



# Fiscal Framework

## MNL Symposium

### Discussion Document

May 2014

  
**Newfoundland  
Labrador**

  
**Municipalities**  
Newfoundland and Labrador

Municipal and Intergovernmental Affairs

## Contents

Introduction .....	3
Consultation Approach .....	4
Phase 1 (January–June 2014).....	4
Phase 2 (May–August 2014) .....	4
MNL and PMA Roundtable Discussions.....	5
Limitations.....	6
Test Polling Question .....	7
Section 1: Municipal Expenditure Pressures .....	8
Polling Questions .....	8
Roundtable Discussion.....	11
Section 2: Local Own Source Revenue.....	14
Polling Questions .....	14
Roundtable Discussion.....	16
Polling Questions .....	18
Section 3: Efficiencies in Service Delivery.....	21
Polling Questions .....	21
Table Discussions .....	23
Section 4: New Sources of Revenue .....	26
Polling Questions .....	26
Roundtable Discussions .....	28
Appendices.....	30
Appendix A: Evaluation Results .....	31
Appendix B: Think and Write Sheets .....	33

## **Introduction**

In Budget 2013, the Provincial Government committed to review the provincial-municipal fiscal framework to ensure that it is sustainable and fair for all communities in the Province.

The goal of the provincial-municipal fiscal framework review (the review) is to examine the existing provincial-municipal fiscal framework and identify options for efficient and effective ways for communities to raise revenue, deliver services and provide good local governance.

This is the first comprehensive review of this nature in almost 40 years. There is recognition by the Department of Municipal and Intergovernmental Affairs (the Department) and Municipalities Newfoundland and Labrador (MNL) that since that time, the needs and expectations of citizens and demographics across the Province have changed and local governance has become more complex and costly. Many communities have small and/or declining populations that limit their ability to generate revenue to deliver local services and attract volunteers to sustain and support the community and council. As a result, these communities are facing challenges in delivering municipal services to their residents.

The official objectives of the review are:

- Review of the current and future municipal expenditure pressures;
- Review of existing local own source revenue;
- Identify opportunities for efficiencies in service delivery;
- Review of existing financial relationship between the provincial government and communities;
- Identify options for new revenue sources for municipalities;
- Complete jurisdictional review of other provinces and territories fiscal frameworks; and
- Identify potential legislative amendments that may result from changes to the fiscal framework coming out of this review.

The review will provide a full understanding of municipal expenditure pressures, the ability for municipalities to derive their own revenue, the opportunities for efficiencies and improvements in service delivery and governance, the provincial government's current supports to communities and the potential changes needed in achieving the delivery of efficient and effective services to residents.

## **Consultation Approach**

An extensive consultation process with key municipal and regional stakeholders as well as the general public was developed for the review. The consultation approach for the review has two phases with the following timelines and key deliverables:

### **Phase 1 (January–June 2014)**

1. A dedicated webpage has been created on the Department's website (<http://www.miga.gov.nl.ca/consultations/fiscalframeworkreview/ffr.html>) to inform the public of the nature of the Review and the opportunities for feedback.
2. An online consultation survey was created and is available for use from January 31 to June 30, 2014, to allow residents, businesses and municipal stakeholders an opportunity to share their ideas on how municipal services are delivered, paid for and shared. Any interested party can also provide a written submission to the Department.
3. A series of roundtable face-to-face discussions were scheduled between January 31 and April 2, 2014, with MNL membership, Professional Municipal Administrators' (PMA) membership, Rural Secretariat Regional Councils and Local Service Districts (LSDs).

### **Phase 2 (May–August 2014)**

1. Meetings with targeted stakeholders involved in supporting municipal service delivery (e.g., economic development, recreation, waste collection/disposal, environment, infrastructure, firefighting, bylaw enforcement, land-use planning, etc.) are planned for May – August, 2014.
2. All feedback received from Phase 1 and 2 will be reviewed, organized and presented in a "What We Heard Document" for public dissemination in Fall 2014 and posted to the department's website.

According to the Government of Newfoundland and Labrador's Office of Public Engagement, a partner of the Department and MNL in the design of the consultations, this consultation process was one of the largest in the Province to date, taking into account the number of stakeholders to be consulted and variety of methods for collecting input.

The MNL Symposium marks the beginning of Phase 2 with the presentation of this document that summarizes the findings from the eight roundtable consultations with the MNL and PMA membership over the last few months. The MNL Symposium will also allow MNL members an opportunity to further consider the objectives of the review, reflect on their comments at the roundtable discussion sessions, and provide additional feedback to MNL and the Department.

### **MNL and PMA Roundtable Discussions**

The MNL and PMA roundtable discussions provided an opportunity for municipal leaders and professional staff from cities, towns, and the Inuit Community Governments to provide their feedback on the following areas of the review:

1. Municipal Expenditure Pressures;
2. Local Own Source Revenue;
3. Efficiencies in Service Delivery; and
4. New or Alternate Revenue Sources for Municipalities.

These four areas were selected to be part of the consultation process as they were identified to be the key areas of interest for municipal stakeholders. The remaining three areas of the review are research based and therefore were not included as part of the consultation process.

Roughly 360 municipal representatives took part in the consultations across the province as follows:

<b>Region</b>	<b>Date</b>	<b>Location</b>
<b>MNL Central Region</b>	1 February, 2014	Grand Falls-Windsor
<b>MNL Eastern Region</b>	8 February, 2014	Clarenceville
<b>MNL Labrador Region</b>	20 February, 2014	L'anse au Clair
<b>MNL Avalon Region</b>	22 March, 2014	St. John's
<b>MNL Western Region</b>	1 March, 2014	Deer Lake
<b>MNL Northern Peninsula Region</b>	29 March, 2014	Hawke's Bay
<b>PMA Avalon Region</b>	22 February, 2014	St. John's
<b>PMA Conference</b>	2 April, 2014	Gander

The consultations were co-facilitated by the Department and MNL staff and were structured with two components: polling questions and roundtable discussions.

The electronic polling used Share Point technology for instantaneous feedback on 13 questions related to the topics. The roundtable discussions were used to get further input on eight questions related to the four main topics. The roundtable discussions provided time for participants to think about and write down their individual responses which were followed by

group discussions on the same topic. The Department and MNL staff acted as roundtable facilitators and table recorders to ensure the process ran smoothly and all feedback was captured.

The findings shared in this document are derived from a summary of the quantitative polling data and an analysis of the qualitative information obtained from the MNL and PMA roundtable discussions.

The presentation of the findings in this document follows the same format and arrangement as the consultation sessions. Department staff determined the provincial averages for each polling question and analyzed the roundtable discussion data to identify themes and popular ideas.

It should be noted that the feedback provided by attendees was not assessed for validity and the document reflects a summary of the opinions expressed at these sessions by the individuals in attendance.

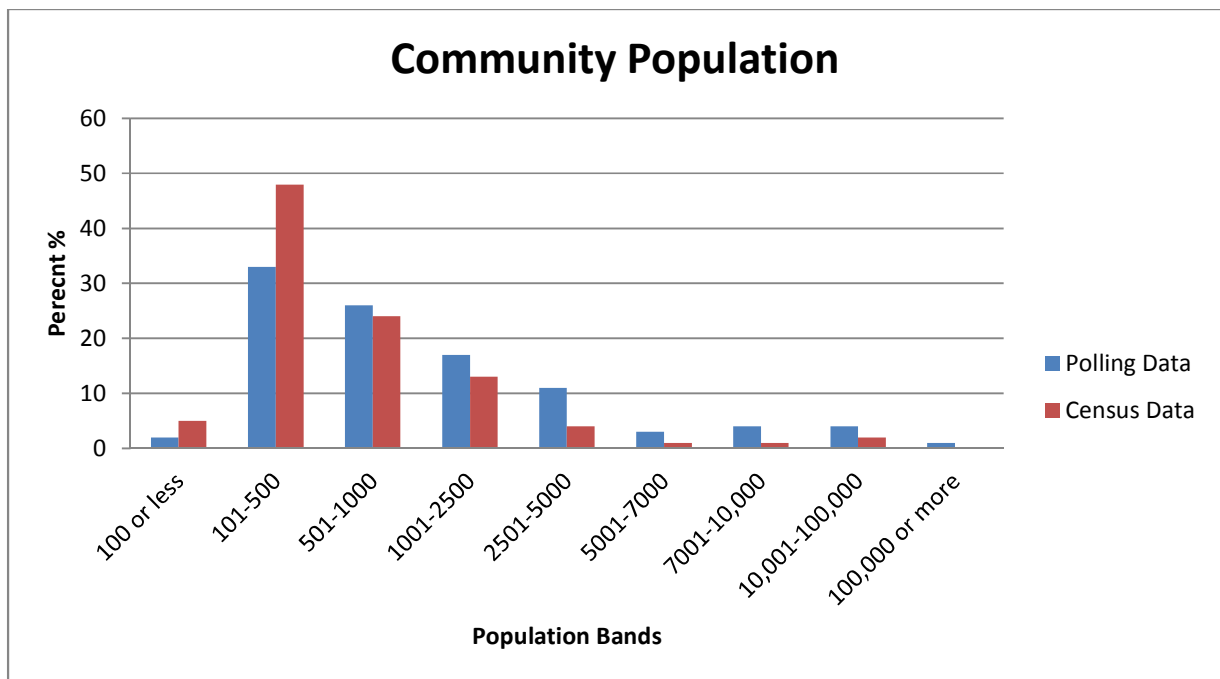
Finally, the feedback is presented based on common themes as identified by department staff while compiling and analyzing the data collected at the consultation sessions.

### **Limitations**

There are some potential limitations to the consultation data collected. They could include recorder errors, misinterpretation of questions and/or responses, time limitations and that all municipalities were not proportionally represented. While measures were taken to minimize these potential limitations the impact is not known or quantifiable.

## Test Polling Question

This question was asked to ensure that participants were familiar with using the keypads provided for the electronic polling questions. The chart below compares 2011 census data against the polling information that was collected at the various sessions. It should be noted that the results are somewhat representative of the population demographics of communities in the Province.



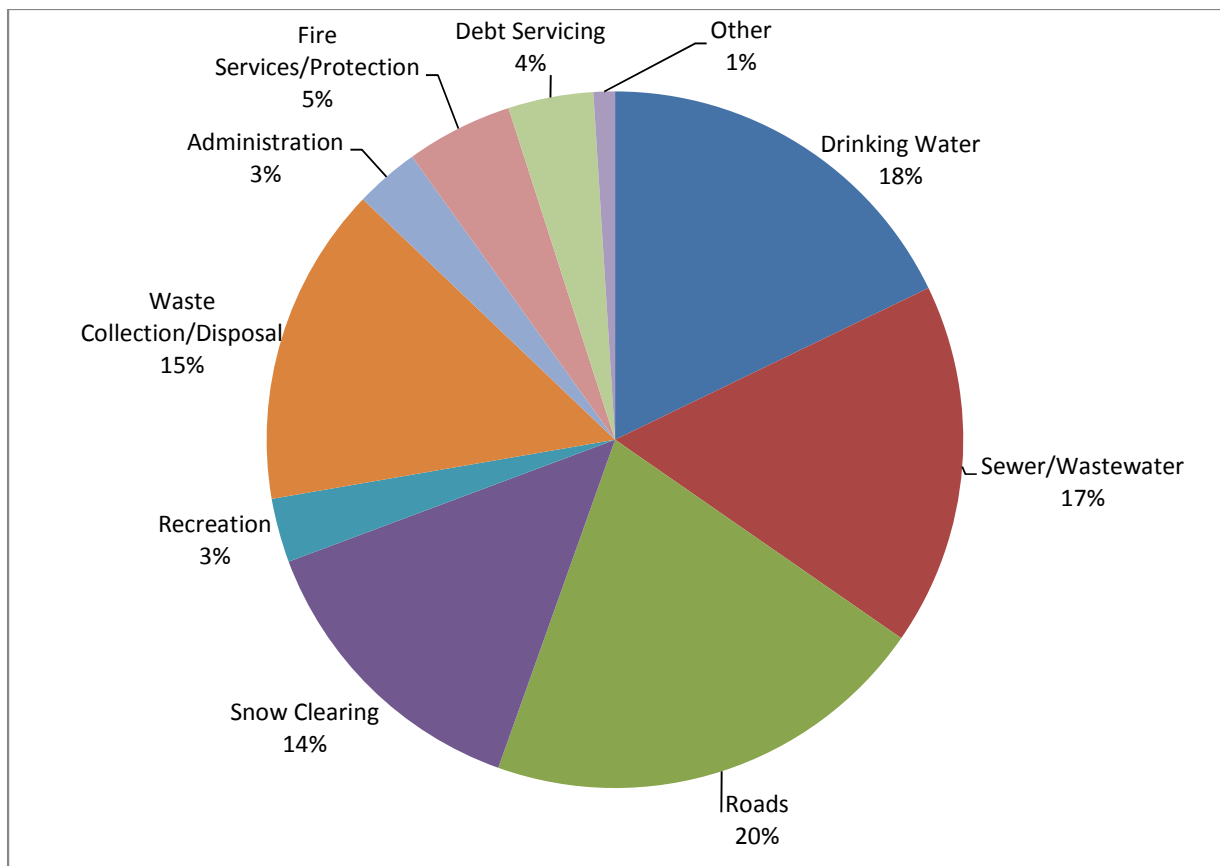
*Figure 1: Results of test polling question "What is the population of the community you represent?"*

## **Section 1: Municipal Expenditure Pressures**

An expenditure pressure was defined for the purpose of the consultations as a budgetary expense that places increasing strain on other parts of a municipality’s budget. The causes of current and future expenditure pressures could be new service demands, changes in the local tax base and new legislative/regulatory requirements.

### **Polling Questions**

#### **1. What are currently the top 3 expenditure pressures in your municipality?**



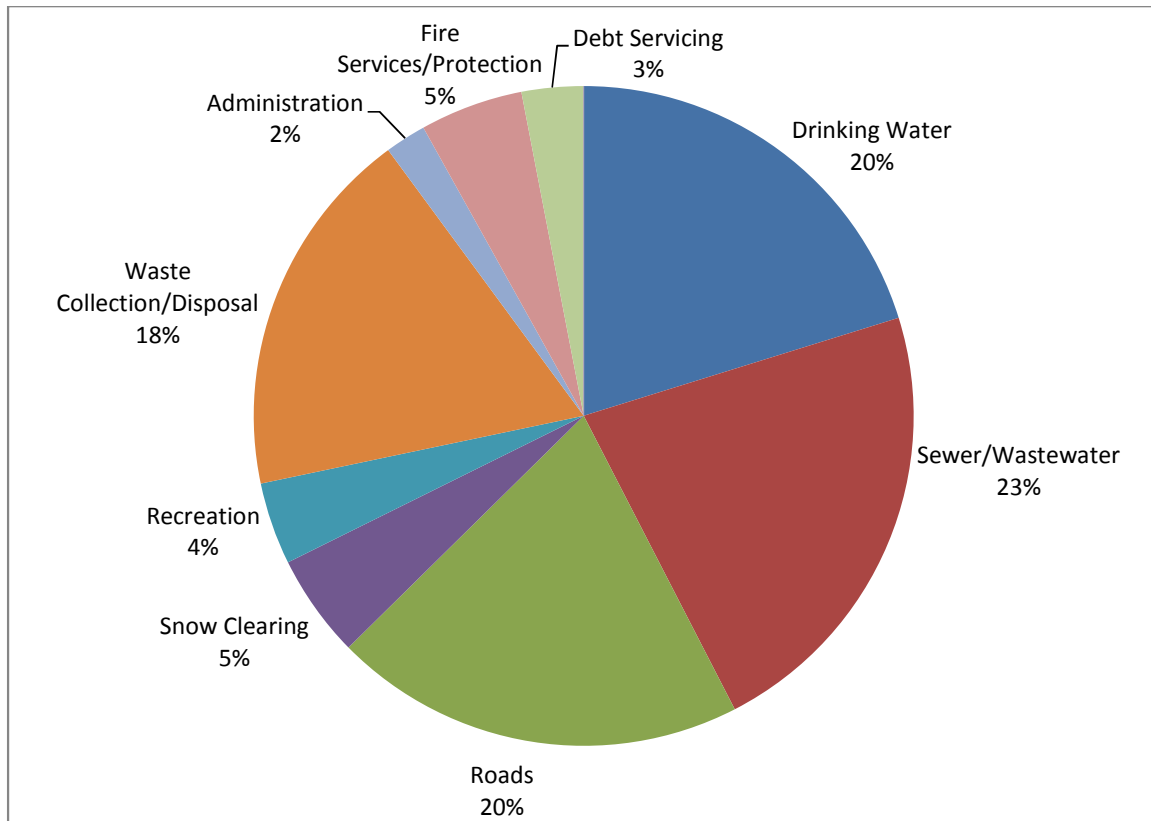
***Figure 2: Results from polling question “What are currently the top 3 expenditure pressures in your municipality?”***

The purpose of this question was to gather information on what the respondents felt the current expenditure pressures on municipal budgets.

Roads, drinking water, sewer/wastewater, waste collection and disposal and snow clearing were the top reported current expenditure pressures amounting to 84% of all responses.



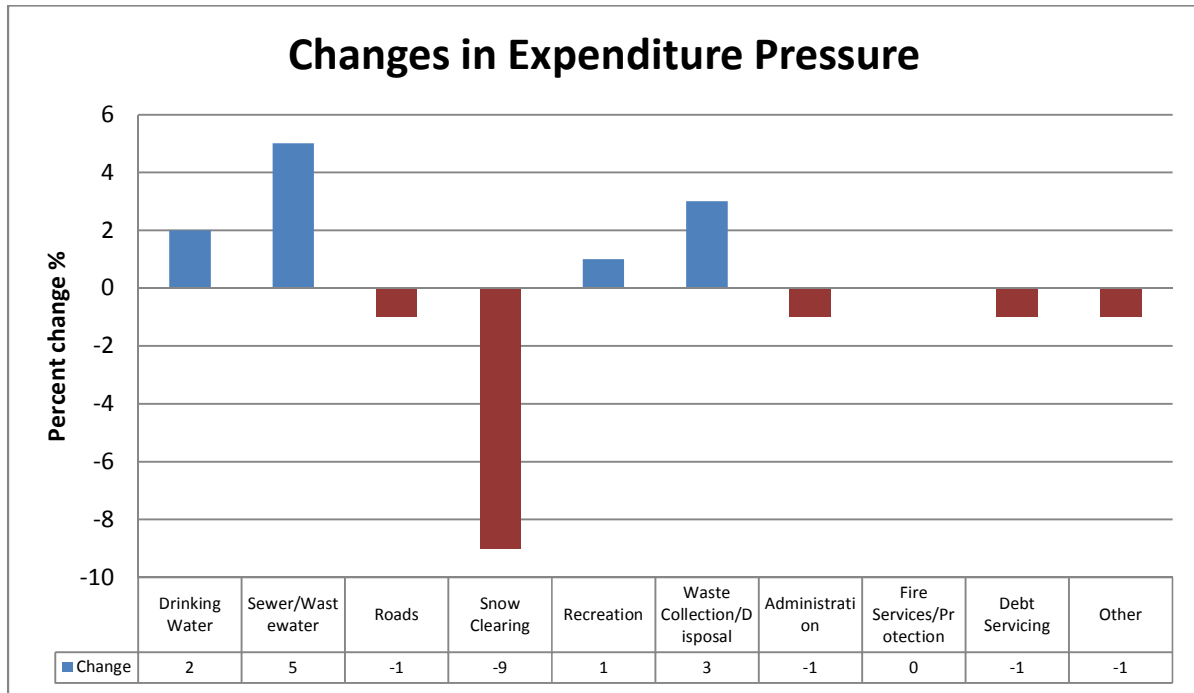
**2. What do you anticipate will be the top 3 expenditure pressures for your municipality in the next 10 years?**



**Figure 3: Results from polling question “What do you anticipate will be the top 3 expenditure pressures for your municipality in the next 10 years?”**

The purpose of this question was to gauge what municipalities expect will be future expenditure pressures in the next ten years.

Sewer/wastewater, drinking water, roads and waste collection/disposal were the four highest responses amounting to 81% of responses.

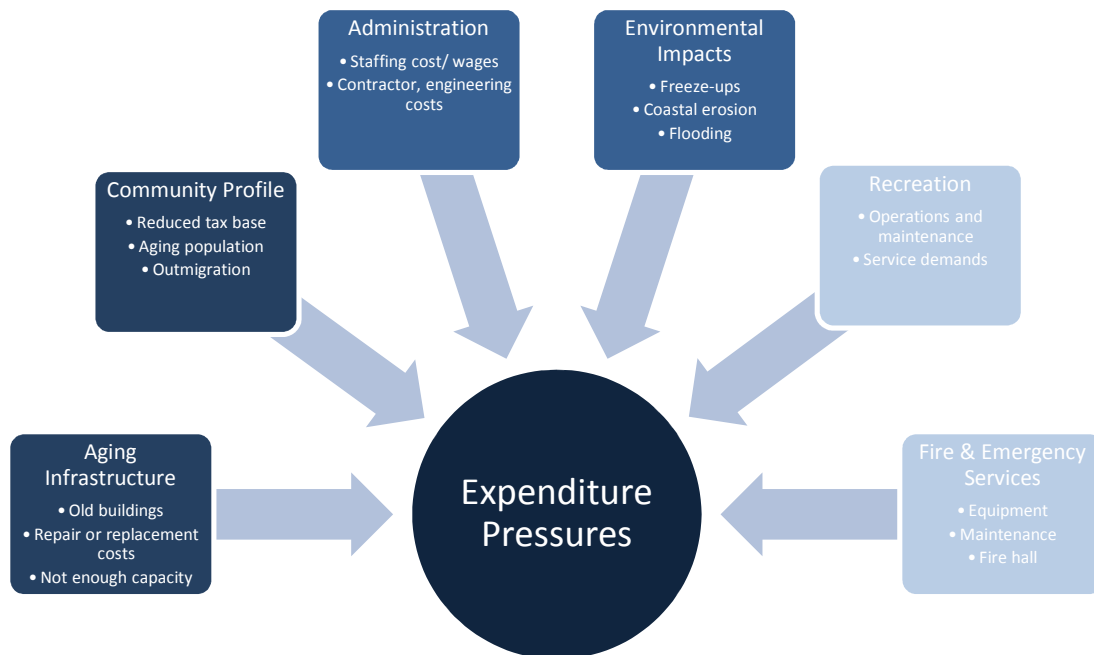


**Figure 4: Changes in expenditure pressure.**

Figure 4 illustrates changes in the responses from what is considered to be current expenditure pressure versus what will become future expenditure pressures. Sewer/ Wastewater increased the most by 7%, while snow clearing decreased the most by 9%.

## Roundtable Discussion

### 3. What are the causes of the expenditure pressures your community is currently experiencing?



*Figure 5: Causes of expenditure pressures. Darker shade represents higher frequency of response.*

There were six main themes for the causes of expenditure pressures. The most predominant was aging municipal infrastructure. Participants cited unexpected costs associated with unscheduled repairs, maintenance, upgrades and replacements of municipal buildings, roads and water systems. Towns also expressed concerns about having difficulty funding the municipal portion required for Municipal Capital Works projects.

The second most commonly stated expenditure pressure was local demographic changes. The demographics of communities have changed dramatically over the last 40 years. It was felt that many communities do not have the same tax base as they once did and many towns continue to lose community residents due to outmigration.

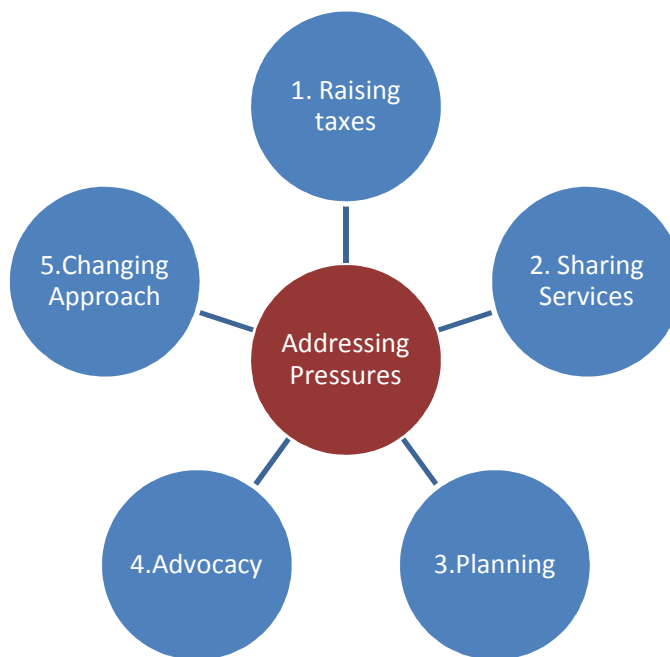
Municipal leaders noted the consequences of negative demographic changes, whereby aging populations and outmigration erode and limit the tax base resulting in an increase in the cost of delivering services per person. They also expressed the view that the aging population has put considerable strain on a municipality's ability to raise revenue as an increased number of taxpayers are pensioners on lower fixed incomes and are less able to adapt to tax increases.

Some participants indicated that administration becomes an increasing expenditure pressure as populations decline. It is becoming harder for towns to compete with the increased wages in other sectors, communities and provinces. Similarly, the costs of engineering and contracting services have increased as the demand for these services increase around the Province.

Many attendees commented that major weather events have put considerable strain on their budgets. Road damage, bridge washouts and flooding from hurricane and rain storms are becoming more common and coastal erosion threatens municipal infrastructure.

It was also noted that the cost of delivering services such as recreation and fire and emergency services has increased faster than municipalities and taxpayers have adapted. The price of equipment continues to increase and maintenance costs put stain on community's budgets.

#### 4. How is your municipality addressing these expenditure pressures?



**Figure 6: Top responses regarding addressing expenditure pressures.**

Many municipalities indicated they are trying to address known expenditure pressures in various ways. The most frequently discussed measure was to raise taxes, specifically the mill rate for local property tax. Others have put a new emphasis on collecting back taxes and increasing fees for services.

It was expressed that changing the way services are delivered is another way to address expenditure pressures. Some municipalities have found cost savings by sharing services

between communities. Many towns indicated that basic services such as fire protection, water, recreation as well as municipal equipment can be easily shared among communities.

Strategic planning for future expenditures and altering budgeting practices were also identified as measures to address expenditure pressures.

Lobbying government for additional funding, be it one time grants, MCW program or increased Municipal Operating Grants (MOG) was also seen by participants as a way to address short and long term expenditure pressures.

Some towns noted that they have changed their approach to service delivery. For instance, they purchase higher quality equipment that is more durable. They also suggested that hiring economic development officers could assist in rejuvenating local economies.

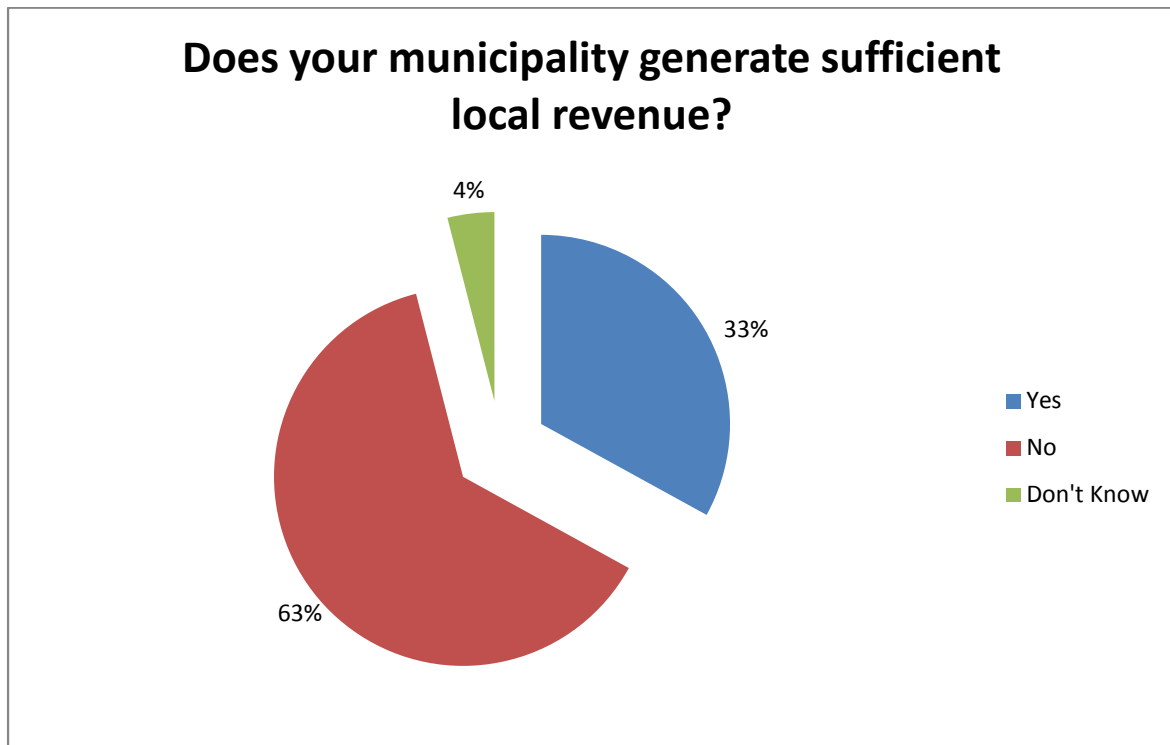
Many have also moved to reduce the quantity or frequency of services in order to adjust to expenditure pressures, while others have been forced to reduce the amount of employees or working hours.

## **Section 2: Local Own Source Revenue**

Existing local own source revenue is how a municipality raises revenue from the following means: property tax, poll tax, fees for service, business tax and/or water/sewer tax.

### **Polling Questions**

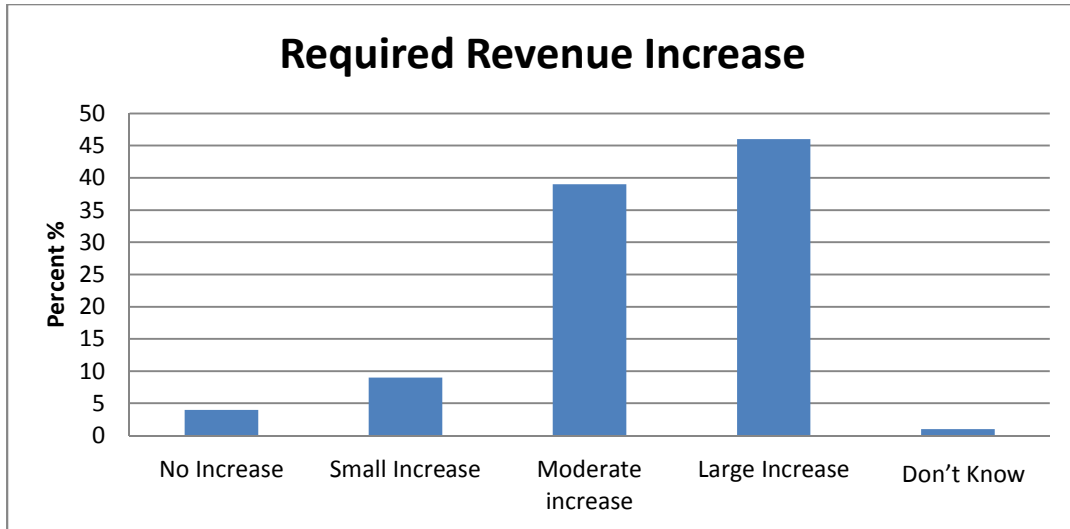
5. Does your municipality generate sufficient local revenue (in conjunction with your Municipal Operating Grant, if applicable) to meet your needs?



*Figure 7: Results from polling question regarding levels of local revenue.*

As noted in Figure 7, the majority of respondents (63%) do not think that their municipality generates sufficient local revenue. Alternatively, approximately 1/3 of respondents thought that their municipality generated sufficient revenue.

6. How much of an increase in revenue would your municipality need to meet all the demands of your taxpayers?



*Figure 8: Results of polling question on required increase in revenue.*

Although Figure 7 indicates that 33% of respondents felt that their municipality generated sufficient levels of revenue, 94% felt that a revenue increase of some degree was required. As per figure 8, 46% responded that a large increase was needed and 39% agreed that a moderate increase was needed.

## Roundtable Discussion

### 7. What changes would you make to the current property tax and assessment system?



*Figure 9: Feedback on changes to property tax and assessments.*

There was no predominant direction on the feedback regarding changes to the property tax and the assessment system. The feedback went consistently in opposing directions.

Much of the discussions regarding property tax centered on the Municipal Assessment Agency (MAA). Some of the respondents felt that the MAA should be eliminated; others felt a review of the agency's role is needed, or a review of MAA operations. Some people thought that assessments should be done more often by the MAA, while others felt that municipalities should conduct their own assessments.

Feedback regarding tax rates was also inconsistent. Attendees suggested that property tax rates should be increased, capped at a flat rate or the property tax system eliminated altogether in favour of a flat rate or income based system.

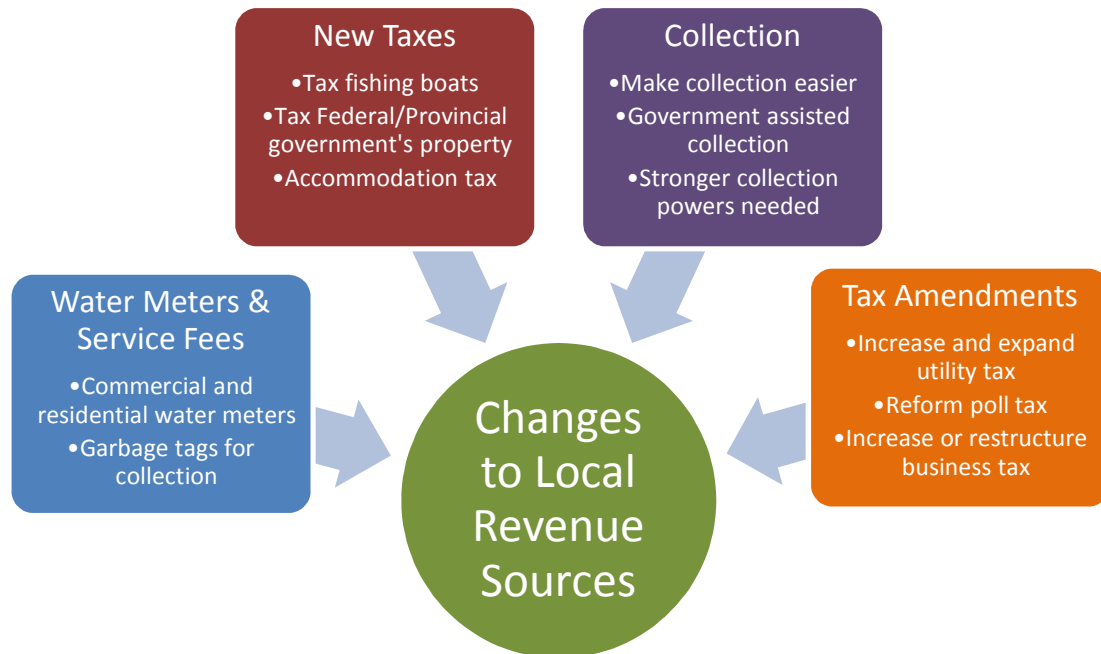
Some towns expressed difficulty in collecting taxes and suggested that a third party agency may be able to provide assistance, including the provincial government, as is done in other Canadian jurisdictions. Some municipal representatives also felt that there should be more aggressive measures in place for collection.

Many called for changes to the way that governments pay taxes. Many participants requested that the provincial government start paying grants in lieu of property taxes on government property.



Responses did suggest that participants are not satisfied with the status quo and that changes to the system are desired, however there is no clear direction in terms of what particular changes are preferred.

**8. What changes would you make to the other local revenue sources (e.g. poll tax, water/sewer tax, business tax, utility tax)?**



*Figure 10: Feedback on changes to other local revenue sources.*

The feedback from this question was focused on the addition of new taxes/fees and maximizing the benefits of the current taxes/fees system.

One of the most popular comments on new local revenue sources was about installing water meters for high water users in communities, such as fish plants, schools, hospitals and seniors homes.

Other new sources included increasing the types of taxes and the application of current taxes. For instance, many felt that the provincial government should pay grants in lieu of property tax as is current practice by the federal government. Others felt that fishing operations should be taxed by municipalities. Finally, respondents suggested that new taxes, such as accommodation tax could also become a new local revenue source.

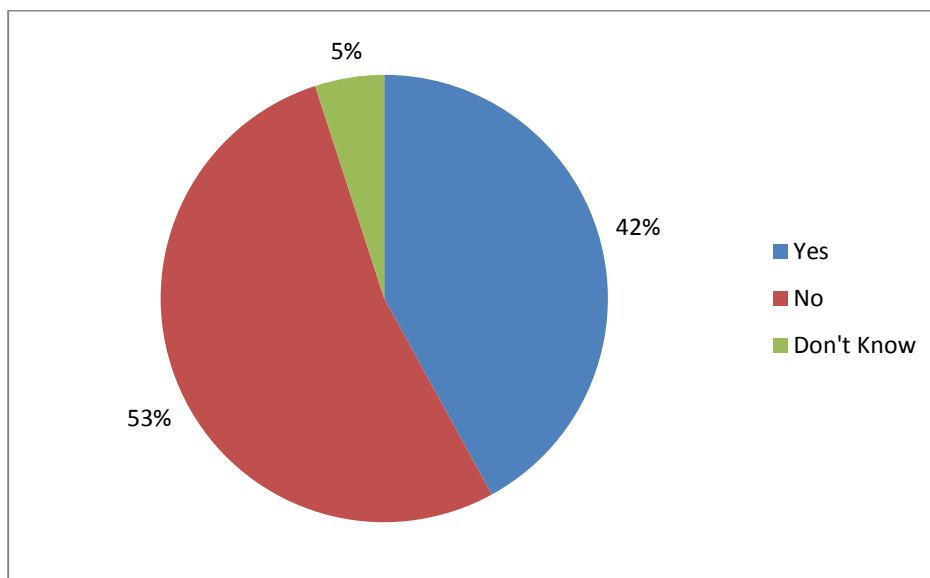
Most attendees agreed that tax collection can be difficult and that measures should be taken to make tax collection easier for towns.

Finally, many agreed that amendments are needed for utility tax, business tax and poll tax. Participants felt that both business tax and utility tax could be amended to broaden their application, and that communities should be able to set the tax rate.

Poll tax was said to be very difficult to collect and most comments surrounded either reforming the tax or abolishing it altogether.

### **Polling Questions**

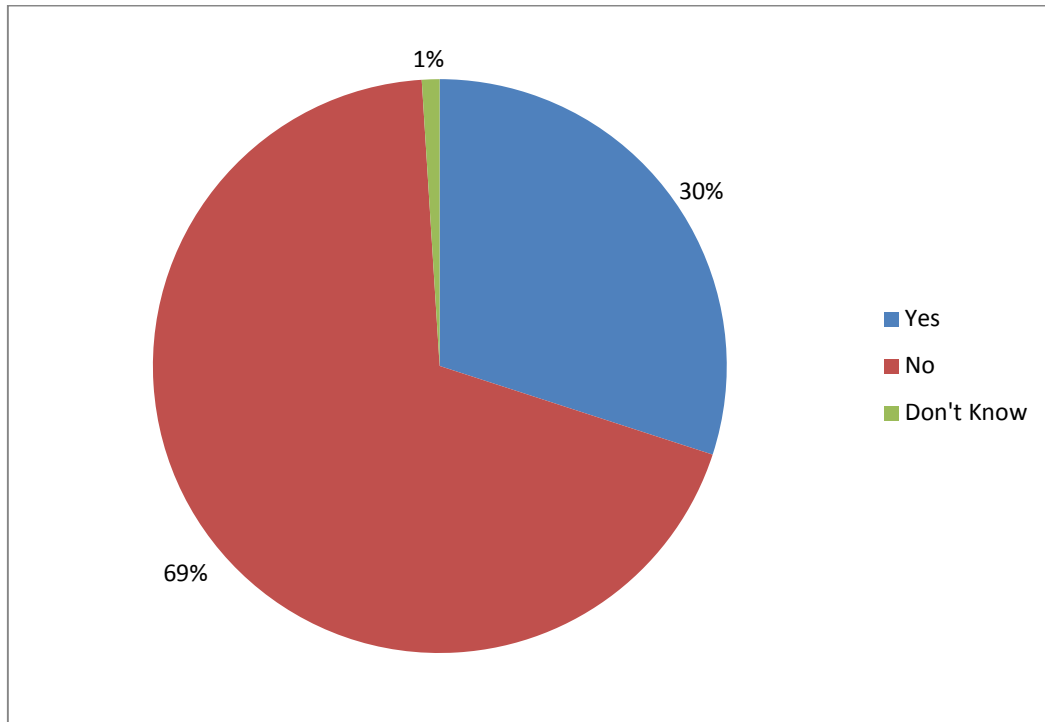
#### **9. Do you think businesses in your community should be paying more for the municipal services they receive?**



***Figure 11: Business and taxations/fee levels.***

Slightly more than half of respondents feel that businesses in their communities should not pay more municipal taxes for the services they received. Alternatively, 42% believe that businesses should be paying more taxes.

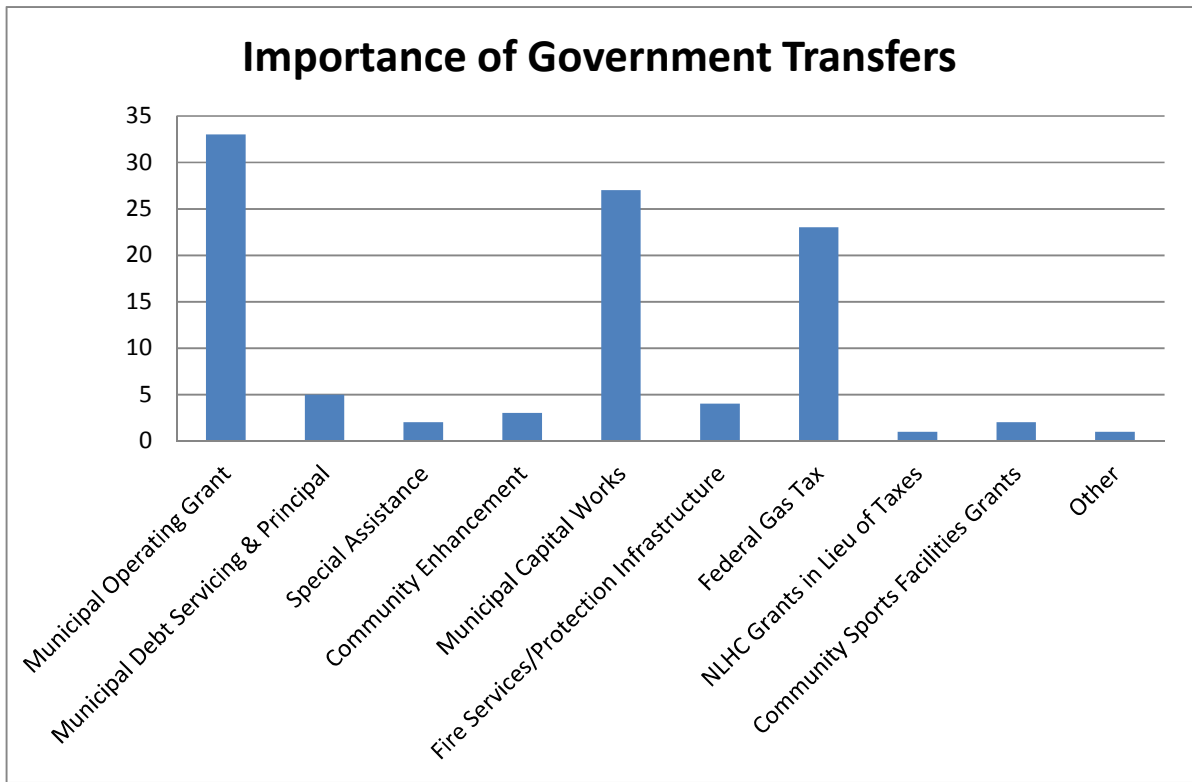
**10. Do you think residents in the community should be paying more for the municipal services they receive?**



**Figure 12: Residents and taxation levels.**

Over 2/3 of respondents (69%) thought that residents should not have to pay more taxes or fees for municipal services. 30% felt they should be paying more.

**11. What government funding transfers are most important to your municipality?**



**Figure 13: Government transfers to municipalities.**

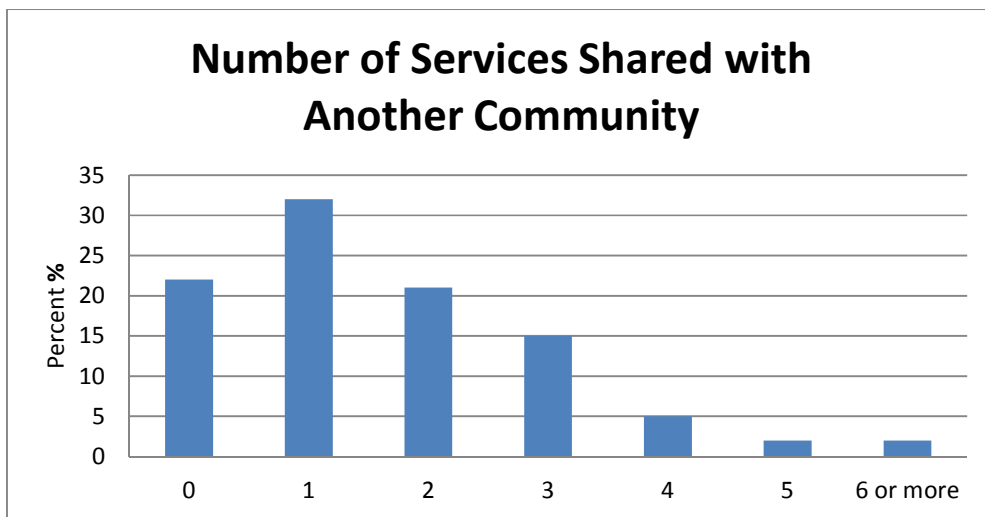
This question sought to identify views on what participants felt were the most important funding transfers from other orders of government to municipalities. By far, the top three responses were Municipal Operating Grants, Municipal Capital Works and Federal Gas Tax program funds.

### **Section 3: Efficiencies in Service Delivery**

Efficiencies in service delivery can be accomplished simply through the sharing of services or equipment between neighbouring communities. It can also be sought through the delivery of services on a regional basis (e.g. Regional Waste Management). Services can also be shared through regional cooperation initiatives including amalgamations and lead to more efficient delivery.

#### **Polling Questions**

##### **12. How many municipal services are you sharing with another community?**

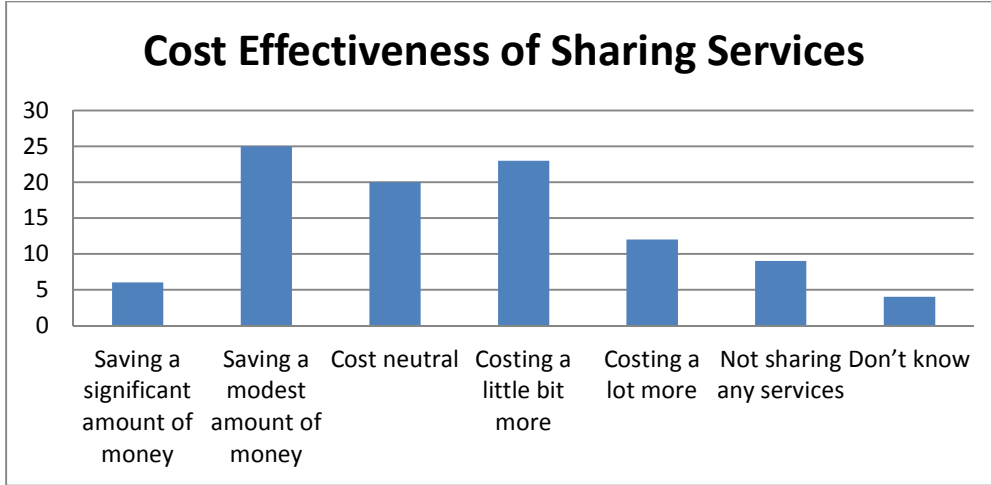


*Figure 14: Number of services shared between communities.*

The purpose of this question was to gather information on how many services municipalities currently share with other communities (other municipalities, LSDs or unincorporated areas).

The majority of respondents (68%) indicated their municipality shares one to three different services, while 22% of respondents indicated that they do not share any services. A small percentage (9%) indicated they share four services or more.

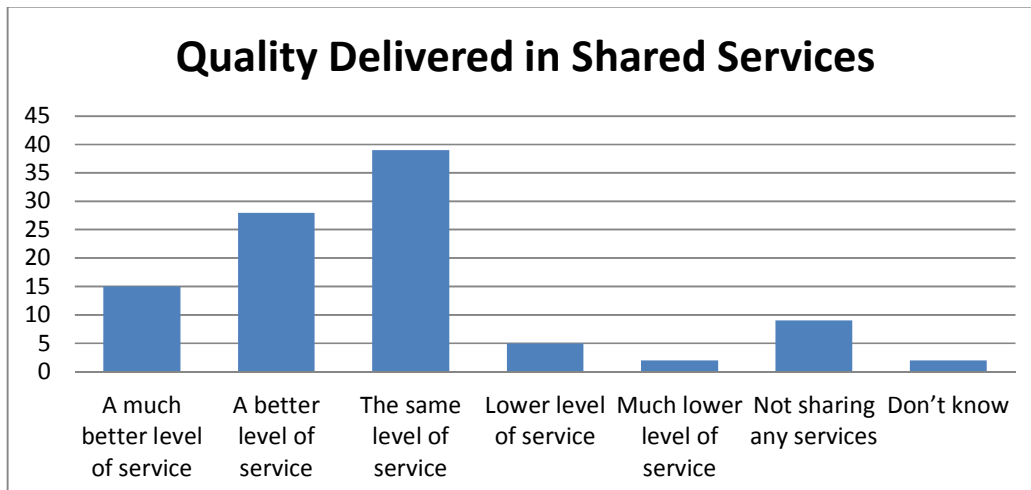
**13. Sharing services with other communities results in...**



*Figure 15: Cost effectiveness of sharing services.*

This question was about whether or not municipalities feel that sharing services is cost effective. The majority of respondents agreed that sharing services was cost neutral or better. 31% of respondents indicated that they thought that sharing services was saving their municipality a significant or modest amount of money, 20% thought it was cost neutral, 23% said it was costing a little but more, and 12% indicated it was costing them a lot more money.

**14. Sharing services with other communities is...**



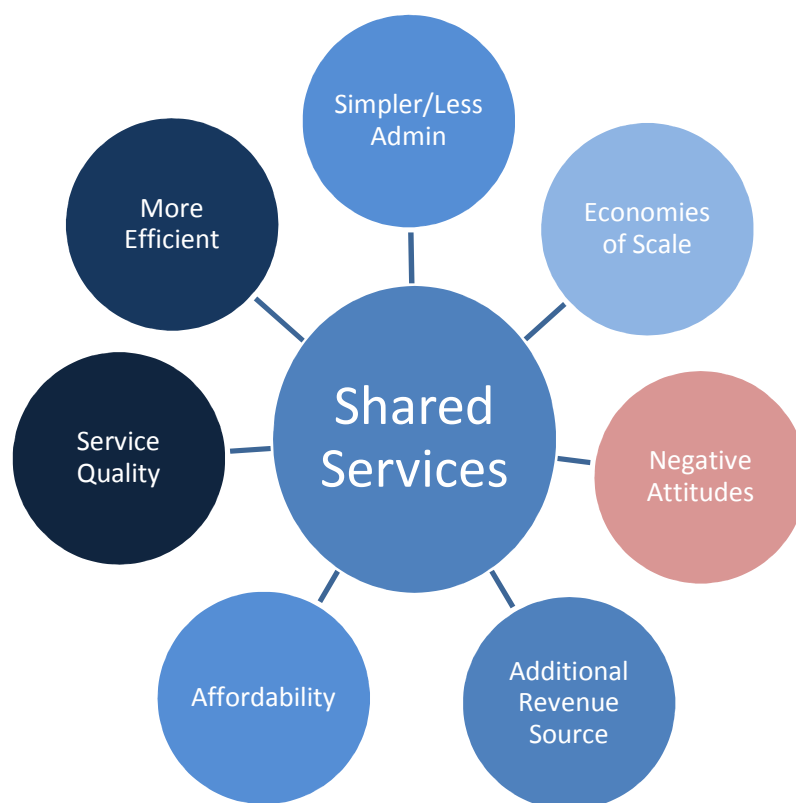
*Figure 16: Quality effectiveness of sharing services.*

Where the previous question focused on the cost effectiveness of sharing services, this question focused on the quality of the service being delivered.

While 39% felt that the service was about the same level of quality as a result of sharing service delivery, 43% thought that sharing a service resulted in either a better or much better level of service.

### **Table Discussions**

#### **15. Identify why certain regional collaborative/cooperative initiatives worked for your municipality.**



**Figure 17: Why regional services worked. More frequent responses are darker in colour.**

Many respondents felt that regional cooperation initiatives worked in their region because cooperation improved the quality of services and in some cases there are cost savings and more efficient operations. Fire services and waste management were two examples that were given frequently as good examples of sharing services. Some respondents felt that in some cases Fire

Stations have better response times and are less costly to operate. Regional waste management was viewed as removing an administrative burden from some municipalities.

Another popular response was that sharing services increased the affordability of services. It was noted that this allows towns to offer services that they otherwise would not have been able to provide. For instance, when three to four towns come together they are able to hire full time animal control staff. In fact, some towns consider sharing services as a new revenue source as they charge surrounding communities for services, which offset their own costs.

Not all feedback regarding the sharing of services was positive. Many suggested that negative attitudes and community rivalries have stalled some regional cooperative initiatives. However, it was expressed that sharing more information with communities to better demonstrate the benefits of collaboration would alleviate this concern.

**16. Identify mechanisms or structural changes that would enhance regional cooperation/collaboration?**



*Figure 18: How can regional cooperation be enhanced?*

One of the most frequently discussed ways to enhance regional cooperation was increasing education and awareness. Information such as financial savings and operational efficiencies should be shared between towns. One interesting idea was to have towns publish service cost



breakdowns in an easy to understand table so residents and other communities can better understand municipal service delivery costs.

It was expressed that intercommunity sharing is already taking place without the presence of formal agreements. However, as sharing services expands to include human resources and expensive equipment it may be best to encourage formal agreements.

Many feel that new governance models are needed to establish a more formal level of regional governance. At the very least many agreed that LSDs and unincorporated areas should be brought under a new governance model.

There was significant support for the concept of the Provincial Government providing more funding for regional infrastructure projects over projects for individual communities. Furthermore, many also felt that regionalization should be led by the provincial government to ensure that as many towns take part as possible.

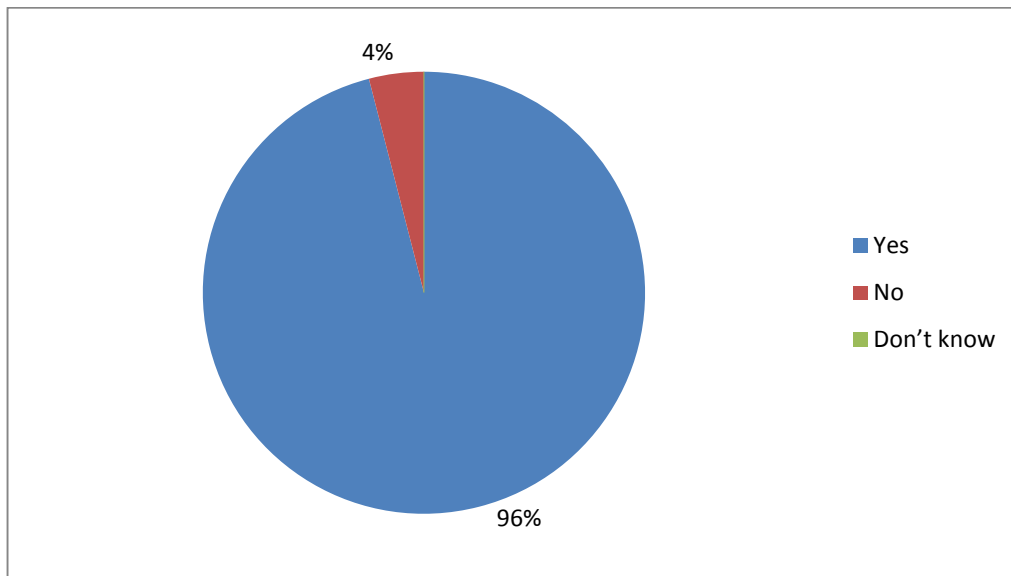
As was present in the previous question on regionalization, there were some comments on the difficulty of working with negative attitudes. However parties did agree that communities need to work together and councils should compromise.

## **Section 4: New Sources of Revenue**

New sources of revenue are considered to be any new revenue stream that would be used by a municipality to fund capital, operations, and maintenance and reserve service delivery costs.

### **Polling Questions**

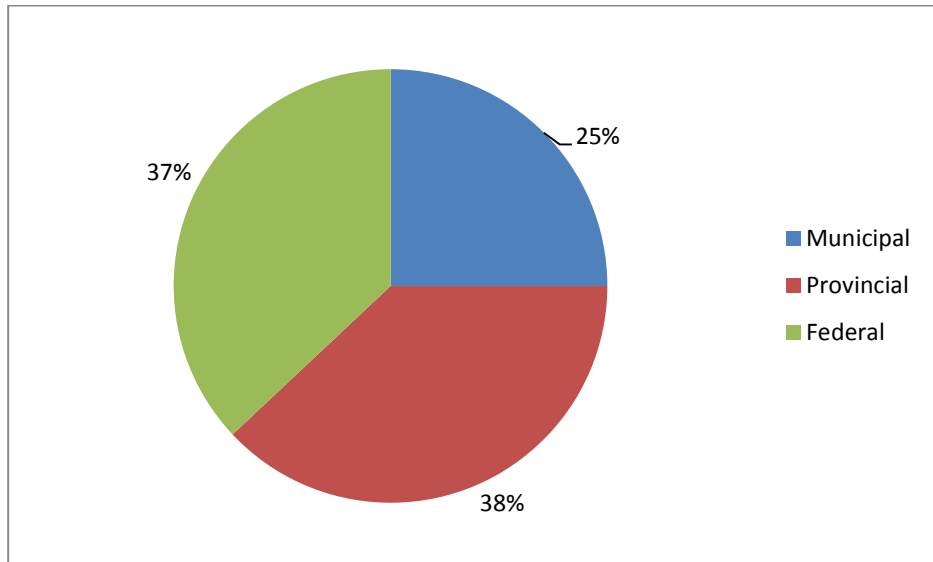
#### **17. Do municipalities need new sources of revenue?**



***Figure 20: Do municipalities need new revenue sources?***

The majority of respondents agreed that municipalities require new revenue sources.

**18. What orders of government should be responsible for funding the new revenue sources?**

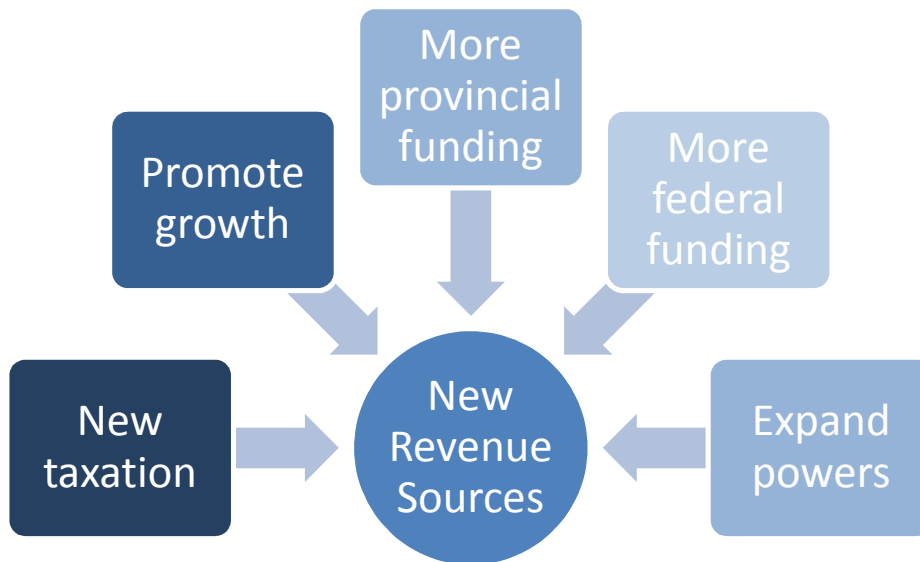


**Figure 20: Who should be responsible for funding new revenue sources?**

While respondents believed that municipalities needed new revenue sources, they also agreed that the responsibility for providing that funding should be shared among the three orders of government involved. 38% said the Provincial Government should be responsible for funding new revenue sources, while 37% said Federal Government and 25% said Municipal Government.

## Roundtable Discussions

### 19. Identify options for new sources of revenue for municipalities.



*Figure 21: Options for new revenue sources. More frequent responses are darker in colour.*

There were many different potential sources of new revenue identified. One of the most commonly discussed was the idea surrounding new types and sources of taxation. One of the most popular ideas was taxing (or charging fees to) LSDs, and unincorporated areas for the use of municipal services.

Charging the provincial government property tax on its properties was also commonly raised as it was previously mentioned. Allowing municipalities to charge an accommodation tax and receive a portion of lottery incomes were other common suggestions that were put forward. Some towns felt that they should be able to access some of the royalties that come from industry activity in their communities.

Some participants indicated that the Provincial Government should share a portion of the HST with municipalities, offer a rebate, or provide a percent of the provincial income tax.

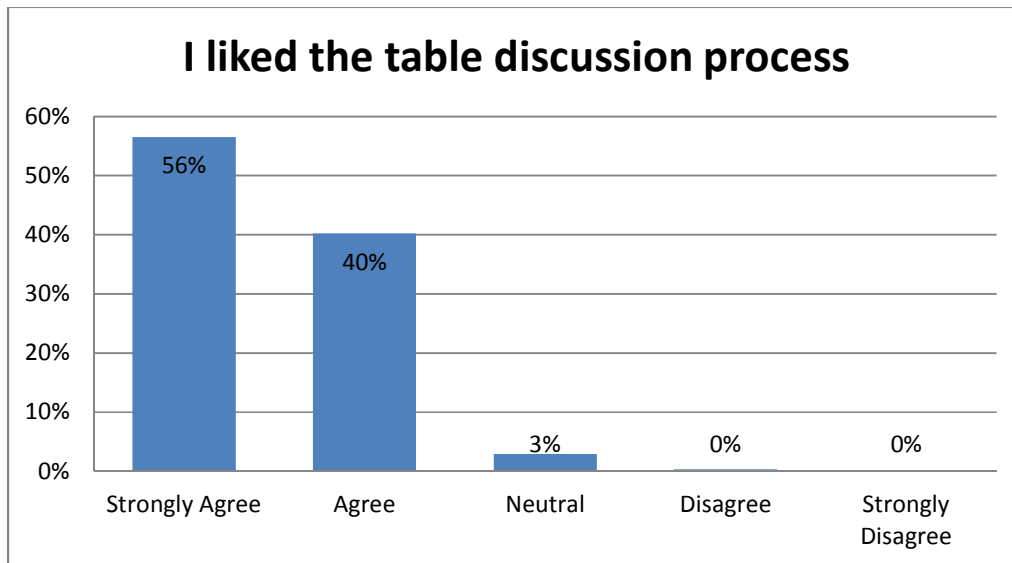
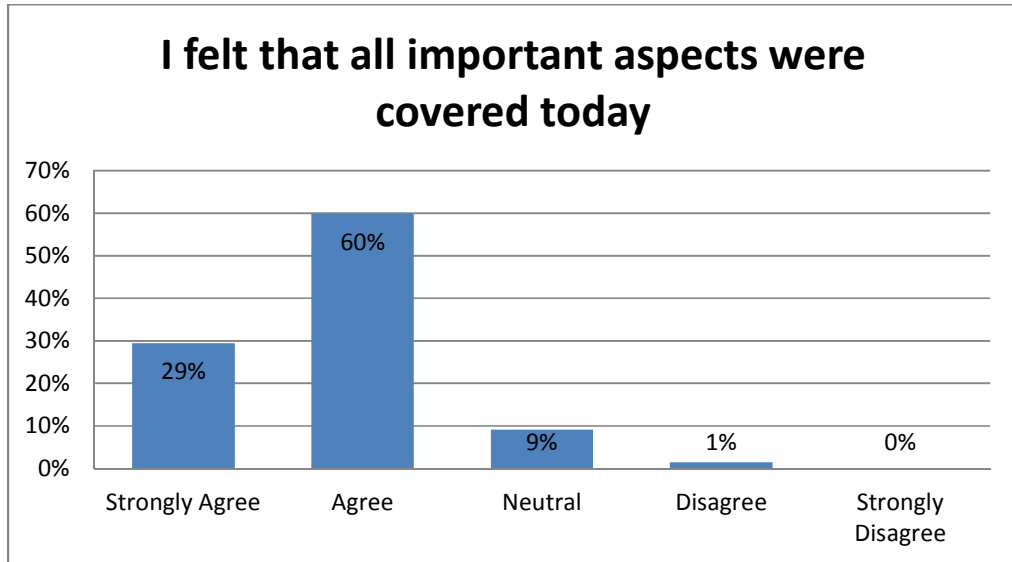
Many participants agreed that the federal government should loosen the restrictions on gas tax spending and allow communities to use the funding for other projects. Some towns also requested the federal government introduce a municipal operating grant program similar to that of the Province.

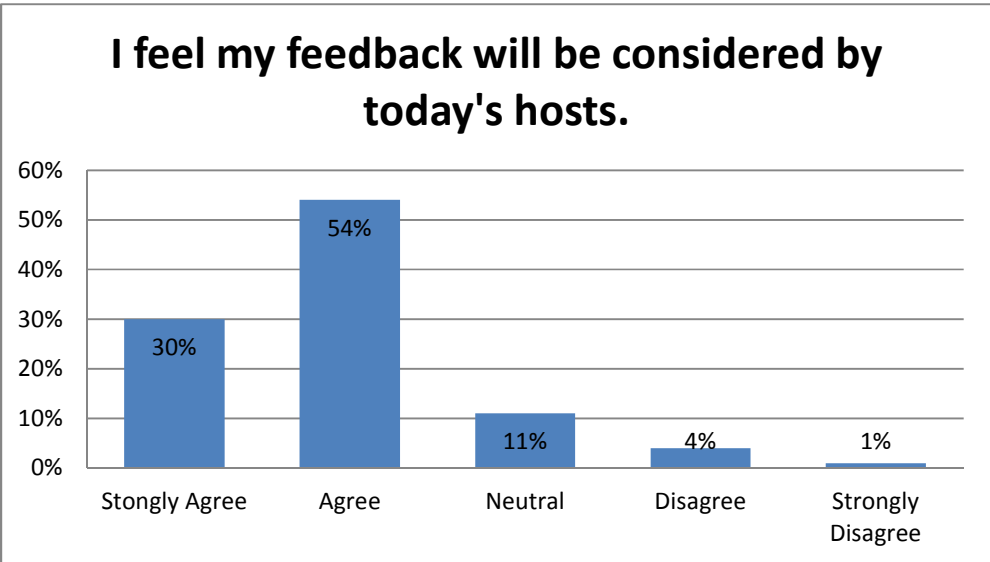
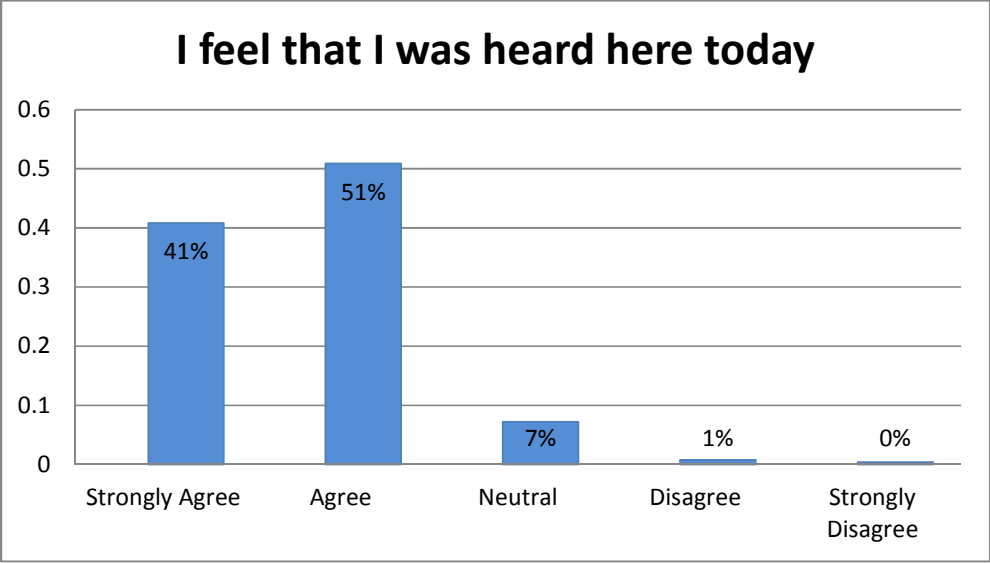
However, municipalities generally recognized their own role in developing local options for new revenue as well. It was discussed that promoting economic growth in towns and regions in the form of special events, tourism and land development will contribute to more revenue.

## **Appendices**

**Appendix A: Evaluation Results**

Evaluations were conducted after each session to gather feedback from the attendees. Overall feedback from the attendees was positive.







## **Appendix B: Think and Write Sheets**

Provincial-Municipal Fiscal Framework – Think and Write Sheets

Location, Community: Date

Time

---

Instructions:

1. Take one minute to think and jot down answers in the below space provided
2. Do not write your name or community name on the sheet
3. Notes will be confidential
4. Notes will be collected at the end of the session

Discussion Question 1: What are the causes of the expenditure pressures your municipality is currently experiencing?

Discussion Question 2: How is your municipality addressing these current expenditure pressures?

Discussion Question 3: What changes would you make to the current property taxation and assessment system?

Discussion Question 4: What changes would you make to the other local revenue sources (e.g. poll tax, water/sewer tax, business tax, utility tax)?

Discussion Question 5: Why did certain regional cooperation/collaborative initiatives work for your municipality?

Discussion Question 6: Identify mechanisms or structural changes that would enhance regional cooperation/collaboration?

Discussion Question 7: Identify options for new sources of revenue for municipalities?

Discussion Question 8: Additional Comments: Is there anything you would like to include or add regarding our conversation here today?