FCM MUNICIPAL GROWTH FRAMEWORK

Backgrounder

An outdated fiscal framework

Canada's population is growing—and that's a good thing. But as the country surpasses 40 million, the challenges facing Canada—including housing and homelessness, mental health, protecting our communities from the impacts of climate change, community safety and renewing core infrastructure—are more pressing than ever.

Municipalities are rising to the challenge with leadership and innovation but are constrained by an **outdated fiscal framework** that was never designed for the realities of 2023.

In May 2023, FCM's membership adopted a resolution calling for a new Municipal Growth Framework that would equip local governments with sources of revenue that grow along with the economy and the national population—ensuring that municipalities can accommodate population growth and continue to help solve Canada's biggest national challenges in every community.

If we want to successfully meet our nation's growth objectives and build a country that is more affordable, sustainable and prosperous, we must realize a new framework that helps redefine how we engage across orders of government—and we must take action now.

The root of the problem: Overreliance on the property tax

Municipalities generally rely on three sources of revenue:

- **TAXES (54%),**
- **INTERGOVERNMENTAL GRANTS (21%),**
- **AND OTHER OWN-SOURCE REVENUE (25%)**

such as income and rents from properties and fees from licensing and administrative services.

Property taxes generally account for around half of all municipal revenue and nearly 90% of revenue from taxation. In Quebec and Atlantic Canada, municipalities rely on property taxes for over 95% of taxation revenue. In some provinces, municipalities collect an increased share of alternatives to property taxes, such as developer charges, user fees, excise taxes and revenue from resource development. However, these sources rarely exceed more than 20% of tax-based revenue and are decreasing in some provinces.

Municipal ability to collect own-source revenue is limited by provincial legislative frameworks that reduce taxation options and prohibit many forms of deficit financing. As a result, municipalities are heavily reliant on grants and transfers from the federal government and provincial and territorial governments.

> ***Local governments have been receiving an ever-decreasing share of the Canadian tax dollars since 1990.***

Traditional sources of municipal revenue have remained largely stagnant when adjusted for inflation and, in some cases, fallen in real economic terms. For example, the year-over-year growth in municipal property tax revenue has been negative when adjusted for inflation (an annualized rate of -1.1% between 2016 and 2021), while the revenue from general taxes on goods and services has grown over the same period (at an annualized rate of 3.5% in real terms).

Municipalities do not benefit directly from taxes on goods and services, incomes and capital gains. With municipal budgets impacted by inflation, municipalities are being asked to do more to address the housing crisis and other challenges and do not share in the revenue growth that provincial, territorial and federal governments receive. The lack of growth-oriented revenue sources means local governments have been receiving an ever-decreasing share of the Canadian tax dollar since 1990. This also means that municipalities do not directly benefit from the action they take to stimulate local and regional economic development.

Since 2016, inflation-adjusted sales and income tax revenue has increased 3.5% per year while municipal property tax revenue has decreased by 1.1% per year.

Towards a new Municipal Growth Framework

FCM is assessing different options for new or expanded sources of municipal revenue that, together, would create a Municipal Growth Framework. This assessment includes:

1. Maximizing existing municipal tools,
2. Granting new revenue tools to municipalities,
3. Enhancing existing federal or provincial-territorial transfers and/or
4. Creating new federal or provincial/territorial transfers.

FCM is now consulting with municipalities, provincial and territorial municipal associations, the federal government, and a wide range of stakeholders from business, labour and civil society on the key principles that a municipal growth framework should conform to. The following three objectives are important components of a Municipal Growth Framework:

1. Municipal revenue is better connected to economic growth and national population growth.
2. Municipalities should have revenue tools that support the full range of services they provide, including capital and operating expenditures.
3. Existing tax revenue being more fairly distributed between orders of government relative to expenditures and service delivery mandates.

About FCM

FCM is the national voice for Canada's local governments. We unite more than 2,000 cities and communities of all sizes, from big cities to rural and northern communities, as well as provincial and territorial municipal associations. Together we represent more than 92 percent of Canadians. That gives us an unparalleled ability to convene Canada's on-the-ground leaders, and to help design and deliver initiatives that build better lives for Canadians.

FCM is also assessing revenue options based on which could best address the largest cost drivers and priority policy areas, including:

- **Infrastructure**, including the repair and rehabilitation of existing assets and investment in new infrastructure to support **housing development** and growth.
- **Public transit**, including both capital and operating needs.
- **Public safety**, including emergency protective services (police, fire, paramedic), mental health, substance use and new frontline healthcare and public safety service delivery models
- **Homelessness**, including emergency shelters and supportive housing that integrate wrap-around health and social services.
- **Climate change**, including adapting to the impacts of climate change and transitioning to net-zero GHG emissions.
- **Economic development**, including investment attraction, tourism and destination marketing, and downtown/Mainstreet redevelopment.

Learn more about this historic drive for a
Municipal Growth Framework