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Bill 204 - Provincial-Municipal Tax Sharing Act Second Reading

April 27, 2009

Ms Blakeman: Well, thank you very much, Mr. Speaker. This is sure an interesting day for municipalities here in the Legislative Assembly of Alberta. We just had financing, and now we're going to talk about financing specific to Bill 204, the Provincial-Municipal Tax Sharing Act. At this point I would like to move second reading of Bill 204 and offer a few comments in support of it.

Mr. Speaker, I live in a city, like almost 80 per cent of the people who live in Alberta do. For some time I've noticed my city struggling with having enough money to provide the basic services that I as a citizen expect them to provide. At the same time that I'm watching my city struggling, I was until a few short months ago watching the province rolling in double-digit surpluses. To me this was an inequity that should not be. There is only one taxpayer. We should be able to work this out. So I started looking for some possible solutions to how we could have some sort of a revenue-sharing process between the provincial government and the municipalities. First of all, the question is: well, was there a problem? Yes, definitely in the reading that I did, there's clearly a problem. Frankly, I could see the problem as I walked down the street. I could see it, you know, as I read the letters to the editor about people unhappy with the litter pickup in their city or the number of times their road got plowed in the wintertime.

I was also able to read it in a number of different articles and commentary. I read through the AUMA resolutions. I read through AAMD and C. Certainly, there was lots of commentary in there about financing. Also in Canada West. The Canada West did a very good report which I would recommend to people, *Delivering the Goods: Infrastructure and Alternative Revenue Sources for the City of Edmonton*. It was released in June of 2008. Yes, there was a problem. Others had identified it. Okay.

So, two, was there a provincial role in this? Could something the province did or was capable of doing, legally had access to, address this issue? Clearly, the answer to that question is also yes. Essentially, we have a constitutional set-up where we have a federal government and a provincial government, and they divide up in the constitution who is responsible for what. That same Constitution also sets out that provinces create the municipalities under them. Yes, the province is responsible for creating the municipalities and the laws that go around them. Indeed, we just debated second reading of Bill 203, which talked about election financing for municipal elections.

When I looked at alternative revenue options for the province to share some revenue with the municipalities or for the municipalities to be granted by the province additional revenue generation, a number of things were suggested. They fall into a couple of general categories. Again, I will encourage people to read the Canada West document. There are things like visitor-specific selective taxes. Those essentially are things like lodging and accommodation taxes, restaurant taxes, bar and pub taxes, beverage taxes, gambling taxes, et cetera. There are also vehicle-specific selective sales taxes, where we get into things like a local option fuel tax; a local vehicle registration tax; car rental tax; local tax on parking; vehicle ownership, or a wheel tax; special taxes on vehicle sales; et cetera. There's quite a long list that appears on page 31 of that document.

I was quite interested in a third possibility, which was called a SPLOST, which is a rather unattractive name but an interesting idea. That was essentially called a penny tax, but it was to fund infrastructure. I was really captured by what I was hearing from municipal councillors throughout Alberta but also others that, really, what we were dealing with here was an operating gap, and that's what I chose to try and address. What I've ended up with is what you see before you as proposed in Bill 204, which is about indexing grants to provincial income.

Now, Mr. Speaker, people that are following along with this particular debate may not be aware that private members get their placement in the bill draw literally by having their name drawn out of a hat. You've got to be having the blessings upon you to have a good bill draw. This is my 13th spring session. I have had exactly one other good bill draw. In those days in my caucus it was traditional that if you had an excellent bill draw, the best one actually, you handed it over to the leader, who got that position. In fact, that's what I did, and I got punted to the back of the bus with some number that was so high that I didn't even get the bill printed.

I was pretty excited when I was going to get an opportunity this year. In fact, I drew Bill 201, and I exchanged places with my colleague because we felt that that was a very timely bill and something that he really wanted to bring up. I am still pleased to have position of Bill 204 and to be able to bring forward and encourage my colleagues in the Assembly to have a good debate about municipal financing.

We've talked about: is it necessary? Yes. Can the province do this? Yes. What was really needed? Well, what I was told was that municipalities really needed three things. The property tax in municipalities, which is their primary revenue source, is not responsive to growth. So even though we're now in a recession, we are still expecting growth in a number of our urban areas in Alberta. It's not as fast a growth, but we're still expecting growth. They really do tell me that property tax is not responsive enough to growth. They have to build things and provide services on a municipal level. They cannot keep ahead of it and have an increasing operation gap.

They needed something that would respond to growth, that the city would be able to control how the money was spent, and that would be predictable to them. Thus, we have the revenue sharing that is laid out in Bill 204: specifically, take a portion of the provincial income tax, which includes personal income tax and corporate income tax – and it's a small amount, 2.5 per cent – set it aside in a separate account which would be created by cabinet within the next sitting after this bill passes, and then the money from there would flow back out to the municipalities for operational purposes, not capital, not infrastructure.

This legislation is based on the Manitoba model, which has been up and running for some time. I believe that their percentage is currently 4 per cent, and there was some talk about how they wanted to increase it to 6 per cent. We have a larger population base, and I think the 2.5 per cent that I'm asking for here is quite reasonable. The idea behind this is that it is for operational spending, as I said, and that it's an unconditional grant. There are no strings attached. The province can't tell the municipalities how to spend it. It goes to them, and they decide on a local basis how they would be spending the money. It is for operating money – I'll repeat that again – not for capital. There are other grant programs in place. Also, the entire procedure and process would be examined and reviewed in one year.

So I did quite a bit of talking. I got a lot of correspondence back and a fair amount of support and some questions from municipalities. I didn't get formal responses from AUMA or AAMD and C, but in this province I wouldn't have expected that either.

I'm looking forward to a healthy debate on this. I think a number of members in here come from a municipal background and understand exactly what I'm talking about when I talk about funding gaps. I hope that the members will be supportive of my suggestions here, but I hope that there's a respectful and energetic debate more than anything. We need a wider discussion of the relationship between the province and the municipalities, and given that two thirds of us live in those urban areas, this is an important part of that discussion.

Thank you very much, Mr. Speaker.

The Deputy Speaker: The hon. Minister of Municipal Affairs.

Mr. Danyluk: Well, thank you very much, Mr. Speaker. It indeed gives me pleasure to be able to stand up and have an opportunity to speak on the private member's bill today. This bill suggests that a portion of personal and corporate tax revenue be dedicated to ensure the sustainability of Alberta municipalities. Let me start by saying that ensuring the sustainability of Alberta municipalities has been and will continue to be a priority of this government. We know that strong municipalities are the key ingredient to strong communities and that strong communities are the building blocks of a strong province. The Premier has stressed his firm belief in this on numerous occasions. Mr. Speaker, this government has consistently shown its commitment to fostering strong communities. That is why the Alberta municipalities receive a level of support that is unmatched in the country.

In fact, that is exactly the reason that we did introduce the municipal sustainability initiative. Over the past two years we have provided municipalities with \$900 million through the MSI, and this funding is having a real impact in our communities. In all corners of our province Albertans are enjoying the benefits of this program. They are seeing new roads, recreational facilities, emergency and police facilities that keep their communities safe, investments in underground infrastructure like water and sewer lines that provide essential basic services, and, of course, libraries, which play a critical role in the well-being of communities.

Mr. Speaker, the MSI also provides \$50 million for operating. The member opposite talks about the necessity for operating. The two large centres had the opportunity to have some of their funding put into operating. Their decision was that they wanted all funding to come as capital, and that's exactly what we did. MSI is new money on top of other significant support that the government already provides to municipalities. Under MSI, Mr. Speaker, municipalities have the autonomy to determine local priorities and choose their projects to meet their citizens' needs.

Unlike Bill 204 MSI also includes measures to ensure that we are accountable to Alberta taxpayers for funds provided to municipalities. Projects must meet program criteria designed to ensure that they will contribute to the long-term sustainability of Alberta communities. Municipalities must submit a long-term infrastructure plan as well as detailed information about each project to be funded through MSI. We are also developing an accountability framework to ensure that funds provided to municipalities are used to meet agreed-upon objectives. None of these accountability measures would be included in Bill 204, which would provide a fixed proportion of tax revenue unconditionally.

In addition to MSI, Mr. Speaker, the Alberta municipalities receive support from programs such as the Alberta municipal infrastructure program, the municipal transportation grants, the Canada-Alberta municipal rural infrastructure funds, and Alberta municipal support such as the underground petroleum tank site remediation program. In fact, last year municipalities received over \$2.3 billion in direct funding from this government.

May 4, 2009

The Speaker: The hon. Minister of Municipal Affairs to continue.

Mr. Danyluk: Thank you very much, Mr. Speaker. It is indeed a pleasure to continue on with my presentation on Bill 204.

Mr. Speaker, as I've said before, strong communities are a priority for this government, and we are supporting them. However, the challenges facing Alberta's municipalities are complex. They are as wide ranging as the unique nature of municipalities themselves. What we are doing and what we will continue to do is talk to municipalities about the importance of sustainability, their challenge, and the possible solutions.

The Minister's Council on Municipal Sustainability played an important role to help develop long-term solutions to address these challenges. The council presented a report, we listened, and we took action on a

number of the council's recommendations, including the creation of the municipal sustainability initiative, the creation of the Capital Region Board.

The board has now presented their long-range regional plan, which has been developed to benefit not only the citizens of the region but all of Alberta. We will continue to look at ways to promote greater communication, collaboration, and co-operation amongst municipalities.

While progress has been made, what is clear to me is that the issues facing municipalities are complex. They go beyond funding. That is why I see this bill as overly simplistic and inflexible, and I cannot support it.

Municipalities are diverse. Their challenges are diverse. The solutions need to and will be diverse. That is also why I will continue to discuss the issue of long-term sustainability with municipalities. Alberta and Albertans need strong municipalities. Albertans deserve strong and safe communities, and this government will continue to support them.

My top priority as the Minister of Municipal Affairs is to ensure that our province has those sustainable communities for Albertans to thrive in. This is a priority for our Premier, my ministry, and the government of Alberta today and into the future.

Thank you very much, Mr. Speaker.

The Speaker: The hon. Member for Calgary-Currie.

Mr. Taylor: Thank you very much, Mr. Speaker. It is my pleasure to join debate on Bill 204, the Provincial-Municipal Tax Sharing Act, brought forward by my colleague from Edmonton-Centre. I think it is a very timely bill. I think it addresses not only a timely and current but ongoing issue of real concern to municipalities big and small in the province of Alberta.

You know, Mr. Speaker, there is a difference between simple, as in straightforward, and simplistic, as in: tries to apply an easy answer to a complex problem. I do not believe that this bill is simplistic. Indeed, I believe that the Minister of Municipal Affairs, in listening to his remarks just a moment ago and reviewing *Hansard* from a week ago, when he began to speak in debate on Bill 204, has gone to some length to come up with anything he could throw against the wall to object to this bill. On the one hand, he says that the municipal sustainability initiative provides operating money and that "the two large centres" – I guess he means Edmonton and Calgary – "had the opportunity to have some of their funding put into operating. Their decision was that they wanted all funding to come as capital, and that's exactly what we did."

On the other hand, he goes on to argue that there's this incredible autonomy that municipalities have under MSI to determine their local priorities, choose their projects to meet their citizens' needs. But then he says that MSI, unlike Bill 204, "includes measures to ensure that we are accountable to Alberta taxpayers for funds provided to municipalities." Then he goes on to say: Projects [have to] meet program criteria designed to ensure that they will contribute to the long-term sustainability of Alberta communities. Municipalities must submit a long-term infrastructure plan as well as detailed information about each project to be funded through MSI.

He says further, "We are also developing an accountability framework to ensure that funds provided to municipalities are used to meet agreed-upon objectives." Then he slaps Bill 204 for not including any of these accountability measures. All Bill 204 would do is "provide a fixed proportion of tax revenue unconditionally." Well, it's a fixed proportion of tax revenue that would be reviewed on an annual basis, Mr. Speaker. But I will agree with the minister that, yes, it is unconditional. That is the point. MSI is anything but enabling of municipal autonomy to make their own determinations. It is full of conditions and requirements and quid pro quos and strings. It has more strings attached to it than, you know, even a lot of the legislation that has come forward from this government. It is overwhelmingly, quite apart from what the municipalities choose, about the provision of funding for capital and for infrastructure. What we are saying with Bill 204, Mr. Speaker, simply and in a straightforward manner, is this. The cities and

towns of Alberta need sustainable, predictable operating funding that generates enough funding to be able to meet their operational requirements year in and year out.

Over primarily the last 15 or 16 years, but it's been a trend that's been going on for, you know, probably several decades now, federal and provincial governments have been downloading responsibilities onto lower levels of government, whether that is the municipal government, whether that's school boards – this isn't really a form of government – even the volunteer sector. The responsibilities have been downloaded to people and organizations and corporations and governments below this level of government at the provincial level, yet we haven't been correspondingly downloading the revenue that we scoop up to these lower organizations – that sounds terribly pejorative the way I put it, but you get my point: the organizations beneath us on the governmental and community org chart, if you will – so that they can actually afford to pay for the responsibilities that we have asked them to undertake on our behalf or in place of what we used to do at the provincial level.

Mr. Speaker, if this hasn't been said before in debate on Bill 204, it surely will be said again, I would imagine. It needs to be said and reiterated and contemplated and thought about, and we need to wrap our heads around this. There is only one taxpayer. There are a number of levels of government clamouring to get their hands into that taxpayer's pocket, but municipalities are like the runt of the litter at lunchtime when it comes to being able to do that. Of all the taxes that are paid by a household in this province, 92 to 95 per cent go to the federal government and the government of Alberta. That leaves, depending on who's doing the calculation, just between 5 and 8 per cent of the taxes to go to the municipality.

But the municipalities increasingly are providing more services to increasingly larger populations, and the cost of providing those services continues to go up, whether it's collecting the garbage and the recycling, whether it is providing through family, community, and social services, you know, social programs, whether it is operating the inventory of social housing that exists, whether it's providing or having a hand in providing the support that we envision will come to the homeless under the Housing First models being advocated by the Calgary 10-year plan to end homelessness, the Edmonton plan to end homelessness, other municipalities' plans to end homelessness, and the overarching province of Alberta 10-year plan to end homelessness. You know, those services need to be provided at the local level, and they take local dollars to do it.

More than 80 per cent of us live in urban areas, Mr. Speaker, and we need the level of government. In fact, it is simply done this way on a daily basis that the level of government closest to us, the citizens, provides a very large part of the services that we use every day, and they need to be able to pay for that. Municipal sustainability initiative funding is going to capital projects and is not being used for operating expenses. Even if the minister had directed that the \$50 million that MSI provides for operating be required to be spent that way by the cities, it wouldn't be enough.

Some quick calculations here, and I'll just give you the rationale for how we figured these numbers out. The operating shortfall for any municipality is difficult to determine because, of course, municipalities aren't allowed to have operating shortfalls, but they do in reality. We looked at the amounts that Edmonton and Calgary proposed to increase their property taxes for 2009. We then added the amount that the two cities took from their reserve funds, because you have to dip into your reserve funds to pay the bills that you can't otherwise afford to pay, and then we added in the amount that each city received in grants and subsidies. We understand the total of those numbers to be approximately the funding shortfall for each city's operating expenses.

For Edmonton we came up with a shortfall of \$104 million. For Calgary we came up with a shortfall of \$131 million. As you can see, \$50 million divided two ways won't come close to addressing those operating shortfalls, let alone all the other cities and towns in the rest of Alberta where the other one-third, roughly, of the population lives. On the other hand, 2.5 per cent of the income tax that the province collected in 2008-2009, last year's provincial income taxes, recognizing, as we've discussed in estimates debates and so on, that that would be a lesser number in the year going forward to some extent, would be

close to \$310 million. We assume the similar ratios to those used to allocate MSI funding. That's 34 per cent, or \$105 million, to Calgary; 25 per cent, or about \$77 million, to Edmonton; 41 per cent, or \$126 million, to the other municipalities.

Thank you, Mr. Speaker.

The Speaker: Are there other participants? The hon. Member for Calgary-Varsity.

Mr. Chase: Thank you very much, Mr. Speaker, for allowing me to speak in favour of Bill 204, Provincial-Municipal Tax Sharing Act. The purpose of Bill 204 is to ensure a predictable revenue stream for municipalities. The funding would go towards municipalities' operating expenses, which would lessen funding shortfalls for those operating expenses. The bill would allocate 2.5 per cent, roughly \$300 million, of income taxes collected by the province to go back to the municipalities. This bill would allow for the percentage of income taxes that would be allocated to municipalities to be changed after one year. That indicates the flexibility built into Bill 204. It's extremely important that we're clear that we're not asking for a tax increase but relocating current tax revenues. That's extremely important. We're not saying: let's top up the taxes. As the hon. Member for Calgary-Currie previously mentioned, there is only one taxpayer, and given this global recession that we currently find ourselves within, that pocket is unfortunately shrinking.

The hon. Member for Calgary-Currie talked about the limitations of the municipal sustainability initiative, and that problem has to do with the whim of the provincial government. It takes sort of a patriarchal view that we will provide the municipalities with whatever we deem fit as opposed to consulting them and freeing them up to use money as needed. Now, to the province's credit they do provide money through the local gas tax. The municipalities do receive a portion of that, much of which, I'm sure, goes into the municipal sustainability initiative.

However, what we have seen in this province since 1994 and what has continued on up until last year is centralization of power controlled by the province. In 1994, under the guise of equivalency and efficiency, the government reduced the number of locally elected school boards. It removed the autonomy that school boards had through the collection of the educational portion of their property tax, which back in 1994 accounted for half of their revenue.

We have seen this last year health boards reduced to one. Previously we had 17 regional health authorities taken down to nine and most recently to one. So what we see in this province is an eroding of the powers and potentials of municipally elected officials to govern as they were elected to do. The municipalities regard the tax collection by the province as a type of cash cow. The province takes a considerably large portion of the income that a municipality generates and then returns a fraction of it in the form of grants, grants which frequently have fairly closely tied strings attached to them. What Bill 204, the Provincial-Municipal Tax Sharing Act, does is that it guarantees autonomy to municipalities. It guarantees that a portion of the income tax the residents pay to the province is returned to them, where services are most urgently needed.

Now, an argument this provincial government uses frequently is with regard to immigration to Alberta. We hear over and over again in this House that immigrants to Alberta do not bring with them their schools. They do not carry their hospitals or their recreational facilities or their fire halls on their backs. Therefore, it's through the largesse of the province that these services are provided. Well, Mr. Speaker, I would suggest that that's a lot of baloney, for lack of a better word, because the people that immigrate to Alberta bring with them their revenue in the form of income tax. They bring with them their revenue in the form of the property taxes which they're charged. This isn't just largesse on the part of the province providing these services to the people freely, but what happens is that the province filters the services, and the municipalities and those living in the cities are expected to be extremely grateful for the generosity shown by the province. What Bill 204 says is that these people are entitled to their money, that where their services are provided is where their money should be spent.

Yes, in a democracy there is an expectation that we all share in the betterment of the province, in the betterment of the country; thus, we pay federal taxes and we pay municipal taxes and, of course, provincial taxes. But by the time the two upper levels of government have drawn their share, which the hon. Member for Calgary-Currie pointed out was in the area of 92 per cent, there's very little left for the front line, and the front line, of course, is the municipality.

What Bill 204, the Provincial-Municipal Tax Sharing Act, does is that it guarantees the security to local municipalities. They know that whatever the tax rate is that is set by the province and by the federal government – you can do the math – 2.5 per cent will be returned to the municipalities if Bill 204 is adopted. That provides stability. It provides sustainability. It provides a degree of predictability to municipalities as opposed to the offerings by the province.

Now, the province did make a 10-year commitment through MSI, but what it hasn't taken into account is the global recessionary effects, so those percentages may be reduced again at the whim of the province, who is in the driver's seat on MSI funding. Also, as I've indicated before and as the other members from Calgary-Currie and from Edmonton-Centre have indicated, this sort of poor cousin placement of municipalities dependent on the largesse of the federal government and the provincial government takes them out of the direct ability to provide the services to their constituents. I find it interesting that municipalities, for example, from an electoral governance basis, are able to look after a million individuals through their ward system, which is less than half of what provincial representation is required. So if we're looking potentially at reducing electoral expenses and looking at, for example, what aldermen have to do in terms of governance, then maybe we should be looking at reducing the number of constituencies within the cities. If federal MPs can have this larger representation and aldermen can have a larger representation, maybe in the interests of a smaller and more efficient government we should be viewing a reduction in electoral constituencies and truly reflecting the fact that two-thirds of Albertans live in the cities.

It is those two-thirds that would benefit most directly, of course, from Bill 204, the Provincial-Municipal Tax Sharing Act. That would not leave their rural friends and family out of the picture because the Provincial-Municipal Tax Sharing Act not only offers support to Calgary and Edmonton but to Medicine Hat, to Red Deer and Lethbridge, all the smaller municipalities. Let's not forget the terrific contribution of Fort McMurray that would be strengthened by the application of Bill 204, the Provincial-Municipal Tax Sharing Act.

The Speaker: The hon. Member for Calgary-Egmont, followed by the hon. Member for Edmonton-Strathcona, followed by the hon. Member for Calgary-McCall, then Calgary-Buffalo.

Mr. Denis: Thank you very much, Mr. Speaker. I'm happy I was first on that list because I think I lost track throughout that as to who was next.

I appreciate the opportunity to rise today to speak to Bill 204, the Provincial-Municipal Tax Sharing Act in 2009. This was of interest to me as I have an alderman in Calgary who is a member of my board of directors, and I had a chance to discuss this with him amongst a few other people as well.

As the previous speakers have mentioned, this bill seeks to allocate two and a half per cent of personal and corporate income tax to Alberta's municipalities. It has received a bit of media attention. The first time I heard about it in the media was on April 2 from the Edmonton Sun, and interestingly enough there is a Facebook group that's been established. I see the Member for Calgary-Currie here and the Member for Calgary-Buffalo, I see an alderman in my area, and I also see a cousin of mine, actually, who's a member here, so I'll have to chat with him about that. He wears my colours. Don't worry. He very much wears my colours.

The Speaker: Having some relevancy with respect to the question at hand would be in order.

Mr. Denis: Oh. Yes, sir.

In essence, the finances would be collected to a provincial account known as the provincial-municipal tax sharing account. The relevancy earlier, Mr. Speaker, was that this was referenced, again, in Facebook. I think social media is a good thing. I assume, Mr. Speaker, because it's not clear in the legislation, that these funds would be divvied up amongst our local governments.

The rationale behind this legislation is that the dedicated funds would provide Alberta's local governments with additional sources of revenue that would be reliable, stable, and unconditional. The fact is that this government has continually demonstrated its commitment to the sustainability and development of Alberta's municipalities through many grant programs. Indeed, there are up to 80 different grants available to municipalities through 13 different ministries, all designed to support Alberta's communities.

Perhaps the sponsoring member felt as though there is a need to dedicate a specific amount of provincial revenue to support the growth municipalities have experienced in the past decade. However, Mr. Speaker, the municipal sustainability initiative, which I'll refer to as the MSI, was developed to address this growth. If municipalities need to undertake projects to meet demands related to this growth, they can apply and receive funds pursuant to the MSI.

Projects can include building or improving roads, bridges, public transit, and water supply, treatment, and distribution systems. Since 2007 a total of \$900 million has been distributed through MSI, and this year's budget allocates an additional \$400 million to MSI, which will again rise next year, to \$1.2 billion. What's the total? That's \$11 billion over 10 years, unprecedented throughout this nation. These increases are designed to support municipalities by providing equivalent funding when compared to the amount of money collected through the education property taxes. Suffice it to say, Mr. Speaker, that this government has supported and continues to support municipalities through these times of substantial growth, which leads me to the conclusion that Bill 204, however well intended, is both needless and redundant.

I think it is important to remind the sponsoring member of the other grants that this government offers to support municipalities. For example, Alberta Transportation offers the Alberta municipal infrastructure program, which specifically is designed to provide financial assistance to municipalities for infrastructure projects that maintain or enhance the economic, social, and cultural opportunity of a municipality. This includes capital projects such as roadways, waste water collection and treatment systems, cultural and recreational filings, and solid waste management systems.

The government also offers the regional partnerships initiative, which focuses on promoting and fostering regional co-operation and cost savings by facilitating projects that involve three or four municipalities. There are two components to the regional partnership initiative, exploration and implementation. The exploration grant allows municipalities to evaluate the feasibility of a project such as amalgamating water services or developing a regional governance structure or business plan. If the exploration process suggests that the project will be beneficial, the implementation component of the regional partnerships initiative can assist municipalities with its implementation.

Mr. Speaker, I could go on to discuss many other programs that government offers to municipalities, but the reality is that there is substantial support for Alberta's municipalities to manage both growth-related and non growth-related capital and operational pressures. Furthermore, these municipal supports ensure openness and accountability and are a demonstration of this government's prudent financial management. It was not so long ago that members of the opposition were criticizing the government's spending patterns, suggesting we needed to reprioritize spending and reallocate finances.

In summary, I find myself somewhat confused as to how Bill 204 would save this government money or demonstrate a, quote, reprioritization. This government has already made our municipalities a priority, which is demonstrated by the many municipal grants and initiatives that I have outlined.

Furthermore, the funds that Bill 204 suggests that the government allocate to municipalities must come at the expense of other programs, and I look forward to hearing from the sponsoring member in her

closing speech as to what provincial services she believes we should cut. Would she cut health care? Would she cut education? Would she cut any specific services? I'm looking forward to hearing that, Mr. Speaker.

Regardless, Mr. Speaker, Bill 204 is a redundant bill and therefore unnecessary. For these reasons, I'm unable to support it. I will table my references to the page.

Thank you.

The Deputy Speaker: The hon. Member for Edmonton-Strathcona, followed by the hon. Member for Calgary-McCall.

Ms Notley: Thank you, Mr. Speaker. It is a pleasure to be able to rise to join in on this debate on this interesting piece of legislation proposed by the Member for Edmonton-Centre. In general, I believe it is the intention of our caucus to be supporting this bill. It's a bill that, as has been stated already, would allocate 2.5 per cent of income tax revenue into an account for municipalities, which would provide roughly \$300 million more a year to municipalities.

As has been discussed already, this is not the only source of funding for municipalities. Indeed, there are a number of other sources of funding from the government for municipalities. But the key element to this bill and the proposal here, of course, is that this funding would be unconditional and would allow for long-term planning and would allow for support for operational funding and operational funding deficits. As all members of this House know, there do appear to be a number of municipalities who are reporting significant financial difficulty at this time. My understanding is that the number is roughly around 60 municipalities across the province who report these kinds of difficulties.

As we know, the biggest source of revenue for most municipalities is the property tax, but there is a limit with respect to how much revenue can be brought in through that mechanism. At the same time while that limit is in place, the municipalities themselves have a growing demand for services placed upon them not only from the federal government through its 15 years of downloading services onto municipalities but also through the provincial government and also through their own population, which, quite importantly, are becoming increasingly engaged in their municipal politics as that is, of course, the government which is closest to home, as it were.

A number of people think first to go to their municipality to demand a number of services, and that's not unreasonable in many cases. Of course, because the municipalities are, as it were, on the ground, they are often in the best position to provide leadership on the resolution of certain issues. You know, a perfect example of that is the housing issue. We've seen both the city of Edmonton and the city of Calgary lead the way in large part on the issue of dealing with housing and homelessness. I'm not sure that I necessarily agree that the processes that they've adopted are utterly the best, but there's no question that they are trying to make a commitment to address the issue, and we have the provincial government appearing to follow behind in that regard.

We have, for instance, talk about the need for homelessness strategies. I believe the city of Edmonton suggested we'd be looking at about \$3 billion, and I believe the city of Calgary talked about \$4.5 billion. Then, unfortunately, the provincial government has committed much less than that amount and even in claiming to fund that this year has taken every single dollar from other housing funds in order to support their so-called investment in this particular housing fund. In fact, we have sort of a follow the bouncing ball kind of process, where we ultimately find that the net investment in housing on the part of the provincial government hasn't gone up a single red cent. Ultimately, it will fall to the municipalities to shoulder that burden as they have been for some time.

That's just an example. I mean, that's certainly not the only example. Most of that funding doesn't come out of operational funds, but it's an example of how municipalities are taking on greater and greater roles in terms of the services that they provide to the cities. It's just an example of the circumstances which are leading to the situation where we have municipalities suffering operational deficits.

To go back a little bit to the municipal sustainability initiative, the NDP does support, in general, that fund. There are good things that come from that fund. We would like to see its allocation criteria amended somewhat so that it's not based on kilometres of local roads because we'd rather not see municipalities be encouraged to build yet more sprawling subdivisions with windy lanes that absolutely nobody without three GPS systems and two different maps and two navigators can get through. Rather, we'd like to see a denser type of development premised on the notion of enhanced public transportation. That's why we think the municipal sustainability initiative can be tweaked to make some improvements.

Notwithstanding that, it is still conditional, and it still is premised on a 10-year duration. That doesn't provide the ability for unconditional operational funding which allows for planning that goes beyond that 10-year period. That, of course, is the kind of thing that we would see provided to municipalities through the bill that we're looking at at this time. It's for this reason that we think that members of this House should consider supporting this bill. We need to look at the changing relationship between municipalities, the provincial government, and the federal government, we need to look at the changing demands that we place upon our municipalities, and we need to look at the very constrained set of financial resources at the disposal of municipalities, a system that was put in place when, I think, the expectations vis-à-vis municipalities were very different. We must then look at the whole issue of how that can be changed.

We know that municipalities, like other parts of government across the province, are suffering from a very, very significant infrastructure debt, one created by this province and the federal government but more by this province over the course of many years as they tried to hide their debt in things as opposed to off the books. That debt has not been addressed, notwithstanding the funding which had certainly started to kick in over the last couple of years or maybe even more than that. Nonetheless, because of the inflationary pressures at the time we know that municipalities are still struggling with tremendous infrastructure debt, and we think that this is a time for this kind of investment in particular to be considered and not dismissed. These are job-creating investments. We know that in the long term that is another objective which this government should be focusing itself towards, given the current economic situation that we're all experiencing.

As I said before, it's with these general reasons in mind that our caucus will be supporting this particular bill. Thank you.

The Deputy Speaker: The hon. Member for Calgary-McCall, followed by the hon. Member for Red Deer-South.

Mr. Kang: Thank you, Mr. Speaker. I'm pleased to rise to speak in favour of Bill 204, which will go a long ways to solving maybe not all of the operating needs of municipalities, but I think it will pretty well solve most of the problems. This bill is a step in the right direction to ensure predictable funding for municipalities. This will provide funding for the municipalities just for operating expenses only, not for infrastructure. It will lessen the shortfalls in operating expenses that municipalities have from time to time. This bill will allow the government to allocate 2.5 per cent, roughly \$300 million, a year from the income tax the province collects to go toward municipalities. We're talking about all of the municipalities here. We want to be clear that, you know, this is not a tax increase. This bill will be reallocating the current revenues that the province collects in personal income taxes, and the money collected from the personal income taxes will go toward municipalities. That will be 2.5 per cent.

While the province has downloaded a number of responsibilities to the municipalities, municipalities lack the ability to generate enough revenue to meet the current operating costs. This bill will provide a stable revenue stream so that municipalities can better meet their current operating needs without having to increase property taxes or raid their reserve funds if they have any. During the boom times there was lots of migration. It put lots of pressure on the municipalities to hire more police officers, more firefighters. They had to build more fire stations, and that put lots of pressure on the municipalities. They are limited in raising their taxes. Edmonton is an example of a municipality facing a shortfall of operating expenses. Expenditures rose by 7.2 per cent in 2009, but the revenues, excluding property taxes, increased only by

0.9 per cent. If a municipality is having difficulty in funding existing programs or funding the creation of new programs, they only have a couple of options. They can either raise the property taxes, or they can cut existing programs and defer future projects, or municipalities can tap into reserve funds they may have saved.

Although municipalities are not allowed to run deficits on their operating budgets, they have to adopt extreme measures to meet their funding shortfalls. Calgary raised property taxes 5.3 per cent. I think next year they're going to rise by 4.6 per cent. There was a big hue and cry. People were almost up in arms because the property taxes were going up and because that's hitting people hard, you know, in their pockets. In Edmonton they raised property taxes 3.6 per cent for 2009. Both Edmonton and Calgary couldn't raise enough taxes to meet their operating needs. They had to cut back on their existing programs and future projects. They had to even tap into their reserve funds.

Of all the taxes raised by the governments, 95 per cent goes to the provincial and federal governments. Only 5 per cent goes to the municipalities. I think the municipalities should get a larger share of household taxes, and this bill will achieve that by giving municipalities some share of the personal income taxes collected by the province. This 2.5 per cent figure was arrived at by taking into consideration the operating shortfall for all of the municipalities. It is difficult to put an exact number, but this figure will almost correct the shortfall the municipalities face.

We determined that 2.5 per cent of the income tax the province collected in 2008-2009 would be a good amount because in some sense approximately we added all those figures up. The municipalities, you know, the shortfall they took out of the reserve fund and all the other shortfalls they had, we added them all up, and that's the number we arrived at. It would be a reasonable number, 2.5 per cent, to reallocate income taxes to the municipalities.

This funding will help support upgrading needs of municipalities, but it would not solve all their financial difficulties. For example, we have not included the unfunded capital plan for either city nor the gap in infrastructure funding that has been identified. Considering that \$1.3 billion is needed to fill Edmonton's infrastructure funding gap, the amount that would be allocated by this bill is not really extravagant. That's not really a big amount. This will only help the municipalities for their operating expenses.

There is also a mechanism within this bill that will allow for the 2.5 per cent to be changed one year after the fund is created. We decided on 2.5 per cent of income taxes to create the fund, which is a minimum amount because of the current tough economic times. Moreover, the fact that there's a mechanism that would alter the percentage allocated to the municipalities is a good response to the argument that 2.5 per cent would be too much or too onerous for an already cash-strapped province. As the economy slows down, maybe the municipality's operating expenses will come down, so this 2.5 per cent number can be changed.

Although there is a provincial and a municipal revenue sharing formula there, those unconditional grants account for less than 25 per cent of all provincial municipal grants, and some of the money has strings tied to it, that it cannot be used for operating expenses. The Alberta Municipal Government Act sees municipalities as little more than the provider of a few local services and gives municipalities few tools to raise their taxes, so that relationship doesn't work any more. It is time to see the municipalities in Alberta as an important level of government in their own right.

Strong municipalities are essential to Alberta's future. More than 80 per cent of Albertans live in urban areas. Our cities, towns, villages, and hamlets are the levels of government closest to us and provide service that we use every day. Local governments are in the best position to lead Alberta into the future, by developing a sustainable transportation system, improving our land use, and becoming our environment leaders. Lots of services have been downloaded, offloaded to the municipalities by the provincial government, and I think they need this funding to cover their operating expenses.

Thank you very much.

The Deputy Speaker: The hon. Member for Red Deer-South, followed by the hon. Member for Calgary-Buffalo.

Mr. Dallas: Well, thank you, Mr. Speaker. It's indeed a pleasure to rise today and join in the debate on Bill 204, the Provincial-Municipal Tax Sharing Act, which, of course, has been brought forward by the Member for Edmonton-Centre. Bill 204 proposes to apportion 2.5 per cent of income tax revenue to a provincial-municipal tax sharing account.

The preamble of this bill states that municipalities in Alberta require both stable and predictable funding. However, Mr. Speaker, this government provides significant long-term funding for municipalities through programs such as the municipal sustainability initiative, better known as the MSI. MSI is a program that in 2009 will provide municipalities with \$400 million in funding. Not only that, but this 10-year commitment to funding will see an unprecedented amount allocated to municipalities. The MSI is one of many programs that are available to municipalities, such as the Alberta municipal infrastructure program, the gas tax fund, and the building Canada fund. This government supports all municipalities while recognizing their autonomy. Bill 204 is redundant as this government already has in place significant and long-term funding.

I would like to raise some concerns that I have with Bill 204, particularly how this new account will be funded and the impact that funding will have on all Albertans. Alberta prides itself on having one of the lowest tax structures in Canada, with a 10 per cent flat tax rate and no provincial sales tax. Mr. Speaker, income tax is one of the largest sources of revenue for both federal and provincial governments, accounting for over 30 per cent of all tax revenues. This past year personal income taxes accounted for approximately 22.3 per cent of provincial revenues, and corporate income tax accounted for 9.8 per cent. The preamble states that "municipalities in Alberta require a stable and predictable level of funding from the Government to effectively plan and deliver services and programs." However, I do not see how this account could be considered predictable and stable, particularly since revenue from taxes fluctuates year to year. This fact seems to contradict the intent of this bill. Mr. Speaker, I'm not sure how the member for Edmonton-Centre can see this proposed account as being stable and predictable.

Revenue from income taxes is deposited into the province's general revenue fund. From there these funds are used by the government to pay for public programs such as health care, education, and infrastructure. Money is allocated from the general revenue fund to ministries based on need. For example, in 2008 Health and Wellness required 34 per cent of the year's budget. By allocating 2.5 per cent to the proposed provincial-municipal tax sharing account, 2.5 per cent will have to be cut from ministries. Not only that, but it will take away from programs that help every single Albertan. Ministries such as Health and Wellness and Education help each and every Albertan and have a direct impact on the lives of all Albertans, as do many other government programs.

Mr. Speaker, another point that I'd like to raise about Bill 204 is that it would require additional bureaucracy to manage the fund. Once again, this bill requires this government to spend more. I question why the Member for Edmonton-Centre is asking this government to spend money in a time when it may not be fiscally prudent to do so. In addition to creating more bureaucracy, this bill also calls for the creation of a Legislature committee to convene every year and draft new legislation. The members opposite claim that this government would be more fiscally responsible; however, this bill would seem to contradict this statement.

The Member for Calgary-Currie stated recently in this House that "this government needs to get a handle on its spending." This statement stands in complete contradiction to this bill, as this bill is proposing additional government spending. It seems that these members cannot get all of these priorities straight. One minute they want us to stop spending, yet they introduce legislation requiring more spending.

A final and important note that I would like to make, Mr. Speaker, is that Bill 204 has all the appearances of a money bill, which a private member cannot bring forward. Certain sections try and get around this by creating further legislation; however, in all appearances this would be a money bill. Even with this

provision of creating further legislation, this bill has requirements on the financial initiative of the government, thus making it a money bill. If passed, Bill 204 would clearly impact the government's ability to raise and spend money. Automatically dedicating revenue to municipalities is problematic as it reduces the government's ability to direct spending to its highest priorities and does not allow fiscal flexibility.

Ultimately, Mr. Speaker, I cannot support this bill, and I encourage other members to do the same. Thank you.

The Deputy Speaker: The hon. Member for Calgary-Buffalo.

Mr. Hehr: Well, thank you, Mr. Speaker. It's an honour to rise in support of Bill 204, the Provincial-Municipal Tax Sharing Act, as proposed by the hon. Member for Edmonton-Centre.

I as one of the 80 per cent of Albertans who reside in our cities would appreciate this act as a form of creating for cities a consistent, stable flow of money that would go towards operating expenses. I think that's where some of the confusion is had by some of the government members who have already spoken. They continue to refer to the MSI funding, which is for capital costs and capital initiatives, that this Bill 204 is not dealing with; it's dealing with the operating funds.

Before I get into the intent of the bill, I don't really see that this is looking for an increase to what is already spent. What this is is more looking for a consistent flow of money that is already created through the provincial coffers that is earmarked for our cities to provide the essential services that the cities provide. I think anyone who has been in Alberta for any number of years would reference that cities have become the front line of providing services to the people.

Also, anyone who has been here for any period of time has heard the impact of cuts to cities and that cities have been sort of left behind in being provided with funds. They've had services continually downloaded upon them by other levels of government, both federal and provincial. There's a strong argument that's presented by the AUMA and other organizations like that that references the fact that cities have had these responsibilities downloaded to them by other levels of government without having any provision of finances attached to them. I guess this bill would address some of that disparity and recognize that cities are major players in the Alberta landscape. They provide a significant service to the Alberta populace, and it is much needed.

On another note, although I will not concede that this is, in fact, an additional spending mechanism to be put forward, I think the hon. Member for Calgary-Egmont asked where we'd begin cutting. I guess I'll list some of those that I see that could be cut that we've brought up from time to time. I will go through the exercise now because we were asked. I would note that my hon. colleague from Edmonton-Centre has many other things to comment on as I see her busy taking notes to answer on this bill, so I'll try to save her some time here.

One would be that we've put in an amendment this year to eliminate \$33 million, I think, from Horse Racing Alberta that we would like to see gotten rid of. We've seen numerous hosting expenses that have been what we would consider above and beyond what would be necessary in these times of strain. Also, let's talk about some of the bonuses to senior-level civil servants who are already getting substantially rewarded. Let's also think of future spending. Increasing the number of MLAs: I would suggest that, at least, the last thing Albertans need is four more MLAs. That's just my honest-to-goodness opinion. We can do with what we have in this House and, you know, find enough work for everyone. That's just my honest-to-goodness opinion.

So if you're looking at savings, there are some I listed for you. We can start from there. If the books ever get opened up more around here, I'm sure I could find a little more to go down and take the trimmings to. That's a start. I was asked for it; otherwise, I would've never brought it up. Since I was asked, I do try to respond from time to time.

If we look at other things, the municipalities, like I said, are an important part of our increasingly urban structure, where people are living, where people are stimulating our economy, and where it seems to be that much of the growth is occurring. I again would say that this is a necessary bill that would go a long way to ensuring that essential operating dollars are reaching the areas that need it the most. It would also allow cities to I guess decide for themselves what is important for them to do and important to their citizens and not be beholden to a senior level of government that may be doing things to appease a different agenda that they may be following that may not be the same agenda that the cities are wishing to follow.

Those are my comments, and I thank you for the time you've given me to speak in strong support of this bill. Thank you.

The Deputy Speaker: Any other member who wishes to join the debate? Seeing none, now I shall recognize the hon. Member for Edmonton-Centre to close the debate.

Ms Blakeman: Thank you very much, Mr. Speaker. I was very pleased to welcome the participation of those that did participate, including the minister and the members for Calgary-Egmont and Red Deer-South. It was a very interesting exercise to shine the light on how well government members understand municipal funding and the current situation that many of the municipalities believe that they find themselves in. It was an excellent opportunity for me to start and in some cases continue a dialogue with the many fine municipalities in Alberta. That was a real opportunity for me, and I enjoyed it very much. I did correspond with several dozen municipalities, and I'm very grateful for that.

Just let me talk very briefly about the MSI funding, which I think every single member referenced. I set out to create a funding stream for municipalities that would be stable, predictable, and would not come with any strings attached, and this government is very fond of putting strings on any money that they give out, including the MSI funding.

The MSI funding is time limited. It's a 10-year program, which we're several years into, and it is focused on capital and infrastructure funding. The history of it came out of the tremendous infrastructure debt that the province created on behalf of the municipalities and left the municipalities to deal with. Those from Calgary will appreciate that history because it was their mayor who was most instrumental and very aggressive in pursuing the provincial government to come up with some funding money to be able to address that infrastructure debt. I think at one point the infrastructure debt in the province was estimated to be somewhere in the \$8 billion mark – I'm sorry; there might be a zero on the end of that – so there was a lot to catch up on, and that's what that fund was meant to do, and it is doing it.

There was a very small component in that, I think about \$50 million, that was available for operating money. In fact, by the time you divided that up amongst the municipalities, it was such a small amount of money that it was not going to make a significant difference in any one operating allocation for a given year, and it may have prevented their being able to complete some capital programs, so as the minister indicated, it all went to capital. Bill 204 was anticipating a fund of money that was directed only to operating money, no capital money, so MSI and what I was proposing in Bill 204 did not intersect. Bill 204 was – one more time I'll say it – intended for operating funding.

The minister worried about accountability, and I find that interesting. I take his point, but I think there are a number of accountability and auditing functions already in place there, as you would expect. Certainly, the government funds are audited as they go out. The municipalities are also audited, so the money as it comes into the municipalities is audited. We also have a legislative review that was built into the act. So there's quite a bit of accountability that is available there, more, in fact, than you sometimes see with other government programs.

It was meant to be a piece of legislation that dealt with the most pressing matter before the municipalities, and that was the operating gap that they were experiencing. So, no, I didn't get into a lot of other things, and I didn't make it really complicated. [interjection]

I was trying to address one thing, and I just did address it. The Minister of Health appears to have missed his opportunity to speak, but I'm happy to talk with him afterwards. [interjection] Well, he's very exercised about it, whatever it is, but I'm sure he'll let me know afterwards.

It was my intention that the monies be distributed on a per capita basis, but I did not write that into the legislation at the time because if the legislation passed, I wanted there to be an additional debate on the best way – and that discussion should take place primarily with the municipalities – for that money to be distributed.

The Member for Calgary-Egmont talked about how the government provides 80 grants, but he includes in that things like lottery grant funding and, in fact, the federal government grants.

I encourage people to support Bill 204. It's a great move for our municipalities.

The Deputy Speaker: The chair now shall call the question on the bill.

[The voice vote indicated that the motion for second reading lost]

[Several members rose calling for a division. The division bell was rung at 3:53 p.m.]

[Ten minutes having elapsed, the Assembly divided]

[The Speaker in the chair]

For the motion:

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| Blakeman | Kang | Notley |
| Chase | MacDonald | Taylor |
| Hehr | | |

Against the motion:

| | | |
|-----------|------------|-----------|
| Anderson | Forsyth | Morton |
| Berger | Groeneveld | Oberle |
| Calahasen | Horne | Olson |
| Campbell | Jablonski | Ouellette |
| Cao | Jacobs | Renner |
| Dallas | Knight | Rogers |
| DeLong | Leskiw | Snelgrove |
| Denis | Liepert | Tarchuk |
| Drysdale | Marz | Weadick |
| Elniski | McQueen | Webber |
| Fawcett | | |

Totals: For – 7 Against – 31

[Motion for second reading of Bill 204 lost]