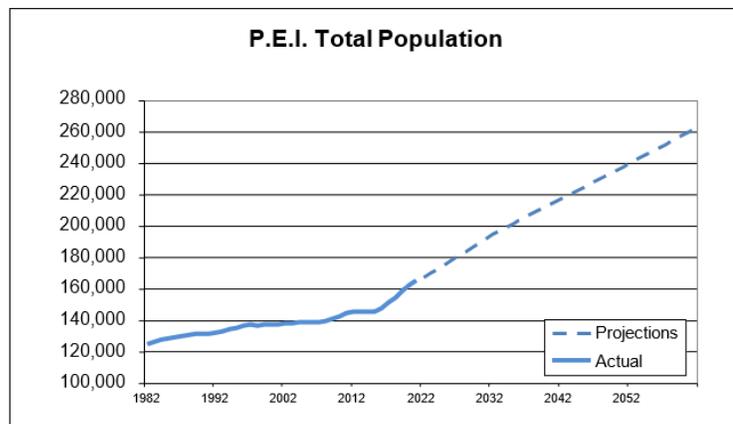


## **INTRODUCTION**

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 help to build safe, healthy, and vibrant communities and neighbourhoods. Strong municipal governments create the conditions for population and economic growth, and play an integral role in protecting our residents, our land, and our environment.

The responsibilities of municipalities have grown substantially, and that trend will continue as municipalities deliver increasingly complex services and tackle complicated issues. The provincial population in 2035 is now forecast to reach 201,000. Over the 40-year period from 2021 to 2061, our province is expected to grow by almost 100,000 residents. While such growth will benefit our province in many ways, it will also put enormous pressure on a municipal system that is already stretched to its limit.



*Province of PEI, PEI Population Projections, 1982-2061*

Land use planning and strategic long-term planning to guide municipal investments in services and infrastructure have never been more important.

Municipalities will increasingly be called upon to respond to climate challenges and emergencies, as post-tropical storm Fiona has demonstrated. Working with other orders of government, municipal governments will need to help address a growing range of issues not traditionally considered municipal responsibilities. Housing is an obvious example.

Since the Province has constitutional jurisdiction over municipalities, local governments rely on the Province for tools and resources to operate. Too often, these tools and resources fall short. Since January 2021, three PEI municipalities have applied to dissolve – all citing a lack of resources to meet Municipal Government Act requirements.

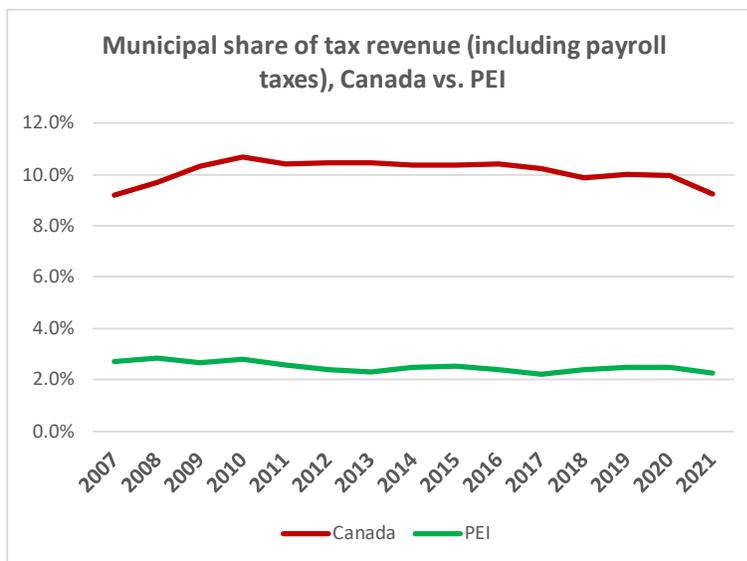
In many small municipalities, the excessive workload of chief administrative officers, wages that do not match responsibilities, and part-time work have led to high turnover and difficulties attracting qualified employees. These difficulties further illustrate the severity of the financial situation that confronts many Island municipalities.

FPEIM asks the Government of PEI to take meaningful action and put municipal governments on a solid foundation. Transformative changes are needed to ensure we have strong and resilient municipalities in the years to come.

**STRENGTHENING THE MUNICIPAL FINANCIAL FRAMEWORK**

Municipal governments need adequate financial resources to provide the effective and comprehensive services required by the Municipal Government Act and the changing dynamics in our province. However, Island municipalities encounter particular challenges compared with their Canadian counterparts. For example, the share of total tax revenue and property tax revenue that Island municipal governments receive lags far behind that in other provinces.

Narrow revenue-raising tools force municipal governments to rely heavily on property taxes. The PEI government receives 70 percent of those property taxes, with the remaining 30 percent being levied by municipalities. PEI has the only provincial government in Canada that receives more property tax revenue than its municipalities.



In PEI, municipal taxes accounted for only 2.2 cents of every tax dollar collected by the Government of Canada, the Government of PEI, and municipal governments combined in 2021. This compares to a national average of 9.2 cents received by municipal governments in Canada.

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 property in most other provinces. High provincial property taxes make it difficult for municipal governments to increase their rates without further burdening municipal taxpayers.

Although comparisons with municipalities in other provinces do not account for differences in municipal grants and responsibilities, the magnitude of the differences in numbers underlines the seriousness of the financial challenges faced by municipalities in Prince Edward Island.

Not only do PEI municipalities lag far behind those in other provinces in terms of total tax and property tax revenues, they also face an unfair tax situation when compared with unincorporated areas. About 65 percent of Prince Edward Island is not incorporated. The absence of local taxation and decision-making in these areas is almost unique in Canada. The lack of taxation encourages sprawl outside municipalities, driving up the cost of municipal and provincial services and harming our resource industries and environment. In addition, many municipalities provide services to residents far outside their borders. As a result, property owners in municipalities pay property taxes to fund services that benefit a much larger area.

The fact that municipal property owners pay additional taxes also creates an obstacle to addressing the Island's outdated municipal boundaries. Today, 22 of our 58 municipalities are smaller than five square kilometres. Many of those are rural service centres, and all face serious and growing challenges.

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 make municipalities more costly places to live and do business.

Additional tax room for municipalities would ensure they have resources to enhance quality of life for residents, support economic and population growth, and address the rising costs of servicing a growing population. The tax room would strengthen service centres and ensure municipalities can provide proper land-use planning and emergency planning. Finally, the tax room would give small municipalities access to revenue for implementation of the Municipal Government Act.

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. Now, municipalities, FPEIM, and the provincial government must agree on an improved municipal financial framework for the next five years. Creating tax room has already emerged as a priority for municipalities, but there is also agreement that tax room should be supplemented by an expansion of municipal revenue sources. 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.

FPEIM calls on the Government of Prince Edward Island to create a fair financial framework for our cities, towns, and rural municipalities. Such a framework would address long-term viability and capitalize on the potential of municipal governments to help achieve shared objectives related to environmental sustainability, emergency preparedness, climate change, economic growth, and quality of life.

### **RECOMMENDATIONS**

*FPEIM recommends that the Government of Prince Edward Island implement the following:*

- *Substantially reduce the provincial non-commercial property tax rate within municipalities to provide tax room for municipal governments.*
- *Increase the Real Property Transfer Tax from one percent to one-and-a-half percent, and remit revenue from the increase to the municipality in which the property transfer occurred.*
- *Amend the Real Property Tax Act to exempt real property owned by a municipality from taxation under the Act, except real property that has been leased.*

### **PUBLIC TRANSIT**

Public transit provides social, economic, and environmental benefits. It offers access to work, school, childcare, health services, and shopping. Overall, public transit also helps to build and connect our communities and protect our quality of life.

As we work toward net zero emissions, affordable public transit will form part of the solution, since transportation is the biggest source of greenhouse gas emissions for PEI. FPEIM thanks the Government of Prince Edward Island for its investments in public transit to freeze transit fares and help grow transit ridership.

The Government of Prince Edward Island has also directly supported public transit serving the capital area by providing an annual grant of \$180,000 toward operating costs. The City of Charlottetown and the towns of Stratford and Cornwall are grateful for this support. However, this operational funding has not grown since its introduction in 2012, leaving these three municipalities to cover rising costs due to fuel, inflation, and other factors. These extra costs make it difficult for the three municipalities to enhance or expand public transit services.

### **RECOMMENDATION**

*FPEIM recommends that the Government of Prince Edward Island increase the annual operating grant for the Capital Area municipal public transit system from \$180,000 to \$475,000.*

## **CONCLUSION**

The responsibilities and public expectations of municipal governments have grown substantially, and resources have simply not kept pace. Taking steps to ensure that municipal governments are strong and resilient will benefit Islanders by preserving their quality of life, protecting the environment, ensuring emergency preparedness, and strengthening local services.

Strong municipal governments help to build strong communities and a strong province. FPEIM looks forward to working with the provincial government to ensure municipalities are well positioned to serve Islanders for generations to come.