

Provisional Comprehensive Municipal Grant Formula

Conceptual Framework

DISCUSSION BRIEF

CMG Working Group
May 10, 2012
rev.4

Provisional Comprehensive Municipal Grant Formula

Table of Contents

- Introduction..... 1
- CMG Purpose and Principles 1
- Provisional Comprehensive Municipal Grant Formula..... 2
 - Comprehensive Municipal Grant (CMG)* 2
 - Base Grant (BG)* 3
 - Community Population (POP)*..... 3
 - Number of Taxable Properties (PROP)* 4
 - Capital Assets (CAPASSETS)* 4
 - Tax Base (TAXBASE)*..... 4
- Year-to-Year Dynamics of the CMG Calculation 5
- CMG Formula Transition Provisions 5
- Illustration of Provisional CMG Formula..... 5

Introduction

The *Our Towns, Our Future Summit* was hosted at the conclusion of the Our Towns, Our Future initiative and was attended by more than 40 delegates, including mayors, councilors, senior administrative officers and Yukon government staff. Summit participants worked together to identify priority action items and develop a work plan to implement the 75 findings of the Our Towns, Our Future municipal sustainability review. A key outcome of the *Our Towns, Our Future Summit* discussion was a commitment to design options for an increase to the Comprehensive Municipal Financial Assistance Grant Fund in preparation for a new five-year grant program in 2013-14.

Over the last few months, the CMG Working Group has developed a series of principles that form a conceptual foundation on which a revised Comprehensive Municipal Grant formula is to be based. The Working Group has also designed an open-ended Comprehensive Municipal Grant formula as a potential replacement for the current formula which was introduced in 1992, some 20 years ago. This discussion brief synthesizes the efforts of the Working Group to design an alternative approach to calculating CMG funding for Yukon municipalities.

CMG Purpose and Principles

The purpose of the Comprehensive Municipal Grant is:

To assist Yukon municipalities with meeting service delivery responsibilities by supplementing their financial resources.

The provisional CMG was drafted with the six principles conceived by the Working Group, described below, in mind:

Principle	Description
Adequacy Reflects the attributes and cost of services in each Yukon municipality and is flexible and responsive when these factors change.	The spending needs of Yukon municipalities are influenced by a variety of ever-changing factors including population, tax base, economic activity and geographic location. The CMG must recognize and respond to the various cost influences to ensure that municipal funding is adequate now and in the future.
Certainty Facilitates municipal sustainability and future planning through stable, predictable funding.	In order to be sustainable and plan for the long-term future, municipalities must be financially stable. CMG should provide certainty that municipalities will continue to receive support, when and how these payments will occur and any requirements or expectations for the funding. Long-term planning requires being able to reasonably predict future years or estimate how future events may affect the CMG for that community.
Equity Treats similar municipalities similarly.	Ensure that all municipalities are treated equally and fairly and none receive undue penalty or benefit from the formula.
Minimal Bias CMG should support making decisions in the best long-term interests of the community.	The CMG formula (including terms and conditions) should be designed so as to minimize any bias on municipal decision making. Ideally municipal councils will be able to make decisions they feel are sustainable and in the best long-term interest of the community without influence or bias from the CMG.

Provisional Comprehensive Municipal Grant Formula

Principle	Description
Transparency Simple to understand, administer and verify.	The CMG formula should be readily understandable, with a clear purpose and a straightforward calculation that uses commonly available data. Keeping it simple and understandable ensures transparency and reduces the risk of administrative error.
Accountability Funds are paid, spent and accounted for consistent with accounting principles, legislation and policy.	Municipal governments are accountable to citizens, taxpayers and higher orders of government under a variety of statutes, regulations and rules including the <i>Municipal Act</i> , Public Sector Accounting Board rules and the requirements of various funding programs. The Yukon Government provides CMG funds within its own financial accountability framework.

Provisional Comprehensive Municipal Grant Formula

The provisional Comprehensive Municipal Grant (CMG) is to be calculated on an annual basis for each Yukon municipality according to the formula shown below:

$$\text{Comprehensive Municipal Grant} = \text{BG} + \text{POP} + \text{PROP} + \text{CAPASSETS} - \text{TAXBASE}$$

The five components of the comprehensive municipal grant, and the measures used to index them, are listed below:

Component	Indexed by:
BG = base grant	Consumer Price Index and Spatial Price Index*
POP = community population factor	Consumer Price Index and Spatial Price Index*
PROP = number of taxable properties factor	Consumer Price Index and Spatial Price Index*
CAPASSETS = community capital assets	not indexed
TAXBASE = community tax base	not indexed
* as the City of Whitehorse is the "base city" for the spatial price index calculation, a factor of 1.00 will be applied to CMG calculations for the City of Whitehorse.	

Comprehensive Municipal Grant (CMG)

The comprehensive municipal grant is the amount received by each Yukon municipality each year from the Yukon Government to assist them with meeting their service delivery responsibilities. The comprehensive municipal grant is calculated by summing the base grant (BG), the community population factor (POP), the number of taxable properties factor (PROP) and the community capital assets component (CAPASSETS) and then subtracting the community tax base component (TAXBASE).

The POP, PROP, CAPASSETS and TAXBASE components are variable and will change from year-to-year in response to community-specific factors. Taken together, the POP, PROP, CAPASSETS and TAXBASE factors are intended to describe changes in operating costs specific to each of the Yukon's eight incorporated municipalities.

Provisional Comprehensive Municipal Grant Formula

In contrast to the current approach, the POP, PROP, CAPASSETS and TAXBASE factors are no longer used to simply divide up what is left over from the municipal grant funding pot after taking out the legislated base funding amounts. This is because, unlike the current closed-ended CMG formula, the provisional CMG calculation is open-ended. The base funding amounts are adjusted by the POP, PROP, CAPASSETS and TAXBASE factors and a particular adjustment in one municipality no longer influences the amount of CMG funding received by another municipality. The open-ended approach also means that Yukon municipalities will be exposed to potential decreases in CMG funding in line with economic contractions.

A move from a closed-ended to an open-ended approach represents a significant policy shift for the Yukon Government. Under the current approach, the funding liability for YG is completely predictable as the budgetary appropriation required for the CMG in each year is specified in legislation. Under the proposed approach, funding risk will be transferred to the Yukon Government as the value of the required CMG Fund appropriation will change from year-to-year.

As such, in addition to being responsive to the changing fiscal circumstances of Yukon municipalities, the provisional CMG formula seeks to find a balance between:

- a) embodying enough flexibility to reflect the changing fiscal circumstances of Yukon municipalities on an annual basis; and,
- b) retaining a reasonable degree of predictability in the value of the annual YG appropriation.

The five components which together form the comprehensive municipal grant, are described in more detail below.

Base Grant (BG)

The CMG base grant component recognizes that a minimum amount of funding is required by virtue of the existence of the municipality, regardless of its size. The base grant for each municipality is to be adjusted for price inflation on an annual basis using the annual change in the consumer price index (CPI) for Whitehorse. To reflect the reality that it is typically more expensive to deliver municipal services in communities outside of Whitehorse, the base grant for each incorporated Yukon community except for Whitehorse is also adjusted by a spatial price index calculated by the Yukon Bureau of Statistics.

Community Population (POP)

The intent of the POP component is to allow for changing population in each community and the corresponding change in demand for municipal services that are available to all community residents whether they own property within the municipality or not.

The POP component is calculated by multiplying a per capita amount by the annual average community population in the previous year. Yukon Bureau of Statistic's Health Care Population estimates are used as the measure of community population. As such, the population counts include people living on the periphery of incorporated municipalities.

The per capita amount is to be adjusted for price inflation on an annual basis using the year-to-year change in the consumer price index for Whitehorse. The POP component for each incorporated Yukon community, except for Whitehorse, is adjusted by a spatial price index calculated by the Yukon Bureau of Statistics.

Number of Taxable Properties (PROP)

The intent of the PROP component is to adjust for growth (or decline) in the number of taxable properties in a municipality and the corresponding increase (or decline) in demand for municipal services directly linked to real property such as water lines, sewer pipes, roads, sidewalks, etc.

The PROP component is calculated by multiplying a fixed per property amount by the number of assessable properties on a given municipality's property tax assessment roll in the previous year. The number of assessable properties includes both residential and non-residential properties. The per property amount is to be adjusted for price inflation on an annual basis using the year-to-year change in the consumer price index for Whitehorse. The PROP component for each incorporated Yukon community, except for Whitehorse, is adjusted by a spatial price index calculated by the Yukon Bureau of Statistics.

Capital Assets (CAPASSETS)

The intent of the CAPASSETS component is to recognize the longer term costs faced by municipalities in building, rebuilding and maintaining capital infrastructure such as water and sewer mains, roads, buildings, equipment, pump-houses, waste treatment facilities, etc. The component makes use of an accounting measure for tangible capital assets that has only recently become available in municipal financial statements as part of the new Public Sector Accounting Board (PSAB) standards for municipalities.

The CAPASSETS component is calculated by multiplying the sum of the net book value of tangible capital assets in a base year (A) and the negative of the difference in the net book value between a base year and the most recent fiscal year (B) by a constant in percentage terms (C). In mathematical form, $CAPASSETS = (A+B) \times C$.

The calculation reflects both the scale of capital reserves that are required to build, replace and maintain capital infrastructure in a given municipality as well as year to year changes in the overall stock of infrastructure in a municipality. The latter adjustment speaks to the increasing costs of maintaining aging capital. Using the inverse of the change in net book value means that an increase in net book value (e.g., the construction of a new capital) will reduce the tangible capital asset component of the formula. A decrease in net book value will (e.g., continued decay of existing capital infrastructure) will increase the tangible capital asset component of the formula.

Tax Base (TAXBASE)

The TAXBASE component recognizes the relative ability of each Yukon municipality to raise tax revenues on their own. As such, the intent of this component is aligned with the CMG purpose of *assisting* Yukon municipalities by supplementing their financial resources rather than outright financing their operations.

The component serves to equalize CMG funding among Yukon municipalities by reducing the CMG funding received by a municipality by a measure of their tax capacity. The tax capacity for a municipality is calculated by applying the residential and non-residential tax rates levied by the Yukon Government on residential and non-residential real property located outside of municipal

Provisional Comprehensive Municipal Grant Formula

boundaries to the aggregate value of residential and non-residential property tax assessments. The resulting amount is then subtracted from the base grant.

Year-to-Year Dynamics of the CMG Payment Calculation

Year-to-year changes in Comprehensive Municipal Grant payments are to be applied by the Yukon Government in an asymmetrical manner. Year-to-year *increases* in CMG payments will be fully applied in one year. For example, if the CMG calculation results in a CMG increase of \$100,000, the municipality will receive the full \$100,000 increase in the next fiscal year.

Decreases in CMG payments between one year and the next are to be spread out over five years such that a municipality's CMG will not be reduced by more than 20% in any one year. For example, if the CMG calculation results in a CMG decrease of \$100,000, the municipality's CMG payment will be reduced by only \$20,000 in the next fiscal year.

CMG Formula Transition Provisions

The provisional CMG formula is expected to result in CMG increases in Carmacks, Dawson City, Haines Junction and Mayo, while CMG payments would remain essentially the same in Teslin and Whitehorse. The municipalities of Faro and Watson Lake will likely experience decreases in their CMG payments. To ensure that municipal operations in Faro and Watson Lake are not adversely affected by the change in CMG calculation methodology all at once, the CMG working group has proposed that a five-year transition fund be established for the benefit of Faro and Watson Lake.

Illustration of Provisional CMG Formula

The graph on the following page presents the operation of the provisional CMG formula using illustrative figures.

