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Protecting vital municipal services

Urgent federal recommendations to
address the financial crisis in our cities
and communities due to COVID-19

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Contents

This is a crisis
1

Local leaders
on the
front lines
2

Anatomy of our
financial crisis
4

Fiscal impacts
of COVID-19
6

Summary of
recommendations
8

Proposed
funding model
10

Eyes on
the future
12



This is a crisis

A message from FCM's president

In a matter of weeks, the COVID-19 pandemic has turned life upside down. We now face a public health and economic challenge unlike anything we've seen in our lifetime. As municipalities across the country work to support frontline action and ready essential response services, the financial impact to our operations has created a crisis—and threatens to put the Canadians we serve at further risk.

Across Canada, cities and communities are seeing their finances drift toward collapse. This crisis exposes the cracks in an outdated model that is fundamentally misaligned with the modern reality of the role of local governments. Revenues are plummeting. Unanticipated costs are rising. With few fiscal tools available—and no legal ability to run operating deficits—local leaders face stark choices. Protecting essential services now requires support from other orders of government.

Today, FCM is making that urgent request on behalf of cities and communities across the country. We are calling for emergency operating funding for municipalities—to keep essential services running and Canadians safe and protected.

Canadians are depending on the vital services their local leaders provide, from ensuring tap water is clean to sending paramedics to help the sick to safely sheltering our most vulnerable residents. Cutting back services in the middle of a pandemic would put Canadians at further risk. Instead, municipal leaders must continue to help lead the way, supporting people and businesses through this public health and economic storm. To ensure this work continues with the urgency required—on the ground, where Canadians live—direct emergency federal funding is the only option.

Our federal-municipal partnership has delivered remarkable results. Deepening that partnership now will protect Canadians through this pandemic. And when the time comes, local leaders will be ready to help lead Canada's recovery, so this country can prosper and thrive once again.

A handwritten signature in black ink that reads "Bill Karsten". The signature is written in a cursive, flowing style with a horizontal line underneath.

Bill Karsten
FCM President

Local leaders on the front lines

Our cities and communities are the front lines of the COVID-19 pandemic. These are the places where Canadians go to work, buy homes, start families, launch businesses, and build the future of this country. As the governments closest to daily life, municipal leaders are mobilizing urgently to keep Canadians safe, and to help people and businesses weather the economic storm.

Municipalities of all sizes are taking extraordinary measures to support Canadians—including our most vulnerable—through this unprecedented public health and economic challenge. They're turning arenas into shelters for the homeless. They're setting up portable hygiene stations. They're deferring property taxes and utility bills for struggling families.

Municipalities are also working day and night to keep essential services running. Bus drivers, paramedics, firefighters, social workers and countless other frontline staff are putting themselves at risk every day to keep Canadians safe and to provide the services people rely on.

In the face of this challenge, essential workers and local leaders are stepping up together as champions for their communities, and this country.

As the national voice for local governments, FCM is fully engaged in this nationwide crisis. We're bringing together communities across the country to help protect people and businesses. Through regular touchpoints with our members—from FCM's Big City Mayors' Caucus and Rural Forum to our provincial-territorial municipal association partners and others—we're convening local expertise, sharing resources and coordinating frontline response efforts.

We're also working directly with federal departments, agencies and decision-makers to help inform Canada's pandemic response. That includes regular scheduled calls with the deputy prime minister and key ministers. This unprecedented engagement is bringing local realities to new federal initiatives—from the Canada Emergency Response Benefit to the Canada Emergency Wage Subsidy—to ensure they meet the needs of Canadians on the ground.

Municipalities in action

The **City of Edmonton, AB** has waived transit fares on all routes and has deployed larger buses to encourage physical distancing, while ensuring essential workers have a safe and reliable way to get to work.

The public library in the **Town of Halton Hills, ON** is using 3D printers to make face shield parts for frontline health care workers. It's also left its Wi-Fi on—despite being closed—so residents without Internet access can apply for provincial and federal resources.

The municipality of **Canton De Gore, QC** has set up a home delivery service for seniors and vulnerable residents—staffed by volunteers—to bring groceries and prescriptions to people confined to their homes.

For more examples of municipal action during the pandemic, go to fcm.ca/COVID19.

Vital municipal services at a glance

COVID-19 is shining a spotlight on the vital role municipalities play in daily life. Now more than ever, Canadians are depending on their local leaders to keep essential services running—to keep people safe and secure through this pandemic. That includes:

- ▶ Local police, ambulance and fire services
- ▶ Maintenance of roads, bridges and other essential infrastructure
- ▶ Safe public transit for essential workers
- ▶ Clean water and wastewater services
- ▶ Garbage collection and recycling
- ▶ Local social services and housing for vulnerable residents
- ▶ Local public health agencies
- ▶ Sustainability and environmental initiatives



Paramedics are on the frontlines providing life-saving services including emergency and non-emergency pre-hospital care to residents. *Photo: City of Toronto*

When the time comes, municipalities will also be ready to lead Canada's recovery, along with our federal partners. Local leaders are already delivering frontline results for Canadians. And they are exceptionally well-placed to deliver stimulus funding quickly—to create jobs and get the economy going. Deepening the federal-municipal partnership even further will help Canada thrive and prosper once again.

Anatomy of our financial crisis

At the best of times, Canada's municipal governments manage a razor-thin fiscal balance to deliver for residents. On the revenue side, they have scant ground to till beyond property taxes and user fees. On the expense side, operating and capital, they must be tremendously cost-efficient with every dollar available. With no legal standing to carry operating deficits, they diligently maintain reserves to carry our communities through cyclical shifts and disruptions.

But these are *historically challenging times*. Municipalities are incurring deep losses due to COVID-19—a combination of foregone revenues (from property taxes and user/utility fees) and unanticipated costs (including public safety measures and support for vulnerable populations). This is not limited to a cash flow challenge; this is a crisis of non-recoverable losses. To continue delivering essential services, many are drawing down limited reserves that were not designed for a crisis of this scale or duration.

Today's crisis exposes cracks in the fundamentally outdated fiscal framework in which municipalities are still forced to operate. And as we now approach a tipping point, our next steps will reverberate

through the lives of Canadians. Insolvency is not an option. Bridge loans cannot address this crisis of permanent losses. Cutting essential services is not an acceptable option, not when Canadians need us most. This is why we are turning to our federal partners for emergency operating funding—to sustain municipal operations and essential services through these extraordinary times.



Municipal waste collection operators are keeping municipalities clean and green, while delivering essential services so residents can stay at home.

Photo: City of Toronto

This action will protect essential services Canadians rely on. No one should have to worry if their tap water is clean, whether their garbage will stay on the curb, or when a fire truck or ambulance will arrive.



To keep drivers and riders safe, the City of Selkirk, MB, installed Plexiglas shields and closed off alternating rows inside the buses to encourage physical distancing.
Photo: City of Selkirk



The City of Windsor's WFCU Centre, home of the Windsor Spitfires Junior-A hockey club, has been transformed into a make-shift foodbank to help those in need during the pandemic. *Photo: City of Windsor*

This action will protect the most vulnerable among us. We must continue deploying extraordinary measures to protect people who face enormous challenges staying safe—in our shelters, on our streets.

This action will support Canada's economic recovery. Municipalities will need to hit the ground running to turn stimulus funds into outcomes—and not be cancelling even *existing* capital projects.

Like never before, our municipal-federal partnership has been building better lives for Canadians. Our partnership is grounded in our respective strengths—local leaders are delivery experts closest to people's real needs, the federal government has the fiscal heft to drive nationwide progress. Today, right now, this partnership is the key to carrying Canadians through this pandemic into better days ahead.

Protecting property taxpayers

Covering municipal losses through a one-time property tax levy is not a viable alternative to federal emergency funding given the significant impact it would have on households trying to weather the economic downturn. Bridging municipalities' 2020 fiscal shortfalls without cutting services—assuming six months of physical distancing—would require dramatic residential property tax levies:

Toronto	56%
Calgary	23%
Vancouver	22%
Montreal	18%
Mississauga	17%

Fiscal impacts of COVID-19

The fiscal impacts of COVID-19 have been swift and dramatic. Non-recoverable municipal losses driven by falling revenues and rising costs have led to an unprecedented financial crisis. To absorb this staggering hit in the near term, we are calling for a federal operating infusion of \$10–15 billion over the next six months. This crisis may compound as physical distancing measures continue, and depending on the timing and pace of future economic recovery.

FCM continues to develop insight on the scale of losses that municipalities may face on the road ahead. The extent and nature of losses vary widely by community, depending on multiple factors:

- ▶ Municipalities with **public transit systems** face significant revenue losses at the fare box—estimated at \$400 million per month nationwide. This accounts for 30–50 percent of monthly net losses for these municipalities. In Metro Vancouver, Translink is losing \$75 million monthly. The Toronto Transit Commission reports a \$23.5 million weekly burn rate—with an 85 percent revenue drop in April alone. Critically, transit is an essential
- ▶ service for frontline workers in this pandemic, but with limited ability to reduce operating expenditures, many transit systems are already scaling back service to ensure solvency.
- ▶ Municipalities are deferring **property taxes, utility and other fees** to support struggling residents in the near-term—another major revenue hit. Even after these deferral programs end, there remains a significant risk of property tax delinquency. With even a 10 percent increase in property tax and utility bill delinquencies, the cities of Vancouver and Toronto estimate revenue losses in 2020 of \$130 million and \$684 million, respectively.
- ▶ Municipalities reliant on **hard-hit industries** face compounding pressures. In tourism-driven Banff, Alberta, 85 percent of workers have been laid off. Tourism Calgary has temporarily laid off more than half of its staff, and the city could lose the \$540 million economic impact of the Calgary Stampede. Agriculture: meat plants in High River, Alberta, and in Montreal have closed temporarily, impacting a third of Canada's beef processing capacity and most pork exports. Natural resources: Western Canadian Select is trading at negative prices, and sawmill closures have put thousands out of work, jeopardizing pulp mill jobs in northern and remote communities.



Like many municipalities, the City of Yorkton has converted one of their public rinks into a temporary site run by public health to help alleviate the impact on local hospitals and emergency rooms. *Photo: City of Yorkton*

- ▶ The loss of **user fees from parking and community, culture, and recreation facilities** is another source of foregone revenue. Many municipalities have already temporarily laid off staff at these facilities to reduce costs. The City of Mississauga estimates lost revenue from recreation facilities to reach \$23.3 million by the end of June. The City of Toronto is losing almost \$17 million monthly from foregone parking fees alone. Smaller communities, at relative scale, stand to take a significant hit as well. Prince George, B.C., estimates a monthly loss of \$912,000.
- ▶ Without emergency operating funding, municipalities will need to reduce planned **capital expenditures** in 2020 to make up for lost revenues. This will further slow economic activity across the country and increase future repair costs. And this scaling-back is enormously counter-productive to the coming need to drive Canada's economic recovery through new capital investment in municipal assets, including core infrastructure and housing.



The Gatineau Police Department controls movement at the entrance to the territory. *Photo: City of Gatineau*

- ▶ **Rural and small communities** face their own unique economic challenges. The agriculture sector has been hit hard. Some municipalities have begun laying off staff—despite having so few to begin with. With limited access to broadband Internet, many rural Canadians are unable to work from home. New Brunswick's Francophone municipalities are facing a total monthly loss of \$10.5 million. Even before the pandemic hit, eight percent of Atlantic Canada's workforce was already depending on Employment Insurance benefits.

Summary of recommendations

With plummeting revenues, rising expenses and a legal proscription against running operating deficits, municipalities are at imminent risk of having to cut essential services to Canadians to remain solvent. The acceptable alternative is emergency operating funding for municipalities, provided by our stable, trusted, national partner: the Government of Canada.

This section summarizes FCM's urgent recommendation. This is based on the best available data on the projected financial impact of COVID-19—amounting to a near-term gap of \$10–15 billion for municipalities nationwide. It assumes that physical distancing directives substantially persist for six months, with direct municipal revenue impacts continuing through the end of 2020 and possibly into 2021 depending on the pace of economic recovery.

The core of our recommendation is an allocation-based formula to deliver a base level of support to all local governments. This is supplemented by targeted measures to meet distinct needs of municipalities as they continue to keep Canadians fully served and protected.

Immediate action

1. **Deliver at least \$10 billion in targeted emergency operating funding to all local governments as direct allocations—with a new hybrid formula modelled on both the proven federal Gas Tax Fund (GTF) and a ridership-based allocation for municipalities that operate transit systems.**
 - ▶ Specifically, allocate at least \$7.6 billion of the fund using a GTF-style allocation formula for all local governments, and \$2.4 billion based 100% on transit ridership.
 - ▶ For municipalities that operate transit systems, provide a single blended transfer.
 - ▶ Immediately provide advance payments to municipalities facing urgent liquidity issues.
 - ▶ Leverage the administrative infrastructure of the federal Gas Tax Fund, where possible, to expedite the rollout of dedicated emergency operating grants.



Municipal road maintenance staff are working around the clock to keep roads safe and accessible for those delivering essential services. *Photo: City of Toronto*

2. Deliver additional emergency operating funding to individual local governments facing unique financial pressures related to COVID-19 that are not fully met by the hybrid formula above. Our largest urban centres face distinct challenges supporting self-isolation, sanitation and good health among populations struggling with homelessness and mental health challenges. Smaller communities face unique challenges, starting with access to health care services that can support isolation requirements and urgent care. These and other unique cost drivers will continue to require targeted supports for the full duration of this crisis.



Selkirk, MB Mayor Larry Johansson stopped at a resident's window to admire children's drawings showing their appreciation for essential workers. *Photo: City of Selkirk*

Medium-term action

- 3. Commit to revisit the need for additional operating funding within four months.**
 - ▶ Monitor trends in property tax delinquencies and consider additional supports for individuals and businesses that may not be able to pay property taxes after the expiry of short-term municipal deferral programs.
 - ▶ Depending on the duration and severity of the COVID-19 crisis, prepare for possible additional operating funding assistance in both 2020 and 2021.
- 4. Provide local governments with the ability to transfer unused allocations** to the federal Gas Tax Fund program for capital expenditures as part of Canada's COVID-19 economic recovery plan.

Proposed funding model

This section presents additional guidance for the emergency operating funding outlined in recommendation #1. Our proposed model features two components: a base allocation for all municipalities, and a supplementary allocation for municipalities that own and operate transit systems. To function—efficiently and nationwide—its design must be straightforward, direct and flexible.

Base allocation *(for all municipalities)*

- ▶ At least \$7.6 billion based on the federal Gas Tax Fund formula.
- ▶ Assumes average of \$35 per capita per month, and six months of physical distancing (starting March 2020).

Supplementary allocation *(for municipalities that own and operate transit systems)*

- ▶ \$2.4 billion based entirely on 2019 transit ridership (population not included in formula).
- ▶ Based on Canadian Urban Transit Association needs assessment (\$400 million/month for six months) and validated through individual city estimates.

Design considerations

- ▶ Municipalities should receive a single transfer that combines the base and supplementary allocation (except in the case of provincially-owned transit systems, such as BC Transit and Metrolinx).
- ▶ This single transfer should provide maximum flexibility to local governments to apply funds towards all operating impacts (foregone revenue and/or unanticipated costs) related to the COVID-19 pandemic.

- ▶ No provincial or municipal matching funds should be required.
- ▶ Requiring provincial matching could cause delays given the varied fiscal capacities of provincial/territorial governments. However, provinces and territories continue to have an important role to play in providing targeted supports for local governments including, but not limited to:
 - ▷ direct support for COVID-19 emergency response and support for vulnerable populations;
 - ▷ expansion or backstop of property tax deferral programs (especially long-term deferment programs that will delay taxes beyond a single fiscal year);
 - ▷ block operating grants for local governments.
- ▶ Given significant downside risks—including the likelihood of future pandemic waves that require physical distancing, and the potential for property tax delinquencies—it is likely that the full allocation under an emergency operating grant will be fully utilized by local governments.



The Vulnerable Person's Registry is a critical program where the elderly and people with special needs are contacted daily, making sure that they are safe and their needs are being met. *Photo: Regional Municipality of Wood Buffalo*

- ▶ Any limited unused funding could be reserved for additional COVID-19-related operating shortfalls in 2020 or 2021, or transferred to the federal Gas Tax Fund to be used for incremental capital expenditures as part of Canada's COVID-19 recovery plan.

Potential impact *(all numbers rounded and approximate):*

Municipality	Preliminary net losses*	Base allocation (GTF formula)	Supplementary allocation (transit)	Total allocation
City of Toronto	\$1.690B	\$575M	\$575M	\$1.150B
Metro Vancouver**	\$900M	\$510M	\$290M	\$795M
City of Calgary	\$400M	\$255M	\$115M	\$370M

* preliminary estimates assuming full year impact of six months of physical distancing

** extrapolation of data provided by City of Vancouver (local government not including transit) and TransLink (transit)

Eyes on the future

Right now our focus is on tackling the public health and economic crisis in our cities and communities—and ensuring local leaders can continue to deliver the essential services Canadians rely on. But we're also keeping an eye on the future—for when Canada is ready to move from response to recovery.

Across the country, municipalities have already begun taking steps to help drive the massive nation-building effort that will be required when the pandemic ends—from getting local businesses back on their feet to implementing job-creating stimulus projects. FCM is supporting this work by collecting and analyzing on-the-ground data that will inform recommendations for Canada's recovery. From housing, to infrastructure, to green, sustainable and resilient projects, cities and communities have a long track-record of delivering results efficiently and effectively. Municipalities will be essential partners in rebuilding the economy we want for the future.

But as with any crisis, it will be just as important to learn lessons from this pandemic. We will honour and celebrate how Canadians and their governments came together in common cause. We will also need to take a critical look at the foundational cracks that have been more harshly exposed in how we approach the role of local governments. In clear view are the outdated tools and authorities granted to municipal leaders, and how they simply do not match the modern role cities and communities play in supporting Canadians and driving our economy. When the time is right, FCM and local leaders will be ready to have that conversation.

In the immediate, we will continue working flat-out, as partners on the front lines, to keep Canadians as safe as possible, and ready our economy for the comeback we're confident we can collectively drive. We're all in this together.



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