

Municipal Fiscal Gap

2024 Update Report

October 2024



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Executive Summary

Background

The City of Calgary, like other municipal governments in Canada, is experiencing significant social, economic, and environmental transformations and demographic shifts. These external changes have led to a challenge for municipalities: spending responsibilities exceed funding opportunities.

Recognizing the need to improve financial resilience over the long term, Calgary City Council asked Administration to create a Financial Task Force (FTF)¹ in September 2019 to identify and assess innovative solutions to municipal finance challenges. After meeting regularly over nine months, the Task Force reported back to Council in June 2020 with 35 recommendations in 8 focus areas (C2020-0742).

In response to the FTF recommendations, the Corporate Economics team, with the support of external FTF members and internal subject matter experts across The City, prepared a comprehensive “Municipal Fiscal Gap (MFG)”² report and presented it to the Strategic Council Meeting on September 26, 2023.

The MFG Report

The MFG report identifies municipal fiscal gaps as the core issue in Canada’s current municipal funding framework and explores its causes and potential solutions.

Issues

Since the Constitution in 1867, federal, provincial, and municipal government responsibilities in Canada have evolved with the country’s economy and society; however, government fiscal arrangements have not adjusted accordingly. As a result, as the level of government closest to Canadians, municipalities have experienced a persistent **Municipal Fiscal Gap**³ due to **Vertical Fiscal Imbalance**⁴ over the years despite strong national fiscal capacities. At times, provincial **downloading**⁵ also adds to the severity of the MFG.

- The Financial Task Force (FTF)** was a panel of committed and passionate citizen members with vast experience in policy formulation, business strategy, property valuation, and finance.
- The full MFG report is downloadable from this link: [The City of Calgary’s Financial Task Force](#).
- The Municipal Fiscal Gap (MFG)** is represented by net-borrowing (or negative net-lending) positions, exclusive of intergovernmental transfers.
- Vertical fiscal imbalance** refers to the gap between a government’s own-source revenues and spending responsibilities due to the allocation of taxation powers. In Canada, both the provincial and municipal governments have vertical fiscal imbalances. Transfer payments for health under the Canada Health Transfer and transfers for post-secondary education and various social services under the Canada Social Transfer help address the provincial fiscal imbalance.
- Downloading** to municipal governments can be any of the following: 1) new unfunded responsibility, 2) expanded role without funding, 3) adverse changes to funding arrangements, and 4) adverse changes to arrangements to cover costs.

Causes

The MFG is caused by how municipal finance is structured in Canada. Municipal **own-source expenditures**⁶, especially for those big Canadian cities, have been increasing over the years, driven by population growth and inflation, as well as increasing complexity of service provision, such as demand for affordable housing and social services from a diversified population. However, municipal **own-source revenues**⁷ (mainly property taxes) in Canada are not growth-sensitive, while the federal and provincial governments have various tax options (such as income and sales taxes)

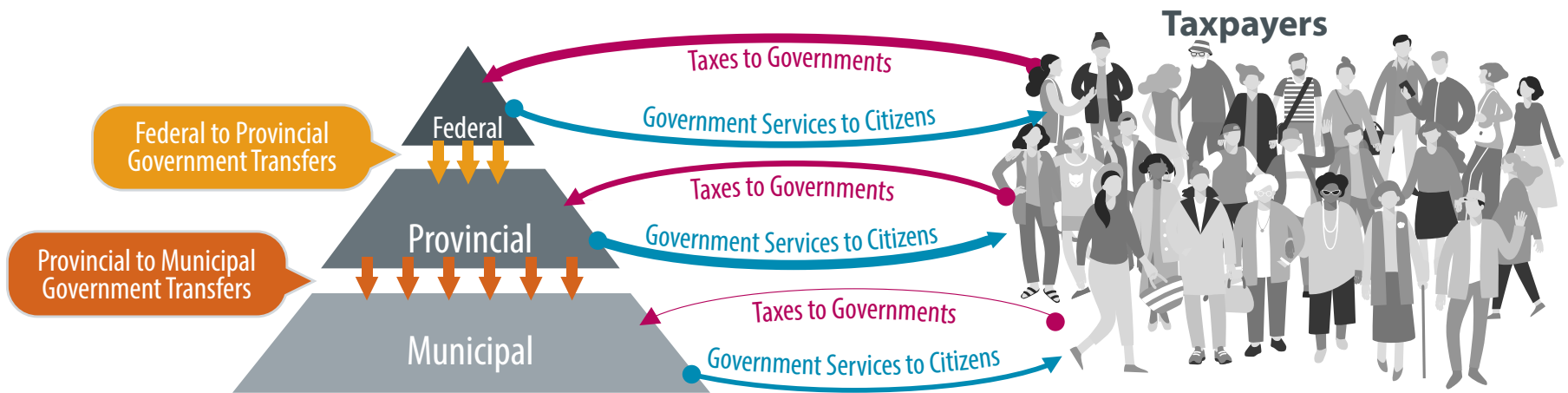
6 Government own-source expenditures refer to one order of government’s revenues exclusive of intergovernmental transfers from this government to other orders of government.
7 Government own-source revenues refer to one order of government’s revenues exclusive of intergovernmental grants or transfers (capital or operating/current transfers) from other orders of government.

that are correlated with economic growth and indexed to inflation. In addition, Canadian municipalities are constrained by provincial legislation to **balance their budgets**, while the federal and provincial governments can run continuous deficits in response to changes in economic conditions.

Solutions

Potential solutions for closing the MFG in Canada include strengthening municipal revenue capacity and reallocating fiscal capacities among the three orders of government. More specifically, Canadian municipalities should have access to taxes other than the property tax, sharing some of the federal and provincial tax bases to benefit from economic growth without adding tax burdens on Canadians.

How tax dollars flow between taxpayers and governments, and among the three orders of government



Purpose of the Update

Since the MFG report was published in September 2023, significant inflows of migrations to big cities and abnormally high population growth have been continuing, which has increased cost pressures on municipalities across Canada. Faced with the higher demand for municipal services, Calgary City Council asked Administration to update the MFG estimates with the latest information. As a result, this update report attempts to achieve the following objectives:

- Update the estimates of municipal fiscal gaps based on the latest Statistics Canada data⁸ for Canada and Alberta.
- Analyze the different reasons behind the MFG changes in Canada and Alberta.
- Illustrate the latest trends of MFG in Canada and Alberta.
- Provide supporting evidence for The City of Calgary's advocacy efforts in closing the MFG.
- Provide supporting evidence for The City's collaboration with other municipalities.

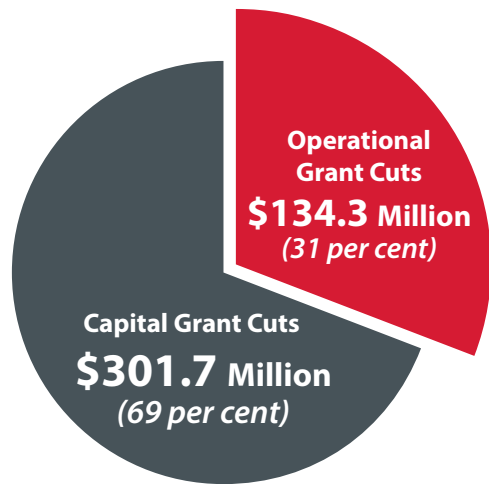
⁸ Latest data released in November 2023 provides new data for 2022 and data revisions for 2020 and 2021.

Main Findings

1. The latest Statistics Canada data shows that overall government fiscal conditions in Canada and Alberta improved significantly in 2022. However, municipal fiscal gaps, represented by municipal governments' net borrowing positions before intergovernmental transfers, widened.
 - In Alberta, while the Alberta Government's fiscal capacity turned from a net borrowing position in 2021 to a net lending position in 2022, the direction of change was the opposite for municipalities: the overall municipalities' fiscal capacity in Alberta declined to a net borrowing position of -\$0.7 billion in 2022, from a small net lending position of \$0.2 billion in 2021.
2. In 2022, while the federal and provincial governments benefited from large revenue increases thanks to economic growth and tax base expansions, municipal governments faced higher local demand for government services and cost pressures from population growth and inflation.
 - In Canada, the biggest increase in primary government revenues was in personal income taxes (+\$28.5 billion) for the federal and provincial governments, while the least increase was in property taxes (+\$2.2 billion) for the provincial/territorial and municipal governments.
 - In Alberta, the largest increase in primary government revenues was in royalties (+\$16.5 billion) for the Alberta Government, while the least increase was in property taxes (+\$0.2 billion) for the provincial and municipal governments.
3. In 2022, the mismatch between governments' own-source revenues and expenditures among the three orders of government continued as municipalities shared more spending than revenues.
 - The MFG was not unique to any particular municipality in Canada. Even cities in fiscally solid provinces like Calgary and Edmonton in Alberta had it.
4. In 2022, municipalities in Canada and Alberta relied on intergovernmental transfers from the federal and provincial governments to realize balanced budgets. Mostly, they relied on grants from their own provincial/territorial governments to close the municipal fiscal gaps.
5. In conclusion, the MFG in Canada is a structural issue and closing it cannot be achieved through municipal efforts alone. As a result, the three orders of government should work together to serve Canadians by sharing the fiscal benefits of economic growth without adding tax burdens on taxpayers.

The estimated total downloading impact on City finances was an annual average of **\$436 million** in increased costs or funding shortfalls due to adverse changes to cost-sharing or funding arrangements, expanded City roles without funds, and new unfunded City responsibilities. These costs did not consider the potential costs The City faced associated with future risks, such as climate change impacts and inflationary pressures. Approximately 69 per cent of these costs can be attributed to cuts in capital grants and 31 per cent in the operational grants (Exhibit 1.17B).

Figure A
Impact of Recent Provincial Downloading on Calgary



Source:
Government of Alberta 2010-2023 Annual Budget Reports; The City of Calgary's Internal survey
Content: Cost impact on The City of Calgary from Provincial Downloading
Government of Alberta 2010-2023 Annual Budget Reports; The City of Calgary's Internal survey

The Alberta Government launched MSI in 2007, committing \$1.4 billion in annual support to help Alberta municipalities meet their growth and sustainability needs through capital projects. However, by 2017, only \$7.53 billion of MSI had been granted to municipalities. The MSI ended in 2023 and was replaced with the Local Government Fiscal Framework (LGFF) in 2024. Over 17 years between 2007 and 2023, Alberta municipalities were allocated \$15.2 billion in MSI grants. The annual average

of \$894 million was lower than the initial commitment of \$1.4 billion made by the province. The lions' share of Capital Grant cuts to the City of Calgary arise from reductions and extensions of the Municipal Sustainability Initiative (MSI) program. Reduced annual funding to the program at the end of its initial expected term resulted in the City incurring debt charges while reduction in total MSI funding resulted in additional costs to Calgary.

The estimated capital grant cuts were \$301.7 million per year for The City of Calgary, mainly due to changes in the Municipal Sustainability Initiative (MSI) program over 2010-2023. Changes to that program over its lifetime resulted in the City of Calgary receiving about \$151.5 million per year less than was originally promised and resulted in the City incurring interest costs of \$145.4 million per year as MSI funding was delayed.

For operating activities, the estimated annual impact to The City from provincial downloading is \$134.3 million a year. The main affected areas include:

- Pensions and income support (\$47.5 million per year), due to the delivery of several income support services including: Calgary Transit Low-Income Monthly Passes (current budget shortfall of \$19 million per year with total program costs of \$52 million per year and provincial contributions of \$6.2 million); Recreation Programs and Facility usage; No Cost Pet Spay and Neuter; Seniors Services Home Maintenance; Property tax assistance program.
- Increased annual costs of \$28 million for police services of which; \$10 million is from administrative changes needed due to fine administration changes (more officers needed to do speeding enforcement to replace automated enforcement programs) and \$15 million due to fine revenue shortfalls as a result of reductions in automated speed enforcement.
- 14.6 million per year as the City's Fire Department continued to provide life-saving interventions as a first responder, after the emergency medical services (EMS) was uploaded to the province in 2009.
- Increased annual costs of \$9.7 million in affordable housing, due to the Grants in Place of Taxes (GIPOT) program overall reduction by 24 per cent and 32 per cent in 2019 and 2020, respectively.
- Increased costs for parking. Due to the provincial rate schedule being out of date, the CPA estimates that dealing with scrapped and auctioned vehicles costs the Calgary Parking Authority an annual average of \$3 million.
- Increased costs of \$3.1 million for waste and recycling services, due to The City covering part of Alberta's Paint Recycling Program costs.

- In addition to the Fire Department's medical and overdose response, The City spends \$3.7 million on bylaw response to unhoused populations (e.g., encampment enforcement, safety cleaning and welfare checks) and \$2.3 million on Community Outreach Teams.
- The City has responded to rising mental health, addiction and community safety needs through funding prevention, early intervention and intervention of mental health and addiction. The Mental Health & Addiction Framework (\$6 million) and Community Safety Investment Framework (\$16 million) support this response. However, community funding requests have exceeded City capacity to respond to this provincial responsibility.
- Not included in the total above is provincial changes to the Local Authorities Elections Act ahead of the 2025 General Election which are being partially absorbed within Elections Calgary's existing budget. This is estimated to be an additional costs of \$1.3 million due to the requirement to maintain a permanent register of electors and the prohibition on the use of automated voting equipment such as electronic tabulators. This will be added into future updates.

Before publication deadline there was an item we could not get final confirmation on and is not included in the above estimate. \$11.8 million for Affordable Housing reductions 2021-2023 including a GIPOT reduction in 2020 could not be confirmed. If it was included it would appear in the Operating Cuts raising the total Operating Cuts to \$145.4 million per year and the Total Downloading estimate (2010-2023 annual average) to \$447.1 per year.





1

Municipal Fiscal Gaps in Canada: Changes from 2021 to 2022

1.1 Overall government fiscal conditions improved significantly, especially for the federal government in 2022

The latest *Statistics Canada's General Government Revenue, Expenditure and Budgetary Balance* data⁹ was released in November 2023. It includes the second revision of the 2020 data, the first revision of the 2021 data and the new data for 2022.

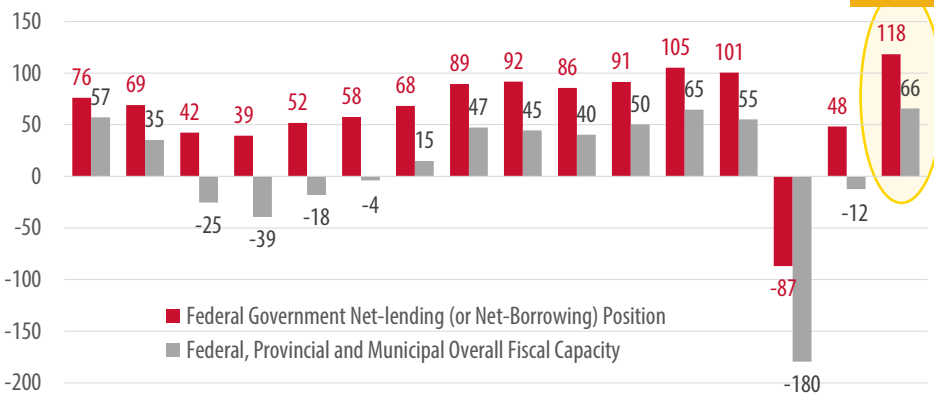
Based on the revisions for Canada in 2020 and 2021:

- The overall fiscal capacity for the federal, provincial, and municipal governments together was a net borrowing position of -\$180 billion in 2020 and -\$12 billion in 2021, representing a downward revision of -\$0.7 billion for 2020 but an upward revision of \$35 billion for 2021 from previous estimates.
- The federal government's fiscal capacity was a net borrowing position of -\$87 billion in 2020 but a net lending position of \$48 billion in 2021, representing upward revisions of \$2 billion for 2020 and \$21 billion for 2021 from previous estimates.

In 2022, the overall government fiscal condition, especially for the federal government, improved substantially in Canada compared to 2021 (**Figure 1.1**).

9 **Table 36-10-0450-01** Revenue, expenditure, and budgetary balance - General governments, provincial and territorial economic accounts.

Figure 1.1
Fiscal Capacity in Canada - Federal vs All Three Orders of Governments
(\$billion, 2007-2022)



ISC: CONFIDENTIAL, for public release on 2024 November 5

- The overall fiscal capacity for the three orders of government was a net lending position of \$66 billion in 2022, up by \$78 billion from the net borrowing position of -\$12 billion in 2021.
- The federal government's fiscal capacity was a net lending position of \$118 billion in 2022, up by \$70 billion or 145 per cent from \$48 billion in 2021.

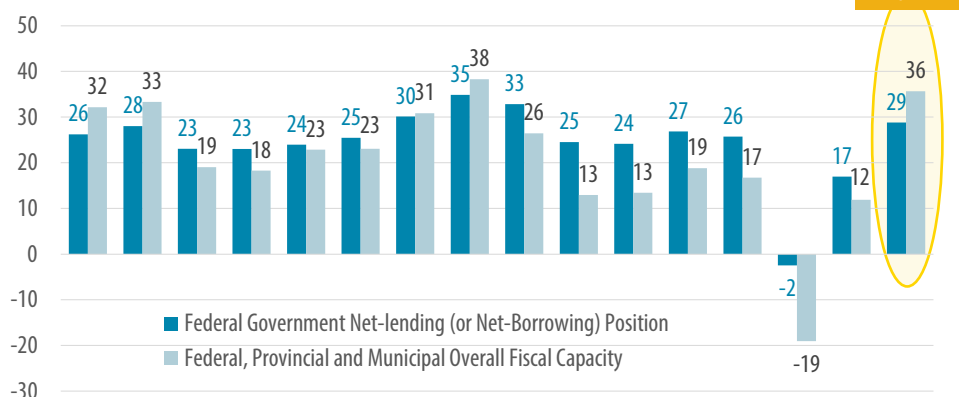
Based on the revisions for Alberta in 2020 and 2021:

- The overall fiscal capacity for the federal, provincial, and municipal governments together was a net borrowing position of -\$19.0 billion in 2020 and a net lending position of \$11.9 billion in 2021, representing an upward revision of \$1.5 billion for 2020 and \$2.8 billion for 2021 from previous estimates.
- The federal government's fiscal capacity was a net borrowing position of -\$2.5 billion in 2020 but a net lending position of \$16.9 billion in 2021, representing upward revisions of \$0.2 billion for 2020 and \$2.1 billion for 2021 from previous estimates.

In Alberta, a similar improvement in government fiscal capacities in 2022 was observed (**Figure 1.2**).

- The overall fiscal capacity for the three orders of government was a net lending position of \$36 billion in 2022, up by \$24 billion or 200 per cent from a net lending position of \$12 billion in 2021.
- The federal government's fiscal capacity was a net lending position of \$29 billion in 2022, up by \$12 billion or 70 per cent from \$17 billion in 2021.

Figure 1.2
Fiscal Capacity in Alberta - Federal vs All Three Orders of Governments
(\$billion, 2007-2022)



1.2 However, municipal fiscal gaps widened in 2022

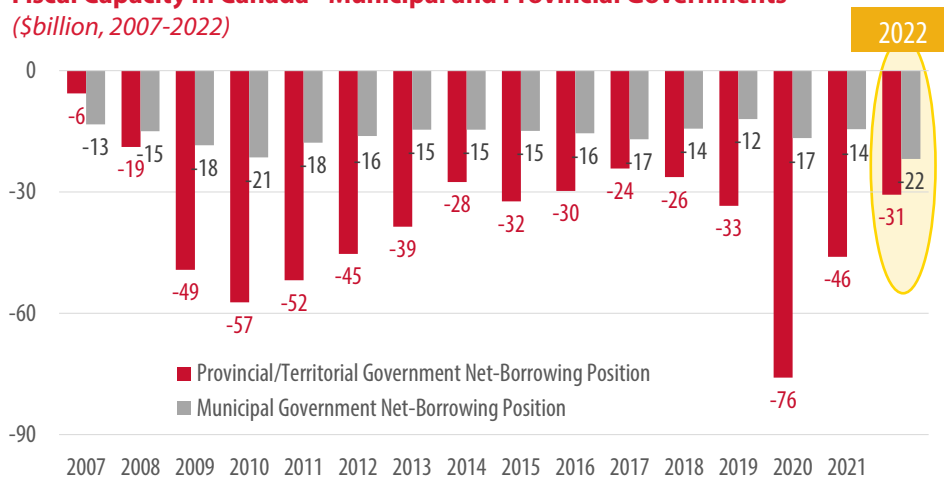
Based on the revisions for Canada in 2020 and 2021:

- The provincial governments’ fiscal capacity was net borrowing positions of -\$76 billion in 2020 and -\$46 billion in 2021, representing a downward revision of -\$4 billion for 2020 but an upward revision of \$12 billion for 2021.
- The municipal governments’ fiscal capacity was a net borrowing position of -\$17 billion in 2020 and -\$14 billion in 2021, representing upward revisions of \$2 billion for 2020 and \$3 billion for 2021 from previous estimates.

In 2022, fiscal conditions in Canada improved for the provincial and territorial governments but worsened for the municipal governments (**Figure 1.3**).

- The fiscal capacity of provincial and territorial governments in Canada was a net borrowing position of -\$31 billion in 2022, up by \$15 billion from a net borrowing position of -\$46 billion in 2021.
- The fiscal capacity of municipal governments in Canada was a net borrowing position of -\$22 billion in 2022, down by \$7.4 billion from -\$14 billion in 2021.

Figure 1.3
Fiscal Capacity in Canada - Municipal and Provincial Governments
(\$billion, 2007-2022)



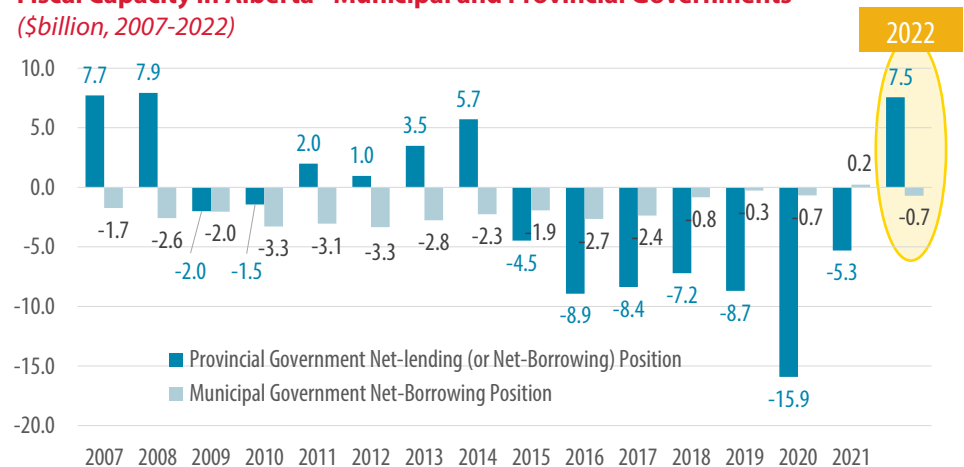
Based on the revisions for Alberta in 2020 and 2021:

- The Alberta Government’s fiscal capacity was net borrowing positions of -\$15.9 billion in 2020 and -\$5.3 billion in 2021, representing upward revisions of -\$1.1 billion for 2020 and \$1.8 billion for 2021.
- Alberta municipal governments’ fiscal capacity was a net borrowing position of -\$0.7 billion in 2020 and a small net lending position of \$0.2 billion in 2021, representing an upward revision of \$0.6 billion for 2020 but a downward revision of \$1.1 billion for 2021 from previous estimates.

In 2022, the Alberta Government’s fiscal capacity turned from a net borrowing position in 2021 to a net lending position. However, the direction of change was the opposite for Alberta municipalities (**Figure 1.4**).

- The Alberta government’s fiscal capacity was a net lending position of \$7.5 billion in 2022, up by \$12.9 billion from -\$5.3 billion in 2021.
- Alberta municipalities’ fiscal capacity was a net borrowing position of -\$0.7 billion in 2022, down by \$0.9 billion from a small net lending position of \$0.2 billion in 2021.

Figure 1.4
Fiscal Capacity in Alberta - Municipal and Provincial Governments
(\$billion, 2007-2022)



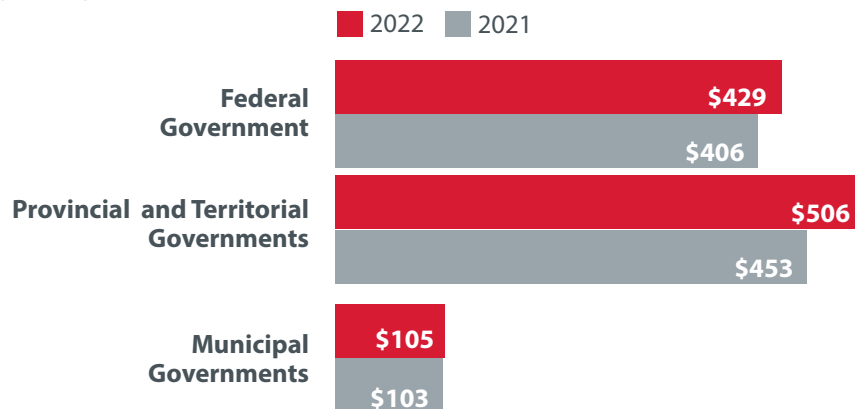
1.3 Government revenues increased significantly for the federal and provincial governments but not for municipalities in 2022

In 2022, the federal and provincial governments had much better fiscal conditions because their own-source revenues increased significantly with economic growth and tax base expansions. In contrast, municipalities had worse fiscal conditions because their own-source revenues increased marginally.

In Canada (**Figure 1.5**):

- The Canadian Government’s own-source revenues increased by 6 per cent, from \$406 billion in 2021 to \$429 billion in 2022.
- All provincial and territorial governments’ own-source revenues increased by 12 per cent, from \$453 billion in 2021 to \$506 billion in 2022.
- Canadian municipal governments’ own-source revenues increased slightly by 2 per cent, from \$103 billion in 2021 to \$105 billion in 2022.

Figure 1.5
Taxpayers’ contributions to the three orders of government in Canada
(\$billion)

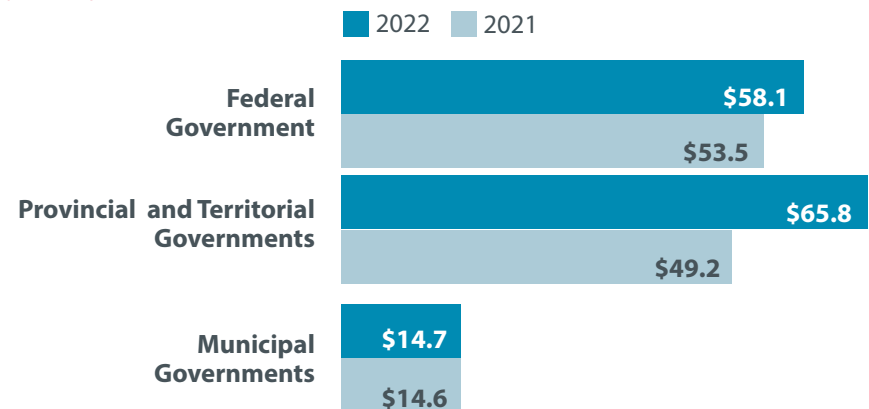


In Alberta (**Figure 1.6**):

- The Canadian Government’s own-source revenues increased by 9 per cent, from \$53.5 billion in 2021 to \$58.1 billion in 2022.
- Alberta Government’s own-source revenues increased significantly by 34 per cent, from \$49.2 billion in 2021 to \$65.8 billion in 2022.
- Alberta municipal governments’ own-source revenues increased slightly by 1 per cent, from \$14.6 billion in 2021 to \$14.7 billion in 2022.

It is clear that the federal and provincial governments’ own-source revenues grew much faster in Alberta than in Canada. However, municipal own-source revenues grew slower in Alberta than in Canada.

Figure 1.6
Taxpayers’ contributions to the three orders of government in Alberta
(\$billion)



1.4 Government expenditures decreased for the federal government while increasing for the municipal and provincial governments in 2022

On the expenditure side, the federal government increased its fiscal capacity by cutting huge amounts of its own-source expenditures in 2022, while the provincial and municipal governments continued to incur higher own-source expenditures.

In Canada (Figure 1.7):

- The Canadian Government’s own-source expenditures declined by -15 per cent, from \$366 billion in 2021 to \$311 billion in 2022.
- The provincial and territorial governments’ own-source expenditures increased by 7 per cent, from \$494 billion in 2021 to \$530 billion in 2022.
- Canadian municipal governments’ own-source expenditures increased by 6 per cent, from \$116 billion in 2021 to \$122 billion in 2022.

In Alberta (Figure 1.8):

- The Canadian Government’s own-source expenditures decreased by -23 per cent, from \$37.9 billion in 2021 to \$29.3 billion in 2022.
- The Alberta Government’s own-source expenditures increased by 6 per cent, from \$54.4 billion in 2021 to \$57.9 billion in 2022.
- Alberta municipalities’ own-source expenditures increased by 5 per cent, from \$15.5 billion in 2021 to \$16.3 billion in 2022.

Figure 1.7
Government spending on Canadians
(\$billion)

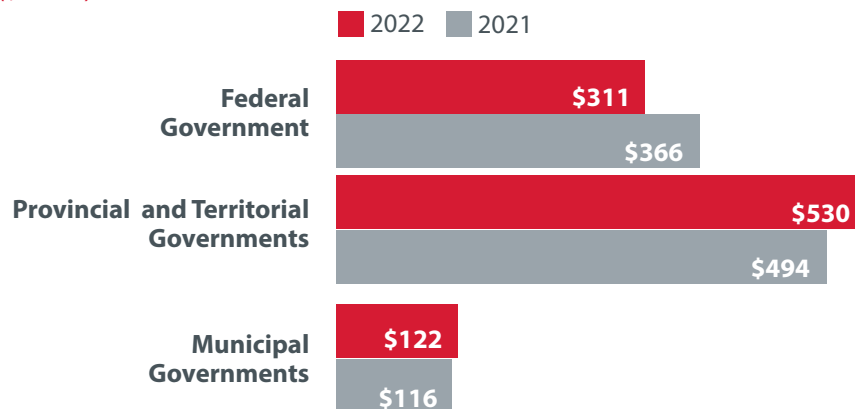
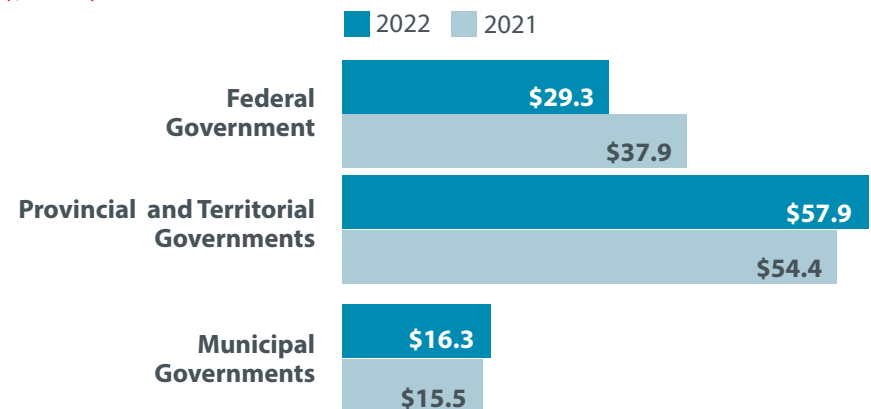


Figure 1.8
Government spending on Albertans
(\$billion)



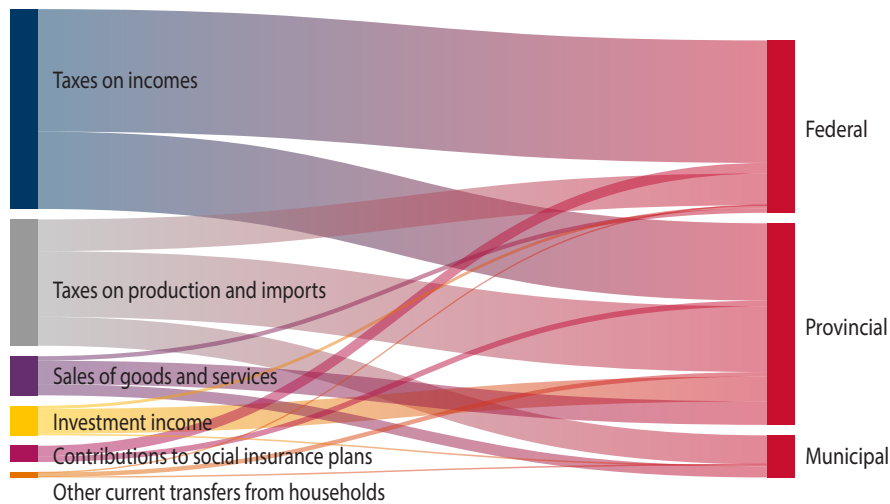
1.5 Mismatch between government revenues and expenditures among the three orders of government caused municipal fiscal gaps in 2022

In 2022, municipal fiscal gaps continued to exist because of the structural mismatch of revenue sources and spending responsibilities among the three orders of government. The issue was not unique to any particular municipality: even cities with robust economic growth and strong financial management in provinces with favourable overall government fiscal capacities, like Calgary and Edmonton in Alberta, had it.

Figures 1.9-1.12 illustrate the distributions of own-source government revenues and expenditures among the federal, provincial, and municipal governments in 2022. The difference between the shares of municipal revenues and expenditures in the total revenues and expenditures for the three orders of government can be used to measure the magnitude of the mismatch.

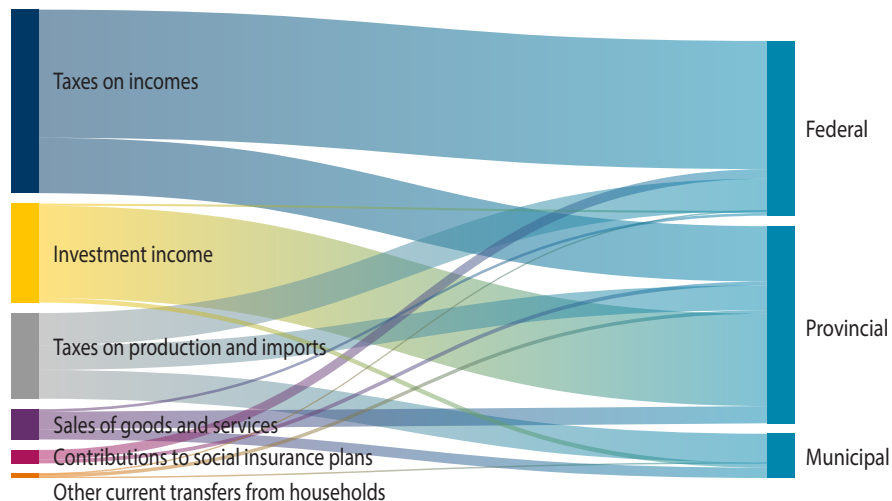
- Excluding intergovernmental transfers, municipal governments’ own-source revenues accounted for 10 per cent of the three orders of government’s total own-source revenues in Canada and 11 per cent in Alberta.
- Municipal own-source expenditures accounted for 13 per cent of the three orders of government’s total own-source expenditures in Canada and 16 per cent in Alberta.

Figure 1.9
Distribution of Revenues among the Three Orders of Government in 2022: Canada
(*\$million*)



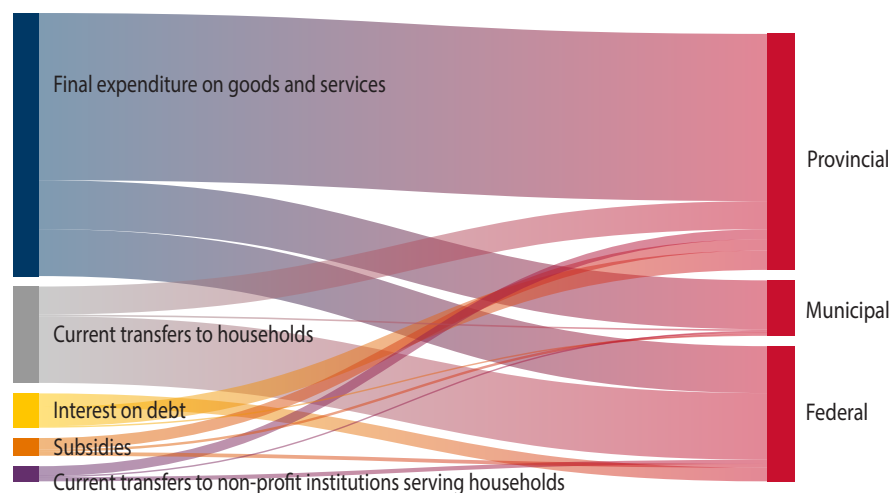
General government own-source revenues	Total		Federal	Provincial	Municipal
	Amount	Percentage			
General government own-source revenues	1,039,739	100%	41%	49%	10%
Taxes on incomes	496,897	100%	61%	39%	0%
From households	348,372	100%	60%	40%	0%
Contributions to social insurance plans	40,367	100%	65%	35%	0%
Taxes on production and imports	314,104	100%	25%	52%	23%
Taxes on production	113,225	100%	1%	38%	60%
<i>Real property taxes</i>	68,174	100%	0%	13%	87%
Taxes on products	200,879	100%	38%	60%	2%
<i>Sales taxes</i>	131,515	100%	39%	61%	0%
Other current transfers from households	12,475	100%	1%	90%	9%
Investment income	73,355	100%	10%	84%	5%
Royalties	38,599	100%	1%	99%	0%
Sales of goods and services	97,419	100%	11%	60%	29%

Figure 1.10
Distribution of Revenues among the Three Orders of Government in 2022: Alberta
(\$million)



General government own-source revenues	Total		Federal	Provincial	Municipal
	Value	%	%	%	%
General government own-source revenues	138,538	100%	42%	48%	11%
Taxes on incomes	60,906	100%	70%	30%	0%
From households	43,603	100%	67%	33%	0%
Contributions to social insurance plans	4,476	100%	71%	29%	0%
Taxes on production and imports	28,429	100%	37%	29%	34%
Taxes on production	14,172	100%	1%	36%	63%
Real property taxes	10,337	100%	0%	24%	76%
Taxes on products	14,257	100%	73%	22%	4%
Sales taxes	6,355	100%	99%	1%	0%
Other current transfers from households	1,368	100%	1%	86%	13%
Investment income	32,853	100%	2%	93%	5%
Royalties	28,661	100%	0%	100%	0%
Sales of goods and services	10,052	100%	9%	57%	34%

Figure 1.11
Distribution of Expenditures among the Three Orders of Government in 2022: Canada
(\$million)



General governments own-source expenditure	Total		Federal	Provincial	Municipal
	Value	%	%	%	%
General governments own-source expenditure	963,235	100%	32%	55%	13%
Final expenditure on goods and services	580,830	100%	18%	64%	19%
Current transfers to households	212,866	100%	69%	29%	2%
Employment Insurance benefits	20,631	100%	100%	0%	0%
Old Age Security	67,173	100%	100%	0%	0%
Social assistance	38,107	100%	0%	91%	9%
Current transfers to non-profit institutions serving households	33,529	100%	28%	65%	7%
Subsidies	39,124	100%	21%	64%	14%
Interest on debt	75,557	100%	40%	57%	4%

Figure 1.12
Distribution of Expenditures among the Three Orders of Government in 2022: Alberta
(*\$million*)



General governments own-source expenditure	Total		Federal	Provincial	Municipal
General governments own-source expenditure	103,546	100%	28%	56%	16%
Final expenditure on goods and services	65,707	100%	11%	67%	22%
Current transfers to households	21,474	100%	76%	24%	0%
Employment Insurance benefits	2,487	100%	100%	0%	0%
Old Age Security	5,836	100%	100%	0%	0%
Social assistance	2,465	100%	0%	100%	0%
Current transfers to non-profit institutions serving households	3,049	100%	30%	57%	14%
Subsidies	5,039	100%	17%	70%	12%
Interest on debt	7,300	100%	48%	44%	8%

It is clear that on the revenue side, the federal and provincial governments collect taxes and user fees from all revenue sources. However, municipalities have no access to the primary government revenue sources such as income taxes, sales taxes, and royalties.

On the expenditure side, Canadian municipalities have all the major expenditure responsibilities except for employment insurance benefits and old age security, which are federal responsibilities.



2

Federal and Provincial Governments Benefited Fiscally from Economic Growth In 2022

2.1 Economic growth and tax base expansions in 2022 increased government revenues, mostly for the federal and provincial governments

As the broadest measure of an economy’s tax base, nominal GDP (or GDP in current dollars) in Canada grew by 12 per cent to \$2.8 trillion in 2022, from \$2.5 trillion in 2021. The bigger tax base in 2022 brought in an additional total of \$77 billion (or 8 per cent) more revenues for the three orders of government in Canada, adding mostly to the federal and provincial/territorial governments’ fiscal capacities (**Figure 2.1**).

In Alberta, nominal GDP grew by 22 per cent to \$459 billion in 2022, from \$376 billion in 2021. The larger tax base in 2022 brought in an additional total of \$21 billion (or 18 per cent) more revenues for the three orders of government in Alberta, contributing mostly to the federal and provincial governments’ fiscal capacities (**Figure 2.2**).

Figure 2.1
Own-source Government Revenue Growth in Canada
(index 2007=1, 2007-2022)

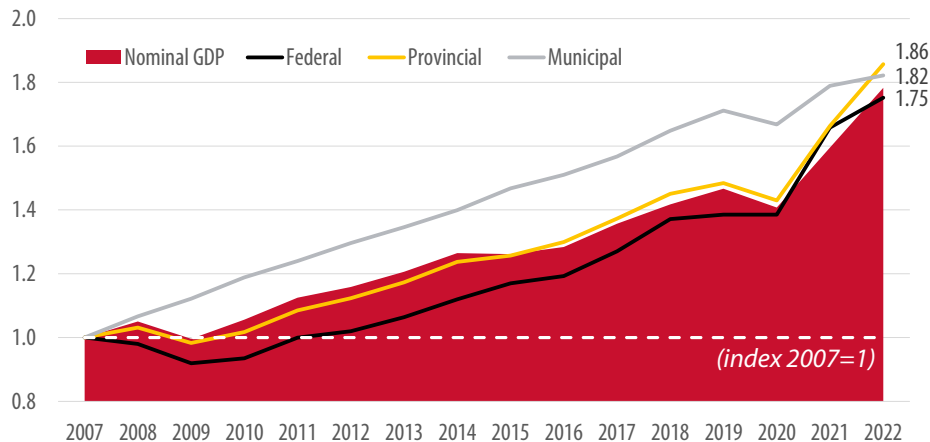
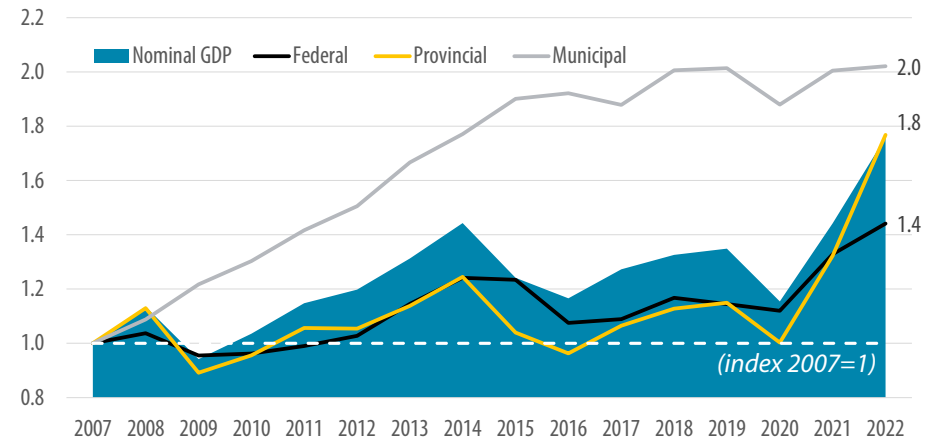


Figure 2.2
Own-source Government Revenue Growth in Alberta
(index 2007=1, 2007-2022)



2.2 Primary government revenue sources in 2022 compared to 2007-2022

From 2007 to 2022 in Canada, five primary revenue sources contributed to 64 per cent of the total revenues for the three orders of government, including:

- 33 per cent personal income taxes and 11 per cent corporate income taxes for the federal and provincial/territorial governments,
- 7 per cent property taxes for the provincial and municipal governments,
- 7 per cent general sales taxes (provincial sales tax (HST) or harmonized sales tax (HST)) for provinces except Alberta, and
- 5 per cent goods and services tax (GST) for the federal government.

The rest of government revenues from their own sources accounted for 36 per cent of the total on average between 2007 and 2022.

In 2022, the share of personal income taxes in Canada increased to 34 per cent, compared to 33 per cent in 2007-2022. The share of corporate income taxes increased 13 per cent, from 11 per cent in 2007-2022 (**Figure 2.3**).

In Alberta, there have been no provincial sales taxes. Instead, royalties from non-renewable resources had been the third largest revenue source for the Alberta Government.

Figure 2.3
Primary Government Revenue Sources in Canada
(percentage share of own-source revenues in 2022 vs. 2007-2022 average)

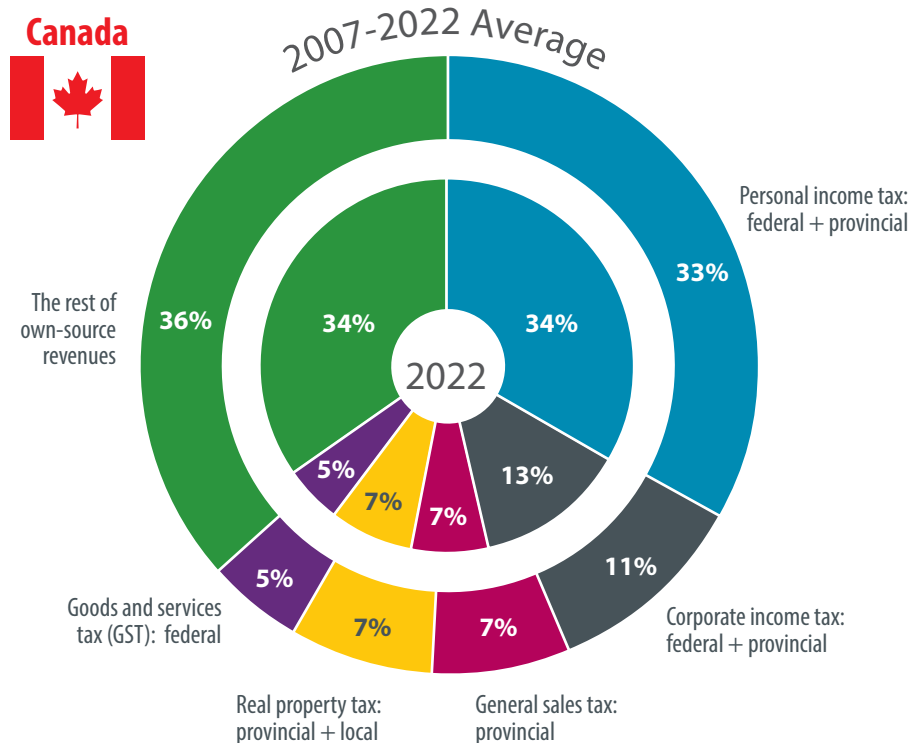
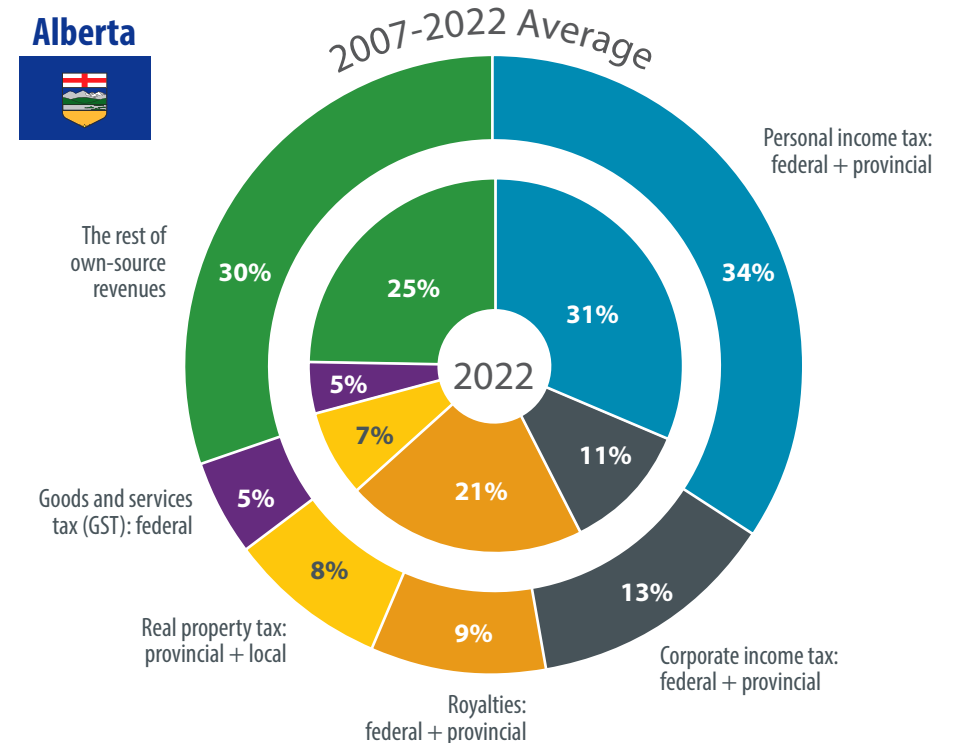


Figure 2.4
Primary Government Revenue Sources in Alberta
(percentage share of own-source revenues in 2022 vs. 2007-2022 average)



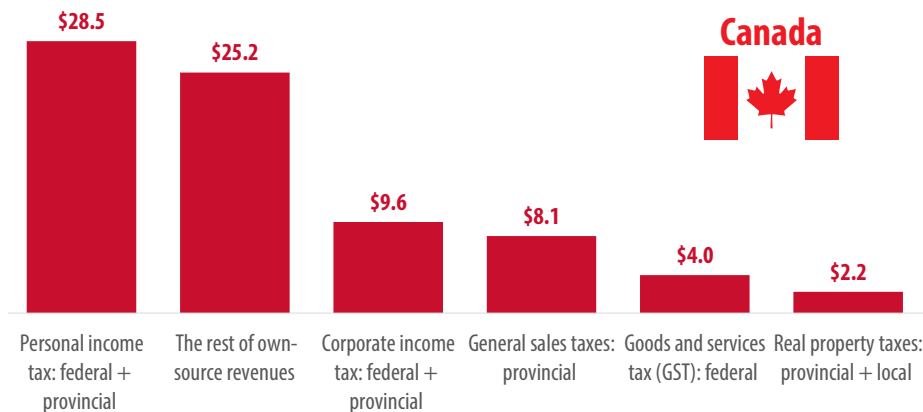
In 2007-2022, the five primary revenue sources in Alberta contributed to 70 per cent of total revenues for all three orders of government in 2007-2022, including:

- 34 per cent personal income taxes and 13 per cent corporate income taxes for the Canadian and Alberta Governments,
- 9 per cent royalties for the Alberta Government,
- 8 per cent property taxes for the Alberta Government and municipalities, and
- 5 per cent GST for the federal government.

The rest of government revenues from their own sources accounted for 30 per cent of the total in Alberta between 2007 and 2022.

In 2022, royalty revenues' share of total government revenues in Alberta increased sharply to 21 per cent, causing the shares from all other revenue sources to decline (Figure 2.4).

Figure 2.5
Primary Government Revenue Increase in Canada
(*\$billion, 2021-2022*)

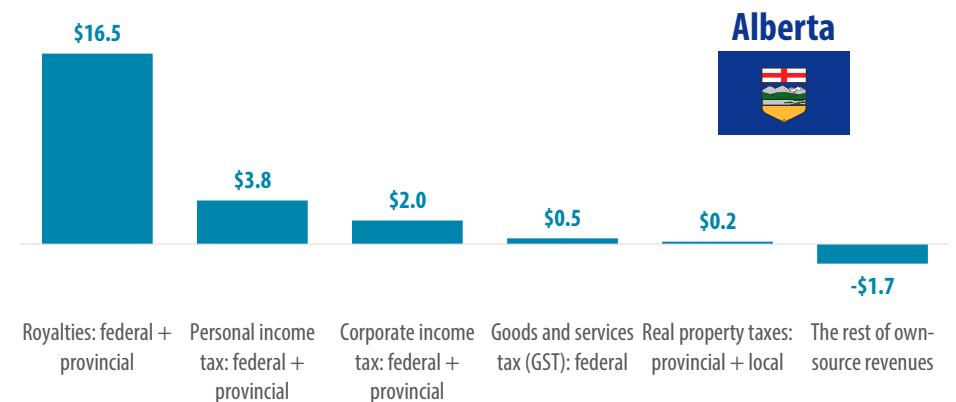


2.3 Different growth in various government revenues: 2022 versus 2007-2022

Government revenues from diversified sources grow differently in response to economic growth and tax base expansions. Some are closely correlated with economic activities (e.g., income taxes), some are more volatile (e.g., royalties), while others are less correlated with economic growth but are driven by other factors such as population and inflation (e.g., property taxes).

In 2022, the biggest increase out of the primary government revenues in Canada was in personal income taxes (+\$28.5 billion), while the least increase was in property taxes (+\$2.2 billion). In Alberta, the largest increase was in royalties (+\$16.5 billion), while the least increase was in property taxes (+\$0.2 billion) (Figures 2.5-2.6).

Figure 2.6
Primary Government Revenue Increase in Alberta
(*\$billion, 2021-2022*)



Between 2007 and 2022, Alberta experienced three economic recessions instead of two in Canada. As a result, over the past sixteen years, Alberta's accumulated nominal GDP growth was lower (76 per cent) than that of Canada (78 per cent). Accordingly, accumulated government revenue increases are less in Alberta (63 per cent) than in Canada (81 per cent).

In Canada, the fastest revenue growth out of the primary government revenue sources was from corporate income taxes (146 per cent) and the slowest from personal income taxes (79 per cent). In Alberta, the fastest government revenue growth was from royalties (172 per cent) and the slowest from corporate income taxes (32 per cent) (**Figures 2.7-2.8**).

Figure 2.7
Selected Government Revenues Growth in Canada
(index 2007=1, 2007-2022)

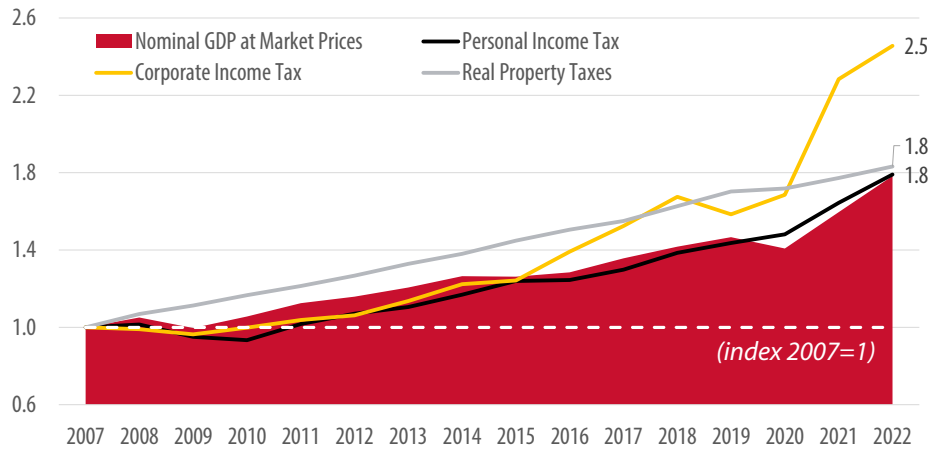
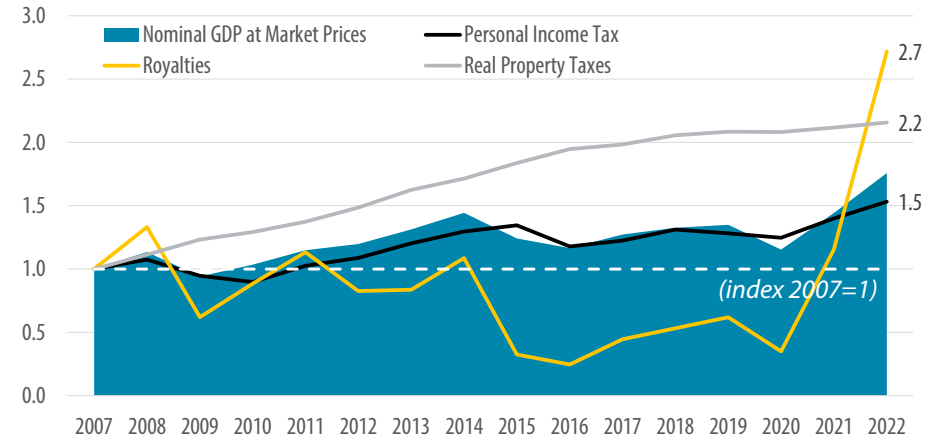


Figure 2.8
Selected Government Revenues Growth in Alberta
(index 2007=1, 2007-2022)





3

Municipal Governments Faced Higher Local Demand for Government Services In 2022

3.1 Rapid population growth and high inflation pushed up municipal expenditures in 2022

There are two main drivers behind municipal expenditure increases: (a) population growth, which increases the number of people who need municipal goods and services, and (b) inflation, which increases the per unit costs municipalities must incur to deliver goods and services to citizens.

In contrast with economic activities that fluctuate between positive and negative growth in different stages of business cycles, Canada’s total population has been increasing steadily for decades, driven by natural increases (births minus deaths) and the country’s immigration policies.

Over time, consumer prices tend to grow higher, as deflation (negative price increase) is rare and only occurs in extreme situations.

Figures 3.1-3.2 show the trends of population growth and CPI inflation in Canada and Alberta over 2007-2022:

- In Canada, the country’s total population grew by 1.8 per cent in 2022 compared to 0.6 per cent in 2021. CPI inflation was 6.8 per cent in 2022, higher than 3.4 per cent in 2021.
- In Alberta, the province’s population grew by 1.8 per cent in 2022 compared to 0.5 per cent in 2021. CPI inflation was 6.4 per cent in 2022, higher than 3.2 per cent in 2021.

Figure 3.1
Population Growth and Consumer Price Inflation in Canada
(per cent, 2007-2022)

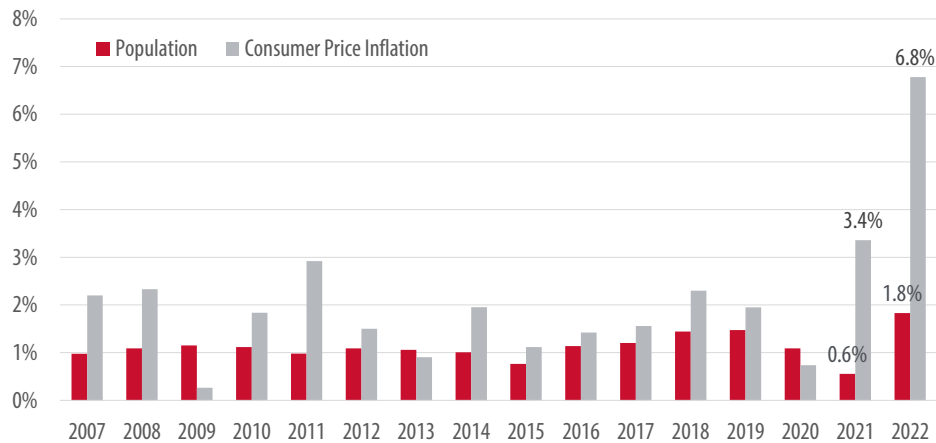
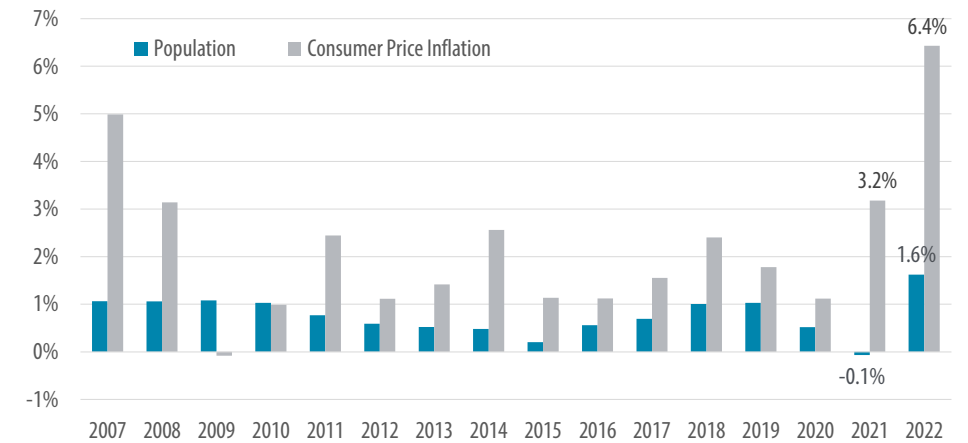


Figure 3.2
Population Growth and Consumer Price Inflation in Alberta
(per cent, 2007-2022)



The increasing cost pressures on municipal expenditures over time from population growth and CPI inflation can be illustrated by the upward trend of **population growth and inflation factor**¹⁰ (Figures 3.3-3.4). Assuming the same per capita municipal spending without increased services each year, municipal expenditures in Canada increased to 1.61 times the 2007 level in 2022 due to the population growth and CPI inflation factor only, compared to 1.73 times in Alberta. It is clear that the accumulated cost pressures on municipalities from population growth and inflation were higher in Alberta than in Canada between 2007 and 2022.

¹⁰ **Population growth and inflation factor** is calculated as the multiple of the population and CPI levels indexed to 2007=1.

Figure 3.3
Own-source Government Spending in Canada
(index 2007=1, 2007-2022)

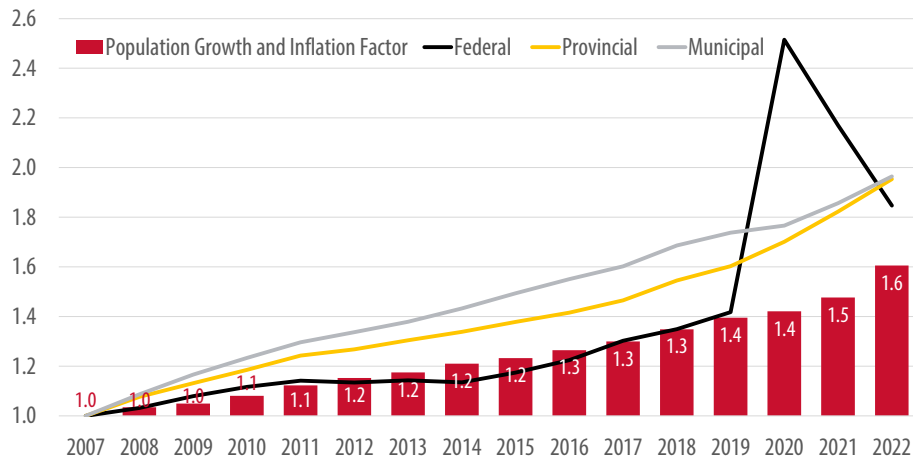
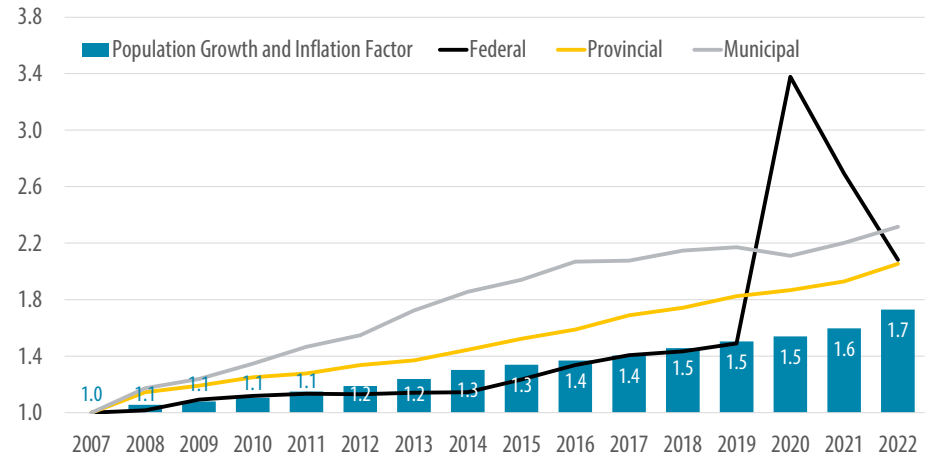


Figure 3.4
Own-source Government Spending in Alberta
(index 2007=1, 2007-2022)



3.2 Balanced budgets required higher municipal revenues in 2022

Almost all provinces in Canada require their municipalities to have a balanced budget for operating activities. As a result, in 2022, increased municipal expenditures required higher municipal revenues (Figures 3.5-3.6).

Figure 3.5
Municipal Revenues Driven by their Spendings in Canada
(index 2007=1, 2007-2022)

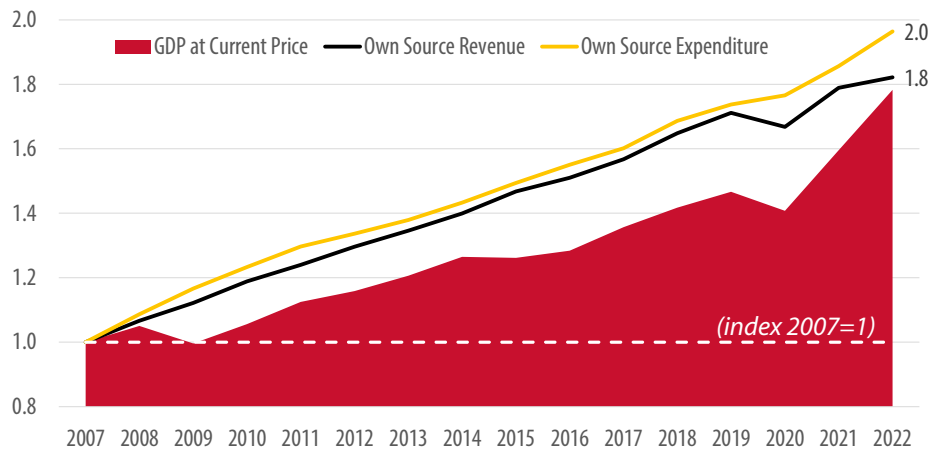
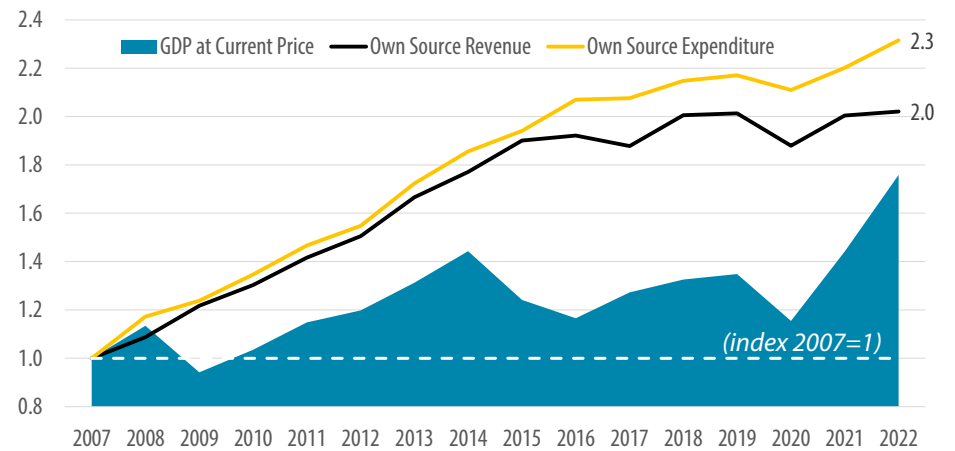


Figure 3.6
Municipal Revenues Driven by their Spendings in Alberta
(index 2007=1, 2007-2022)



3.3 However, higher than the overall tax base growth from property taxes put an upper limit on municipalities' ability to raise more revenues

Property taxes are the only main source of taxes for municipalities in Canada. Under balanced budget requirements, municipalities cannot respond to economic conditions with flexible property tax adjustments. When recessions hit, municipalities cannot cut property taxes to the levels desired by taxpayers to incur continuous deficits; when boom times come, they cannot budget for additional revenues much higher than municipal expenditures due to taxpayers' pressures.

From 2007 to 2022, the accumulated growth of property taxes was higher than that of the overall tax base represented by nominal GDP. This situation put an upper limit on municipalities' ability to raise the amounts of property taxes needed in 2022 (**Figures 3.7-3.8**).

Figure 3.7
Property Tax Grew Faster than the Overall Tax Base in Canada
(index 2007=1, 2007-2022)

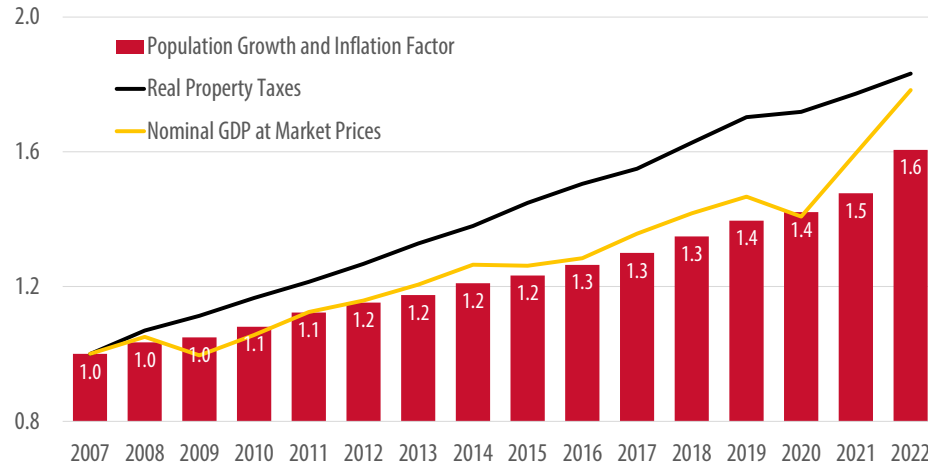
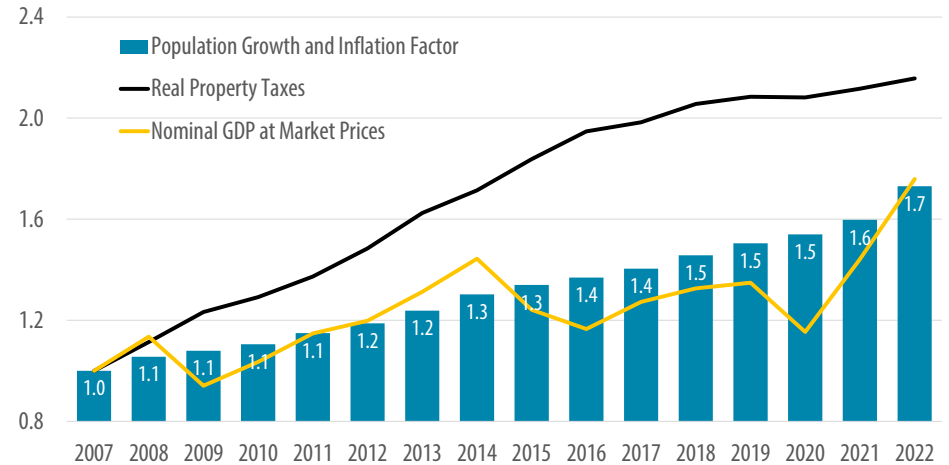


Figure 3.8
Property Tax Grew Faster than the Overall Tax Base in Alberta
(index 2007=1, 2007-2022)



3.4 Intergovernmental transfers needed to fill the municipal fiscal gaps

Municipalities in Canada are constantly in net-borrowing positions with their own sources of revenues to fund expanding municipal expenditures. As a result, they rely heavily on intergovernmental transfers (grants) from the federal and provincial governments to achieve balanced budgets. Mostly, they rely on their own provincial/territorial governments.

Figures 3.9-3.10 show the fiscal positions for municipalities in Canada and Alberta before and after intergovernmental transfers in 2007-2022. During this period, municipal governments in Canada had been in net-borrowing positions with their

own-source revenues. With the help of the grants, they realized balanced budgets with small surpluses most of the time except during and after the recessions in 2008-2010. In Alberta, municipalities had similar fiscal positions as in the rest of Canada, and they needed intergovernmental transfers to fill municipal fiscal gaps.

In 2022, Canadian municipalities had a net borrowing position of -\$21.9 billion before intergovernmental transfers. After intergovernmental transfers, municipal governments in Canada had a final net lending position of \$4.5 billion. In Alberta, all municipalities together had a net borrowing position of -\$0.7 billion in 2022 before intergovernmental transfers. After intergovernmental transfers, Alberta municipalities had a final net lending position of \$1.8 billion (Figures 3.9-3.10).

Figure 3.9
Intergovernmental Transfers Filling Municipal Fiscal Gaps in Canada
(\$billion, 2007-2022)

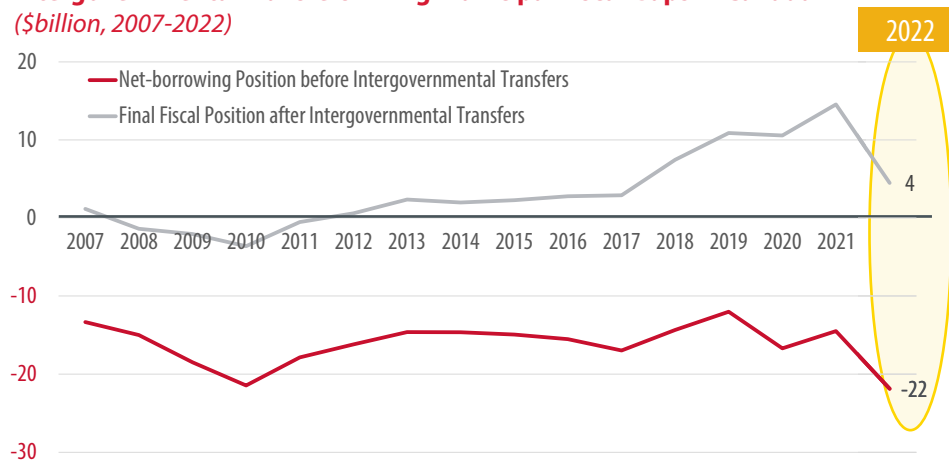


Figure 3.10
Intergovernmental Transfers Filling Municipal Fiscal Gaps in Alberta
(\$billion, 2007-2022)



Intergovernmental transfers to municipalities include current transfers for operating funds and capital transfers for capital investments. Over the years, municipalities in Canada received the majority of intergovernmental grants in current transfers. In contrast, Alberta municipalities received mainly capital grants (**Figures 3.11-3.12**).

- From 2007 to 2022, on average, current grants accounted for 77 per cent of the total grants for municipalities in Canada, compared to 41 per cent for municipalities in Alberta.
- In 2022, current transfers to municipalities accounted for 75 per cent of the total transfers in Canada, compared to only 27 per cent in Alberta.

Figure 3.11
Intergovernmental Transfers Filling Municipal Fiscal Gaps in Canada
(\$billion, 2007-2022)

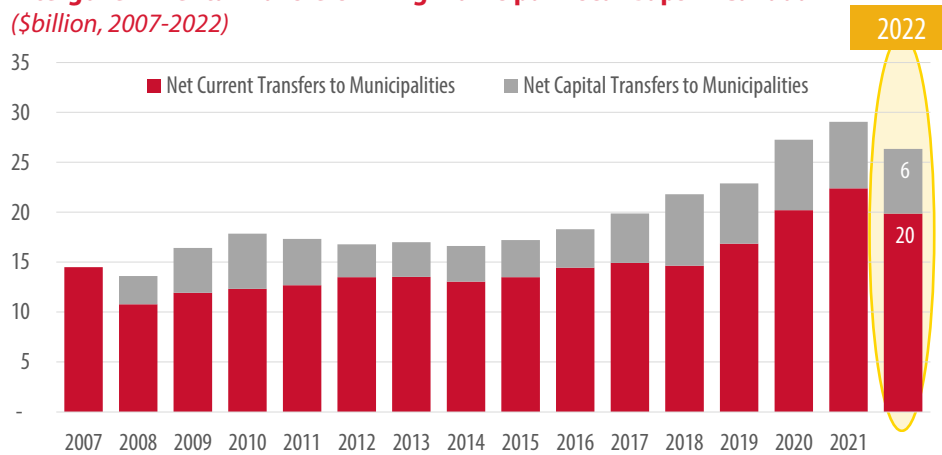
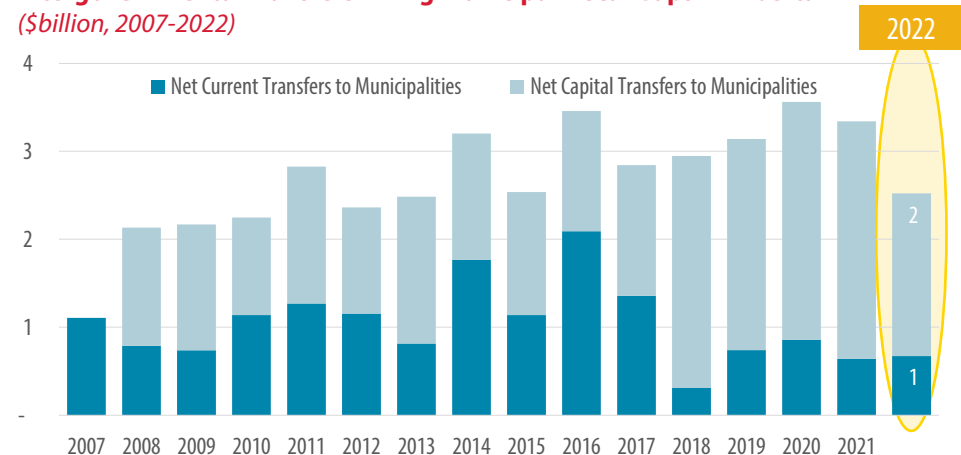


Figure 3.12
Intergovernmental Transfers Filling Municipal Fiscal Gaps in Alberta
(\$billion, 2007-2022)



Conclusion

The new estimates based on Statistics Canada's latest data found that municipal fiscal gaps continued to exist in 2022 across Canada, including cities in Alberta. This was not surprising as the MFG has been a structural issue in Canada's current government fiscal system and could not be fixed by municipal efforts alone.

From 2007 to 2022, municipalities in Canada and Alberta raised property taxes at a rate higher than the nominal GDP growth. However, their own-source revenues still could not fund all municipal responsibilities. Compared to the federal and provincial governments that collect taxes and user fees from all six main revenue sources, municipalities have no access to the primary revenue sources such as income taxes, sales taxes, and royalties. As a result, Canadian municipalities could only wait for intergovernmental transfers, especially grants from the provinces, to fill the funding gaps. Oftentimes, provincial grants were not predictable and subject to changes to provincial budget needs.

In a time of high population growth and elevated inflation, today's municipalities in Canada need new revenue options to improve efficiency and accountability. To achieve this without adding tax burdens on taxpayers, the three orders of government should work together to serve Canadians by sharing the fiscal benefits of economic growth and reallocating government revenues.



Who We Are

Corporate Economics provides services in four areas: forecasting, information provision, policy analysis and consulting. We also monitor the current economic trends which allows us to develop unique insights on how external events are impacting the local economy and the Municipal government. We are experienced at researching different economic topics and have developed reliable methods of forecasting and analysis.

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