated infrastructure assets had increased exponentially with increasing age; in many cases, it was not possible to rehabilitate these assets, even at exorbitantly high costs, and they would have to be decommissioned and dismantled, followed by the removal of the debris, and construction of the replacements at a much higher costs.

Other factors influencing these escalating infrastructure deficits include community demographics, economics, geography, local needs and the anticipated impact of the future climate change. After detailed consultation among the interested parties, a draft survey questionnaire in English and French were developed for comments by a group of municipal infrastructure finance, engineering and planning officials, before it was finalized. The survey questionnaire was distributed to 166 municipalities in October 2007, representing a regionally balanced set of potential respondents, in groups with populations ranging from less than 10,000 to more than one million. Full and partial responses were received from 85 municipalities, representing a high response rate of 51%, representing 46% of Canada's population.

The responses were analyzed to determine the upgrading requirements of deteriorated assets and new infrastructure needs in the areas of water and wastewater, transportation, transit and other public infrastructure assets, including cultural, social, community and recreational facilities and waste management, involving landfills, recycling and hazardous waste disposal, storage and recycling facilities.

Water and wastewater systems

The water and wastewater systems comprise about 30% of Canada's infrastructure stock, and include water treatment, supply and distribution systems, and sanitary and storm sewers and related treatment facilities. Statistics Canada (2007) observed recently that environmental management and the management of water systems takes place principally at the level of the municipalities which account for more than 80% of the municipal capital spending in these areas.

These estimates are close to the 2007 FCM-McGill survey estimate of \$31 billion for upgrading the existing deteriorated assets and another \$56.6 billion for new needs. The upgrading deficit has increased significantly from \$21 billion in 1996 because of aging, and the resulting accelerated deterioration of the underground infrastructure, worsened further by

deferred maintenance. A major part of the above needs related to larger cities, such as Montreal, where the service life of about 33% of water supply pipes and 3% of sewers was considerably exceeded in 2002 (SNC-Lavalin/ Dessau-Soprin, 2002). Another 34% of water pipes will attain their service life in 2020, which explains the need for new infrastructure in older cities because of the extensive deterioration. A similar situation prevails in communities with populations smaller than 10,000 – with no water supply infrastructure in some places. This explains the large investments required in the larger and smaller communities.

Transportation systems

The transportation assets constitute about 55% of Canada’s municipal infrastructure and include paved and unpaved roads, sidewalks, curbs, bicycle paths, bridges and overpasses, and the road cleaning and snow removal facilities. A large part of Canada’s highways and roads were constructed in the 1950s and 1960s and have outlived their service lives and they must be replaced; the backlog of deferred maintenance also needs urgent attention. The 1996 FCM-McGill survey had forecast an \$11.4 billion need for roads, sidewalks, curbs and bridges, and the other transportation assets mentioned above were not considered. The 2007 survey estimate for upgrading all transportation assets is \$21.7 billion, and another \$28.5 billion for new transportation infrastructure with about 38% for the funding needed for smaller rural and northern communities for transportation networks and related facilities. According to Statistics Canada, the investment by the governments in roads has increased from \$4.3 billion in 1998 to \$7.3 billion in 2005 without having any significant influence on the condition of the road network.

Transit systems

The transit systems comprise rapid and light rail transit systems, subways, trams, including rolling stock, track, service and parking facilities and stations, and buses, including dedicated lanes, rolling stock, service and park-and-ride facilities, and stops and stations. The 1996 FCM-McGill Survey estimated a deficit of \$3.05 billion for transit systems compared with the 2007 deficit of \$22.8 billion to upgrade the existing deteriorated infrastructure, and the new needs were estimated at \$7.7 billion. The Canadian Urban Transit Association (Deloitte 2007) had forecast a deficit of \$14 billion for Canada’s transit facilities, equipment, rolling stock and other related facilities.

Other public infrastructure systems

This remaining catch-all infrastructure category consists of cultural, social, community and recreational facilities, and waste management comprising landfills, municipal recycling facilities, and hazardous waste disposal, storage and recycling facilities. The cultural, social, community and recreational assets vary widely in terms of the facilities, and the services provided are mostly inadequate in terms of capacity and are generally in poor condition due to aging and accumulated deterioration over the past few decades. The Canadian Parks and Recreation Association (2007) identified a deficit of \$15 billion to repair, rehabilitate and replace the existing deteriorated sports and recreational facilities, and it did not include any new community needs to address the deficient capacity. The 1996 FCM-McGill survey had forecast a deficit of \$7.55 billion to upgrade the existing parks, recreational facilities, and community and social services. The 2007 survey estimated the current upgrading deficit to be \$18.1 billion, which is in addition to the budgetary provisions made

by some municipalities to deal with this situation. The needs for new assets were estimated at \$18.1 billion, mostly in larger cities with rapid urban growth. In addition, several communities with populations less than 100,000 require new facilities over the next few years.

The deficit to upgrade the existing waste management facilities was estimated to be \$7.7 billion (FCM-McGill 2007), compared with the 1996 FCM-McGill estimate of only \$0.98 billion, while the new needs were established at \$4.3 billion

Discussion of survey results

A comparative summary of the findings of the 1996 and 2007 FCM-McGill surveys is presented in Table 1, while the needs for upgrading the existing deteriorated infrastructure and for new infrastructure in the four categories are summarized graphically in Figures 2 and 3.

The research findings show that the previous infrastructure upgrading deficit estimate should be revised to \$123 billion. The components of this deficit, such as that for water and wastewater, and transit systems are consistent with the estimates of the specialist organizations, such as Canadian Water Network (2005), Canadian Water and Wastewater Association (1997) and Water Strategy Expert Panel (2005) and Canadian Urban Transit Association (Deloitte, 2007). This deficit estimate is comparable with the 2003 Canada West Foundation estimate (FCM 2006) of \$125 billion to upgrade all Canada’s infrastructure. Another 2003 estimate by Mirza and Haider also placed the national infrastructure deficit at \$125 billion, which was expected to grow to \$400 billion by 2020.

Actions needed

The 2005 biennial survey of all US infrastructures by the American Society of Civil

Figure 1- Age of Canada’s Infrastructure

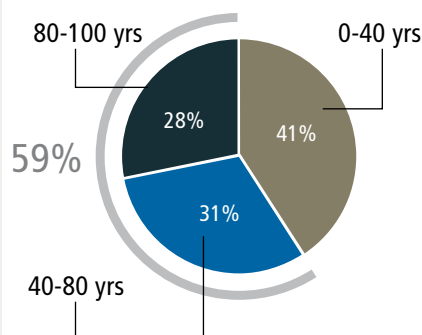


Table 1 - Municipal Infrastructure Deficit in 1996 and 2007

Facilities Considered	Upgrading Needs 1996 Survey (\$Billions)	Upgrading Needs 2007 (\$Billions)	Now Needs 2007 Survey (\$Billions)
Water and wastewater infrastructure	21	31	56.6
Transportation	11.4	21.7	28.5
Transit	3.1	22.8	7.7
Cultural, social, recreational facilities and waste management	8.5	40.2	18.1
TOTAL (\$Billions)	44	123.4	115.2

Figure 2 - Municipal Deficit for Existing Infrastructure by Category (Billions of Dollars)

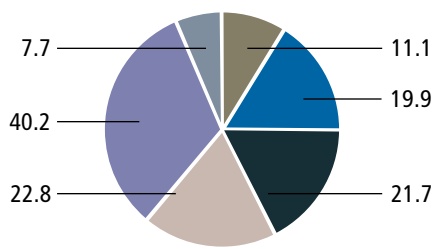
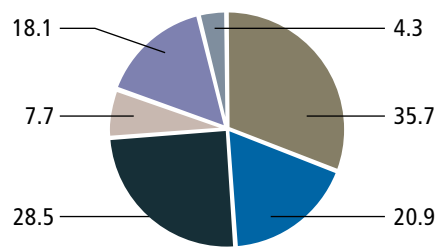


Figure 3 - New Municipal Infrastructure Needs (Billions of Dollars)



- Water Supply Systems
- Wastewater and Stormwater Systems
- Transportation
- Transit Systems
- Cultural, Social, Community and Recreational Facilities
- Waste Management

Engineers (ASCE 2005) gave it a failing grade of “D” and estimated the upgrading needs at \$1.65 trillion. Based on the populations of Canada and the US, the rough rule of thumb suggests the Canadian expenditure to be about one-tenth of the corresponding US expenditures; the estimate for upgrading Canada’s infrastructure would be approximately \$165 billion which is close to the projected deficit of \$123 billion. It should be noted that the Federal and the state governments in the US recognized the seriousness of the infrastructure crisis much earlier than any of the governments in Canada and undertook several steps to improve the situation.

It would be appropriate for Canada’s Federal Government to acknowledge the serious infrastructure crisis and to work with the provincial and municipal governments, to develop appropriate national policies, regulations and support mechanisms to combat the current crisis and to at least upgrade Canada’s infrastructure to an acceptable level. The price of not doing anything or continuing to postpone tackling the infrastructure crisis will be quite severe in terms of productivity, economic progress, international competitiveness and the overall quality of life for present and future citizens.

Ottawa must show leadership and take appropriate steps to resolve the crisis which would include as a first step the identification and description of the serious problem, followed by definition of the size, nature, extent and geographical and jurisdictional characteristics of the infrastructure deficit. These should constitute the first step in developing both short-and long-term policies for appropriate investments to upgrade Canada’s infrastructure. Logical accurate investment priorities can be developed only through understanding the scope of the crisis in each region. Besides providing the basis for a more rational intergovernmental investment strategy, it will also be the cornerstone for a robust accountability framework. Otherwise our children and

grandchildren will have to pay the cost of the neglect of infrastructure by the current generation and the politicians, which will be several times the monetary value of the current infrastructure deficit of \$123 billion.

A preliminary estimate of the deficit in 2067, if the current conditions are not eradicated and the cycle of deferred or inadequate maintenance is continued, is around two trillion dollars. However, if the assets are inspected and maintained properly, the infrastructure assets will continue to “grow old gracefully” and would continue to appropriately serve the future Canadian generations without exorbitantly expensive investments.

Summary and conclusions

Presently, Canada is facing a serious infrastructure crisis, with needs for upgrading the existing deteriorated infrastructure at \$123 billion and for new infrastructure at \$115 billion. All levels of government must acknowledge the serious infrastructure crisis and Ottawa must provide leadership in the development of appropriate national policies, regulations, innovative financing techniques (such as P3’s) and the needed support mechanisms to combat the crisis and take strong steps to restore all of Canada’s infrastructure to an acceptable level. The cost of inaction will be tremendous and it will place a burden on the future generations which will be many times the present infrastructure deficit. A consequence of this inaction and lack of appropriate maintenance, repair and rehabilitation would be the escalation of the current deficit to about two trillion dollars in 2067.

Acknowledgments

This paper is based in large part on the results of the FCM-McGill survey of 1996 and 2007. The contributions of the FCM executive and staff, and in particular, those of Gabriel Miller are gratefully acknowledged.

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Problematic property tax: why the property tax fails to measure up and what to do about it

Casey Vander Ploeg, Canada West Foundation

Editor's note: Property taxes are indeed the highest single source of revenue for municipalities, close to 40% of all municipal revenues in Manitoba. However there are inherent limits to the property tax system. The Canada West Foundation has explored the limits of property tax and has agreed to allow us to reprint their work below.

Property tax debates have raged for years. On one side of the street are those who complain that property taxes are too high and the tax burden is growing too rapidly. On the other side of the street stands the municipal administration who responds that property tax revenue does not always grow alongside the economy and incremental increases are needed. Standing in the middle of the street are mayors and councillors confronted with the nasty choice of "raising" taxes or "cutting" services. Given the perennial nature of the property tax debate, the Canada West Foundation has issued this position paper. The paper examines the property tax from a number of different vantage points.

Position

The property tax is the only substantial tax available for local governments in Canada, and critics of the tax are right when they claim it alone is insufficient to meet the needs of today's large modern cities. Defenders of the tax are wrong in asserting that the property tax is the only way — or even the best way — to fund all of our varied civic endeavours. What is more, property taxes across the local government sector are not out of control, and the same can be said for property taxes in most large western Canadian cities as well. In fact, property taxes are currently at some of the lowest levels seen in the past 50 years despite claims to the contrary. The property tax may have served our cities well in the past but it is no longer up to the task. For a variety of reasons — and for better or worse — the property tax will continue to form a key part of the municipal revenue mix. But our cities should not be so singularly reliant and heavily dependent on this one tax source. The amount of property tax collected in our cities should be reduced and the gap filled with different tax options.

Essential data

For each additional dollar paid in tax since 1961, roughly 60¢ has come in the form of more federal and provincial personal income tax and premiums paid to federal and provincial social programs. Another 25¢ has come in the form of additional federal and provincial sales tax. An additional 10¢ has come in the form of corporate income tax and miscellaneous federal and provincial taxes. Only about 5¢ out of every additional tax dollar paid since 1961 has come in the form of local government taxation. In 2007, local government taxes in Canada were 8.9% of all taxes collected. This is much lower than the 16.7% recorded in 1961. From 1961 to 2007, local taxes grew, on average, by 1.7% annually when adjusted for population and inflation. This is one of the lowest growth rates of any tax used by any government in Canada. For example, provincial personal income tax averaged 10.2% annual growth in real per capita terms over

the same time period. Setting municipal property tax against personal disposable incomes is an important measure of the tax burden, because it is out of this income that the tax has to be paid. An analysis of property taxes in Vancouver, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg show that municipal property taxes in 2007 are at the lowest levels relative to personal disposable income since 1990. Municipal property tax has also dwindled relative to each city's per capita share of provincial GDP. In fact, if property taxes had kept pace with provincial GDP growth, the six cities would have collected \$1.3 billion more in property tax in 2007 alone.

Strengths and weaknesses

Historical acceptance, an immobile and stable tax base, reliable and predictable revenues, and high visibility are often cited as positive features of the property tax. But on closer inspection, many of these



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advantages are not as clear and plain as many suppose. Further, the property tax carries numerous inherent disadvantages, such as a tax base that tends to expand slowly and revenue that fails to keep pace with economic and population growth. Of particular concern is the way in which the property tax is currently administered and applied. Serious equity concerns are emerging. This hits on the efficiency of the tax and is negatively affecting the degree of accountability taxpayers can expect from the tax.

Conclusion

Property tax reform is a logical starting point in terms of a policy response, but this may not be possible given the current political dynamic in most cities. Even with fundamental reform, the inherent disadvantages of the tax will remain. The challenge and opportunity is to find a way forward by employing a broader range of tax tools that can supplement the property tax. This reflects the larger international experience of cities that use a wide variety of tax mechanisms to finance local services and infrastructure.

For the full report, visit www.cwf.ca/v2/files/problematic.pdf (published Nov. 2008).

Upcoming EVENTS

March, 2009

- 16** Mayors, Reeves and CAOs Meeting – Parkland District
- 17** Mayors, Reeves and CAOs Meeting – Midwestern District
- 18** Mayors, Reeves and CAOs Meeting – Western District
- 19** Mayors, Reeves and CAOs Meeting – Eastern District
- 20** Mayors, Reeves and CAOs Meeting – Interlake District
- 23** Mayors, Reeves and CAOs Meeting – Northern District
- 24** Mayors, Reeves and CAOs Meeting – Central District

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Why it's not enough

Tyler MacAfee, AMM Director of Policy & Communications

There is no doubt as greater attention has been paid to crumbling municipal infrastructure the other orders of government have increased their support. Federally, municipalities have benefited from a GST rebate, the sharing of the federal gas tax, and will benefit from the new Building Canada Fund. Provincially, municipalities have benefited from the sharing of provincial income tax, the Building Manitoba Fund, and several other specific programs. Each year municipalities watch and wait as the federal and provincial budgets are introduced to see which programs are getting a little more and which are holding steady or being decreased.

In 2005 a national study was done to review where municipalities get their revenues. Manitoba fared extremely well when it comes to grants from other orders of government. But this only tells a small part of the story. There are inherent problems with municipalities having to continually apply for grants. How is a municipality expected to plan long-term when it is never sure where the next pot of money is coming and whether they will be the lucky winner? Over the last few years the demand for infrastructure programs was far greater than the funding available, meaning many much needed projects were left unfunded. And while a comparison of revenues tells one part of the story, it is incomplete without also considering municipal responsibilities.

While Manitoba fared well in the 2005 study, the other provinces are catching up. Across Canada there is a new trend within government to take a look at these issues:

- In 2006 Ontario's Premier created the Provincial-Municipal Fiscal Delivery Review, and the final report from this process was recently completed. The review examined government relationships and the delivery of services, and ultimately recommended a shifting of responsibilities and funding between the two orders of government.
- BC developed a Community Charter that lays out the requirement that "the Provincial Government must not assign responsibilities to municipalities unless there is provision for resources required to fulfill the responsibilities." As well, it highlights that consultation is needed on matters of mutual interest, including consultation by the Province

on proposed changes to local government legislation, proposed changes to revenue transfers to municipalities, and proposed changes to Provincial programs that will have a significant impact in relation to matters that are within municipal authority.

- Saskatchewan instituted sector tables to discuss municipal issues with the intent to improve governance.

- Quebec has also taken a look at the needs of municipal government, and has begun a phased-in process of rebating the provincial sales tax to municipalities.
- Alberta also undertook a major review of the roles, responsibilities, resources and relationships of municipal government with the intent of finding ways to improve the delivery of services.

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The next steps



Rachel Philippe, AMM Senior Policy Analyst

The AMM will be working on the mandate given by its membership at the 2008 Annual Convention. With 63 resolutions passed during Convention, the AMM now has over 250 active resolutions on the books. The majority of AMM resolutions express a need for additional municipal funding in a specific area such as drainage, water and wastewater infrastructure, municipal fire departments, recreation facilities and programming, roads, highways and bridges. When you consider the range of resolutions lobbying for additional funds, it is clear that municipalities do not have the resources required to support effective municipal service provision. In recent years the need for new revenues was also highlighted in the federal gas tax discussions and the 2005 AMM resolution for a rebate on the Provincial Sales Tax.

Even though concerns with municipal revenues were highlighted as far back as the first Union of Manitoba Municipalities meeting in 1905, the recent 2008 resolution session sent a clear message that this problem is raging out of control. The specific need for new, stable, predictable revenue sources was best illustrated by three resolutions:

1. Goods and Services Tax (09/08)
2. Removal of Provincial Sales Taxes for Municipalities (27/08)
3. PST Dedicated to Municipal Infrastructure (75/08)

First, delegates passed Resolution 09/08 for AMM to lobby the Federal Government to remit to municipalities an unconditional amount equal to 1% of the Goods and

Services Tax (GST). The Federal Government has provided some funding by implementing a rebate on GST for municipalities across Canada, but more is needed. Com-



Although delegates debated dozens of resolutions during the 10th Annual Convention, none were debated more hotly than Resolution #75.



Mayor Dave Burgess, City of Brandon, Councillor Russ Wyatt, City of Winnipeg, and AMM President Ron Bell address the media during a press conference about Resolution #75 and the need for additional revenue.

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mitting a portion of the GST revenue to infrastructure was suggested in response to the proposal to reduce the GST to 5%. At that time, the Federation of Canadian Municipalities (FCM) lobbied to leave the GST at 6% and dedicate 1% to municipal infrastructure. In fact, an FCM poll in early 2008 found that the Canadian public would have preferred the Federal Government keep the GST at 6% and use the funds to help municipalities. Such unconditional revenues would provide funding to all municipalities without a cumbersome application process.

To build on the precedent of the municipal rebate on GST, delegates passed Resolution 27/08 directing the AMM to lobby the Provincial Government to remove all Provincial Sales Tax (PST) levied on Manitoba municipalities. PST can add up to huge amounts for municipalities, particularly when they undertake major infrastructure projects, and this ultimately reduces the total amount of the Provincial contribution. For instance, tripartite infrastructure programs typically require the Federal, Provincial and municipal governments to each contribute a one-third share. However, a project valued at \$1.5 million will require approximately \$100,000 in PST that must be absorbed by the municipality. In this example, the Province commits to contributing one-third, but the municipality returns 20% of the \$500,000 Provincial allocation through PST. If municipalities received a rebate on PST, this amount could instead be invested directly in local infrastructure.

And finally, the resolution that needs no introduction: Resolution 75/08 was hotly debated at two resolutions sessions this past November. Although many views were presented on the best way for municipalities to access additional revenue, there was a clear consensus that the time to act is now. The resolution was carried by approximately 80% of delegates and states that the AMM will lobby the Province of Manitoba to allocate the equivalent of a 1% provincial sales tax to municipalities for municipal infrastructure; and that this revenue should be distributed on a per capita basis in order to be fair and equitable to all Manitoba municipalities. This translates to approximately \$200 million for municipalities and would be an excellent step towards addressing the municipal infrastructure deficit in this province. Tying this revenue directly to the total PST collected means that municipalities would have a revenue source that grows with the economy, rather than relying on ad hoc transfers and property taxes. This would be a huge step

forward for municipalities that continually struggle with insufficient funding and an inability to plan for future infrastructure needs.

Each year the new resolutions are brought forward to the Provincial Govern-

ment for an official response. The AMM anticipates receiving responses to these resolutions in the near future and alternative new revenues for municipalities will remain a priority issue throughout the upcoming year.

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A tale of two cities

AMM Staff

How two Manitoba communities have taken matters into their own hands to try to alleviate their infrastructure deficit and raise some much-needed funds for looming capital projects.

City of Thompson

The City of Thompson knew they had a problem. Like all municipalities the City had moved funding between priorities, cut back where they could and tried to walk the fine line between keeping property taxes realistic and delivering services the community expected and needed. However the reality had set in that deferring capital projects year after year only results in higher operating costs in the future. In 2007 the City of Thompson sat down with Manitoba Intergovernmental Affairs and talked about ways to deal with this looming crisis.

One of the options discussed was the *Municipal Revenue Act* (available online at <http://web2.gov.mb.ca/laws/statutes/ccsm/m265e.php>). This Act grants the authority to municipalities to tax the sale of accommodations, meals in restaurants, alcohol and the transfer of land. As with all municipal by-laws, they would not come into effect until the Province of Manitoba approved them. The City knew there would be challenges going down this road, but they also knew something new was needed. Over the next few

months the City would find solutions to practical questions like how to keep individual business sales information private and how best to account for the revenues. The City was also prepared for public opposition, knowing their case for need was strong.

Thompson continued to move forward and proposed four new taxes:

- A Restaurant Meal Tax, set at 2% of the purchase price of a restaurant meal, with revenues to be dedicated to infrastructure
- An Accommodations Tax, set at 2% of the purchase of accommodation, with revenues to be dedicated to infrastructure
- A Liquor Tax, set at 2% of the purchase of liquor, with revenues to be dedicated to public safety
- A Land Transfer Tax, set at 0.5% of the greater of the purchase price and fair market value of a transferred property.

The 2% was chosen as this was the tax space created by the Federal Government when it cut the GST to 5 cents. At the time of the GST cut, the Federal Government was supportive of other

orders of government filling the tax space if revenue was needed.

The tax by-laws were given first reading on September 22, 2008. Opportunity was given to the public and affected industries to discuss the by-laws with council. A general public meeting was held, as was a forum for industry representatives to express their views to council. Council also saw numerous delegations over the next month. Council found that as people better understood the challenges the community faced they were more accepting of the ideas. The by-laws were then given third reading at the November 3 meeting of council and were passed. Following third reading the by-laws were sent to the Province for its approval.

In late November 2008 the Province responded to Thompson that, despite the *Municipal Revenue Act*, the Province would only be accepting of the accommodations tax, to Thompson's extreme disappointment. The Province's rationale was that in light of the hard economic times that may be coming they could not support further burdens on taxpayers.

City of Winnipeg

The City of Winnipeg has also implemented an accommodations tax, permitted under the City of Winnipeg Charter. Set at 5% and taking effect on June 1, 2008, the tax is estimated to bring in between \$3 million and \$4 million annually. The intent of the accommodation tax is to generate revenue to support Destination Winnipeg, the Winnipeg Convention Centre, and special events including other organizations, projects and events that will encourage tourism to Winnipeg.

(Since this article was written, the City of Thompson increased the Accommodations Tax to 5%. This has been approved by the Province).



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