

The
**Association of
Manitoba
Municipalities**



Submission to the
Standing Senate Committee on National Finance

Vertical Fiscal Balance

May 16, 2007

Good evening Mr. Chairman, Members of the Standing Senate Committee on National Finance. Thank you for this opportunity to appear before the committee on behalf of the Association of Manitoba Municipalities (AMM). The AMM was formed on January 1, 1999 as a result of a merger between the rural and urban associations in Manitoba. The AMM now represents all 198 incorporated municipalities in Manitoba. With one municipal organization in Manitoba, this allows the AMM to speak with one unified voice to government on behalf of municipalities.

Municipal government is playing a more important role in the every day lives of Canadians. No longer is the local council seen as merely the local 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. Budget 2007 included some important short and medium-term commitments to support cities and communities. The budget extended the federal gas tax transfer for an additional 4 years and continued funding for existing infrastructure programs. It also maintained the 100 per cent GST rebate for municipal governments. Regrettably, the budget did not deliver the long-term plan that our communities need. We also have concerns with the Building Canada Infrastructure Fund, but I will not go into detail about these concerns since you have heard them raised previously by the Federation of Canadian Municipalities.

Provincially, municipal government in Manitoba has seen some advances as well. Most recently the Province announced the new Building Manitoba Fund that will link municipal grant money to provincial gas tax revenues. Manitoba is also unique in that the Provincial Government shares a percentage of personal and corporate income tax with municipalities through the previous Provincial Municipal Tax Sharing agreement. In addition, municipalities in Manitoba receive a share of Video Lottery revenues.

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 Manitoba 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 Regional Health Authorities 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.

In Manitoba, a major municipal issue is the financial implications of the recently passed Water Protection Act. While the intent behind this legislation is laudable, the overwhelming lack of detail, especially in the area of responsibilities and finances, has many municipal governments concerned. Municipal governments cannot take on the financial costs associated with implementing and enforcing this Act. The Municipal budget is already stretched too thin.

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. It is estimated that Manitoba's infrastructure deficit is \$3 billion, which includes \$2 billion in rural municipal infrastructure and \$1 billion within the City of Winnipeg. These are staggering numbers when compared to the revenue streams available to these municipalities. When only 8 cents of every tax dollar goes to municipalities, it is evident there is a lack of resources to deal with this deficit.

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 is 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. The Province of Quebec has already started implementing such a policy for their municipalities. 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.

Recommendations

1. Develop a long-term plan to eliminate the municipal infrastructure deficit.

The \$3 billion municipal infrastructure deficit in Manitoba has far exceeded the scope of what municipal governments can finance alone. A long-term plan is needed to eliminate the deficit. This plan should involve the provinces/territories and municipal governments. This plan could include a permanent gas tax transfer with an escalator to protect its value over time, and a long-term extension of federal infrastructure programs. In addition, the federal and provincial governments should ensure that a significant portion of new infrastructure programs are explicitly dedicated to municipal projects and project funding is available and accessible to meet the needs of small, rural, and northern communities.

2. Clarify roles and responsibilities

We must reconsider the way governments work together to find economies, efficiencies and street-level solutions, particularly for issues that cut-across jurisdictional boundaries, like climate change and immigrant settlement. This includes evaluating public policies and programs that overlap among orders of government and re-aligning roles and responsibilities with adequate and appropriate sources of revenue.

Thank you for the opportunity to present our thoughts regarding this important public policy issue of fiscal balance.