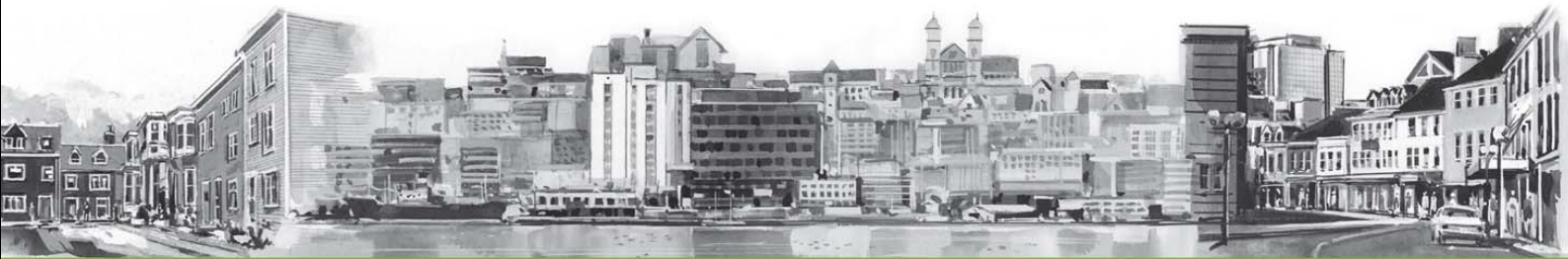


**TOWARDS A BALANCED  
PROVINCIAL-MUNICIPAL  
FISCAL RELATIONSHIP  
AND  
MUNICIPAL SUSTAINABILITY**



**ST. JOHN'S**

## INTRODUCTION

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In its 2011 Budget Speech the Provincial Government committed to “undertake a review of the Municipal Operating Grant Formula”. The Municipal Operating Grant (MOG) is only one element of Provincial-Municipal Fiscal Arrangements. The City of St. John’s is therefore encouraging the Province to broaden the scope of its review to include all present and potential components of the fiscal relationship between the Provincial Government and Municipal Governments.

It is in the context of this commitment by the Province to undertake a review of current fiscal arrangements that the City of St. John’s has formulated this Provincial-Municipal Fiscal Position Paper. The opinions and positions outlined in this Paper are those of the City of St. John’s. While the City anticipates that other municipalities may in fact support some, or all, of the positions, this Paper is not intended to reflect their views.

The focus of this paper is on three (3) dimensions of the City’s relationship with the Government of Newfoundland and Labrador:

- **Intergovernmental Relations**

Strong partnerships and mutual respect among Federal-Provincial-Municipal Governments are essential to effective governance. Partnership and respect between the City and the Province is especially important given the role that St. John’s plays as Capital City, host to major provincial health and education institutions, primary business center, location of principle airport/seaport, etc.

- **Provincial Government as a User of Municipal Services**

The Provincial Government is understandably dependant on the municipal level of government for provision of basic services including water, sewer, waste management, roads, etc.

Like all other taxpaying residential and commercial users of these services, the Provincial Government should be expected to pay a reasonable fee. Given the number and size of provincial facilities in St. John's there is a significant impact on municipal services.

- **Long-term Sustainable Support to Municipalities**

Financial support from the Provincial Government is critical to the survival of all municipalities in the Province. While the nature and scope of provincial support should vary, depending on regional, social and economic differences, provincial support is essential to all. To be effective, the support should be long-term, sustainable and predictable.

According to national studies, municipalities receive about 8 cents of each \$1 of tax paid by Canadians, counting all sources of taxation. The Federal Government receives about 50 cents of every \$1 in tax, and Provincial-Territorial Governments receive the other 42 cents. The municipal share of 8 cents has remained relatively constant over the years despite the increased responsibilities taken on by the municipal level of government.

Options for providing municipalities with access to alternative long-term and sustainable sources of revenue include giving municipalities broader taxation authority and/or giving municipalities a more equitable share of existing tax revenues. The focus of this paper is on the latter option, although broader municipal tax authority should be a longer term consideration.

## INTERGOVERNMENTAL RELATIONS

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The Federal, Provincial and Territorial Governments have a fiscal relationship defined by immunity from each other's taxes, a common feature of intergovernmental relationships. The Provincial Government does not pay Federal Goods and Services Tax (GST). Nor does the Federal Government pay the Provincial Harmonized Sales Tax (HST). In fact, the Federal Government has extended this tax immunity practice to the City of St. John's by agreeing to rebate back the full value of Federal GST paid on City purchases. The practice in most jurisdictions of Canada is for Provincial Governments to rebate back to municipalities a full or partial portion of provincial sales taxes. That is not the case in Newfoundland and Labrador where the City of St. John's not only pays the Provincial HST, but also pays the Payroll Tax as well as the Road Tax on its public transit service. Taxes paid directly by the City to the Government of Newfoundland & Labrador currently total approximately \$11.5 million per annum. While the Province may provide Municipal Operating Grants and capital cost-sharing to the City, the Province reclaims a substantial portion of that support through its tax measures.

**Position: The Government of Newfoundland and Labrador either exempt the City from, or rebate back to the City, the tax it pays in relation to HST, Payroll Tax and Road Tax.**

Another important element of meaningful intergovernmental relations is respect. St. John's, through the City of St. John's Act, the Urban and Rural Planning Act and other legislation, is granted statutory authority to manage and regulate affairs within the municipal boundary. This is especially important in land use planning and control of development.

All private sector developers are required to respect the City's development regulations. As a higher order of government, the Federal Government is not required by statute to do so, but does comply. It is of considerable concern that the Provincial Government, as proponent of so many major building developments within the municipal boundary, does not respect the City's right to regulate development.

The reluctance of the Province to obtain building permits, pay the required fee and comply with associated development restrictions can have significant implications. A case in point is the Memorial University-Health Sciences Complex precinct, where continual health and education infrastructure expansion are taxing the capacity of both Prince Philip Drive and Elizabeth Avenue, as well as related feeder streets. Had any private developer or the Federal Government undertaken such projects, the enhancement of local transportation routes at no cost to City taxpayers would have been a condition of building permit approval.

The Provincial Government's practice regarding municipal building permits has been inconsistent. While the Province does not obtain the requisite building permit from the City of St. John's, the Province has on occasion obtained building permits for capital projects in other municipalities.

The City of St. John's considers it only reasonable that the Provincial Government should comply with the same rules as all other developers, including the Federal Government, when it comes to public infrastructure projects.

**Position: The Government of Newfoundland & Labrador, and its agencies, should obtain building permits from the City of St. John's for its public infrastructure projects, pay the appropriate permit fees and comply with any reasonable development restrictions which the City may attach to these permits. It is further proposed that Provincial respect for City development authority be retroactive and applicable to public infrastructure projects already underway.**

## PROVINCIAL GOVERNMENT AS A USER OF MUNICIPAL SERVICES

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The City of St. John's advocates as a principle of intergovernmental relations that one level of government should not pay taxes of general application to another level of government. Hence our proposal to be exempt from HST, Payroll Tax and Road Tax. It must also be acknowledged, however, that where one level of government actually provides services to another level of government, some form of user-fee is justifiable. The Provincial Government does, for instance, pay a fee to the Federal Government for policing services by the RCMP. The Federal Government does provide the City with a payment-in-lieu-of-tax for the privilege of using city streets, parks, recreation facilities, etc. This user fee is set at a rate equal to the tax rate applicable to private commercial properties. The Provincial Government also acknowledges the concept of user-pay by agreeing to pay water tax on the same basis as other commercial users, as well as a fee for emergency service requests channeled through the 911 Dispatch Centre. But the Provincial Government presence in the City, together with its agencies and institutions, goes far beyond utilization of the City's water infrastructure and Dispatch Centre. It impacts the road network, snowclearing, public transit, recreation facilities, etc. It impacts the City in the exact same way as any multi-national private corporation which sets up a series of major industrial complexes to employ thousands of people. Except, the private corporation would pay a property tax to compensate the City for these impacts.

But the Provincial Government is not a private corporation, is not profit driven and delivers public services vital to the public interest. So, the Provincial Government should not be treated strictly the same as a private corporation, even if its draw on City infrastructure and services is comparable.



Recognizing the significant public interest served by Provincial Government infrastructure, the City therefore proposes that the Province pay a substantially lower user-fee than the private sector. The City proposes that the Provincial Government provide a payment-in-lieu-of-tax equal to 75% of the private sector rate.

**Position: The Government of Newfoundland & Labrador should provide the City of St. John's with a payment-in-lieu-of-tax on all its public facilities and institutions. The municipal service fee should be set at a rate equal to 75% of the commercial property tax rate.**

The Province currently pays the City an unconditional MOG grant of \$3.4 million per annum. The amount of the grant is somewhat arbitrary in nature and is not in any way based on services provided by the City to the Province. In proposing a new relationship whereby the Province makes a payment-in-lieu-of-tax to the City, the function of the MOG must also be re-assessed.

**Position: Co-incident with Provincial Government agreement to a payment-in-lieu-of-tax at 75% of the commercial rate, the Municipal Operating Grant to the City of St. John's should be eliminated.**

In proposing elimination of the Municipal Operating Grant to the City, we recognize that MOG-type fiscal transfers are essential to the sustainability of many other municipalities. The City therefore encourages the Province to continue providing MOGs to other municipalities at the levels it considers necessary.

### Operating Costs/Revenues

With a population of just over 100,000 the City currently spends approximately \$224 million per annum to deliver programs and services to its residents and businesses. Basic services to citizens, including drinking water, public transit, fire protection, waste collection treatment/disposal and winter/summer road maintenance account for \$100.3 million, or some 45% of annual expenditures. A further \$24.5 million is spent annually to service the City's outstanding debt. Everything else the City does from recreation to street lighting to the internal workings of City Hall is captured by the remaining \$99.2 million.

The City is heavily dependent on realty-based taxes for revenue to support its programs and services. Residential property tax presently contributes approximately \$70 million per annum to the City treasury, while business property and occupancy tax yields a further \$55 million. Water tax and sales account for about \$33 million. Other sources of revenue include permit fees, parking fines, etc.

Property tax is not necessarily an equitable, or reliable, foundation upon which to build a City. Property value is not an equitable measure of personal income, particularly during a period of sky-rocketing market values. Nor are realty based taxes reliable and predictable in the long-term, as property values will inevitably peak, and possibly decline.

There is certainly a perception that economic growth on the Northeast Avalon Peninsula is creating a significant windfall gain for municipalities in the Region. While true to a certain extent, the net gain is not as great as one might expect. Growth brings with it the requirement for expanded municipal services.

Given the reliance on water and property tax as predominant sources of revenue, the City does not gain directly from heightened economic activity. The City gets no direct benefit from increased oil production, increased employment or higher wages, increased retail sales, etc. It is only to the extent that the heightened economic activity translates into increased residential and commercial construction does the City obtain any direct benefit from increased water/property tax revenue. This gain from increased residential and commercial construction is directly offset by the expansion of water, sewer and road systems, etc. to service these new properties.

Revenue growth for the past five (5) years was:

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Property Tax	99.7	102.9	104.4	118.4	124.5
Water Tax	20.6	23.1	29.9	32.6	32.8
Other	44.6	46.3	52.4	52.8	66.9

While the population has remained relatively stable, the property/water tax burden has increased by some 31%.

Over the same period, expenditures increased by approximately 36% to keep pace with the increased demand for municipal service:

	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
Operating Cost	164.9	172.3	186.7	203.8	224.2

Despite continuing economic growth in the Region, the City will continue to be challenged on an annual basis to balance its operating budget through expenditure restraint and/or tax rate adjustments.

Broadening the City’s tax powers beyond the current over-reliance on water/property tax may eventually be necessary to meet future fiscal challenges. The City does recognize that broadening municipal taxation authority is a complex issue which requires substantial research and deliberation. In the meantime, however, some alternative revenue source is required to relieve the growing pressure on the residential/commercial property tax base.

Position: **As an immediate step towards creating an alternative long-term and predictable revenue source for municipalities, the Provincial Government allocate \$.02 of the Provincial Gas Tax to municipalities, similar to the initiative taken by the Federal Government.**

Position: **The Budget 2011 commitment to review the MOG Formula, also assess options for broadening the taxation authority of municipalities.**

## Infrastructure Development

In addition to meeting its day-to-day operating expenses the City has also been required to make significant capital investments in roads, water treatment, waste management, public transit, etc. Infrastructure development is expensive, and over the past 5 years the City's debt-load has increased by 57% in order to fund the infrastructure required to sustain continuing growth.

	2007	2008	2009	2010	2011
Outstanding Debt	116.0	108.3	127.7	129.1	182.0

The City still has a significant infrastructure deficit, and must therefore continue its strategy of prudent investment. Capital investments in infrastructure are projected to increase the outstanding debt to approximately \$210.0 million by 2014.

All municipalities have a responsibility to provide the infrastructure necessary for delivery of basic services to its residents. Unlike most other municipalities, however, St. John's has some additional significant responsibilities:

- Being the Capital City of Newfoundland & Labrador places higher expectations on St. John's in terms of the services and amenities which should be available;
- The City is home to the St. John's International Airport, as well as the Port of St. John's which cater to most of the airline passengers and marine freight moving in and out of the Province which places additional demands on City infrastructure;

- Many institutions with a province-wide mandate are located in the City, including Confederation Building, Memorial University, Marine Institute, College of the North Atlantic, Health Sciences Complex, Janeway Hospital, etc. These are significant institutions which rely on City water, sewer and road systems, public transit, etc.
- As the business centre of the Province, and the source of most employment on the Northeast Avalon, St. John's provides services to many non-residents, without compensation.
- The City constructed, and maintains, approximately 600 units to assist in addressing affordable housing issues.

St. John's is honoured to be the Capital City of Newfoundland & Labrador, and play host to so many public institutions and private businesses. It must be acknowledged, however, that this privilege comes at substantial cost. Transportation networks must be built to, and maintained at, a level necessary to service not only St. John's residents, but all those in the region who make their living in St. John's, or visit the City to take advantage of provincial health and education centers.

Similarly, drinking water and wastewater treatment systems must be constructed with capacity to serve not only our own residents, but the needs of major provincial institutions.

The City certainly appreciates the support it currently receives from the Province in terms of capital project cost-sharing and municipal operating grants. The current level of support, however, does not give adequate recognition to the infrastructure pressures which have been placed on the City and its taxpayers. City taxpayers are shouldering a disproportionate share of the cost to service non-residents and public institutions which serve a regional or provincial

purpose. The measures proposed earlier in this paper will go a long way towards correcting this inequity. But, given the size and scale of infrastructure required to service continuing growth in the Region, a longer term capital funding commitment is required from the Province. A mechanism to provide the City with at least some compensation for services to non-residents is also desirable.

**Position: The Provincial Government renew its commitment to the multi-year Infrastructure Program commencing in 2012, and that the cost-sharing ratio for St. John's be adjusted from 70/30 Provincial/Municipal share to an equal 50/50 cost-sharing arrangement.**

**Position: A 10% surcharge be imposed on all vehicle/driver registrations, and related transactions, for drivers/vehicles resident in the Region, with condition that the Region must invest the resulting revenue directly into municipal trunk road infrastructure in the Region.**

In advancing the proposition of a less generous 50/50 cost-share on capital projects, the City is by no means suggesting that this rate apply to other municipalities. Many municipalities clearly require more favourable cost-sharing ratios, especially on basic infrastructure such as water, sewer, roads and waste management. But, the City does acknowledge its relatively stronger debt carrying capacity, and considers a 50/50 cost-share to be reasonable in the context of a multi-year commitment.

## CONCLUSION

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In summary, therefore:

- The Provincial Government should extend to the City the same tax immunity privileges as exist between the Federal and Provincial Governments, and as the Federal Government has already extended to the City.
- The Provincial Government, together with its agencies and institutions, should pay their fair share for use of municipal services, and respect the City's development regulations.
- The Provincial Government should provide the City with a \$.02 gas tax rebate, similar to the Federal Government, as an immediate step toward establishing an alternative sustainable revenue source for municipalities.

The City estimates that the net financial impact of the positions advanced in this Paper to be in the range of \$20 to \$25 million, upon full implementation. A phased approach may therefore be necessary, although immediate implementation of some measures is required to relieve the growing pressure on property taxes.

The City believes that the Provincial Government can afford this additional investment in the City of St. John's. Increasing support to the municipal level will directly benefit residents by enhancing the quality, and stabilizing the cost, of basic services like water, sewer, roads, etc. Increasing support to local government is an effective strategy for sharing the wealth from our natural resources and growing the provincial economy.



The City looks forward to active engagement in the Provincial Government review of current provincial-municipal fiscal arrangements. During the process the City will likely advance further positions on other aspects of the fiscal relationships. But, the issue is complex and it will take time to do it justice.

The City strongly encourages the Provincial Government to consider these proposed measures for implementation, as an interim step towards a new province-wide fiscal arrangement with municipalities.