

## **SPEAKING NOTES**

AL KEMMERE, PRESIDENT

AUMA LINEAR ASSESSMENT WORKSHOP

Friday, January 15, 2016

### **SLIDE 1: OPENING**

Good morning. My name is Al Kemmere and I am the President of the Alberta Association of Municipal Districts and Counties.

Before I begin, I want to extend a thank you to the AUMA for their invitation to speak to you. We have always appreciated a solid working relationship with the AUMA and we feel that it is important to remember that our two associations have far more in common than we have differences.

## **SLIDE 2: INTRODUCTION**

In my time this morning I want to talk about three things. First, the results of a survey we just completed which can also be found in the hand out on your table. Second, the AAMDC's position on linear assessment and third, some considerations we hope will inform your discussion throughout the rest of the day. At the end, if we have some time for questions, I am happy to take them at that time.

### **SLIDE 3: RURAL MUNICIPALITIES 101**

At the AAMDC, we represent Alberta's 69 rural municipalities and this includes both Municipal Districts, Specialized Municipalities, and the Special Areas Board which is found on the eastern side of the province. Alberta is the only province in Canada that has municipalities governing to each edge of the province and in total, rural municipalities cover 86% of Alberta's land mass with the rest being covered by national parks and urban municipalities.

## **SLIDE 4: RURAL MUNICIPALITIES 101**

As should be expected, the needs of rural municipalities differ from those of our urban neighbors. For instance, across the province, rural municipalities own and operate 75% of Alberta's road and 60% of Alberta's bridges. This means that funding to build and maintain this infrastructure is one of our biggest jobs and consumes considerable time and resources on a scale not proportional to our populations. It has been estimated that it will take \$70 million a year for the next 10 years to replace the bridge infrastructure deficit in rural Alberta.

It is also important to emphasize that each rural municipalities – just like urban municipalities – is unique. Some rural municipalities have only one (1) or two (2) urban municipalities within their boundaries, others have more than ten (10). Some rural municipalities have a strong industrial tax base, others rely more on residential and agriculture taxation revenue. Some of our members have budgets rivaling mid to large sized cities, others have budgets the size of a small town or village. It is important to

remember that like the membership of the AUMA, there is tremendous diversity out there.

## **SLIDE 5: SURVEY RESULTS**

During the fall, we conducted a survey with our members about the wide range of inter-municipal financial arrangements that rural municipalities have with their regional neighbors. These include cost-sharing agreements, revenue-sharing agreements, in-kind services, regional service commissions, and an 'other' category for anything else. We had 90% of our members complete the survey and received some interesting results. However, I should emphasize that not everyone included all types of revenues transfers in their submission so this should be understood as a minimum number.

## **SLIDE 6: SURVEY RESULTS**

Here are the results of that survey. In total, rural municipalities contribute \$160 million per year to their urban regional partners through inter-municipal arrangements which includes nearly \$75 million in cost-sharing, \$35 million in revenue sharing, \$3 million in in-kind services, \$20 million to regional service commissions, and another \$27 million in 'other contributions'.

## **SLIDE 7: SURVEY RESULTS - PIE GRAPH**

On this slide you can see the breakdown of those contributions, nearly half of which are cost-sharing agreements. It has long been the AAMDC's position that cost-sharing is the preferred form of financial collaboration in comparison to revenue-sharing, but the information gathered in this survey shows that significant revenue sharing is happening out there. With this in mind, it is important for us at the AAMDC to recognize that, in some contexts, for some partnerships, revenue-sharing might be the best path forward to support some urban centres or regional initiatives as long as the decision is made locally and voluntarily.



## **SLIDE 8: SURVEY RESULTS – SCATTER LINE GRAPH**

When it comes to linear assessment revenue, this graph shows that there is a relationship between linear dollars collected and the willingness of a municipality to share with their neighbors.

Each of the dots on the graph represent a rural municipality and along the bottom is their intermunicipal contributions and running along the side is their linear taxation revenue. This graph shows us that those that have the ability to share generally do so.

In total, the proportion of linear revenue collected in rural municipalities that is shared regionally – excluding specialized municipalities – is approximately 25%.

## **SLIDE 9: SURVEY FINDINGS**

So the main findings we got from this survey are:

- 1) Rural municipalities are sharing and collaborating with their urban neighbors.

We found that 98% of responding rural municipalities indicated some level of collaboration and provision of services or funds to their urban neighbors.

- 2) Rural municipalities are using a number of different types of arrangements with their urban partners to share services and funding.

Some municipalities are using cost-sharing exclusively, some use revenue-sharing exclusively, and some use a combination of different arrangements.

- 3) The values contributed by each municipality vary widely within each of the contribution types, and by the total contributions for each municipality.

As we should expect, no two municipalities are the same and the levels of contribution vary from one to the next.

## **SLIDE 10: SURVEY FINDINGS**

- 4) Rural municipalities collaborate for the benefit of their residents, their urban neighbors, and to promote regional development and prosperity.

In each of the responses, the reasons given for working collaboratively included providing residents with access to services, supporting regional projects, and working to develop a strong and sustainable region.

- 5) Rural municipalities are sharing a considerable portion of the linear property taxation revenue that they receive with their urban neighbors, and there is a relationship between their contributions and their 'ability to pay'.

As identified above, the survey shows a relationship between the level of revenue collected from linear assessment and their willingness to share that revenue.

## **SLIDE 11: AAMDC POSITIONS ON LINEAR REDISTRIBUTION**

On the issue of linear assessment, the AAMDC has some positions that we have developed with our members.

The AAMDC supports regional collaboration. Municipalities must work together to meet regional needs, but on a voluntary basis and in respect of local decision making and autonomy.

We also believe that the status quo is a fair model for linear taxation assessment as it is the rural municipalities that host the vast majority of the natural resource activity in the province and with that comes costs to infrastructure including damage to roads and bridges.

We do not support a per-capita redistribution model as the majority of linear tax dollars would end up in Alberta's metropolitan areas which would significantly harm the rural areas across the province including many smaller urban centres currently relying on their rural neighbours.

Also, the AAMDC is supportive of long-term sustainable funding for all municipalities but does not believe that weakening some municipalities to strengthen others is a fair or sustainable solution to municipal funding. We should not be 'robbing Peter to pay Paul'. Through the MGA review process, we have asked that municipalities have greater revenue tools to diversify their revenue base and meet the funding challenges that are unique to each municipality.

The AAMDC also believes that all discussions of rural municipal finance must consider both the revenue and expenditures of rural municipalities. Having strong revenue base does not make a municipalities wealthy if they have considerable expenses and a very large infrastructure network to maintain – which many rural municipalities have.

## **SLIDE 12: AAMDC POSITIONS ON LINEAR REDISTRIBUTION**

Related to the previous slide, it is important to remember that linear taxation dollars are being used and spent to meet infrastructure and service needs.

Further, although some rural municipalities do have some money set aside in reserves, this should not be interpreted as just having money lying around. This is money that is dedicated to long term planning needs and infrastructure demands, and is a sign of prudent financial management. The character of rural municipalities is to not borrow for infrastructure but to pay for it with internally.

For more information from the AAMDC, we have put together a number of reports which are available on our website, [AAMDC.com](http://AAMDC.com). Most notably is the *Apples to Apples* report which looks specifically at linear and the impacts of a per-capita redistribution.

### **SLIDE 13: AAMDC POSITIONS ON LINEAR REDISTRIBUTION**

I'll now direct you to two quotes here on the slide. There is some academic research on this topic that we have incorporated into our report *Apples to Apples*. These quotes are from Harry Kitchen, a municipal finance expert at Trent University.

First, that municipal infrastructure should be financed by the residents who benefit from it. Second, when there is a linkage between those who pay for a service and those who benefit from that service, a dynamic is created that ensures that funding and resources are used efficiently and decision makers are held to account. It is important to emphasize the need for traceability for rate payers so they can see where their taxes are being used. When funds are pooled, this critical piece is lost.



## **SLIDE 14: LINEAR ASSESSMENT CONSIDERATIONS**

We know you are all here to work together on a position for the AUMA and we think that is a valuable process but we want to provide you with some considerations that we hope will inform your conversation.

First, linear is not a free source of revenue. Rural municipalities work hard with industry to minimize the impact of their operations but the constant traffic associated with some industrial projects do take a considerable tolls on rural infrastructure, and intensive projects sometimes cause major land use planning challenges. There is a perception out there that linear is primarily pipeline projects that only have a one-time cost but this is not that case. Pipelines only make up 40% of the linear assessment base while wells, which have consistent traffic associated with them, make up 38%.

Second, it has long been the AAMDC's position that Alberta needs to think strategically about our supply chains in this province. To ensure our industries can be strong and competitive, they need to be able to access resources and reach export markets. This is a benefit to all Albertans. To do this relies on a strong infrastructure network which is funded partially through linear assessment dollars.

Third, forcing a redistribution of linear revenue could severely weaken the viability of rural municipalities and with it, compromise the supports they currently offer to the urban municipalities within their boundaries. As identified in our survey, there is a considerable effort to support small urban municipalities in the province and it would be very negative if this level of collaboration was compromised.

## **SLIDE 15: LINEAR ASSESSMENT CONSIDERATIONS**

Fourth, there are only a small number of our rural municipalities that generate significant revenues from linear assessment and these are outliers. In the same vein, there are also wealthy urban municipalities that are also outliers. We need to make sure decisions are not being made for all municipalities based on these outliers and that we consider the average rural municipality that receives only modest revenues from linear. We ask that you also keep in mind the relative expenses that come along with that revenue.

Fifth, another dynamic that rural municipalities are faced with is dissolutions and it is a specific concerns for many of our members, especially those with many small villages within their boundaries. When a small urban municipalities dissolve, it is the rural municipality that must manage and carry the urban municipality's infrastructure deficit despite the rural municipality

having no say in the decisions of the dissolved municipality prior to dissolution.

Sixth, the low price of oil and reduced drilling activity has had an obvious negative impact on the provincial economy, but is also expected to reduce linear assessments this year by about 5%. It is important to remember that linear and other industrial taxes are a volatile revenue source. Additionally, like all taxes on natural resources, linear is a depleting revenue source that only exists while energy resources are being extracted. This is not a permanent source of revenue over the long term.

Seventh, we want to emphasize that all municipalities are in unique circumstances and not all have the equal ability to pay. While some of our members are in a healthy financial state, some of our members are struggling. Further, some of our members have one (1) or two (2) small urbans within their boundaries while

others have eight (8) or nine (9). This diversity creates unique challenges and a 'one-size-fits-all' approach may not be appropriate.

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## **SLIDE 16: LINEAR ASSESSMENT CONSIDERATIONS**

Eighth, in addition, because linear tax affects the equalized assessment, it affects the education property tax requisitions that rural municipalities have to make. This means that rural municipalities are paying a greater share of the education property tax on a per capita basis.

Ninth, we need to also think that this is not just a linear issue.

There are a wide range of municipal issues to be discussed and we think that enhanced planning and collaboration can resolve many of the concerns that is driving this conversation.

Tenth, as I've pointed out previously, per capita measures do not translate well between rural and urban communities and a per-capita redistribution model would be devastating for rural municipalities.

## **SLIDE 18: LINEAR ASSESSMENT RECOMMENDATIONS**

To wrap up here, we do have some recommendations here and they speak broadly to the wide range of issues I have talked on.

We hope that you take a holistic approach to this issue and consider the wide ranging implications that redistributing this revenue could have. How will it impact rural infrastructure and the industries this supports? How will it impact the ability of rural municipalities to share with their urban neighbors on existing projects?

We also believe that local decision making and autonomy is the foundation of local governance, but it is also important to work together with our regional partners to meet common challenges.

We encourage our members and all of you here today to talk regularly with your municipal neighbors to find ways to work together and develop innovative projects that boost the levels of service to our residents but also save costs in the long-term.

To conclude, we want to reemphasize the importance of maintaining traceability for our tax payers. When revenue is pooled, there is a broken connection between those who pay for infrastructure and services, and those who benefit from it.



## **SLIDE 19: CONCLUSION**

To conclude, I am thankful for the opportunity to speak with you today and appreciate your time. We think this is a valuable process for your association but we also recognize that this could have negative implications for our members. We hope that we have shared with you some information that will inform your discussion today and we want to emphasize that we will continue to encourage regional collaboration among our members because it ensures that municipalities – both rural and urban – can best serve our residents and use their tax dollars efficiently. Added to that is the importance of the AAMDC and the AUMA to work together to meet the financial challenges faced by all municipalities in the province.

Thank you and if you have any questions, please do not hesitate to contact us.

**END**