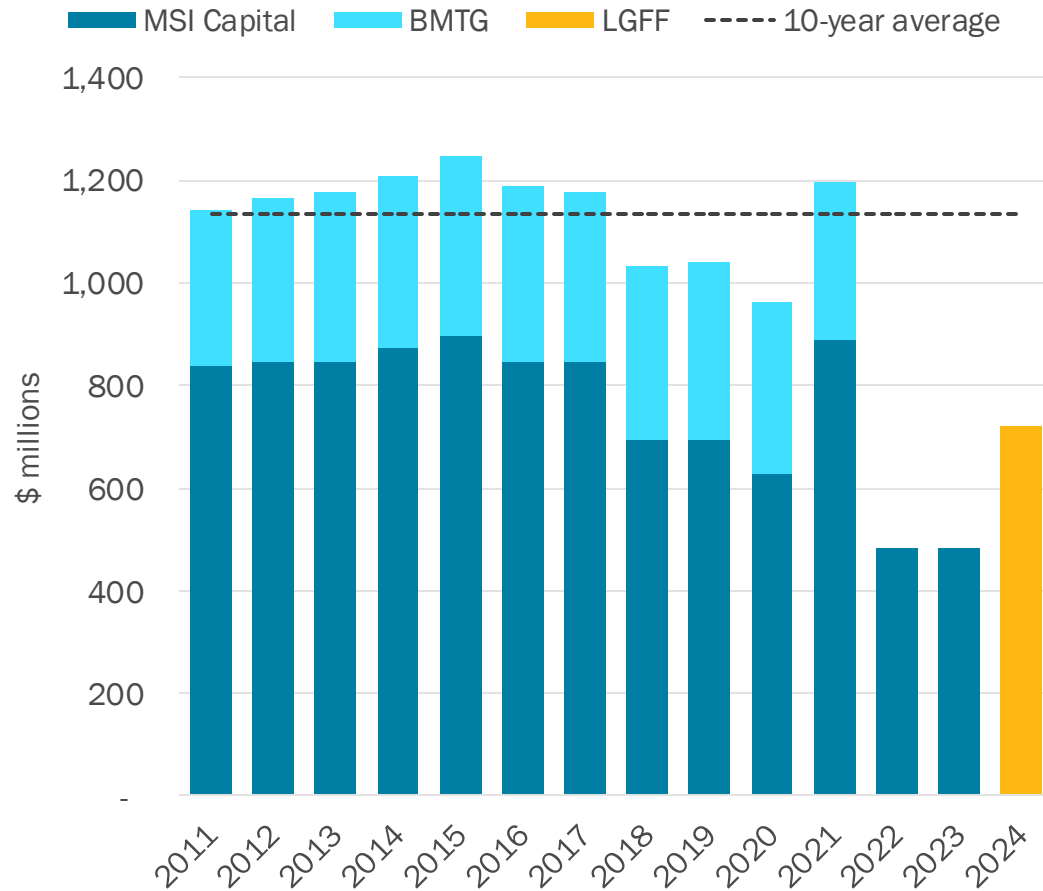


# Local Government Fiscal Framework: A Call for \$1.75 billion in Funding

June 2023



# Background: LGFF and MSI Funding Amounts



- In 2024, the Local Government Fiscal Framework (LGFF) will replace the long-standing Municipal Sustainability Initiative (MSI) infrastructure program (note).
- Historically, MSI delivered an average of \$1.1 billion per year. LGFF is planned to start at only \$722 million.
- This represents a 36% cut in community infrastructure funding compared to the historical average.

**Note:** References to MSI include the MSI Capital program and the Basic Municipal Transportation Grant (BMTG), which was merged with the MSI program in 2014. Both programs will be replaced by LGFF. The 10-year average is calculated based on 2011-2020 funding years before the Government of Alberta front-loaded the 2022 and 2023 funding years in 2021. BMTG is not shown in 2022 and 2023 because the province changed the allocation formula, which eliminated the BMTG component.

# Background: Trends

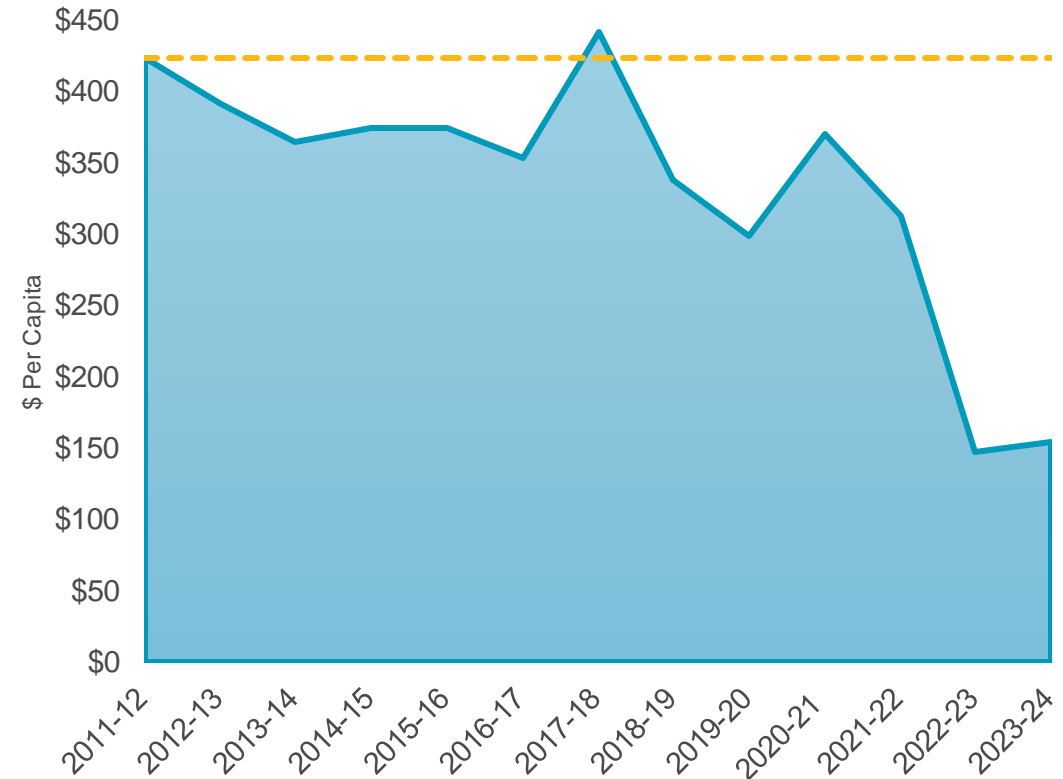
Some may question if the reductions in LGFF are being made up in other ways.

The answer is no.

Since 2011, there has been a downward trend in the province's level of investment in community infrastructure.

MSI has typically represented 80-85% per cent of provincial infrastructure funding for municipalities and LGFF is expected to be similar. This demonstrates the importance that LGFF will have on Alberta's communities over the coming decades.

### Total Provincial Funding for Municipal Infrastructure: Per Capita



**Notes:** Provincial infrastructure funding represents the Municipal Sustainability Initiative, Water for Life, Municipal Water and Wastewater Partnership, Strategic Transportation Infrastructure Program, First Nations Water Tie-In Program, GreenTRIP, Alberta Community Resiliency Program, and the Municipal Stimulus Program. Federal funding programs that flow through the Government of Alberta are excluded. The funding spike in 2017-18 represented a one-time increase in GreenTRIP funding and the spike in 2020-21 represented the one-time Municipal Stimulus Program to help spur the economy during the first year of the COVID-19 pandemic.

**Source:** ABmunis' calculations using budgeted amounts reported in the Government of Alberta's annual fiscal plans with the exception of the Municipal Stimulus Program, which was an unbudgeted response during the first year of the COVID-19 pandemic. Population data is sourced from Statistics Canada table 17-10-0005-01 with the 2023 population based on Q4 2022 estimate table 17-10-0009-01.

# Background: A Call for Improvements

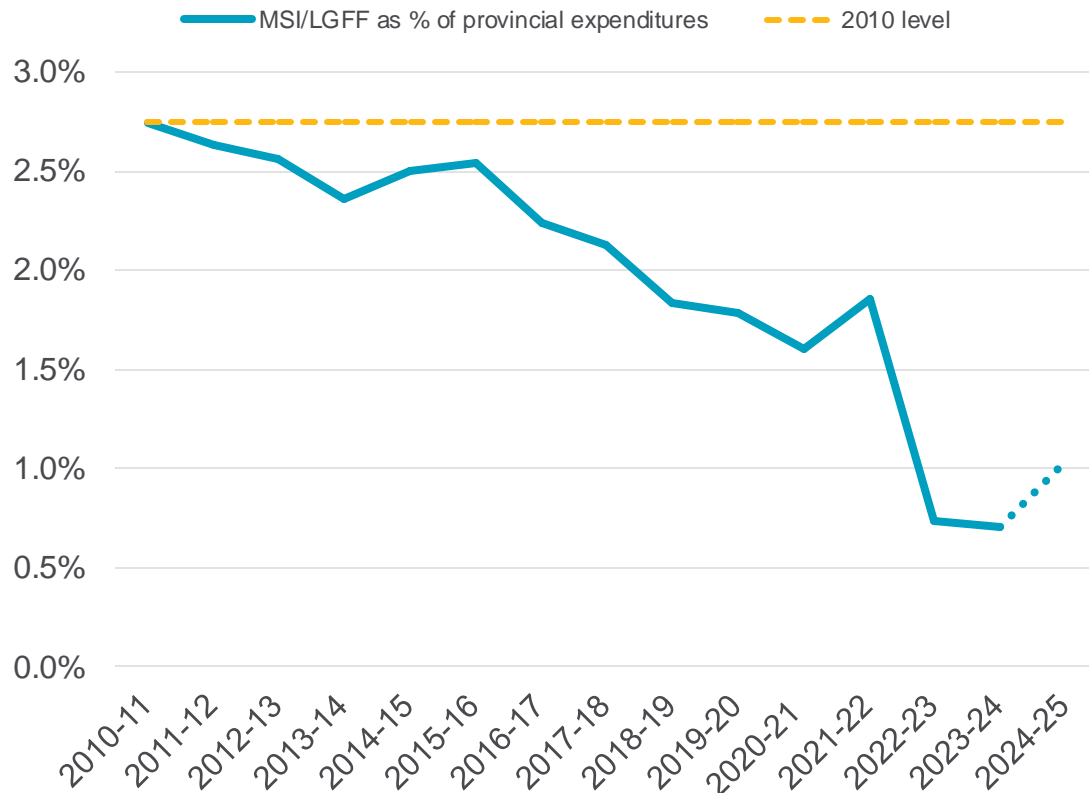
- Since the *LGFF Act* was passed in fall 2019, Alberta's municipalities have called on the province to:
  1. Increase the 2024 starting amount of LGFF, and
  2. Remove the 50% cap on the revenue index factor calculation so that LGFF will grow at the same rate as the Government of Alberta's revenue to ensure the funding keeps pace with inflation and community needs.
- The Government of Alberta's 2023 Budget announced that it will remove the 50% cap on LGFF's growth factor, but there has been no interest shown in increasing the LGFF funding pot.

# Funding Needs to be Increased

- ABmunis and Rural Municipalities of Alberta agree that the starting amount of LGFF should be \$1.75 billion
- Alberta faces an estimated \$30 billion deficit in municipal infrastructure.
- Municipal infrastructure funding has taken a back seat to other provincial priorities over the last decade as shown by downward trends in:
  - Funding as a percentage of provincial expenditures.
  - Funding per capita.
- While municipalities are limited to generating revenue from property taxes, the province has significantly higher fiscal capacity. As such, ABmunis is calling on the province to cover 50% of the cost to replace existing community infrastructure, plus new growth needs.

# Reason #1 for LGFF to be set at \$1.75 billion

## MSI/LGFF as a % of Provincial Expenditures



In 2010, MSI funding represented 2.7% of provincial expenditures.

In 2024, LGFF will only be 1.2% of provincial expenditures. This reduction shows that the province is not prioritizing community infrastructure like roads, water, sewer, and recreational facilities.

If the province committed to reinstate funding to 2.75% of provincial expenditures, then LGFF should be...

**\$1.9 billion**



**Note:** The solid blue line represents the total of MSI Capital and the Basic Municipal Transportation Grant. The dotted blue line represents the estimated amount under LGFF.  
**Source:** ABmunis' calculations using Alberta Municipal Affairs' MSI allocation listings and total expenditures reported in the Government of Alberta's 2010-11 to 2021-22 annual financial reports and 2022-23 to 2024-25 is based on estimated expenditures reported in the Government of Alberta's 2023 Fiscal Plan.

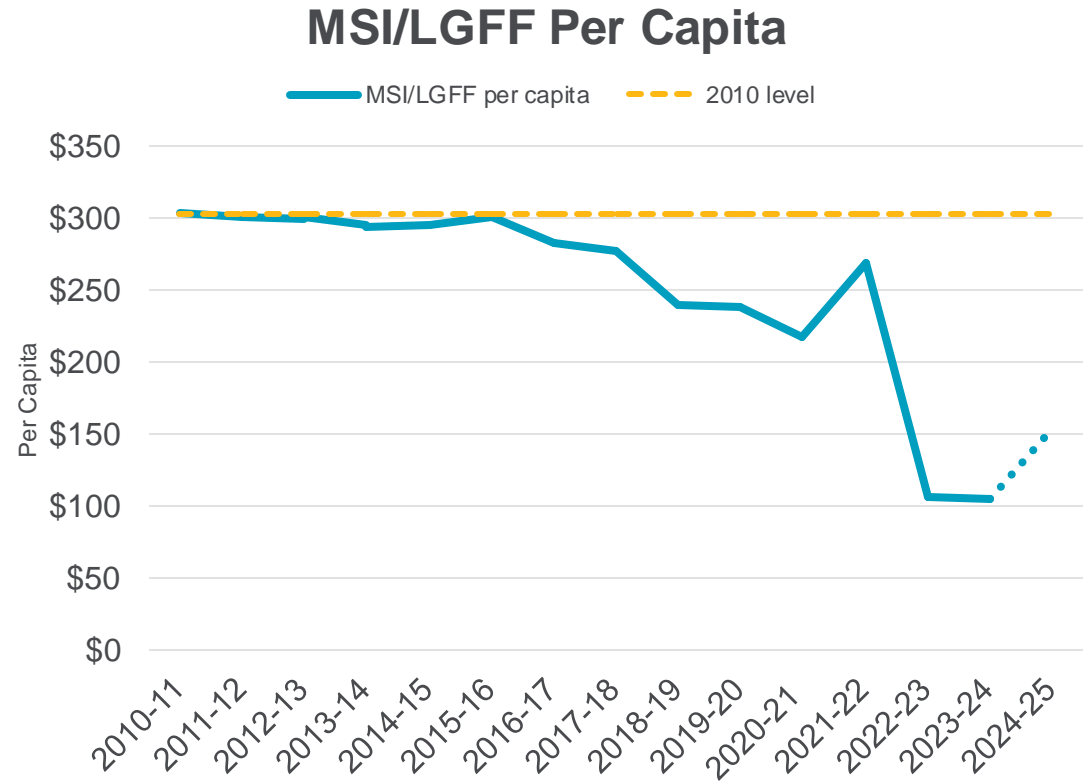
# Reason #2 for LGFF to be set at \$1.75 billion

In 2010, MSI funding was \$303 per capita.

In 2024, LGFF will be half the amount at only \$154 per capita.

If the province committed to reinstate funding per capita to the 2010 level and adjusted for inflation, then LGFF should be...

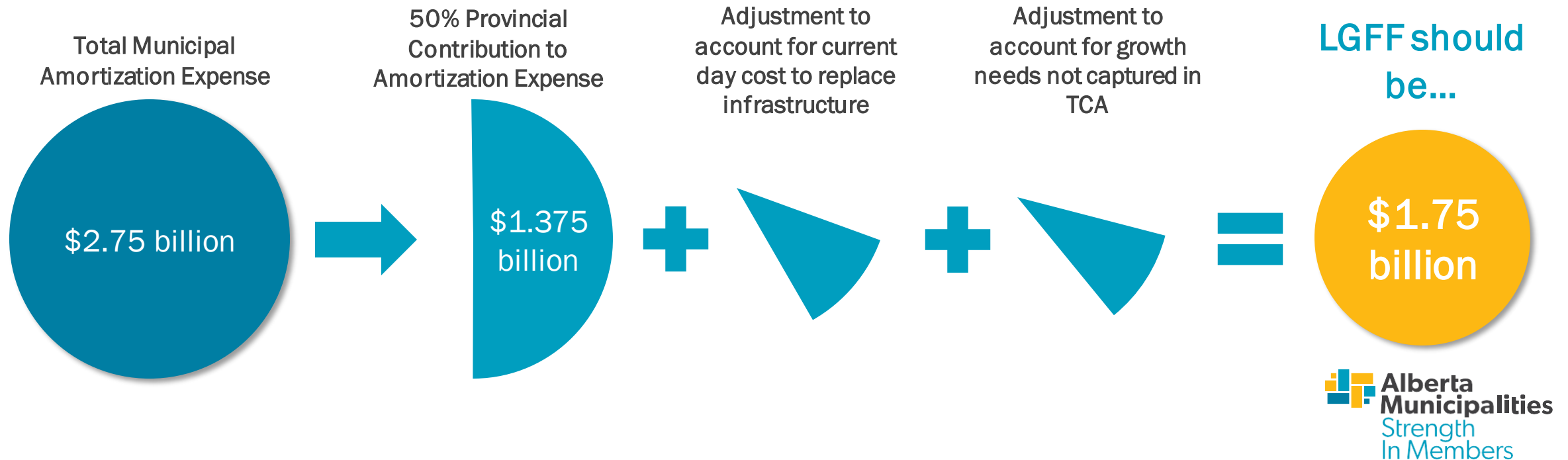
**\$1.8 billion**



**Note:** The solid blue line represents the total of MSI Capital and the Basic Municipal Transportation Grant. The dotted blue line represents the estimated amount under LGFF.  
**Source:** ABmunis' calculations using Alberta Municipal Affairs' MSI allocation listings and population figures sourced from Statistics Canada table 17-10-0005-01 with the 2023 year estimated based on the 4<sup>th</sup> quarter of 2022 from table 17-10-0009-01.

# Reason #3 for LGFF to be set at \$1.75 billion

With the inadequacies of the municipal property tax system and the revenue generating capacity of the provincial government, there is a strong argument that the province should be responsible for at least 50% of community infrastructure costs. In 2021, amortization of municipal infrastructure was \$2.75 billion. This is a fair indicator of how much needs to be spent annually to maintain community infrastructure. But those figures must be adjusted to reflect the current day cost to replace that existing infrastructure plus add in new growth needs. When rolled together, the figures support ABmunis' request for LGFF to be \$1.75 billion.



Note: Figure of \$2.75 billion in municipal amortization expense is sourced from Municipal Affairs' Financial Information Returns (schedule D(1)) excluding amortization on gas systems and electricity systems. In some cases, 2020 figures were used for municipalities that have not yet reported their 2021 amortization expense.



# Why comparing infrastructure costs with other provinces is misguided

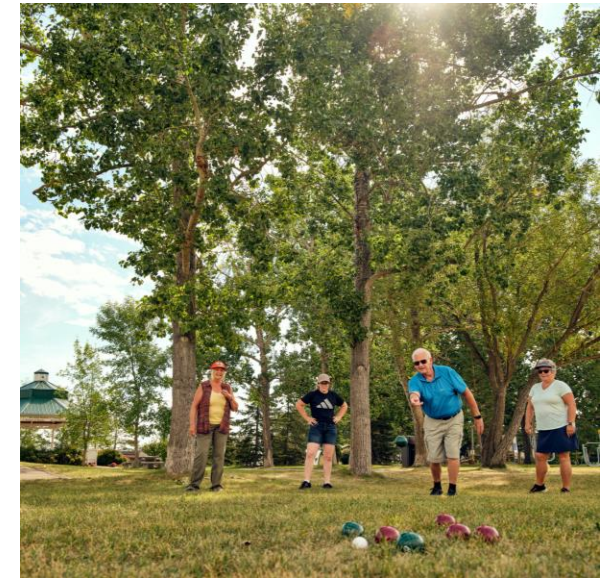
The Government of Alberta has been using the 2019 Blue Ribbon Report on Alberta's Finances to justify reducing infrastructure funding for municipalities based on the premise that Alberta has higher capital stock (infrastructure) per capita than other provinces.

The report did not take into account that:

- Alberta is different from other provinces. The vast majority of Alberta has been developed for farming, forestry, and oil and gas meaning communities and infrastructure are built in most regions of the province. This requires more spending per capita for the maintenance and replacement of that public infrastructure.
- Alberta's high growth economy has led to 28% higher construction labour costs compared to any other province, meaning a higher cost of infrastructure in Alberta.
- Public infrastructure is built in response to the size and demands of a province's economy. Despite Alberta's prosperous economy, capital investment as a percentage of GDP has been below the 10-year average of other provinces.

# What if LGFF does not increase?

- Municipal governments do not have the financial means to manage the infrastructure challenges that we face today and in the future.
- Without additional support from the province, municipal councils will face some incredibly challenging decisions on how to manage their local infrastructure.
- If LGFF does not increase, Albertans would need to accept changes in their communities such as:
  - Your roads will continue to deteriorate without repair,
  - Water lines might break more often,
  - Your fire department will be forced to work with older equipment,
  - Your arena likely won't get an update any time soon,
  - Or your council may decide that these scenarios aren't acceptable, and you will start to see some big increases in the municipal portion of your property taxes.



# Why LGFF Funding Must Increase

- Communities are the face of Alberta. To **attract people to Alberta**, businesses and families must see that Alberta offers a high quality of life for families.
- Investments in local infrastructure help **improve quality of life** by contributing to:
  - lowering housing costs,
  - ease of transportation and lower commuting time,
  - community safety and health, and
  - recreational opportunities.
- Infrastructure investments support businesses and **stimulates jobs in the construction industry**.
- Alberta already has an estimated \$30 billion municipal infrastructure deficit. Adequately funding LGFF helps to **avoid a much larger bill in the future**.

Note: The \$30 billion estimate for the municipal infrastructure deficit is based on public reports from the City of Calgary, the City of Edmonton, and ABmunis' calculations.

