

# Comprehensive Municipal Grant Review - Analysis



*Submitted By:  
Cory Bellmore*

# **Contents**

<b>INTRODUCTION .....</b>	<b>3</b>
<b>MUNICIPAL COSTS .....</b>	<b>4</b>
<i>Peripheral Users .....</i>	<i>4</i>
<i>Increased cost of Existing/Changing Regulations.....</i>	<i>5</i>
<i>Legislated Core Program/Services .....</i>	<i>6</i>
<i>Financial Impact of Additional Service Provision .....</i>	<i>7</i>
<i>Financial Impact of Climate Change .....</i>	<i>8</i>
<b>MUNICIPAL REVENUES .....</b>	<b>10</b>
<i>Fees &amp; Charges.....</i>	<i>10</i>
<i>Property Taxes.....</i>	<i>12</i>
<b>COMPREHENSIVE MUNICIPAL GRANT.....</b>	<b>16</b>
<b>SUMMARY .....</b>	<b>20</b>
<b>NEXT STEPS: SHORT AND LONG-TERM SUGGESTIONS.....</b>	<b>21</b>

## **INTRODUCTION**

The Comprehensive Municipal Grant (CMG) is unconditional block funding provided to municipalities by the Government of Yukon that was created in 1991. The formula was remade in 2013 and most recently reviewed and updated in 2017.

The Association of Yukon Communities (AYC) in collaboration with the Government of Yukon's (YG) Department of Community Services (CS) is leading a review of the CMG. Commissioned by AYC, this report begins to examine the financial adequacy of the CMG to determine if it is contributing adequately to supporting the current financial reality of municipalities.

This report focuses primarily on the City of Whitehorse, Town of Watson Lake, and the Village of Teslin. These communities represent the three general sizes of municipalities in Yukon (large, medium, small), and collectively allow for a fair representation to measure the CMG's adequacy against for all eight incorporated communities in Yukon. Unique circumstances in all municipalities will be flagged if known.

A variety of factors that municipalities have indicated are creating financial difficulty over time are reviewed in conjunction with the impact these costs have on municipalities in lieu of own source revenue (fees, charges, and property taxes). After establishing the financial impact of these factors on municipalities, this report examines the CMG and the factors that create the grant and compare growth of costs vs the unrestricted grant over time.

Several short and long-term suggestions for changes to the CMG that will contribute to addressing any identified shortcomings in the grant will be provided for future consideration.

While it is understood that the CMG is intended to supplement municipal finances and not fully fund the operations, it is hoped that through this review it becomes clear that a change is needed to ensure the CMG continues to be what it was intended as – a predictable and adequate funding resource to help municipalities plan effectively to meet the needs of residents and that the CMG is flexible to grow and change with the municipalities without unintentionally penalizing funding.

## **MUNICIPAL COSTS**

Municipalities have identified several areas which have begun to have a substantial impact on municipal financial health. For the purposes of this report the main areas have been identified as peripheral users, increasing government regulations, core program service provision, additional service provision, and impacts from climate change.

### ***Peripheral Users***

All municipalities in the Yukon have raised concerns over the financial cost associated with peripheral users - residents that live outside municipal boundaries, pay residential property taxes to YG, but use the amenities of the municipality.

While municipalities in the Yukon generally don't extend services to residents outside municipal boundaries like they do for municipal taxpayers (outside of landfill usage), the cost of peripheral users within municipal boundaries has not been evaluated in Yukon. This is in large part due to the difficulty in determining an accurate cost of peripheral users to a municipality based solely on revenue and expenses, as some services are fee for use regardless of residence. An attempt was made to find this cost by finding costs incurred by YG in an unincorporated community, but the values were not reliable as the costs are spread across multiple departments and not calculated similarly to municipalities.

A starting point to calculate the financial impact peripheral residents have on a municipality is to take the total CMG of a community and divide by its population to get a per capita amount then multiply that rate by the peripheral population of the municipality.

Community	Total CMG 2020	Population	per capita CMG	Peripheral pop	Total
Whitehorse	\$7,633,366	31,313	\$243.77	4615	\$1,125,027
Watson Lake	\$2,137,739	1482	\$1442.47	308	\$444,280
Teslin	\$1,367,245	521	\$2624.27	348	\$913,246.18

**Table 1 – Per Capita Cost of Peripheral Users Based on CMG Figures**

However, another way to calculate the financial impact of peripheral users is to assume municipalities fully cover fees for service. This scenario shows the total expenditures less fees and grants per capita multiplied by the population of peripheral users.

	Total expenditures less Fees & Grants	cost per capita (less Fees & Grants)	Multiplied by the population below	Multiplied by population in below X 20% factor
Whitehorse	\$41,900,666	\$1297.09	\$4,988,608	\$5,986,070
Watson Lake	\$1,615,556	\$1088.83	\$279,829	\$335,359
Teslin	\$476,339	\$913	\$264,770	\$317,724

\*2020 values used as 2021 numbers were skewed due to project grants

**Table 2 – Per Capita Costs of Peripheral Users Based on expenses & revenue**

Peripheral Population is generated in the above scenarios from:

\* data from the average population information collected for the Regional Solid Waste data

\*\* data from Yukon Bureau of Statistics Population Report Fourth Quarter, 2021

- Values are multiplied by 20% to capture unreported and transient population

Teslin – 290\* \*20% = 348

Watson Lake – 257\* \*20%= 308

Whitehorse - 3846\*\* \*20%= 4615

In both scenarios, there is a clear and significant cost to a municipality from its peripheral users.

This issue is expected to continue, if not increase, as the reduced cost of property taxes while still having access to most services of a municipality makes the peripheral properties attractive to residents. These properties also usually have a lower market value, easier access to wilderness areas, and the coverage of utility costs through agreements with YG (such as the Regional Landfill Agreements) that would normally be utility charges to a municipal resident.

This cost is further compounded when the definition of peripheral user is extended some to include tourists and users of municipal services by Yukon residents from other municipalities. For example, many Yukon residents travel to Whitehorse from several times a year to several times a month, for recreational purposes as well as for health and dental and professional service appointments. These additional residents add to all categories of expenses in daily operation costs of the municipality but do not add to revenue generation. This is true of tourism as well. For example, the City of Dawson and the Town of Watson Lake experience high volumes of summer traffic for tourist season which places increased demand on municipal services that is not offset by any revenue generation.

In an attempt to recognize the difference between municipal and peripheral residents, some municipalities have exercised Sec 266 (c.01) of the *Municipal Act* by implementing fees that are varied based on a person's residence or place of business. Some examples include;

- The City of Dawson provides a 10% discount for some rec fees if you are a municipal resident.
- The Town of Watson Lake charges a higher fee for Commercial Waste that is received from outside of municipal boundaries.
- The City of Whitehorse charges a premium for Asbestos containing waste, sorted and unsorted waste received from outside the municipality.

It is expected that the financial impact of peripheral users as described will increase year-to-year.

### ***Increased cost of Existing/Changing Regulations***

Over time municipalities have seen increasing costs due to changing regulations. For example, the City of Whitehorse has seen the cost of environmental testing increase from \$99,271 in 2013 to \$184,531 in 2021, and the Town of Watson Lake has seen their general budget for operating environmental services (includes water and sewer) increase from \$241,925 in 2013 to \$777,137 in 2021.

Other examples include:

- The requirement for onsite attendants, increased security, and additional monitoring stemming from the discontinuation of burning landfills several years ago.
- Ground Water testing infrastructure and associated annual costs (funds have been provided to assist municipalities with these costs, excluding Whitehorse) have increased over the last decade. New regulations such as the implementation of Protocol 13 have been added and these costs are expected to continue to increase over time.

- New water plants have been built in many communities to address arsenic concerns. Increased testing requirements with new water licenses also accompanied these new plants. Generally, as new water licenses have been obtained, the number of tests and frequency of testing has been increased based on best practices as well. The requirement for 3rd party testing is also expensive as municipalities must freight the samples to Whitehorse or as required to an accredited lab outside the Yukon.
- Increased cost associated with changes in accounting rules such as PSAB 3270 have also been increasing, the landfill liability booked for the City of Whitehorse increased from \$154,397 in 2013 to \$1,679,151 in 2020.
- Due to regulation requirements as well as short staffing (volunteers), municipal Fire Departments have seen an increase in requests for assistance to other responding agencies. For example, EMS cannot travel down trails or attend to more remote incidents, municipal Fire Department are being called for more and more assists as well as to be drivers when there are none available on the EMS rosters.
- Changes in the Fire Service with new standards for things like fitness testing has caused the number of volunteer members to decline over time. It has become more and more difficult to recruit and retain volunteer members, even with increases in financial compensation. Turnover of volunteer members is high and given the nature of volunteer training (a few times a month ), it takes a very long time to complete any training to the required standards to respond with a full team to an emergency situation.

Generally, municipalities have no control over these changes and are not consulted with when they are being contemplated. Changes are made in departments that don't interact with municipalities generally and they often don't understand the potential issues created with the change. It would be good practice to understand the long term impacts of changes and to work with municipalities through the implementation instead of presenting new or newly enforced rules to follow.

### ***Legislated Core Program/Services***

Under the *Municipal Act*, *Public Health and Safety Act – General Regulations*, *Recreation Act*, and the *Highways Act* the following is a list of services that municipalities have a legislated responsibility for:

- Administration – this is generally the operation of governance once a municipality is established and includes Council and Municipal Administration, Financial matters, Taxation and Revenue
- Environmental – this is the requirement to administer the domestic water well program as well as to provide public water supply and a system for the collection of wastewater and waste disposal grounds
- Lands & Planning – this includes the authorization of local improvements, creation and maintenance of OCP and Zoning and administration of those bylaws
- Parks & Recreation – responsible for all matters respecting recreation of its residents in the municipality as well as sports competitions (recreational and competitive) in the municipality and with other communities
- Protection – this includes emergency planning, enforcement of bylaws and the maintenance and operation of a fire department (including mva response, and various rescue operations)
- Transportation – jurisdiction, management and control over highways in the boundary

## ***Financial Impact of Additional Service Provision***

Other than the legislated responsibilities previously cited, most legislation in Yukon which governs core programs and services in municipalities gives a municipality latitude to choose to provide services by using “may” instead of “shall”. Regardless of terminology, in general if a municipality chooses to undertake a core program or service it is generally because it makes sense for operations given realities within the municipality.

For example, there is no legislation that requires the City of Whitehorse to operate transit services but given the size and demographics in Whitehorse that service is a requirement for good governance and service delivery to residents.

With this in mind, services for residents from the municipality are often expanded in relation to the size of the community. For example, Whitehorse takes on programs and services that other municipalities do not, including transit, paid full-time Fire Fighters and building inspections. Along with Whitehorse, Watson Lake and Dawson City offer bylaw services, property tax billing as well as a paid Fire Chief positions, and Dawson City has taken on planning positions within their administration.

There are many other acts that guide or provide rules for municipalities in various operations if the municipality chooses to add these services as well as further details requirements for legislated responsibilities flowing from the Acts that have legislated responsibility. For example, when the municipalities together agreed to form the YCIA (Insurance Reciprocal), they then were subject to the Insurance Act. All of this adds to extra costs, which the CMG does not currently address.

Further, municipalities are generally seen as a level of government that can move more quickly in creating opportunities and demand is growing to be involved in services that are generally a mandate of territorial or federal governments. For example, there has been increasing requests or demands to be involved in housing at different levels from development of land to financially supporting housing development (either through direct financial support, providing land or space or through incentives such as property tax reductions and other incentive grants which reduce or waive fees).

Additionally, municipalities generally have more regular interaction with residents and are a good tool to deliver programs and services that can attach to existing operations, such as the *Domestic Water Well program*, *Homeowners Grant* programs and the newly created *Better Building* program. These extra services come with costs.

Municipalities are also seeing requests to assist other agencies without financial compensation. An example of this is the current situation facing several municipalities with a low EMS volunteer base and requiring higher than average calls for assistance from the Fire Department, both paid and volunteer.

Alongside the services that assist other governments, municipalities have also taken on other services that are not legislated but do create better communities or add to the economic prosperity of the community. Some of these include hosting national and international events, internal project management of infrastructure projects, providing space (either rental or with agreements) to other agencies and creating shared facilities.

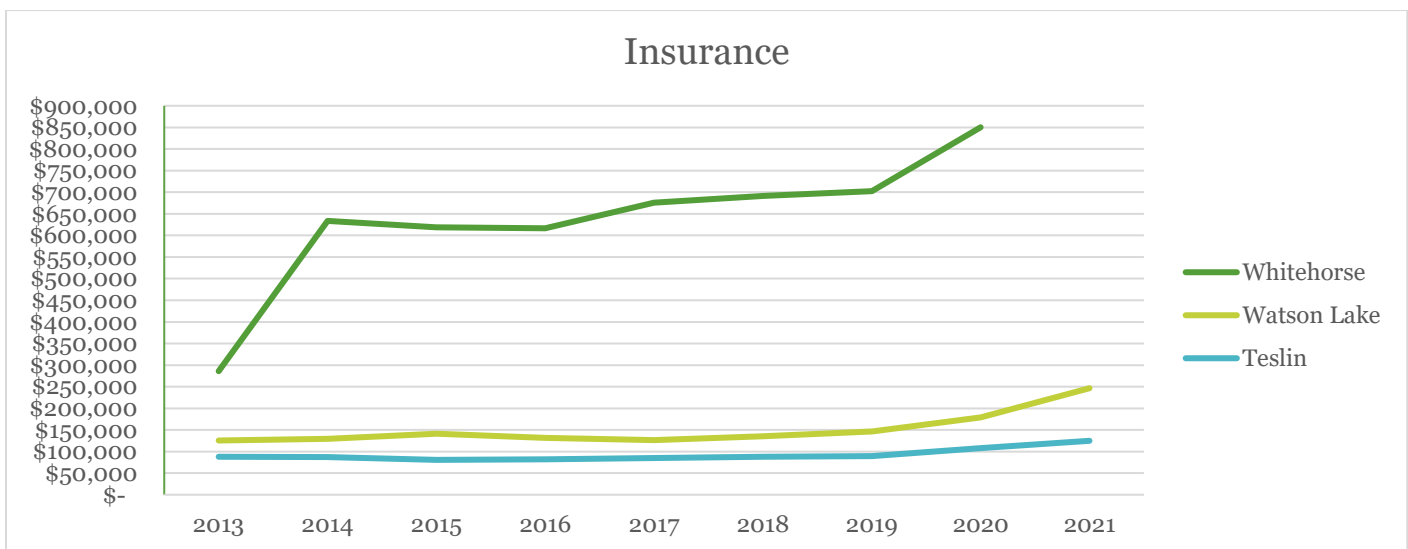
## Financial Impact of Climate Change

All orders of government are shifting to manage impacts of climate change, both with reducing carbon emissions and footprints as well as to protect infrastructure, both built and planned as much as possible. Both efforts have a high financial cost that is not currently recognized in the CMG.

Some examples of new costs to municipalities include:

- Geotechnical reports for any new land or infrastructure development that were not previously required.
- Increasing costs to operations for excessive snow loads, both with building retrofits as well as ongoing street clearing.
- Increasing costs of fossil fuel to operate infrastructure (Carbon Rebates are supplied but it is not clear if these rebates are covering the increasing costs)

Alongside the new costs, there are also general increasing costs to operations. The rising cost of materials and supplies along with the freight costs to receive it in the north have increased dramatically. Insurance costs have also been rising due to the nature of the industry that has had to respond to many large natural disasters in the past decade. These costs are external to the municipality and there is little that can be done to reduce them.



There have been an increasing number of emergencies that have been responded to by municipal governments over the last 10 years and it is expected that this trend will continue. It is no longer unusual to be impacted by both a forest fire and flood simultaneously. Municipalities have been spending resources on both responding to emergencies as well as trying to be better prepared when they occur. The costs of these emergencies are unknown and quickly overwhelm the resources and capacity of municipalities. Generally, when there is an emergency underway, all municipal focus is shifted and resources are re-deployed to deal with it as much as possible. It is important for municipalities to ensure that there is also the need to continue regular operations at the same time as responding to an emergency but often capacity to do both is limited.

Ensuring that built infrastructure is resilient to the impacts of climate change is necessary. It is magnified in the north and while there is funding available for climate change adaptation, it is not currently linked to new infrastructure funds.

Generally, the cost to municipalities for climate change considerations will continue to grow as communities move to adapt current infrastructure as well as include new or increased building considerations to reduce climate impacts. This was not a consideration when the asset maintenance factor of the CMG formula was created.

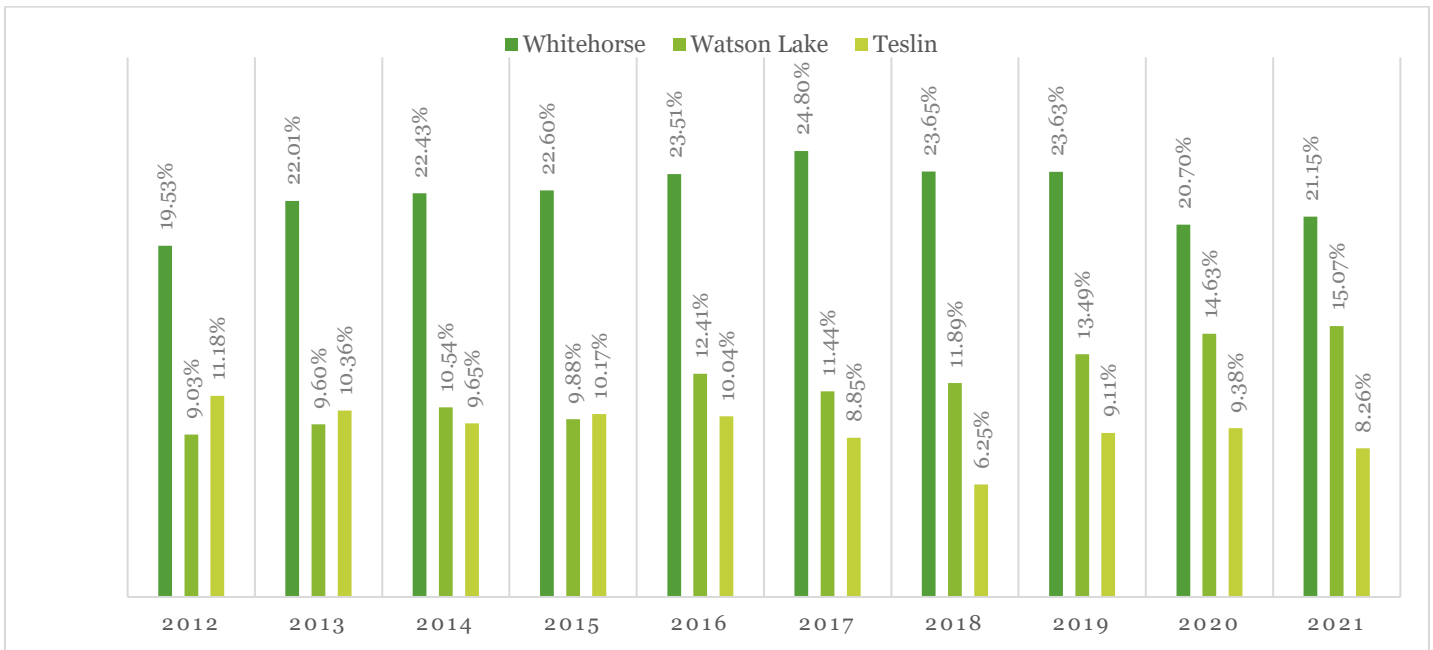
## **MUNICIPAL REVENUES**

While municipalities in Yukon are experiencing financial pressures, they do attempt to address these through revenue generation. Each municipality raises its own source revenue mainly through property tax and fees to subsidize operational costs that are not full fee for service.

Property tax revenue is the main source of income that is not attached to a specific program or service and is general revenue for operations. Property tax revenue was created to pay for operational costs related directly to real property such as civil works and road maintenance. Incremental increases to property tax attempt to cover the expansion and increasing costs related to those operations. New and increasing costs to municipalities, such as costs related to climate change and additional regulatory costs cannot be sustainably covered with property tax revenue alongside the increasing costs of regular operations. Fees and Charges are another source of revenue, but in most communities, these fees are topped up by general revenue to deliver a program or service.

### ***Fees & Charges***

Full cost recovery of services through fees is normally not attainable and subsidized by general revenue. Municipalities recognize that fees must be affordable to the users and that subsidizing the service is expected. As can be seen in the chart below, fees and charges make up a small portion of revenue in comparison to expenses. It also shows that the larger the municipality, the higher the ability to raise revenue through fees as they have a larger user base for their services, although they also have higher expenses for those services as they deliver more to meet the demand.



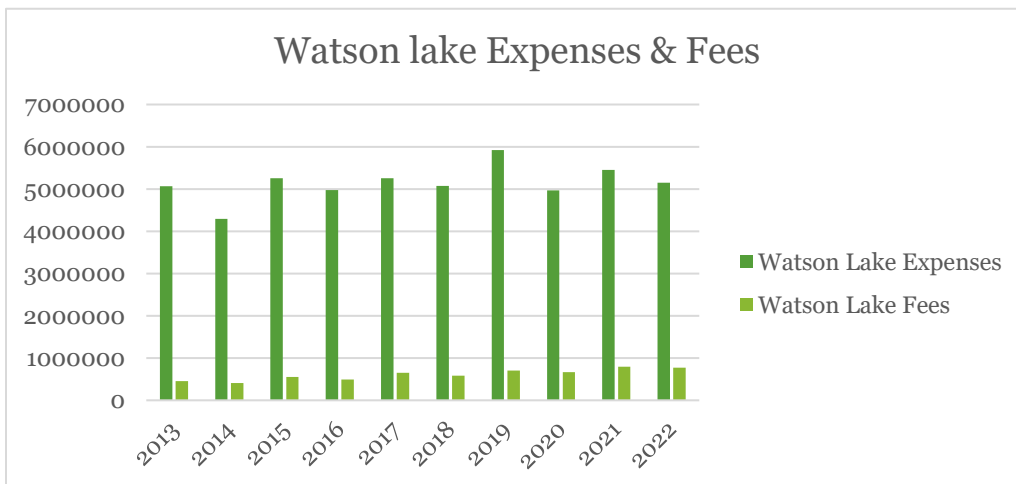
**Figure 1 - Percentage of Fees and Charges of Overall Expenses**

Section 248 of the Yukon Municipal Act allows councils to set service charges if done so by bylaw and for services within their jurisdiction. Most fees collected by municipalities include fees for utilities, recreation programs and facilities, rental fees, development cost charges and parking.

When looking in more detail at individual municipalities, the gap between expenses and fees alone is large.

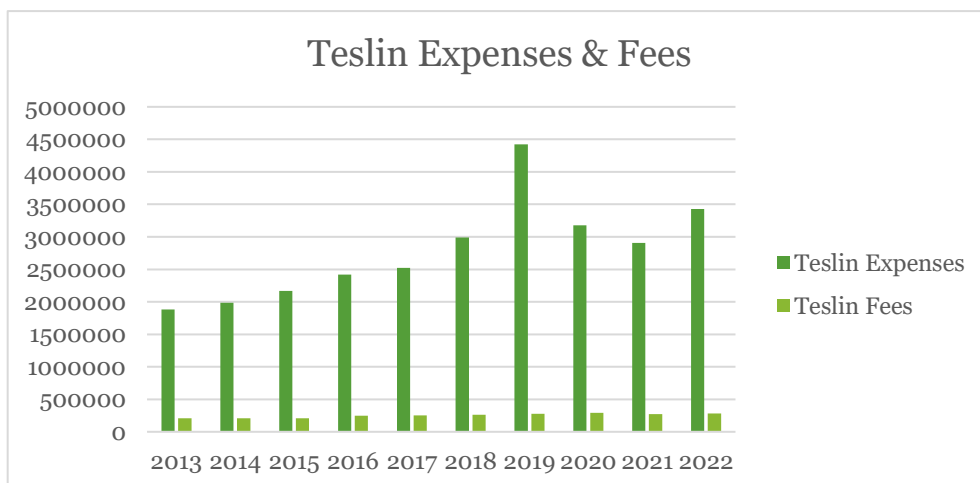


For Whitehorse, fees have fluctuated slightly but over all increased just over 5.5 Mil (41.72%) from 2013-2022 while expenses have increased almost 21 Mil for the same period (an increase of 30.87%).



In Watson Lake, fees have increased almost \$318k (69.62%) from 2013-2022 while expenses remained fairly steady with an overall all increase of \$81k for the same period (an increase of only 1.6%).

Watson Lake has also gone through a period of re-structuring to reduce and stabilize expenses.



In Teslin, fees have increased almost \$72k (34.61%) from 2013-2022 while expenses increased \$154k for the same period (an increase of 82.23%). Teslin figures for expenses are intensified with the move to take projects in house in the latter half of this time period.

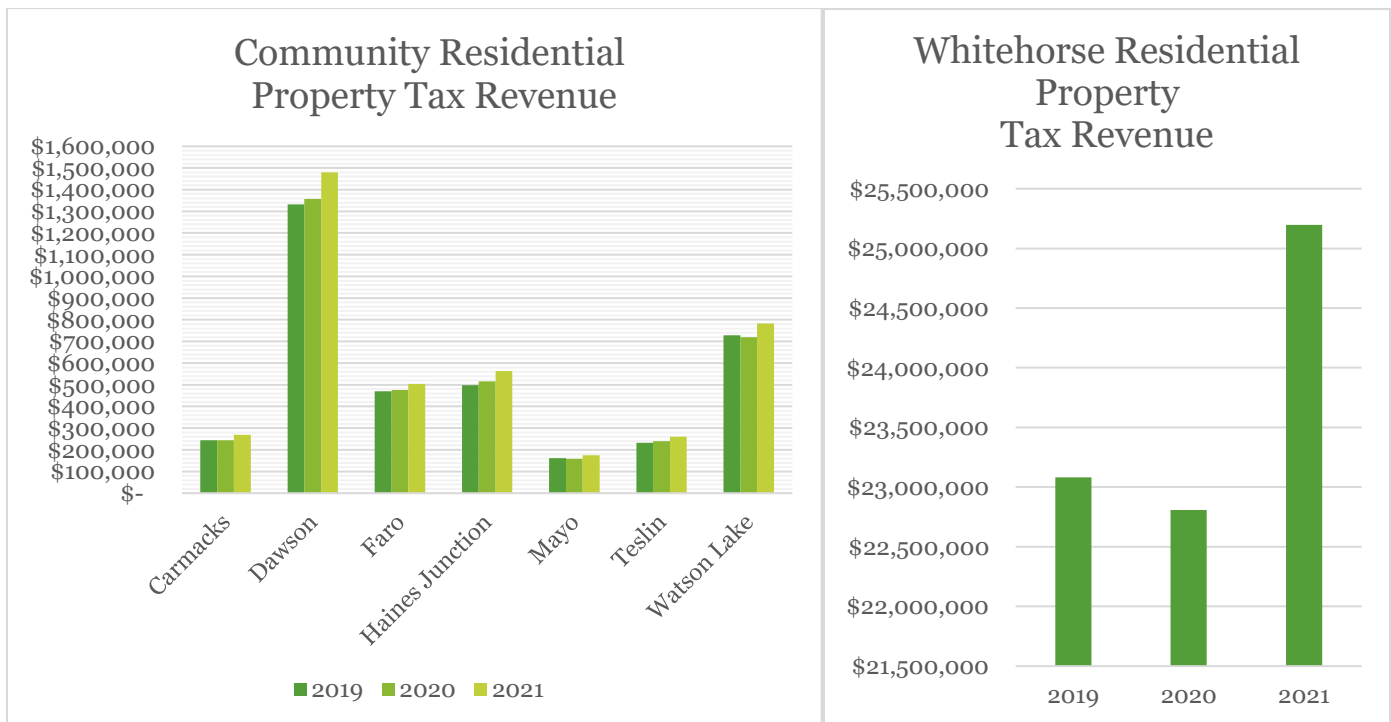
For all 3 community sizes, there is a significant gap between expenses and what fees will cover. Each community has moved forward differently; Whitehorse is very slowly closing the gap, Watson Lake is slightly more aggressive and in Teslin the gap has widened (this is likely due to project work and not reflected here as the funds for this would be included in “other funding or grants”).

It is also important to note that the values for this comparison are supplied from the annual financial statements. There are instances (for PSAB rules) where some expenses aren’t recorded. These are internal expenses in the organization and may cause a variation in actual expenses and expenses shown here. For example, internal fleet charges such as tires, and maintenance are not recorded as expenses in the financial statements but have a cost factor for municipalities.

### Property Taxes

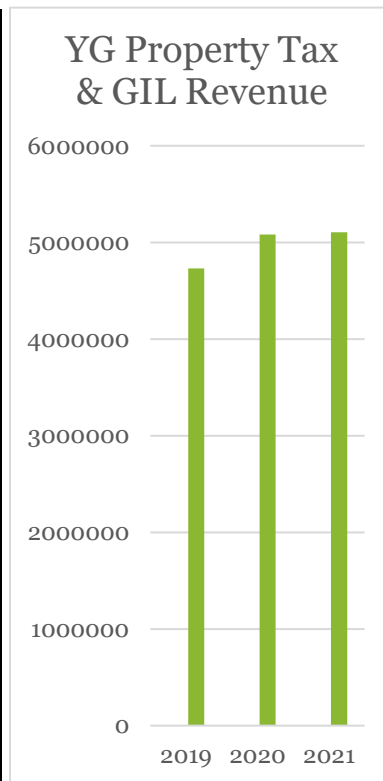
There are two ways in which property taxes can increase revenue; either changes to the assessed value of the improvement or land, or a change to the mill rate. Each year properties are assessed by the YG Property Assessment and Taxation Branch and the municipality sets the mill rate for property taxes by bylaw. Full assessments take place every second year for municipalities and are only updated in the in-between year for new developments or changes to specific properties.

Revenue raised from property tax generally increases each year. Municipalities have used both tools over time to change property tax revenue when needed annually for budget planning. Municipalities also receive grants in lieu of taxes from Yukon Government, while these are not taxes as per legislation, they are paid mostly at the same rates as property taxes. One difference for grants in lieu of taxes is that there is not a minimum tax applied in municipalities that have this rate in their annual property tax bylaws.



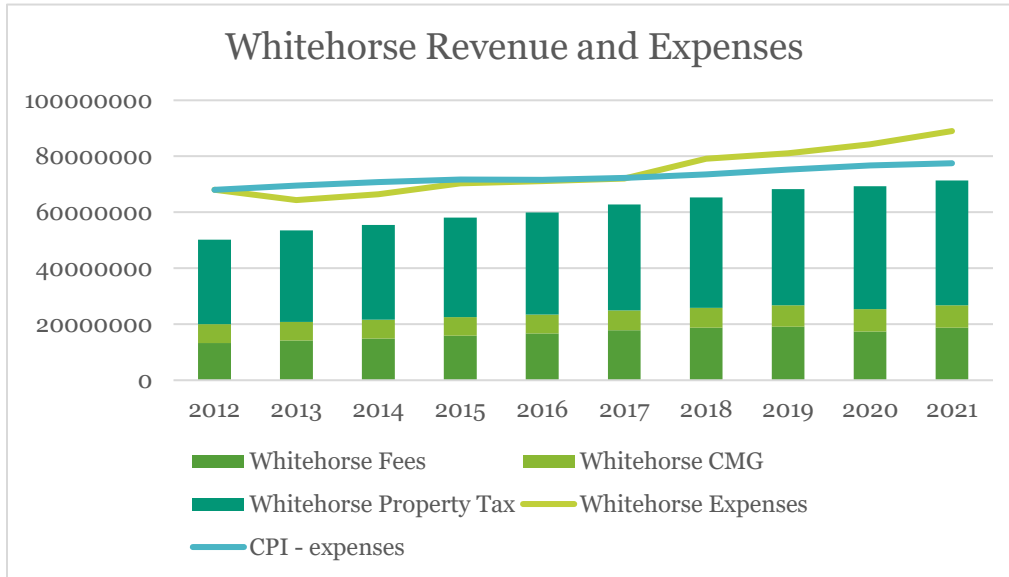
The Yukon Government collects revenue from peripheral residents the same way municipalities collect from their residents. While this does fluctuate over time due to changes in assessments, the mill rate has not changed for these properties for many years. This is problematic for municipalities as development costs and annual taxes are lower for these residents, yet they do use most services in the municipality.

RESIDENTIAL TAX RATE							
	2016	2017	2018	2019	2020	2021	2022
Beaver Creek (YG)	1	1	1	1	1	1	1
Carcross (YG)	1	1	1	1	1	1	1
Ross River (YG)	1	1	1	1	1	1	1
Burwash (YG)	0.89	0.89	0.89	0.89	0.89	0.89	0.89
Destruction Bay (YG)	0.89	0.89	0.89	0.89	0.89	0.89	0.89
Old Crow (YG)	0.89	0.89	0.89	0.89	0.89	0.89	0.89
Pelly Crossing (YG)	0.89	0.89	0.89	0.89	0.89	0.89	0.89
Keno City (YG)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Whitehorse Periphery (YG)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Teslin Area (YG)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Other (YG)	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Carmacks	1.35	1.4	1.4	1.5	1.5	1.5	1.5
Dawson	1.56	1.56	1.56	1.56	1.56	1.56	1.56
Faro	1.52	1.52	1.52	1.52	1.52	1.52	1.62
Haines Junction	1.3	1.3	1.325	1.35	1.35	1.35	1.35
Mayo	1.46	1.46	1.46	1.46	1.46	1.46	1.46
Teslin	1.23	1.23	1.23	1.23	1.23	1.23	1.23
Watson Lake	1.494	1.504	1.549	1.564	1.564	1.564	1.564
Whitehorse	1.101	1.114	1.072	1.097	1.084	1.07	1.054

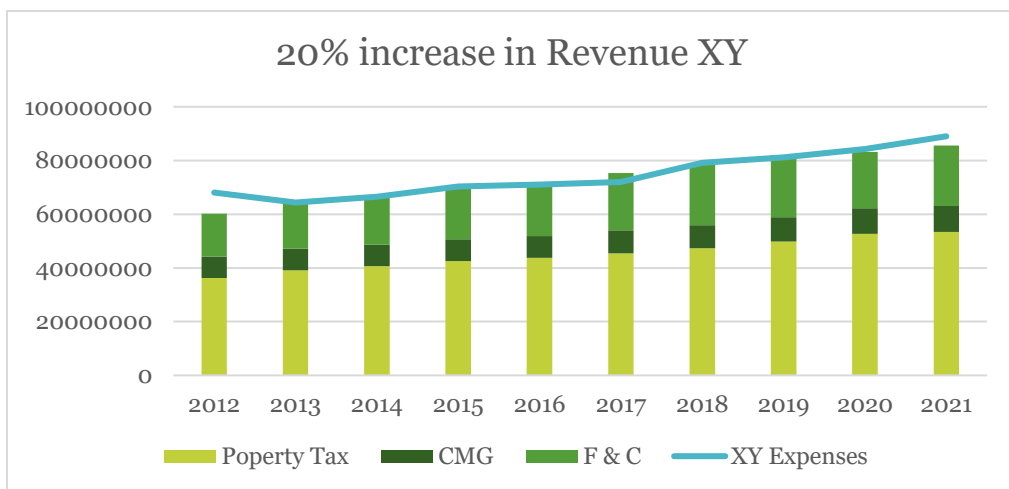


It is sometimes misunderstood that if a municipality increases their mill rate, it will affect their annual grant. It is important to understand that the CMG uses assessment values in the formula so a municipality would see increases in revenue for both an assessment increase and a mill rate increase, but only an assessment increase would affect the grant. For the purposes of the CMG, the grant is then clawed back at the lowest mill rate charged to Yukon Government property taxpayers (.8%) in the Property Tax Room component of the CMG formula.

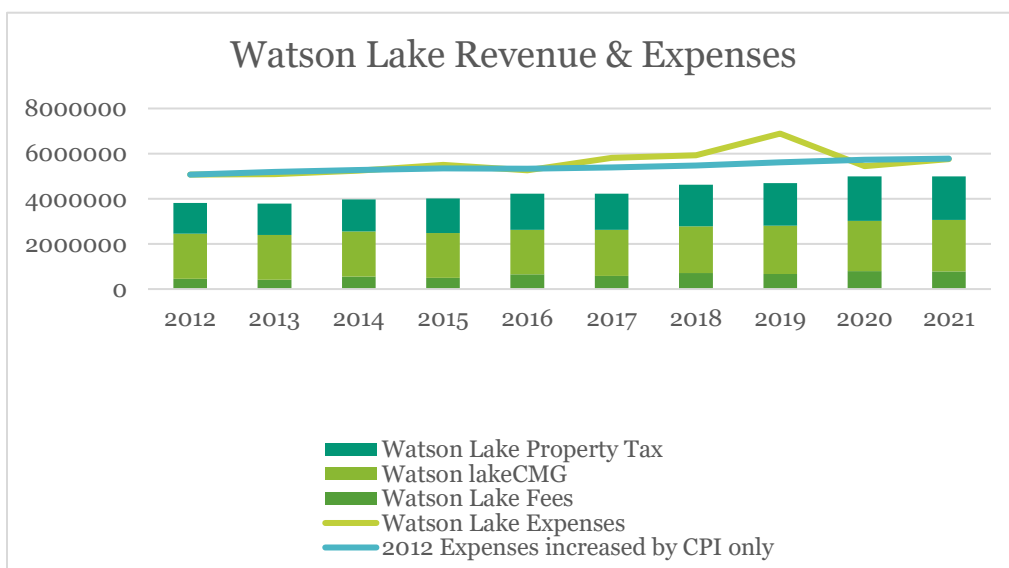
There are 3 main sources of income, Property Tax, Fees and the annual municipal grant. These charts compare the cumulative revenue against total expenses annually.



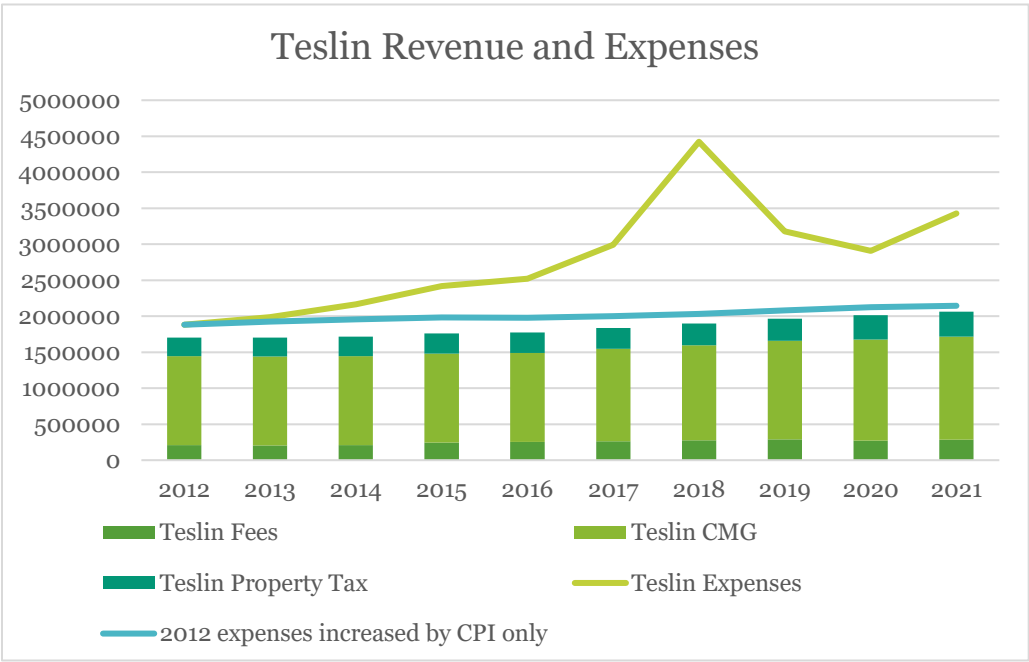
The largest growth for revenue for the City of Whitehorse has been Property Tax. The CMG has grown 18.9% from 2013 to 2022. This growth was all from 2018 to 2021 and only had increased .01% from 2021 to 2022 and may be plateauing as it did from 2013 to 2017. Fees have increased 41.72% from 2012-2021.



For the City of Whitehorse to see their 3 main sources of revenue to cover expenses, they would have to increase each by 20% - this chart does not consider a reduction in CMG due to increased assessments – just a pure increase in Property Tax



Watson Lake has seen growth in the CMG by 14.48% from 2013 to 2022 and it has also seen all this growth between 2018 and 2022. They have not had to increase taxes at the same rate as Whitehorse to meet expenses although have increased fees 69.62% from 2012-2021.



Teslin has seen growth in their CMG also starting in 2018 to 2022 with a total change of 16%. They have had large “other” grants not shown as revenue in this chart for projects they have taken in house. Fees over this time have increased 34.61%

These charts indicate that municipalities are not able to fully meet their expenses with their 3 main sources of revenue and generally, expenses are increasing at a rate faster than the revenue can change to compensate for the increase (this may be partly due to increasing operating costs of new infrastructure being realized two years before the CMG recognizes the need).

As well, even if no new services were taken on and expenses were just indexed for growth from 2012, revenues are still not able to fully meet the costs, although they would not fall further behind either.

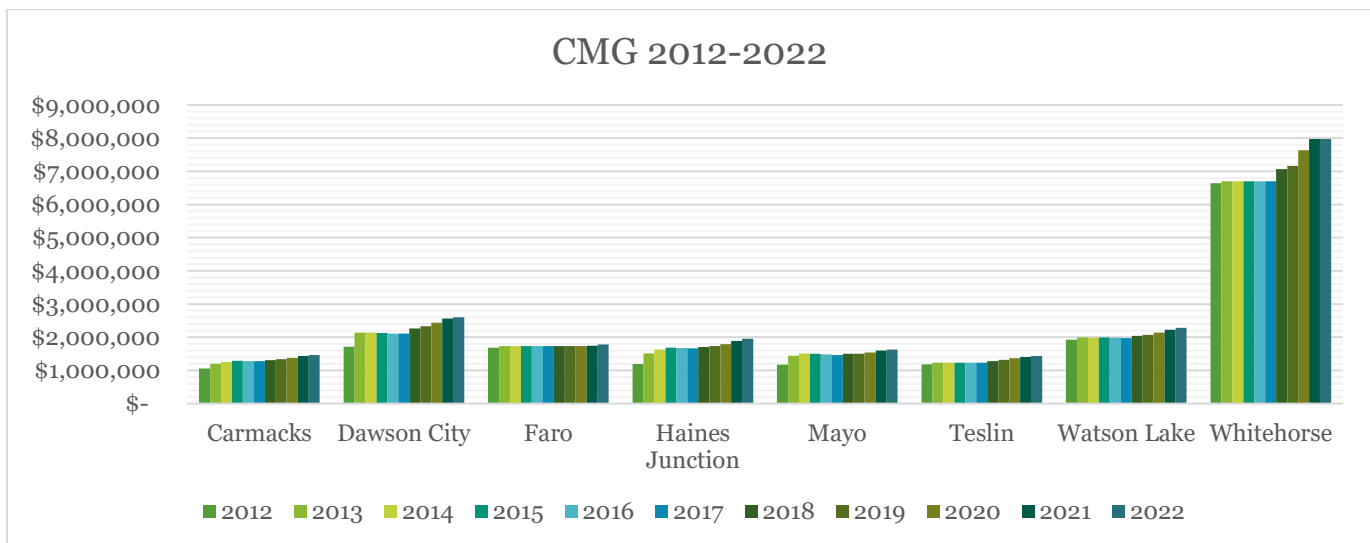
The expenses in these charts do include costs incurred due to Covid but with no corresponding revenue.

## **COMPREHENSIVE MUNICIPAL GRANT**

The formula, changed in 2012 and implemented in 2013, is based on the principles of adequacy, certainty, equity, minimal bias, transparency and accountability and currently includes a base amount and factors for population, dwellings/properties, assets, property tax and price and spatial index.

In 2013 the CMG moved from a fixed sum of money that was shared amongst municipalities to an open sum that calculated on municipal statistics.

A goal was for municipalities to be able to see how changes and growth in their community affected the grant. If a community was successful in growing all aspects (population, development, increased infrastructure) then you should see the grant grow to support this.



Some factors in the formula were adjusted in 2017 following a review as some communities' annual grant were reducing or had stalled and that wasn't reflective of growth and activity. These changes did create positive movement in the CMG for all communities by 2022.

The changes made in 2017 include:

- The \$50,000 supplemental grant was rolled into the base amount and became unrestricted. This grew the base amount that is indexed annually.
- The Property Tax Room was adjusted to 94% for Whitehorse and 95% for all other communities. This reduced the amount reduced from the annual grant. The difference between Whitehorse and other communities was an attempt to reflect the unique nature of Whitehorse from those other communities.
- The Asset Maintenance Amount was increased by increasing the percentage applied to the total from 0.25% to 0.3%. This was meant to assist with both the growing and aging infrastructure in communities.

There are some values of the CMG that are arbitrary, and it should be determined if the numbers applied are reasonable for their purpose. These numbers were created by working backwards from the general amount mandated for negotiation with municipalities.

These values are:

- Amount per person \$145, although indexed each year, the indexing is not compounded and the rate annually remains the same
  - The current value per person being proposed in the Regional Landfill Agreements is \$200/person.
- Amount per property \$1375, although indexed each year, the indexing is not compounded and the rate annually remains the same
- Property Tax Room reduction percentage – Whitehorse = 94% Other communities = 95%, this value was changed from 100 in the 2017 review – There is recognition that Whitehorse, as the Capital City does have the largest ability to raise revenue through taxes, but also that all residents of Yukon use the services in the City of Whitehorse (peripheral users on a larger scale and unlike other communities). There is not a mechanism in the formula to recognize this unique situation for Whitehorse but there is the spatial price index that recognizes the unique nature of the distance from Whitehorse that other communities receive. The difference in the percentage is an attempt to recognize this unique difference for the City of Whitehorse.

Base Amount is the same for all municipalities. The base amount increased to \$725,000 in 2017 when the \$50,000 supplemental amount for fire departments was rolled into the base. This value is the same across all municipalities as it recognizes that there are minimum costs to municipalities regardless of size. Originally, in the old formula, there were 3 different base amounts and they were applied to the size of municipality (s,m,l). While it is true that regardless of size, there are costs related to municipal operations that are similar (each municipality has to operate a landfill, a wastewater solution, a firehall). There are differences here through for the largest municipality that has to operate multiple facilities because of size. Whitehorse, for example, has multiple lift stations to their waste water facility and more than one firehall.

Population Amount Calculator is the average population of a municipality taken from the 4 quarterly amounts listed in the Yukon Bureau of Statistics – Demographics. This population amount does include population in the surrounding area (peripheral residents). It then multiplies this amount by a per person value.

Dwelling Amount Calculator is the total properties or dwellings (whichever is higher for a municipality is the number used to calculate) multiplied by a fixed value of \$1375. It is also reduced by any municipal owned property or dwelling. This component is meant to fluctuate up or down based on community growth as it the cost of direct services to a property fluctuates.

Spatial Price Index Calculator is a remoteness factor and is applied to the base, population and dwelling amount that is meant to reflect the increasing cost of goods and services in municipalities outside of Whitehorse. The CMG for the City of Whitehorse does not receive this index.

Consumer Price Index is applied to the Subtotal (which includes the base, population and dwelling amounts and indexed for Spatial Price for all municipalities except Whitehorse). Although CPI is not a true index for the type of spending municipalities do, it was used as a good alternative given it is easily known.

Property Tax Room Calculator is the only factor of the grant that creates a reduction. It reduces based on development and increased assessments in municipality. It is the balancing factor, if a municipality is successful in growing all parts of their community, they technically should be more financially self-

sufficient. This is the piece of the formula that recognizes that the annual grant is meant to assist municipalities financially and not to cover all costs of operations.

While this is technically true, in order to see developments and growth in communities in the last decade, there has been the need to assist in other ways that the grant does not recognize, such as development incentives. These incentives are generally a reduction in property tax for a specified period of time so they reduce revenue in the short term to see long term growth. As the grant only calculates the assessed value and doesn't recognize these reductions in revenue, it creates short term financial reductions in both the grant and property tax receivable.

An option available to encourage municipalities to continue to offer development incentives would be to adjust the Property Tax Room Calculator by reducing the assessed value of developments that have received an incentive. Municipalities would then not be penalized in the CMG to promote development.

It would be fair to reduce the assessed value of the incentivized properties so that they are not reducing the property tax room calculator.

Larger scale development incentives were introduced to take advantage of territorial grant and funding programs in about 2015. While this should see increases in revenue in the future, there is concern that the annual tax payments will be difficult to collect when they do come due or that municipalities will continue to see requests to reduce taxes based on social or developments targeted at affordable housing. As an aside, many of these developments had a form of rent control or were required to be affordable housing for a period of time (generally this time period matched the municipal incentive) and there is concern that when that requirement lapses, the development will increase rental rates in order to afford the true costs of the infrastructure and the community will have less affordable rental rates.

The Asset Maintenance Amount calculator piece of the formula was designed to assist in operations and maintenance of new infrastructure so as new values are added to the Tangible Capital Asset amounts in the financial statements (as well as assets that are retired are removed) there is a value attached to assist with the costs of the infrastructure.

Many values in the formula are two years behind the current year. This was done to create the certainty of available information. This lag does create difficulty when new infrastructure comes on board for operations but not recognized in the CMG for two years and so the cost of operations (asset maintenance amount) is not increased for that infrastructure for at least two years. It would be appropriate to try to use as values as current as possible to avoid this lag as population, development and asset maintenance will likely not decrease.

Additionally, work in progress is not recognized until a project is fully complete. There is the potential for large projects being operated and maintained by a municipality, but the asset is not yet signed over to the municipality. This can be from deficiencies or unexpected delays and can sometimes take a long time to be finalized. This increases the lag time for which an asset is recognized in the CMG. This is also the case in multi-year projects where pieces of the project are put into operation but not signed over to the municipality as the project is incomplete, and therefore not recognized as an asset on the financial statements.

An emerging issue of concern for many communities that the cost of operating the new infrastructure is generally more than anticipated in the expected O & M costs provided during planning. Additionally, as there has been an influx of federal funds for capital builds in the last 10 years, there has been replacements of larger infrastructure, but this piece of the formula is not growing at the rate needed for the new infrastructure.

The Municipal and Community Grants Act does require municipalities to spend a percentage of the grant annually on capital expenditures (or reserve it to a capital reserve at year end), but this can be varied annually by bylaw and up to 100% of the grant can be spent on operations and maintenance.

Municipalities do recognize the need to plan and save with reserves for future infrastructure and operational needs. This is becoming increasingly difficult as the general cost of operating has been increasing along with operating costs of new infrastructure at a rate faster than revenue and saving has been declining.

## **SUMMARY**

Municipalities and Community Services have been working together through formula changes and research to understand what adequate financial support is to deliver what is expected from local government to Yukon residents. This has not been a solid target over time as resident expectations, regulations and the general environment is always shifting, such as the new cost of climate change adaptation and changes in regulations.

The CMG formula is built to grow or decrease depending on the individual factors of a municipality. The initial intent was that with all the correct pieces working together for a basic municipal operation, a community could grow their grant at a steady pace. In theory this is correct, but the increasing demands and inability to connect all the pieces together creates a disconnect in the grant. For example, if a community cannot provide land for development, it cannot grow the population or assessment pieces at the rate required to offset the increasing costs of service delivery.

The two-year lag in information that populates the grant is also expanding the gap between revenue and expenses. The lag was chosen to ensure that final and publicly known information was used to ensure transparency. This lag is especially important with the factor that applies to assist in operational costs of new infrastructure.

Although municipalities have worked toward a steady general revenue increase with changes to their annual mill rates and assessments as well as increasing the rate and types of fees & charges, expenses are increasing at a faster rate than revenue increases. Increased services along with the general rise in operating is higher and municipalities are often looking for other options to financially offset these costs. This is often administratively heavy as smaller projects that need replacement or repair (such as playgrounds) often seek other grant funding instead of using general revenue or reserves.

Along with these increasing internal costs, there are always many external forces that are creating difficulty to perform general operations. The current labor market is an example of this, there is a high demand to fill positions but a low number of individuals looking to commit to municipal positions, this is further compounded by the growing disparity in wages between what municipalities can afford to pay and other levels of Government such as Yukon Government and First Nation Governments.

While short term assistance through some formula tweaks is helpful, long term sustainable funding that meets the expectations of what municipalities deliver as services to Yukon residents is important. Municipalities are often expected to take on additional duties as they are the most easily available to residents and are able to provide services at a rate lower than other governments.

The CMG formula does also have the opportunity to attach a short-term supplemental grant, such as the Fire Department \$50,000 supplement. This was ultimately rolled into the base as it was determined that this financial assistance was needed but municipalities should be able to direct it where it is needed and not be prescriptive to where it was to be spent. This supplemental grant is a useful tool when new and unexpected costs for specific operations are recognized, but history indicates that any new cost is not short- term and these values should roll into the base amount as fixed funding.

Other Canadian jurisdictions have recognized the increasing demands on municipalities and are also creating changes in grants provided to assist. Recently the Province of Manitoba announced a 28% increase in unconditional funding to municipalities.

The Comprehensive Municipal Grant has increased over the life of the formula, steadier increases have come following the changes to the formula in 2017.

## **NEXT STEPS: SHORT AND LONG-TERM SUGGESTIONS**

Some changes to consider for the CMG formula for the short-term financial support to municipalities include:

- Increase the per person and per property or dwelling value to reflect more updated values (such as the per person amount contemplated in the Regional Landfill Agreements) as these were created in 2012.
- Increase the Asset Maintenance factor percentage to better reflect both the cost of aging infrastructure and new capital projects as well as to better align with the CPI over time.
- Reduce the Property tax room calculator percentage further to reduce the penalty in the grant for growth and development.

These changes reflect the reality of what municipalities are currently facing and are external to community numbers that populate the formula. These numbers were chosen when the formula was created to keep the total grant within a range at the time.

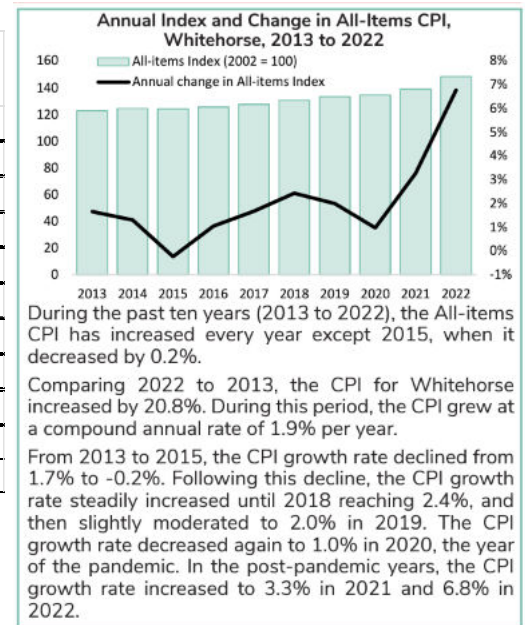
- A change in the per person value from \$145 to \$200 (the amount being considered in regional landfill agreements) and the per property amount from \$1375 to \$1650 as well as an increasing the Asset Maintenance factor percentage from 0.30% to .40% and reducing the Property tax room calculator to a 89% for Whitehorse (to continue to recognize uniqueness of Whitehorse in the grant) and 90% for other municipalities, reducing this claw back could create the following changes as shown in the table below.

			2022	2022	2021	2020	2019	2018	2017
	% Increase	Increase in Grant	Calculation with suggested changes	Calculation	Actuals	Actual	Actual	Actual	Actual
Carmacks	12.94%	\$ 212,667	\$ 1,643,557	\$ 1,465,989	1,430,890	1,375,038	1,336,669	1,311,615	1,284,037
Dawson City	22.48%	\$ 742,875	\$ 3,305,234	\$ 2,600,592	2,562,359	2,437,858	2,328,153	2,259,891	2,113,714
Faro	14.82%	\$ 302,639	\$ 2,042,192	\$ 1,782,509	1,739,553	1,734,765	1,734,765	1,734,765	1,734,765
Haines Junction	18.96%	\$ 440,657	\$ 2,324,508	\$ 1,958,907	1,883,852	1,791,283	1,732,253	1,700,411	1,667,904
Mayo	12.16%	\$ 220,783	\$ 1,816,025	\$ 1,629,962	1,595,242	1,541,414	1,507,354	1,497,952	1,465,482
Teslin	12.45%	\$ 199,391	\$ 1,600,944	\$ 1,432,546	1,401,553	1,367,245	1,320,348	1,284,101	1,234,914
Watson Lake	19.78%	\$ 548,871	\$ 2,774,662	\$ 2,284,493	2,225,791	2,137,739	2,074,553	2,043,784	1,976,918
Whitehorse	50.16%	\$ 8,019,862	\$ 15,990,050	\$ 7,970,927	7,970,188	7,633,366	7,167,099	7,070,589	6,695,588
<b>Total</b>	<b>33.93%</b>	<b>\$ 10,687,745</b>	<b>\$ 31,497,173</b>	<b>\$ 21,125,924</b>	<b>\$ 20,809,428</b>	<b>\$ 20,018,708</b>	<b>\$ 19,201,194</b>	<b>\$ 18,903,108</b>	<b>\$ 18,173,322</b>

Over the life of this formula (2013-2022) the CMG has increased 17.5% as shown below. In comparison, the YG TFF over the same period increased 45.69%. The CPI increased (for Whitehorse) by 20.8% over the same period (2013 – 2022). This indicates that with all possible fluctuations that could create increases in the grant, over the life of the formula it did not meet the growth of the CPI.

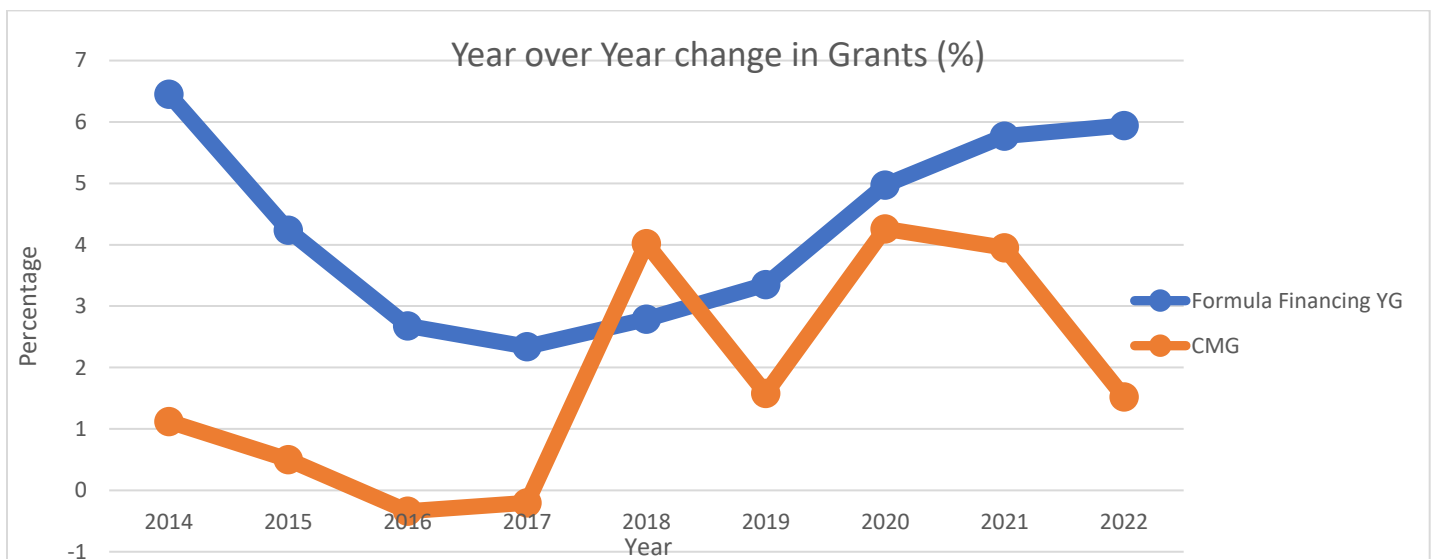
	2022	2013	Change from 2013-2022	% Change
Carmacks	\$ 1,465,989	\$ 1,207,218	258771	21.44%
Dawson City	\$ 2,600,592	\$ 2,142,077	458515	21.41%
Faro	\$ 1,782,509	\$ 1,734,765	47744	2.75%
Haines Junction	\$ 1,958,907	\$ 1,515,977	442931	29.22%
Mayo	\$ 1,629,962	\$ 1,444,763	185199	12.82%
Teslin	\$ 1,432,546	\$ 1,234,914	197632	16.00%
Watson Lake	\$ 2,284,493	\$ 1,995,534	288959	14.48%
Whitehorse	\$ 7,970,927	\$ 6,704,078	1266849	18.90%
<b>Total CMG</b>	<b>\$ 21,125,924</b>	<b>\$ 17,979,326</b>	<b>3146599</b>	<b>17.50%</b>
Yukon Government TFF	1,117,650,000	767,159,113	350,490,887	45.69%

**% change in grants from 2013-2022**



**YG Consumer Price Index 2022**

The chart below compares the year over year change (%) of the Yukon Territorial Formula Financing, which is similar to the CMG as it is an unconditional grant from the Government of Canada to enable YG to provide a range of services to residents. This shows consistent growth over the last 5 years in the YG TFF where the CMG increases 2 years out of 5 and in a more erratic trend.



### Additional short-term adjustments/formula changes

- Adjust the Property Tax Room Calculator by reducing the assessed value of developments that have received an incentive. Municipalities would then not be penalized in the CMG to promote development.
- Consider a Work in Progress section to the Asset Maintenance factor for longer term larger projects that municipalities incur expenses on prior to the project being completed. This could be accomplished without a change in the grant if a process was created to ensure that Work in Progress values are provided to municipalities for YG run projects in time to include in annual financial statements.
- Ensure that any new or updated legislation includes allowances for funding should there be changes or additions of responsibilities for municipalities.

### Long-term suggestions

Understanding the financial sustainability of Yukon Municipalities is necessary to ensure support delivered is maintaining a certain threshold of need in the long term. Municipalities have shown that the financial support is not currently maintaining the level needed and have been making adjustments where they can in revenue to ensure viability on an annual basis. The need to review and adjust the grant every 5 years is more of a catch up than keep up mentality of the reality faced to deliver services to 90% of Yukon residents.

- Adjust the base funding being reflective of municipal size (as was in 2012 and previous years)
- Make the supplemental grant more flexible and legislate that any supplemental grant still required after 3 years rolls into the base amount.
- Actively participate and continue with the long term discussion of Financial Sustainability for Municipalities with the Federation of Canadian Municipalities and Yukon Government on the development of a new Municipal Growth Framework – a revenue tool that grows with the economy.
- Find an accurate and ongoing mechanism to report peripheral populations to give more qualitative data in the long term
- Consider additional financial support such as a transfer of some revenue generated by Yukon Income Tax to reflect where growth has occurred in Yukon.