

INTRODUCTION

PEI municipalities are doing more than ever to provide vital services to Islanders, create infrastructure to build our communities, and address the complex issues that face our province.

Municipalities are taking climate action, partnering to boost housing supply, planning land use to promote sustainable and efficient communities, encouraging healthy living, facilitating discussions on social issues and health care, responding to emergencies like Post-Tropical Storm Fiona, working toward higher governance standards, and expanding the services and infrastructure needed to accommodate a rapidly increasing population.

However, municipal governments — which have long faced financial challenges due to limited options to raise revenue — have not received the corresponding resources for their expanded roles and support of PEI’s record growth.

On a national level, the Federation of Canadian Municipalities underlines that municipalities across the country need a new financial framework to provide the services and infrastructure required to accommodate growth. PEI municipalities have been working to accommodate the record growth in Prince Edward Island. Compared with their Canadian counterparts, however, they have even less revenue-raising capacity.

PEI’s growth rate exceeds that experienced by most of the country. A provincial population report in September 2023 indicated that from 2018 to 2023, PEI’s population increased 14.1 percent — the highest growth rate of all provinces and territories for that five-year period. Annual provincial population growth as of July 1 was 3.9 per cent, a rate eclipsed only by Alberta. Much of PEI’s growth has occurred in municipal service centres. While such growth is welcome, it puts further pressure on strained municipal resources and exhausted revenue streams. In addition, since 65 percent of PEI’s area remains unincorporated, many PEI municipalities also bear the financial burden of delivering services to residents beyond their borders.

Due to their small tax share, small size, and limited means to raise revenue, PEI municipalities face unique financial challenges. For example, FCM indicates Canadian municipalities receive approximately 8 to 10 cents of every tax dollar collected by the Government of Canada, the Government of PEI, and municipal governments combined. PEI municipalities receive about 2.2 cents. Although such comparisons cannot account for differences in municipal grants and responsibilities across the country, the magnitude of the discrepancy in revenue underlines the financial constraints of PEI municipalities.

The Federation of Prince Edward Island Municipalities (FPEIM) represents 43 of the Island’s 58 municipal governments and 96 percent of the municipal population. In our role, we hear the

heightened level of concern from municipalities over growing financial difficulties. A lack of financial resources means municipalities must delay or phase infrastructure needed to expand services, support development, or promote housing for Islanders. It impedes municipal efforts to plan for their communities over the long term. It adds to their ongoing difficulties to attract and retain staff and expertise for areas that include climate action, land use planning, public safety, public works, and administration. In many cases, lack of financial resources means municipal viability is a real issue.

Negotiations have begun with the Province on a new municipal financial framework to help address longstanding and evolving financial issues. However, these negotiations are complex and will take months. Despite the dynamic changes and growth in our province, the municipal framework has not been updated since 2017. Immediate action is needed to bridge the financial gap.

Municipalities urgently need increased and expanded revenue. The following recommendations aim to help municipalities continue tackling their expanded roles and provide services to more and more Islanders, until a new financial framework with appropriate resources is in place.

RECOMMENDATIONS

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

1. **Provide an initial reduction in provincial property tax rates within municipalities to provide tax room for municipal governments.** This tax room would allow all municipalities — large and small, rural and urban — to increase their taxes and revenues without adding to the financial tax burden of Islanders.
2. **Provide a half-cent Real Property Transfer Tax to municipal governments (either by sharing 50 percent of the tax or increasing the tax from one to one-and-a-half percent), and remit the revenue to the municipality in which the property transfer occurred.** This additional revenue would be particularly important for municipalities experiencing the high costs of rapid growth.
3. **Increase the existing tax credits to municipalities by six percent, an amount equivalent to two percent per year since the expiry of the MOU on Municipal Funding.** This increase would provide urgently needed revenue to address rapidly growing servicing costs while a new financial framework is negotiated.