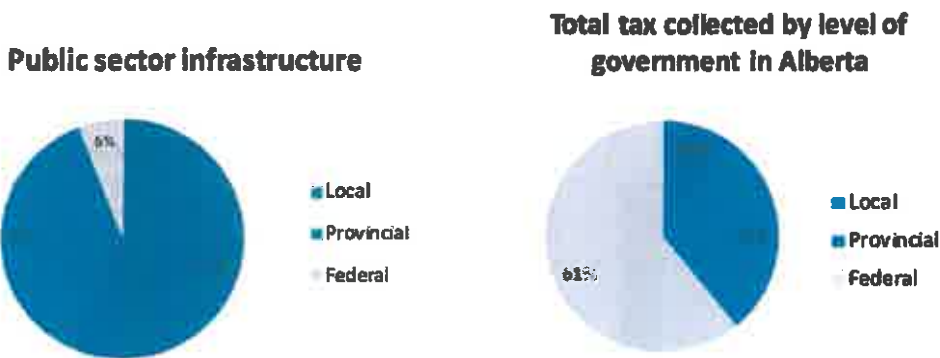


The imperative for municipal infrastructure investment

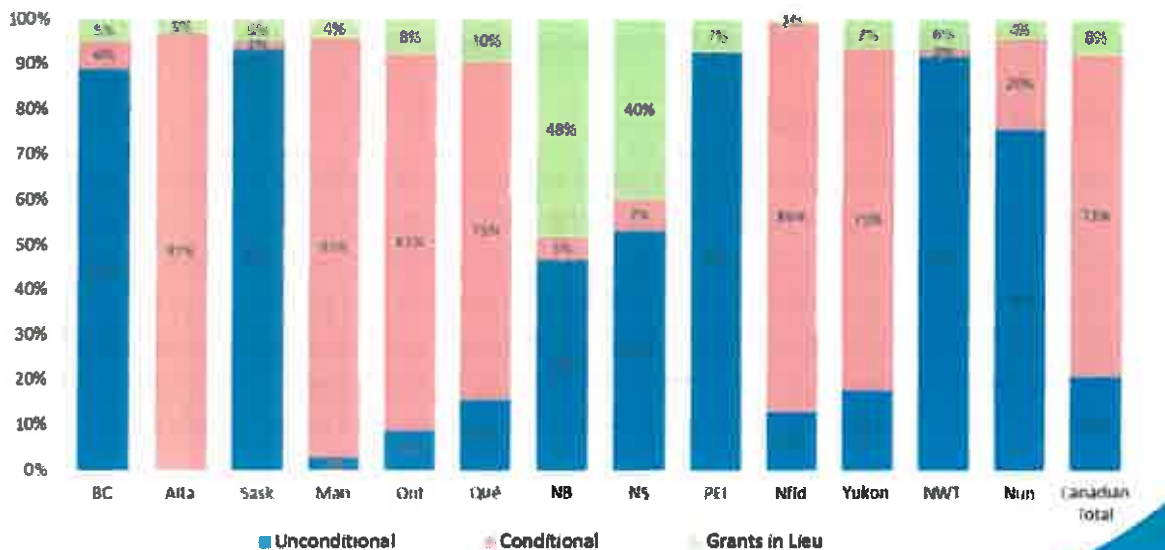
Municipal infrastructure is a core requirement for supporting Alberta's economy as it ensures market access, advances environmental stewardship, enables public safety, and provides quality of life for our citizens. However, as a result of significant funding challenges, this infrastructure is in great jeopardy as it is aging and/or is insufficient to meet the needs of our population and business activities. Funding challenges are rooted in a critical imbalance between the municipal responsibility to provide infrastructure and the ability to fund it.

Alberta municipalities own almost 60% of the public sector infrastructure in Alberta, yet only collect 10% of the tax dollars in Alberta.



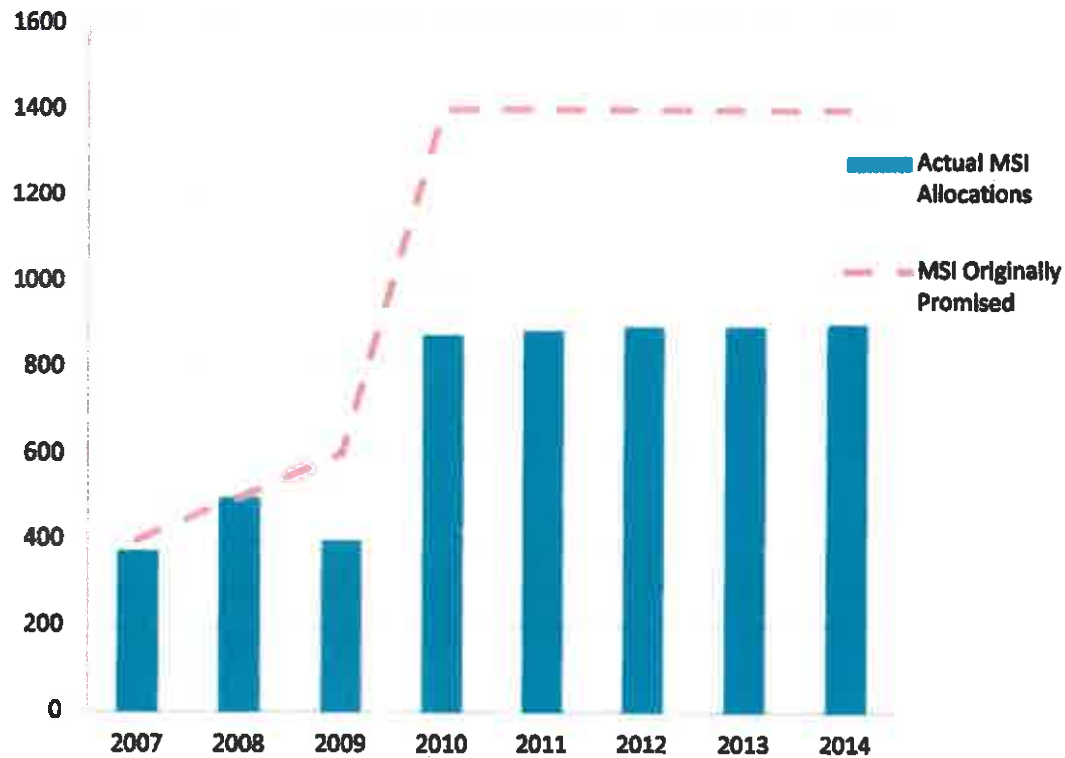
As a result of limited municipal revenue, Alberta's municipalities are heavily dependent on conditional government grants. This dependency far exceeds that of other municipalities across Canada.

Reliance on Conditional and Volatile Grants



The dependency on conditional grants is particularly problematic as this funding has not been stable and sufficient according to the originally committed amounts. A key example is the Municipal Sustainability Initiative where the funding has not met the original announced amount and has not grown as committed to equate to the amount of the education property tax.

Municipal Sustainability Initiative



* Does not include the transfer of the Basic Municipal Transportation Grant under the banner of MSI.

Property Taxes are not sufficient

Municipalities are unable to use property taxes as a solution to the shortcomings in provincial grants. The use of property taxes to fund municipal infrastructure is problematic as property taxes are regressive and do not grow with the economy or distribute the costs fairly. As well, there is too large of a timing gap between the cost of a municipality providing services for new development and for the property tax revenue to flow back to the municipality—studies show this can take up to seven years. In addition, property tax revenues often do not match to the property related services. For instance, using local property taxes to fund a mega infrastructure



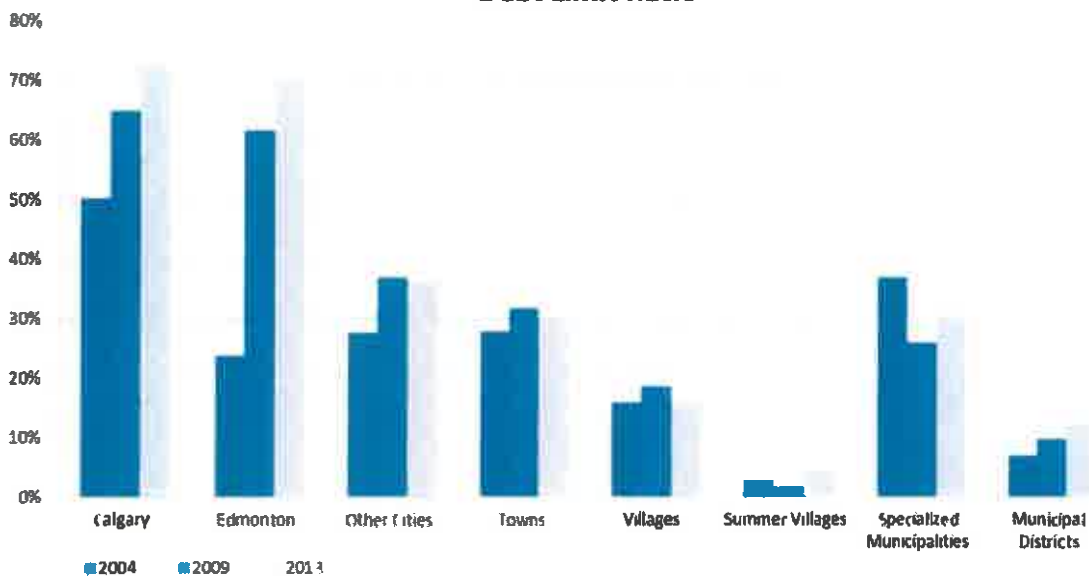
project that benefits an entire region isn't feasible, fair or affordable to the municipal property taxpayers.

Another key challenge is that there is a limit to the taxpayers' tolerance for property tax increases. Property tax increases are driven each year by the province setting the education property tax requisition at 32 per cent of the cost of the education system. This is completely outside of municipalities' control, yet contributes to taxpayer concerns as the increasing education component is about 30 per cent of the total property tax bill. This leaves very little room for municipalities to increase their own property taxes within the taxpayers' tolerance.

Debt and Deficits

With shortfalls in federal and provincial funding, municipalities have been taking on debt. While taking on debt can be a prudent action, many municipalities are reaching their debt and debt servicing limits that are set by the province.

Debt Limit Ratio



Edmonton, Calgary, Medicine Hat and Woodbuffalo have a debt limit based on 2 times revenue compared to 1.5 times for other jurisdictions.

As a result of funding and debt constraints, municipalities have had to defer much needed maintenance and/or construction of new infrastructure. This encompasses roads and public transit, emergency services, water and wastewater facilities, recreational and cultural facilities, etc.

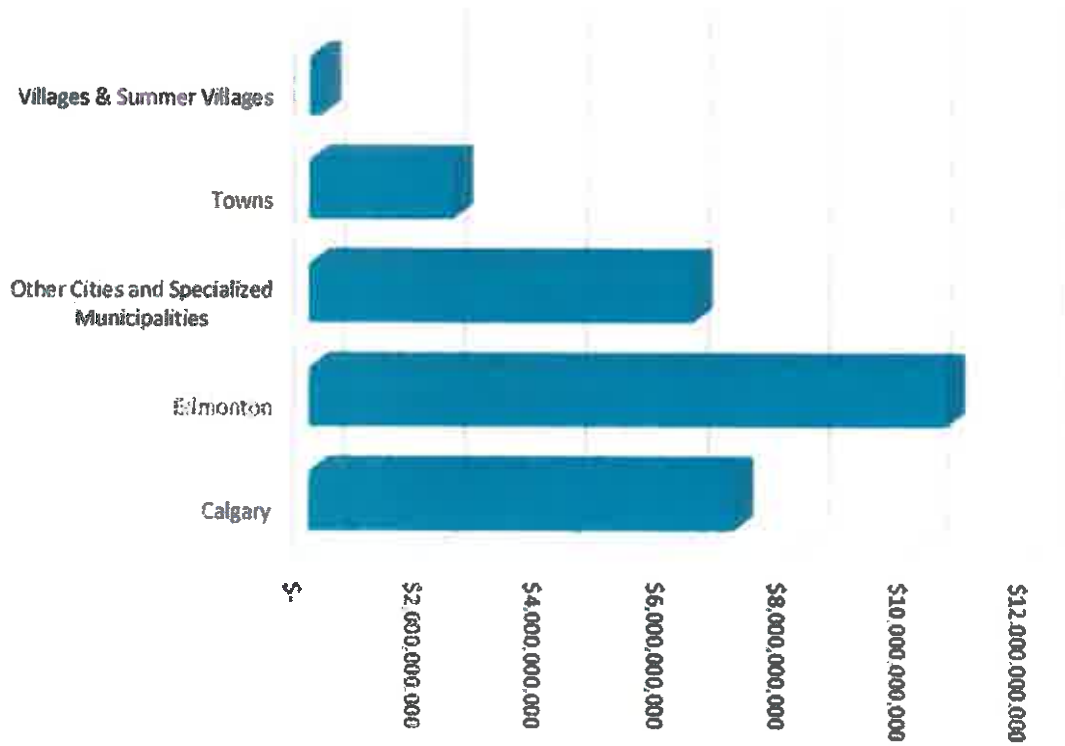
Deferring maintenance (or not performing repairs at all) leads to much higher rates of



deterioration and repair bills that can equal the cost of the original asset.

The municipal infrastructure deficit is estimated at \$26 billion, which annually equates to \$2.6 billion.

Estimated 10 year Infrastructure gap by urban municipality



Municipal priorities for 2015 provincial budget

- **Protecting the Municipal Sustainability Initiative funding to ensure municipalities can count on this funding to meet critical local infrastructure requirements.**
- **Restoring support for water and wastewater management (over \$200 million since 2013) so that public health and compliance with federal and provincial standards can be assured.**
- **Freezing or reducing the provincial education tax requisition dollars to ensure that municipalities have the option of increasing the property taxes for municipal services, within the taxpayers tolerance for increases.**
- **Continuing the grant in lieu of taxes for social housing so the province honors its share of the financial responsibility associated with services to these facilities.**
- **Broadening the scope of offsite levies to include additional costs of community infrastructure related to new development so that costs are not downloaded on the existing citizens in the community.**
- **Increasing Municipal Police Assistance Grants so adequate resources are available to ensure safe communities.**
- **Redeveloping brownfield sites into productive economic use through implementing the recommendations in the 2012 brownfield working group's report which offer solutions for site remediation and liability.**

Building Canada Fund

It is critical that Building Canada Funds be used for municipal infrastructure.

While \$94 million was recently approved under the Small Communities component for municipalities under a 100,000 population, it only covered 56 projects in 53 municipalities. Consequently, there are many unmet needs amongst the over 300 municipalities across Alberta spanning water and waste management, public transit and roads, emergency response, solid waste management, and recreation and cultural facilities.

AUMA has stressed the need to use the provincial/regional component of Building Canada Fund to support major municipal infrastructure projects that impact regions. As well, we are calling for provincial matching funds to align with the timing of small communities projects so that municipalities do not have to finance the provincial portion of the costs.

AUMA has committed to work with the provincial governments to develop efficient mechanisms to prioritize critical municipal infrastructure investments.

Building partnerships, moving forward together

AUMA appreciates the NDP's commitments to:

- **Provide stable and predictable funding for municipalities**
- **Ensure affordable housing is available**
- **Increase support for FCSS programs**
- **Conduct a review of all provincial revenue sources**
- **Protect our environment through investment in green technology, increased scientific monitoring, and development of solutions to climate change**
- **Address municipal concerns with property assessment inequities**
- **Invest in public transit**
- **Ensure small communities have improved access to transportation, health care, education and other essential services.**

In the long term, AUMA will be seeking support to change the municipal funding model to reflect a different approach to government transfers, reforms to property tax and the additional ability of municipalities to charge fees and levies



on limited water allocations, but also protect the environment from this usage.

- Adequate garbage control to protect against disease and pestilence.
- Adequate social supports (affordable housing), emergency response and crime prevention.
- More complex land use and environmental planning.
- The need for recreation and culture facilities to make our municipalities livable and to attract businesses and their workforces that our economy requires to sustain our growth.

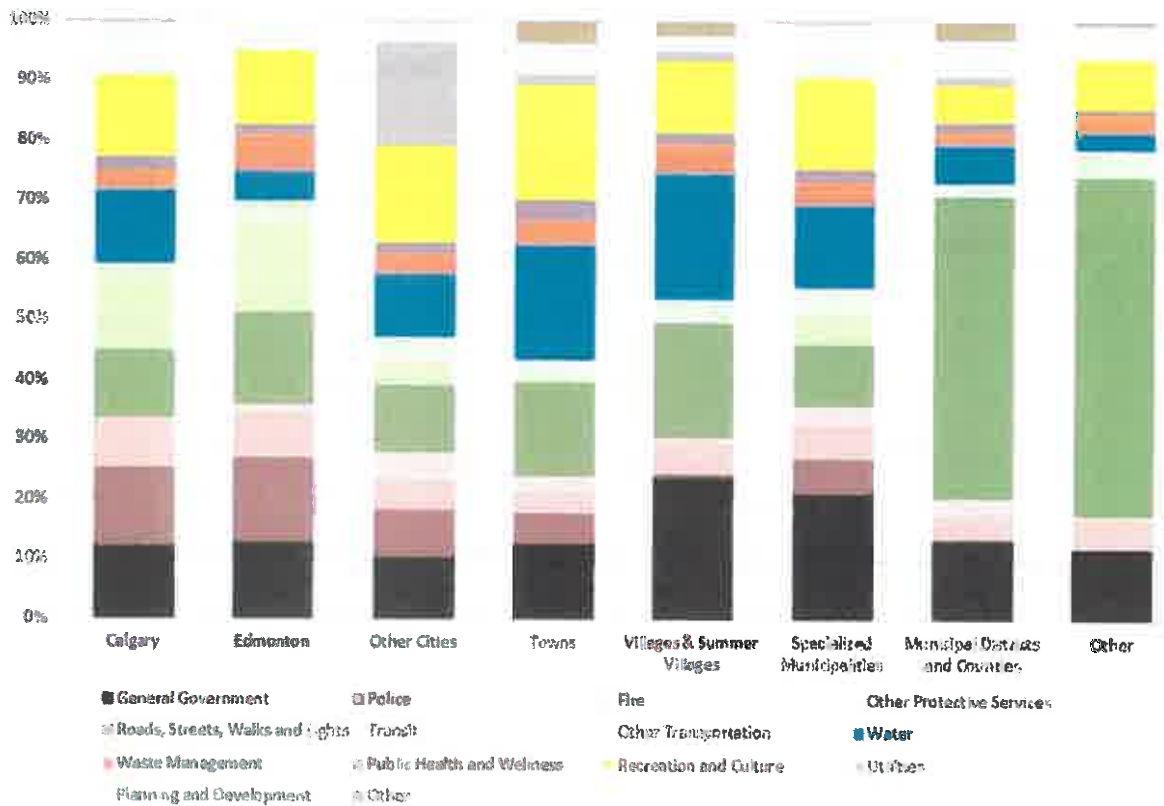
These challenges highlight why current funding models do not work and why there is a need for a diverse set of revenue authorities that recognizes the fundamental differences between municipalities.



Diverse municipalities need diverse revenues

Alberta's municipalities are complex and diverse. Simply put Alberta's municipalities are too different for a one-size-fits all approach.

Municipal expenses



Urban municipalities are confronted with cost pressures associated with their larger population. These cost drivers include:

- The need for more complex and costly road networks to build and maintain. Urban municipal roads require large complex intersections, over and under passes, multiple lanes, etc. It also requires the establishment of transit to help address the costs of added congestion.
- Large scale water treatment, water distribution system, storm water management and sewage systems that not only ensure the health and safety of large populations relying

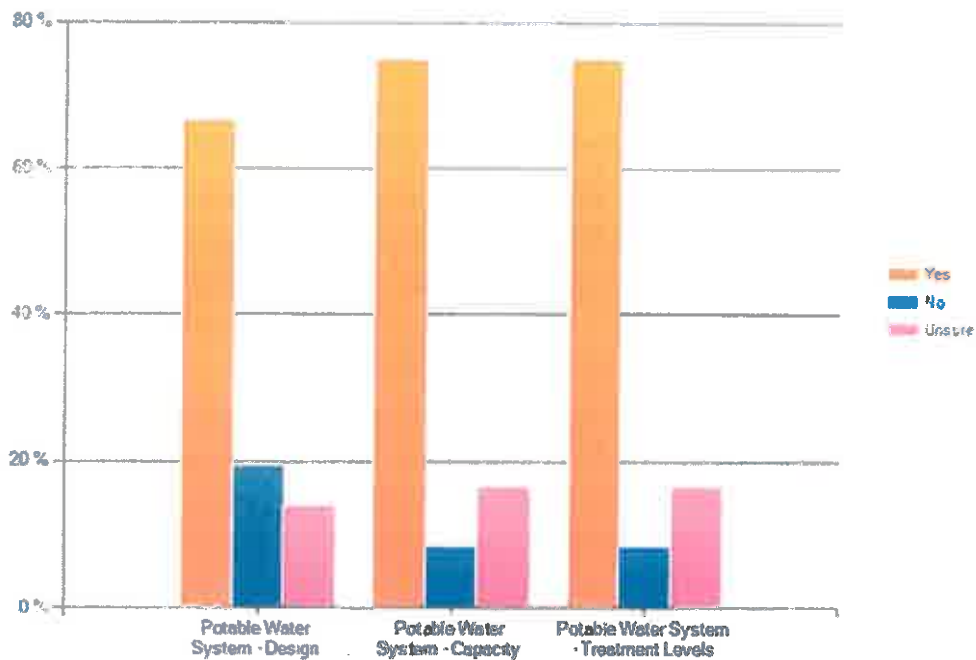


Figure 1: percentage of potable water systems that meet provincial standards and guidelines (Municipalities with populations under 2,500)

In addition, a federal assessment identified that three high risk facilities require upgrades by 2020, 30 medium risk facilities require upgrades by 2030, and three low risk facilities require upgrades by 2050.

These longer-term investments are in addition to more urgent investment needs.

Municipalities identified that approximately 45 per cent of water infrastructure would require need major upgrades within five years.

The magnitude of the deficit

- The magnitude of required upgrades to water and wastewater facilities is in the billions.
- 2010 Municipal Wastewater Facility Assessment report estimates the total capital expenditure for wastewater infrastructure improvements for the next 20 years to be \$2.4 to \$6 billion, with an expected value of \$3 billion.
- The Canadian Infrastructure Report Card estimates that the cost to replace wastewater infrastructure in fair to poor condition averages \$3,136 per household, while the cost of drinking water infrastructure is \$2,082 per household.

At risk water and wastewater infrastructure

Municipal systems provide drinking water and treat wastewater for 90 percent of Alberta's population, playing an essential role in ensuring the health of Albertans and our environment.

Unfortunately, these systems are at risk due to aging water and wastewater systems, increasing federal and provincial standards, population and business growth and a shortage of skilled operators. Recent reductions to provincial water and wastewater funding further compounds these issues, increasing the risk of unsafe drinking water and the possibility of compliance issues with federal and provincial wastewater standards.

Under the previous government, funding for the Alberta Municipal Water and Waste Water Partnership and Water for Life Programs dropped by over \$205 million since 2011. This has been a major setback in addressing the infrastructure deficit, hampering upgrades required to meet federal and provincial standards and stalling the implementation of regional solutions.

***Alberta Municipal
Water/Wastewater Partnership
and Water for Life Programs***

Budget 2011	\$260,000,000
Budget 2012	\$170,000,000
Budget 2013	\$75,000,000
Budget 2014	\$75,000,000
Budget 2015 (as proposed by prior government)	\$55,000,000

Small communities in particular are concerned about the ability of their systems to meet standards. In a 2011 survey, nearly 20 per cent of small communities did not meet provincial standards and guidelines. Proposed changes to Alberta's drinking water regulations will further contribute to the need for investment particularly in relation to monitoring and surveillance equipment associated with drinking water treatment.