

INTRODUCTION

The Federation of Prince Edward Island Municipalities (FPEIM) was created in 1957 by 12 municipalities. Today, its 42 members represent 95 percent of the municipal population. FPEIM works on behalf of its members to promote and foster effective, efficient, and accountable municipal government in Prince Edward Island, and to represent municipal interests as a strong and unified voice.

Municipal governments play a fundamental role in building safe, healthy, and vibrant neighbourhoods and communities. Strong municipal governments create conditions for population and economic growth and play an important role in protecting our land and environment. Municipal governments rely on the province for the tools and resources, as the province has constitutional jurisdiction over municipalities. Too often, those tools and resources fall short.

The responsibilities of municipalities have grown substantially over the past several decades and that trend will continue, as municipalities are faced with increasingly complex services and issues. Rapid population growth in the years ahead will put additional pressure on a municipal system that is already stretched to its limit. Transformative changes are needed to ensure we have strong and resilient municipalities for today and the future. The time for inaction and minor changes has passed. The Federation is calling on the Government of PEI to make meaningful changes that put municipal governments on a solid foundation.

STRENGTHENING THE MUNICIPAL FINANCIAL FRAMEWORK

The share of both total tax revenue and property tax revenue that municipal governments in Prince Edward Island receive lags far behind other provinces.

Narrow revenue raising tools continue to force municipal governments to rely heavily on property taxes. In Prince Edward Island, the provincial government receives 70 percent of property taxes, with the remaining 30 percent being levied by municipalities. PEI is the only provincial government that receives more property tax revenue than the municipalities in the province. The provincial non-commercial property tax rate, after applying the



\$0.50 tax credit, is \$1.00 per \$100 of assessed property value. That rate is several times higher than the provincial or school tax rates on non-commercial in most other provinces. High provincial property taxes within municipalities make it difficult for municipal governments to increase their rates and puts a heavier burden on municipal taxpayers.

Within Prince Edward Island, municipal taxes account for about three cents of every tax dollar collected by the Government of Canada, the Government of PEI, and municipal governments combined. The Federation of Canadian Municipalities have reported that municipal governments in Canada receive, on average, about 10 cents of every tax dollar collected in Canada.

Although comparisons to municipalities in other provinces do not account for differences such as grants and responsibilities, the magnitude of the differences in numbers help explain the seriousness of the significant financial challenges facing Island municipalities.

Rapid population growth, particularly in urban municipalities, requires strategic long-term planning to guide needed, and costly, municipal investments in services and infrastructure. The services provided by our cities, in particular, play a vital role in the Island economy. Major changes are required to ensure that our cities, towns, and rural municipalities have sufficient financial resources.

The Municipal Government Act (MGA) introduced new responsibilities such as such as land use planning, emergency preparedness planning, office hours and financial audits. Unfortunately, these new responsibilities were not accompanied by the necessary revenue to fulfill new responsibilities. In 2021, the Rural Municipalities of Darlington and St. Louis applied to dissolve, each citing the cost of new MGA requirements as a reason for the council's decision. The introduction of new responsibilities under the MGA has merely shone a light on longstanding viability issues caused by outdated municipal boundaries and financial framework that doesn't meet the needs of municipal governments. Municipal governments should not be left in a position in which funding basic municipal services is such a challenge. The new MGA was an important step forward, but it needed to be accompanied by boundary change and a strong financial framework to set municipal governments on a new path.

In many small municipalities, the excessive workload of chief administrative officers, wages that do not match responsibilities, and part-time work have led to extremely high turnover and has made it difficult to attract qualified employees. This is another indicator of the severity of the situation.

The financial challenges facing small municipalities are exacerbated by municipal boundaries from a bygone era. About 63 percent of the province is not incorporated. The absence of local taxation and decision-making in those areas is almost unique in Canadian provinces. This inequity

encourages development outside municipalities, which drives up the cost of municipal and provincial public services. Property owners in municipalities are paying property taxes to fund services that benefit a much bigger area.

The five-year memorandum of understanding on municipal funding was an important first step in addressing the financial needs of municipalities, particularly those providing the most services. With negotiations for the next five-year period now underway, the Federation is calling on the Government of Prince Edward Island to come to the table with a meaningful investment in our cities, towns, and rural municipalities. A fair financial framework will not only address long-term viability; but also capitalize on the potential of municipal governments to help achieve shared objectives related to environmental sustainability, climate change, economic growth, and quality of life. It will support the important role municipal governments need to play in local land use and emergency planning. The alternative is to leave municipalities in a precarious position that simply is not working. A substantial transfer of tax room is an essential part of that solution.

RECOMMENDATION:

The Federation recommends that the Government of PEI substantially reduce provincial non-commercial property taxes within municipalities to provide tax room for municipal governments.

Thirty years ago, the Municipal Study Report prepared for the Government of PEI highlighted the inequity of charging the same property tax to ratepayers in municipalities and unincorporated areas. Decades later, this inequity continues to negatively impact services in rural areas and makes municipalities more costly places to live and do business.

Additional tax room would ensure that large municipalities have access to appropriate resources for the important role they play in enhancing quality of life, and supporting economic and population growth, while addressing rising costs to service a rapidly growing population. It would strengthen rural service centres that play a key role in ensuring rural PEI is strong and resilient. It would provide access to revenue for implementation of the MGA in small municipalities. Those costs have resulted in two proposals for dissolution. Reducing the provincial non-commercial property tax within municipalities could also facilitate a transition to viable municipal governments covering the province by addressing the property tax

“We believe that there is an inequity in charging the same property tax to rate-payers in unincorporated areas as is charged to rate-payers in municipalities.”

(pages 60-61)

“Not only should there not be any property tax advantage for settlement in an unincorporated area, but there should be definite tax disadvantages.” *(page 75)*

Municipal Study Report, Smith Green & Associates, in association with ARA Consulting Group and Kell Antoft, May 1991,

imbalance between unincorporated areas and municipalities. When an unincorporated area joins a municipality, the lower non-commercial provincial property tax rate would be applied to that area.

The Federation acknowledges that the provincial government is currently facing unique challenges. The recommendation to reduce property taxes within municipalities could be implemented over a few years, beginning with a reduction in the upcoming budget.

Municipal governments are making efficient use of all available revenue, but the outdated revenue raising options available to municipalities are simply not enough. Since municipalities continue to rely heavily on property taxes, they need greater access to that source of revenue, as well as new sources of revenue.

In the months ahead, municipalities, the Federation, and the provincial government will be working hard to come to an agreement on an improved municipal financial framework for the next five years. Creating tax room has already emerged as a priority for municipalities, and there is agreement that tax room should be supplemented by an expansion of the revenue sources available to municipal governments. One option would be to increase the Real Property Transfer Tax from one percent to one and a half percent, with the increase going to municipal governments.

RECOMMENDATION:

FPEIM recommends that the Government of Prince Edward Island increase the Real Property Transfer Tax from one percent to one and a half percent, and remit revenue from the half cent increase to the municipality in which the property transfer occurred.

PUBLIC TRANSIT

FPEIM thanks the Government of Prince Edward Island for introducing new routes to the rural public transit system and for the commitment to further expand the system this year. This responds directly to requests from FPEIM and others.

Public transit provides social, economic, and environmental benefits. It offers access to work, school, childcare, health services, shopping, and much more. Transportation is the biggest source of greenhouse gas emission for PEI. As we work toward net zero emissions to address the climate crisis, affordable public transit must be part of the solution.

The Government of Prince Edward Island has also supported public transit serving the Capital Area by providing a grant of \$180,000 to assist with operating costs. The City of Charlottetown

and the Towns of Stratford and Cornwall are grateful for this support. Unfortunately, the operational funding for the T3 transit system has not grown since it was introduced by the provincial government in 2012, leaving those municipalities with the full burden of increasing costs. This makes it difficult to enhance or expand public transit services and to keep fares attractive, which helps grow ridership. In 2021, the three municipalities requested that the annual grant be increased to \$425,000. FPEIM supports that request.

RECOMMENDATION:

FPEIM recommends that the Government of Prince Edward Island increase the annual operating grant for Capital Area municipal public transit system from \$180,000 to \$425,000.

CENTRALLY SERVICED MUNICIPALITIES IN RURAL AREAS

The population of many of the municipalities that provide central services in rural PEI has been declining or stagnant. Unfortunately, those municipalities have not fully benefited from significant new residential development despite strong growth in the provincial population and a growing housing shortage.

The capital cost of central services in those municipalities, such as water, sewer, and streets, makes building lot prices uncompetitive compared to lots that are not centrally serviced. This is a deterrent to residential development within those municipalities and contributes to sprawl outside their boundaries. In 2019, FPEIM members adopted a resolution calling for a financial support for the development of residential building lots in centrally serviced municipalities in rural areas. Such a program could also make housing attainable for people who are currently unable to afford to buy a home in a centrally serviced municipality in rural PEI.

RECOMMENDATION:

FPEIM recommends that the Government of Prince Edward Island establish a program to provide financial support for the development of residential building lots in centrally serviced municipalities in rural areas.

LAND USE

The absence of strong land use policy throughout most of the province has long-term negative implications for the environment, the economy, public health, and our quality of life. Over the

past half century, several reports called for major improvements to land use policy. Unfortunately, many key recommendations were not implemented.

Today, rapid population growth and the associated development pressures make municipal land use planning more important than ever. Modern land use planning will help preserve our picturesque landscape, protect agricultural land and wildlife habitat, control the cost of public services, and reduce land use conflicts, as well as serving as a valuable tool for controlling greenhouse gas emissions.

The Federation welcomes *Now is the Time, The Report of the Land Matters Advisory Committee*, which was released last July and was also pleased to see initial amendments to the Planning Act as a signal of important changes to come.

The work ahead represents an incredible opportunity to deliver modern policy that will benefit Prince Edward Island for the foreseeable future. The provincial government and municipal governments each have a vital role to play. As implementation moves forward, it will be necessary to build both municipal and provincial professional land use planning capacity. This will require financial resources.

Municipal governments in PEI have been undermined by weak provincial planning requirements, a provincial property tax rate structure that rewards sprawl outside municipalities, and municipal boundaries from a bygone era. Our 59 municipalities only cover 37 percent of the province. Thirty-four of those municipalities have fewer than 400 residents and 22 are smaller than five square kilometres in size. FPEIM looks forward to seeing the province address an outdated system that has plagued municipal governments for decades and does not serve the collective best interests of our province.

In New Brunswick, land use planning was cited as one of the most important pillars in a province-wide municipal restructuring process that is currently underway. Prince Edward Island would benefit from following New Brunswick's lead. New Brunswick was not faced with the same property tax inequity that has stalled a shift to viable municipal governments for all areas of our province. Addressing that inequity would facilitate such a transition, while building planning capacity and discouraging sprawl outside municipal boundaries.

“We have an urgent need to implement province-wide land use planning” (page 1)

“The time for study, consultation and discussion has passed. We only burden the next generation if we fail to act now.” (page 2)

“... the status quo imposes substantially higher fiscal costs and negative impacts to the environment, coastal and flood-risk areas, rural and urban municipalities, and resource land.” (page 21)

Now is the Time: Final Report of the Land Matters Advisory Committee

RECOMMENDATIONS:

FPEIM recommends that the Government of Prince Edward Island:

- ***Substantially reduce provincial non-commercial property taxes within municipalities to create tax room for municipal governments and remove the tax incentive for sprawl outside municipal boundaries;***
- ***Provide technical and financial resources to municipal governments to support and guide municipal planning and build municipal capacity; and***
- ***Build professional land use planning capacity within the division responsible for land use policy.***

CONCLUSION

Unlike the federal and provincial governments, municipalities are required to adopt balanced budgets. This can create the false perception that municipalities have sufficient financial resources. Too often, municipalities balance the books by not investing in local services and infrastructure.

The responsibilities and public expectations of municipal governments has grown substantially over the past several decades, but resources have not kept pace with those changes. Taking steps to ensure that municipal governments are strong and resilient will benefit Islanders.

Strong municipal governments are the foundation for strong communities and a strong province. The Federation looks forward to working with the provincial government to ensure that municipalities are well positioned to serve the residents of Prince Edward Island for generations to come.