



# FISCAL BALANCE

April 2008

## **Creating Fiscal Balance**

Municipal government is playing a more important role in the everyday lives of Canadians. No longer is the local council seen as merely the tax collector and tertiary service provider. Today, municipal governments have greater responsibilities, often playing a leading role in key areas that are not traditionally municipal in nature, such as health care and environmental protection. As the importance of the local community grows, municipal government, as the order of government closest to the people, is becoming more important. Yet, municipal governments do not have the tools they need to meet these new expectations. Many communities are starting to see the decay of key infrastructure and the unfortunate reduction in program delivery as a result of limited resources and increasing responsibilities. Municipal councils are left with the impossible task of delivering all the services expected by both the citizens and other orders of government, while only having access to limited resource streams. This is not sustainable and consequently it is necessary to undertake a major review of municipal government in Manitoba to create a fiscal balance between all orders of government.

Nationally, through the work of the Federation of Canadian Municipalities, municipal governments have been able to secure a full rebate of the GST as well as the New Deal for Communities or 'Gas Tax Rebate.' Community issues have become front and centre on the national stage, and the AMM is pleased with the recognition by the federal government of the importance of local government and the need to put resources in the hands of the order of government that delivers key services.

Provincially, municipal government in Manitoba has seen some advances as well. Most recently the Province announced a 7% increase to the Building Manitoba Fund, which links municipal grant money to provincial gas tax revenues. Manitoba is unique in that the Provincial Government had established the practice of sharing a percentage of income tax with municipalities through the previous Provincial Municipal Tax Sharing agreement.

While these initiatives are certainly positive, more is needed. Many of the resolutions currently being worked on by the AMM deal with issues of funding, or more specifically inadequate

funding levels. A serious discussion of the resources available to municipalities needs to be undertaken. However for this discussion to be fruitful, it must be raised within the greater context of what are and what should be the responsibilities of municipal government.

Municipal government in this province has embraced taking on additional responsibilities as these have been seen to be for the betterment of the local community. For instance, many municipalities have gone to great lengths to help provincial RHAs recruit physicians. As well, municipalities have undertaken projects to help reduce greenhouse gas emissions and improve the environment. Yet there are limits to how much municipalities can do with their current revenue streams.

We have consistently heard from the Province that Manitoba municipalities fare better than almost every other province in terms of funding transfers from provincial governments. However, this discussion is meaningless without a discussion of the responsibilities of these municipal governments. If Manitoba's municipalities are continually expected to take on additional responsibilities it is imperative that new revenue sources are made available.

However we only need to take a look around the province to know that more is needed. The current municipal infrastructure deficit in Manitoba further compounds the need to re-examine the resources available to municipalities. Communities are facing crumbling roads, deteriorating community centres and inadequate water treatment facilities, yet do not have access to the revenues needed to even begin to deal with these challenges.

This is why the AMM has been advocating for a 5-year plan to significantly reduce the reliance on property tax to fund education. Currently the property tax base is the principal source of revenue for municipalities. However, this tax base is diminished when education tax takes up over 50 per cent. Equally concerning are the continuing increases year after year which force municipalities to seriously re-consider any municipal tax increases, as there are limits to what local residents are able to withstand. The AMM fully supports maintaining and improving the quality of education in Manitoba, however the current system of education taxation is not sustainable and in reality it is hurting local communities by limiting municipal resources.

In addition to the removal of education tax from property, there are other options to provide greater revenue to municipalities. For example, the Provincial Government can follow the lead of the Federal Government with the GST and exempt municipal governments from the Provincial Sales Tax. Not only would this leave more money in the hands of municipalities, but it would significantly reduce the costs of many major infrastructure projects, thereby freeing up valuable funding for other areas of need. This would represent a significant shift away from the current tax and return system toward a new system that allows municipalities to retain resources for community needs.

Strong communities are the foundation of a strong province and a strong Canada. As the Association that represents all incorporated municipalities in Manitoba, we understand this. The AMM has long been advocating for municipal governments to look at ways of improving how they do business to ensure strong, sustainable communities across Manitoba. We also hear firsthand the challenges communities are facing and we see the implications provincial actions are having on municipalities. It is for this reason that we believe it is time to take a closer look at the resources available to municipalities and take stock of the roles and responsibilities of municipal government in Manitoba. It is only through this type of examination that we can truly create fiscal balance in Manitoba.