# Impacts of Municipal Reforms on Small Municipalities Across Canada

2021

## Phase 1: Final Report

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## Availability of Reports

Copies of the report may be accessed through:

Greg Halseth, Canada Research Chair in Rural and Small Town Studies, University of Northern British Columbia: http://www.unbc.ca/greg-halseth/canada-research-chair-in-rural-and-small-town-studies.

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### Project Reports

- Impacts of Municipal Reform on Small Municipalities Across Canada: Phase 1 Final Report
- Entrepreneurial Local Governments in Canada: Innovating for Rural Resilience: Phase 1 Final Report
- Entrepreneurial Local Governments in Canada: Innovating for Rural Resilience – Phase 1 Case Study Report

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EXECUTIVE SUMMARY

Local government reforms have accelerated since the early 1980s, with municipalities learning to adjust to changes in local government responsibilities for economic development, community development, broadband infrastructure, physical infrastructure, housing, services, climate change, public safety (i.e. police, ambulance, fire, and wildfires), regional governance, and Indigenous consultation. At the same time, the pressures that are impacting small municipal operations are diverse. With limited staff and resources, small municipalities are responding to demographic and socio-economic changes that are reshaping demands for services and community programs. Municipal tax revenues are impacted by industry closures and fluctuating transfers from provincial and federal governments – all while municipalities struggle to address deteriorating housing and physical infrastructure assets. However, local governments struggle with outdated financial and jurisdictional structures even as senior governments ask them to become more creative, innovative, and 'entrepreneurial' for a broader range of responsibilities and approach to operations.

The purpose of this research is to learn more about how current fiscal, public policy, and legislative frameworks may be impacting small municipal operations. The lessons learned through this research will help to inform broader structural and policy related changes that are needed within local and senior levels of government. In 2020 and 2021, key informant interviews were conducted with elected officials, CAOs, economic development officers, and planners with local governments across British Columbia, Alberta, Ontario, and Newfoundland and Labrador. There were a total of 62 participants in 33 communities. This research was carried out as a part of a 3-year project spearheaded by the University of Northern British Columbia in collaboration with researchers from Simon Fraser University, the University of Lethbridge, the University of Guelph, and Memorial University.

Our findings suggested that more responsibilities and costs for broadband infrastructure, community development infrastructure, economic development, housing, public safety, infrastructure, transportation, services, Indigenous consultation, and regional governance have been downloaded onto small municipalities. But there is a lack the commensurate expertise, governance structures, infrastructure, fiscal levers, and legislative frameworks to support small municipalities to address their expanded responsibilities.

There were a series of key messages that emerged from this research that can be used to inform debates and develop supportive legislation, policies, and related supports to better position small municipalities to become more resilient. These focus on updating municipal regulatory and legislative frameworks, revising fiscal levers, providing top-down supports to strengthen municipal capacities, supporting collaborative governance mechanisms, streamlining Crown land transfer processes, and strengthening municipal-provincial-federal government communications.

## Key Messages

### Regulations and Jurisdiction

Revise the constitution to recognize municipalities as their own order of government.

Revise municipal legislation to provide municipalities with more freedom to operate independently by reducing the issues requiring provincial approval.

Revise municipal legislation to guide consistent operations of rural governments and to provide clarity with the structural, fiscal, and jurisdictional relationships between municipalities and surrounding rural areas.

Provide municipalities with the legislative authority to sell or lease land without requiring provincial authority.

Streamline the processes guiding land transfers from Crown land to municipalities.

Develop a time-cap on appurtency removal in order to prevent the long-term exodus of raw logs out of timber supply areas.

Re-allocate the timber supply to support the sustainability of small communities.

### Fiscal Levers

Develop a more sustainable approach to funding municipalities that reflects the changing nature of economic sectors (i.e. digital based businesses and use of municipal services and infrastructure).

Revise the calculation of provincial and federal government transfers to shift from a model solely based on per capita funding to a calculation based on both per capita population and sales generated in the community in order to address pressures from tourism and the influx of mobile workforces.

Shift of education funding away from property tax, so that it is funded by general provincial revenues.

Provide greater clarity about opportunities to use density bonusing mechanisms, municipal enterprises, tourism designations, etc. to generate more revenue.

Revise local government legislation to create the mechanisms and provide clarity of the conditions under which municipalities may develop municipal enterprises.

Update local government legislation to provide greater clarity about how municipalities can use policies and incentives to attract investment and support businesses (i.e. tax incentives, bonusing, etc.).

Provincial government needs to enforce stronger regulatory tools to ensure tax structures in small municipalities are not too low to address fiscal needs.

Revise legislation to provide municipalities with the power to raise money locally and issue their own debentures.

Provide guaranteed streams of provincial and federal government transfers to municipalities in order to reduce the dependency on pop-up grants that will enable municipalities to manage long-term planning and growth.

Re-introduce more unrestricted grant programs to provide municipalities with the flexibility to make investments that support strategic priorities and directions contained within municipal plans.

Streamline application processes and reporting procedures for grant programs and project development.

Provide greater clarity to understand how to access federal grants that may be partnered with provincial grant programs.

Streamline broadband connectivity grant programs.

Provide consistent funding for asset management and municipal reporting for new responsibilities and assets downloaded from senior levels of government.

Expand financing options to support tourism and economic development strategies.

### Top-Down Supports

Provide more streamlined and efficient delivery of provincial and federal government services that will enable small municipalities to quickly take advantage of emerging opportunities.

Ensure provincial and federal levels of government apply a rural lens to inform new policies that impact the capacity and viability of small municipal operations.

Develop sub-regional provincial government offices in rural regions to provide more outreach and logistical support for small municipalities.

Provide more training to develop the expertise and fiscal resources to enforce senior government regulations and support key infrastructure (i.e. fire halls, water treatment, recreational facilities, etc.).

Strengthen programs and supports to train building inspectors and energy advisors for rural regions.

Strengthen programs and supports to train and build the entrepreneurial and risk management expertise of municipal staff.

Develop more training and logistical support for small municipal staff to develop grant proposals.

Expand opportunities for sharing resources, software, policy templates, and staff amongst small municipalities.

Strengthen a national broadband strategy that addresses the fiscal and infrastructure needs of rural and remote communities.

### Communication and Collaboration

Develop better relationships and communications across different levels of government that are well built, practical, and honest in their approach.

Invest in sustaining routine communication between small municipalities and provincial / federal ministers in order to address the disconnect between policies and on-the-ground municipal pressures and operations.

Engage in more consultation with municipalities to understand the impacts of proposed provincial and federal government policies and programs.

Develop more fiscal, policy, and logistical resources to support required collaboration at the local and regional level that reflects the capacity needs of small municipalities.

Provide more provincial and federal consultation with business groups in order to create supportive policies.

Develop better communication to strengthen awareness of available programs and related supports for economic development office, chamber of commerce, etc.

### Sustainable Municipal Operations

Municipalities need to focus more on the economic sustainability of their infrastructure, tax base, and operations.

# Impacts of Municipal Reforms on Small Municipalities Across Canada

**PHASE 1: FINAL REPORT**

## RURAL RESTRUCTURING TO RURAL RENEWAL

Local government reform has accelerated since the early 1980s, with municipalities learning to adjust to changes in local government responsibilities for economic development, community development, broadband infrastructure, physical infrastructure, housing, protection services (i.e. police, ambulance, fire, and wildfires), and Indigenous consultation. However, local governments struggle with outdated financial and jurisdictional structures even as senior governments ask them to become more creative, innovative, and 'entrepreneurial' for a broader range of responsibilities and approach to operations (Grant and Dollery 2010; Tennberg et al. 2014). The future resilience of small local governments and their communities, however, may depend upon entrepreneurial, innovative, or creative strategies in order to support independence, resilience, and new pathways (Dannestam 2008; Skelcher 2017). These entrepreneurial strategies are not just about mobilizing municipal enterprises, but rather requires a more inclusive andbroader approach in which local governments may pursue joint ventures, partnerships, and social enterprises; leverage policies, planning tools, resources, and other assets to support investments in community and economic development; and other forms of risk-taking initiatives to support growth and development (Battilana et al. 2009; Herbert-Cheshire 2000; Leyden and Link 2015; Dowall 1990).

Building upon the experiences in British Columbia, Alberta, Ontario, and Newfoundland and Labrador, this project explores how local government reforms are impacting small municipal operations across Canada, as well as how small municipalities are responding to these changes through innovative or entrepreneurial approaches to community and economic development. This research is a 3-year project spearheaded by the University of Northern British Columbia in collaboration with researchers from Simon Fraser University, the University of Lethbridge, the University of Guelph, and Memorial University. The focus of this report is to discuss the entrepreneurial practices that are unfolding in our case studies across Canada. The provincial and federal legislative and fiscal frameworks that impact these practices are also examined in order to recommend changes that are needed in order to better position municipalities to pursue these initiatives.

The report is structured into six parts. First, we provide a brief discussion about the general economic and political restructuring pressures that are shaping the operations in small municipalities today. This is followed by four sections to provide an in-depth discussion of the changes in municipal responsibilities unfolding in each study region. These reforms are juxtaposed against a number of challenges that are impeding the ability of small municipalities to be agile and responsive in a rapidly changing global economy and policy environment. As such, we also explore the limitations with fiscal levers and jurisdictional authorities afforded to municipalities that impact the capacity, agility, and readiness of small municipalities to implement such reforms. In the last section, some final thoughts reflect on these tensions as municipalities are encouraged to assume more responsibilities and costs for a range of infrastructure assets and services, yet are hindered by inadequate internal capacities and inadequate governance, fiscal, legislative, and jurisdictional frameworks to support their full development and potential.

# MUNICIPAL REFORM

Debates about the future of small municipalities has focused upon the need to create more sustainable and resilient communities (Brown and Schafft 2011; Halseth and Ryser 2018; Markey et al. 2012; OECD 2010; OECD 2014). These debates are driven by mounting infrastructure deficits, changing local government responsibilities, and outdated fiscal and legislative powers that no longer reflect the pressures impacting the viability of small municipal operations.

In Canada, much of the infrastructure and legislation guiding the development of municipalities emerged in the post-World War Two period. For three decades, welfare state investments in services and infrastructure were designed to establish national standards for services and open up rural regions to support resource-based development. As such, much of the infrastructure and services established during this period was designed to support rapid economic growth, and to attract and retain a young stable workforce and their families in small communities (Davis and Hutton 1989; Horne and Penner 1992; Williston and Keller 1997). This era, however, also increased municipal dependence on natural resource sectors and senior government transfers in rural regions (Freudenburg 1992).

Since the early 1980s, several waves of economic, political, and social restructuring processes have displaced former state investment policies in favour of neoliberal[1]public policy approaches that are characterized by a transition to a market-oriented, and non-interventionist government. Under the auspices of enabling bottom-up community development, provincial and federal levels of government embarked to withdraw funding and programs (Markey et al. 2007; Polèse 1999). More responsibilities were downloaded onto municipalities through the enforcement of new regulatory and reporting requirements, the offloading of provincial and federal government programs, the reduction and closure of senior government programs and assets, and the insufficient allocation of resources to address service needs (Duffy et al. 2014). Without the support of top-down public-policy, small towns were impacted by the gradual decay of infrastructure investments from the previous era (CCC 2013; FCM 2012). Senior governments have been downloading the responsibility for infrastructure to the local level, meaning municipalities and localities are now responsible for a greater share of infrastructure. In Canada, for example, it is local governments that now own more than 60% of all local infrastructure, yet those same local governments have the fewest fiscal tools and least fiscal capacity to address mounting costs when compared to other levels of government in the country (CCC 2013; FCM 2012; Fletcher and McArthur 2010). Degraded infrastructure impacts communities in numerous ways. There may be severe health implications associated with services like drinking water. From an economic standpoint, failing or inadequate infrastructure impedes new economic opportunities, makes existing activities more expensive (and therefore less competitive), and reduces the likelihood that communities will be able to attract and retain both people and capital. This presents a tremendous challenge to rural communities where low population levels, low densities, large distances, and more extreme weather conditions increases the per capita cost of critical infrastructure (CCME 2006; CRRF 2015; Rolfe and Kinnear 2013).

At the same time, there are mounting concerns that small municipalities do not have a sufficient tax base to support viable operations, nor the extent of major capital expenditures that are required to address infrastructure deficits and meet new responsibilities now commanded of them by senior levels of government (Kitchen and Slack 2006). As provincial and federal levels of government moved to 'empower' municipalities to be more responsible for their own economic and social development through a more entrepreneurial culture, these policy directives were not mobilized with a commensurate devolution of power and resources (Battilana and Casciaro 2012; Beer 2014; Heisler and Markey 2014; Ryser et al. 2017; Weaver 2014). Municipalities rely heavily on property tax revenues, grants, provincial and federal government transfers, and user fees to generate revenue to support municipal operations; although, additional revenues have been generated through revenue sharing agreements, public-private partnerships (P3), amenity contributions, sale or long-term lease of land, traffic and parking fines, and the procurement of services to other municipalities (Dirie 2005).

As such, local governments struggle with outdated financial and jurisdictional structures that asks them to become more creative, innovative, and 'entrepreneurial' in their approach and responsibilities. In 2020 and 2021, key informant interviews were conducted with elected officials, CAOs, economic development officers, and

[1]Neo-liberalism has been defined by state roles that support market-based approaches to deliver goods and services in order to emphasize entrepreneurial freedom while reducing government expenditures (Harvey 2005).

planners with local governments across British Columbia, Alberta, Ontario, and Newfoundland and Labrador. There were a total of 62 participants in 33 communities.

| British Columbia | Alberta | Ontario | Newfoundland and Labrador |
|---|---|---|---|
| Burns Lake | Canmore | Brock | Bonavista |
| Dawson Creek | Flagstaff County | Brockton | Deer Lake |
| Fort St. John | Forestburg | Dubreuilville | Fogo Island |
| Kitimat | Hanna | Goderich | Grand Falls-Windsor |
| Mackenzie | Lethbridge County | Haldimand County | Holyrood |
| Prince Rupert | Olds | Newmarket | Labrador City |
| Quesnel | Parkland County | Sioux Lookout | Placentia |
| Valemount | Taber | Wellington County | St. Anthony |
| | Wainwright | | |

The purpose of the research was to examine financial and jurisdictional structures and related processes that are impacting the resiliency and viability of small municipalities. In particular, the research situates the fiscal and jurisdictional capacity of small local governments against provincial legislative or program changes enacted over the past 20 years. This includes a discussion of the retrenchment of provincial engagement alongside policy directives and limited tools for municipalities to assume a larger role in defining their own community and economic development pathways.

# LOCAL GOVERNMENT REFORM IN BC

## Introduction

Diverse demographic and economic restructuring trends are unfolding in rural BC, but with uniform provincial and federal government programs to address these pressures and mobilize for emerging opportunities. Industry closures are unfolding concomitantly with rapid industrial growth associated with the construction of large-scale industrial projects. Current fiscal and legislative frameworks restrict the agility of small municipalities in BC, even as they are encouraged to be more innovative, entrepreneurial, and engaged in collaborative governance structures. Drawing upon 8 case studies in BC, this section will examine the socio-economic changes unfolding in rural BC before examining the pressures that are challenging municipal operations. Based on an understanding of municipal structures and capacities in these communities, a series of changes to local government responsibilities are discussed. These changes stem from new regulatory requirements, legislative changes, program criteria and eligibility requirements, cost-sharing arrangements, restrictions on fiscal levers, and limitations to jurisdiction.

## Change in Rural BC

A diverse range of case studies were used to examine the impacts of local government reforms on small municipalities in BC. These case studies include: Valemount, Burns Lake, Mackenzie, Kitimat, Quesnel, Dawson Creek, Prince Rupert, and Fort St. John. As demonstrated below, these communities are experiencing a breadth of demographic and socio-economic changes due to economic and political restructuring processes.

### Demographic

Three demographic trends are unfolding in these small municipalities in BC. First, there are communities experiencing growth related to the construction of liquefied natural gas (LNG) infrastructure. This has increased the workforce population, an influx of new families and mobile workers, and higher median housing values up to $380,000 in these communities. Second, there are communities that have experienced industry closures related to downturns in fishing, forestry, and mining sectors, prompting a growth in out-migration and a growth in long distance labour commuting to other industry projects in the region in order to sustain residences in these places. Median housing values as low as $150,000 in some declining resource-based communities, however, have made it difficult for some people to migrate to stronger labour markets. Some communities experiencing industry closures have benefited from their role as regional centres that have attracted new residents from surrounding smaller communities and Aboriginal villages to help stabilize these centres. Population losses, however, have impacted municipal operations due to a reduction in financial resources and senior government transfers for these communities. Third, the population in these small municipalities is also aging. The median age in these case studies, for example, changed from 29 to 37 years of age in 2001, to 31 and 45 years of age in the 2016 census period. The rapid growth of older populations reflects the out-migration of people impacted by economic restructuring processes and the choice of residents to retire in these communities.

### Economic

Many of these small municipalities have multiple resource sectors. As such, it is not always useful to reflect on economic changes by focusing solely on periods of decline or growth as a part of boom and bust cycles, but rather regional waves as different sectors experience boom and bust at different times. In this context, municipalities may need to respond simultaneously to different boom and bust cycles across multiple economic sectors.

The volatility associated with commodity prices in resource-based sectors, such as forestry, mining, oil and gas, etc.) has created uncertainty for local economies as communities have been impacted by a series of suspended operations or closures. The volatility of the forest sector is also shaped by provincial policy changes. Following a period of aggressive harvesting to address the Mountain Pine Beetle epidemic, the Ministry of Forests and Natural Resource Operations continues to assess changes to annual allowable cuts that will have significant economic impacts for communities, such as Burns Lake[2] and Mackenzie (BC Local News 2021). A continued reduction in the AAC is anticipated to reduce direct and indirect local employment as sawmills restructure, idle, or close their operations (Bennett 2021). Recent increases in forest commodity prices has led to the re-opening of some forest operations. In Fort St. John, for example, Louisiana Pacific reopened a local OSB plant.

The decline of various resource-based sectors in northern BC led to the transformation and diversification of some rural economies. For example, Valemount transitioned from a forest-based economy to a tourism-based economy supported by snowmobiling, mountain biking, and hiking opportunities, as well as its close proximity to Mount Robson Provincial Park and Jasper National Park. Other communities, such as Fort St. John, Kitimat, and Dawson Creek, have business sectors that have restructured their strategies due to supply chain opportunities with mobile work camps located within or near these communities to support LNG construction, hydro dam construction, and other resource-based activities. The presence of mobile work camps has also resulted in an influx of mobile workers who use local services and businesses. The challenge for small communities experiencing cycles of economic growth and decline, however, stems from the deteriorated state of social infrastructure that is not positioned to support economic renewal.

During the covid-19 pandemic, local businesses have not been impacted negatively as people travel less outside of the community. Directives for residents to remain within their communities has boosted local support for businesses. In some cases, businesses have struggled to keep up with stock and orders. Many local businesses have adapted to the pandemic by increasing online marketing and operations. Some municipalities have implemented programs to support this business transition. In Burns Lake, for example, the municipality implemented the Business Accelerator Program in partnership with Rio Tinto in order to provide local businesses with assistance to develop on-line marketing platforms (Ketkar 2021).

## Pressures in Small Municipalities

As communities cope with socio-economic changes, municipal stakeholders identified seven key pressures for small municipalities, including:

- aging infrastructure,
- broadband infrastructure,
- housing,
- human resource pressures,
- managing service expectations and costs,
- climate change, and
- air quality.

### Aging Infrastructure

Many of the small municipalities in northern BC were developed in the post-World War Two period. The physical infrastructure in these communities (i.e. roads, water, sewer, landfills, underground servicing) is now beyond its life span capacity. Industry traffic has also intensified infrastructure pressures on aging municipal water, sewer, road, and bridge networks. With limited fiscal resources, small municipalities are challenged to address infrastructure pressures, resulting in mounting infrastructure deficits. There are aging water infrastructure pressures related to water treatment facilities, water dams, and water main breaks that affect the operations of local services and businesses. Addressing these emergencies in a timely manner is complicated by the time needed to obtain a permit from the provincial Ministry of Transportation to close impacted highways. Infrastructure costs for small municipalities are exacerbated by requirements for small municipalities to have a traffic management plan in place in advance of any highway closures to support infrastructure work. Furthermore, municipalities have struggled to obtain capital funding for geotechnical planning, surveying, and construction related to bridge replacements.

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[2] The AAC in Burns Lake, for example, was reduced from more than 3 million $m^3$ in 2009 to just 970,000 $m^3$ in 2019 (BC Local News 2021).

Some small municipalities have not been setting aside sufficient revenues in order to support capital asset management and replacement, making them more dependent on grants to support infrastructure repairs. In some places, asset management plans are just becoming operational. In other cases, municipalities are seeking more contributions through agreements with regional districts for physical, transportation, and recreational infrastructure that is used by regional residents.

### Broadband Infrastructure

Some small municipalities are experiencing inadequate broadband coverage within and outside of municipal boundaries that are unable to access high speed Internet. The impacts from inadequate coverage have been difficult during the pandemic as grade school, college, and university students have struggled to access on-line courses. Small businesses are unable to efficiently engage in GIS, mapping, and other technical tasks due to low Internet speed. Telus advertises access to digital healthcare through Babylon Health, but residents with inadequate Broadband coverage are unable to access these supports.

Private sector companies maintain that these communities are equipped with broadband infrastructure capable of supporting 50 Mbps in downloading speed and 25 Mbps in uploading speed. There are a number of factors, however, that limit the actual speed and access to existing broadband service. For example, Internet speed may be impacted by the distance between some parts of the community and broadband infrastructure, the presence of old copper lines, or damage caused by wildfires.

### Housing

Housing can play a fundamental role in long-term community development strategies that are striving to strengthen the resilience and diversification of local economies. In many of the small municipalities in this study, however, high construction costs are making it difficult to address deficiencies with aging housing assets that must be resolved to attract the next generation workforce.

Tourism and industry speculation have increased rural housing market demands through second homeowners, vacation rentals, and the influx of mobile workforces. The influx of large mobile workforces is intensifying demand for housing both within communities and in the surrounding rural areas. This generates considerable opportunities to renovate aging housing assets in these communities. Homeowners and investors, for example, benefit from housing sales as industry purchases crew houses for mobile workers. Long-term executive and management staff are encouraged to purchase homes and live within the community.

The stability of local governments, small businesses, and service agencies that support the long-term diversification and renewal of these communities are challenged to recruit and retain staff due to increased rental costs and housing sale prices. Median monthly rental costs for these case studies changed from a range of $501 to $773 in 2006 to between $714 to $1,205 in the 2016 census period (Statistics Canada 2016). Issues related to rising rental rates are exacerbated by limited rental options in these places. These housing pressures are exacerbated by the provision of living out allowances offered by industry proponents or their contractors. Opportunities to earn revenue from mobile workforces prompt renovictions for more vulnerable, low-income households who are unaware of their tenancy rights. In some cases, living out allowances have been reduced in order to encourage mobile workers to locate in work camps. With the influx of large mobile workforces, local governments struggle to manage a series of challenges that unfold through commercial accommodations. Slumlords provide housing for vulnerable residents, but local governments are not equipped with the appropriate inspection guidelines for older motels. Expanded activity in residential and hotel construction also prompts concerns about overdevelopment and the potential to have higher vacancy rates and deteriorating assets in the post-construction phase. Furthermore, fluctuations in hotel vacancies are unpredictable and can affect the ability of family and friends to visit residents in these communities.

Overall, there is a lack of housing options to reflect the range of incomes and employment sectors, the needs of the next generation workforce, and the needs of an aging population. Many of these communities were designed to attract young labour and families in order to support the expansion of resource development. Much of the housing stock consists of multi-level, single-family dwellings that are not suitable for seniors or people with limited mobility. Even though housing policy and public housing provision falls under provincial government jurisdiction, public policy changes meant that fewer fiscal resources are allocated to housing programs (Ryser et al.

forthcoming). There have been exceptions where BC Housing purchased motels in small communities, such as Burns Lake and Kitimat, that were converted into social housing.

In some communities, Indigenous stakeholders are buying and renovating apartments. In Kitimat, the local government engaged in negotiations with the Haisla First Nations and the Province of British Columbia to demolish the old hospital and transfer the lands to the Haisla to support their development of the Haisla Town Centre. The new facility contains a mixture of commercial and residential development. Through this new arrangement, LNG Canada signed a ten-year lease with the Haisla Town Centre in 2015 to lease 49 units for staff and contractors based in Kitimat. The municipality benefits from property taxes associated with the new development. Some local governments, such as Mackenzie and Prince Rupert are leveraging land assets and engaging in subdivision development.

### Human Resources

Small municipalities find it difficult to recruit professionals for planning, engineering, building inspectors, finance, grant writing, and administrative leadership. In some cases, neighbouring towns are operating without senior administrative staff, thereby reducing their capacity to engage in collaborative initiatives at the regional level. With limited in-house capacity, some municipalities must invest extra time in RFP processes and rely on the use of consultants to address these human resource needs. There are also conversations at a regional level to share building inspectors.

Small municipalities are also experiencing burnout amongst their elected council. As municipal responsibilities expand and new topic areas emerge, council representatives are becoming overwhelmed by the volume of information being presented at each council meeting. Elected council positions in these small municipalities receive only minor stipends, with many council representatives maintaining full-time jobs and businesses. These challenges are exacerbated by the limited breadth of staff that is affordable with small municipal budgets in order to provide ongoing advice and guidance. Municipal financial pressures have prompted some local governments to reduce budget resources for staff training and development, transit services, public libraries, parks, and maintenance.

### Managing Service Expectations and Costs

Small municipalities are struggling to manage expectations for services provided through other jurisdictions and through partnerships across many levels of government and stakeholders. For example, there are increasing expectations for municipalities to deliver housing and services for vulnerable populations. There are service pressures related to rapidly increasing policing costs under new funding formulas, pension adjustments, and labour agreements (UBCM 2009). Fire protection costs are increasing as municipalities support training and fire protection for rural areas. Recreational facilities and programs are consuming a larger proportion of municipal budgets while generating a disproportionate amount of revenue. There is also a lack of resources to support public engagement to manage these expectations. All of these pressures have been exacerbated by covid-19 as municipal revenues and budgets have been impacted by business closures, and as municipalities have faced pressures to provide relief to business and residential property tax payers impacted by the pandemic.

### Climate Change

Climate change is generating increased risks for small municipal governments due to the increase and severity of forest fires, flooding, and other natural events. In response, the City of Fort St. John completed a climate risk assessment to examine the impacts of climate change on municipal infrastructure, including an assessment of the investments needed to improve development guidelines, the size of piping to withstand increased rain events, and storm water cells and other water infrastructure.

### Air Quality

Poor air quality issues persist due to the use of old wood burning stoves to heat homes, the distribution of emissions and dust from industry vehicles, and the distribution of dust from nearby reservoirs as their levels fluctuate. In some cases, poor air quality is exacerbated by the topography that captures and settles concentrated particulate matter over the community.

## Local Government Structure

The structure of local government varied across the case studies included in this study (Table 1). Each municipality had core services, such as administration and corporate services, finance, protection services, public works and waste management, and recreation. Most of these small municipalities had economic development staff in place. In fact, a number of municipal stakeholders noted that their economic development capacity is growing. This growth in economic development capacity is often only possible due to the acquisition of grants from organizations such as the Northern Development Initiative Trust[3] to support staff positions. As the size of small municipalities increased, they were more likely to have planning, engineering, transportation, and IT services in place. Tourism was either designated as a responsibility for economic development staff or independent tourism bodies.

Table 1: Structure of Local Government

| | Valemount | Burns Lake | Mackenzie | Kitimat | Quesnel | Dawson Creek | Prince Rupert | Fort St. John |
|---|---|---|---|---|---|---|---|---|
| **Administration / Corporate Services** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Finance** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Planning** | ■ | | | ■ | ■ | ■ | ■ | ■ |
| **Economic Development** | ■ | ■ | ■ | ■ | ■ | | ■ | ■ |
| **Engineering** | | | | ■ | | ■ | ■ | ■ |
| **Transportation** | | | | ■ | ■ | ■ | ■ | ■ |
| **Tourism** | ■ | | | | ■ | | | |
| **Protection Services** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Public Works** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Recreation** | * | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Building Inspector** | ■ | * | ■ | ■ | ■ | ■ | ■ | ■ |
| **IT Services** | ■ | | | ■ | ■ | ■ | ■ | ■ |

*Services are shared with regional district.

These small municipalities use a combination of internal staff, consultants, and contractors to address municipal responsibilities. For example, contractors are often used for roadwork, paving, construction, and repairs related to capital and infrastructure projects. Consultants with specific expertise may be used to develop economic development and tourism strategies, housing needs assessments, feasibility studies, or grant proposals to be submitted to provincial and federal funding agencies.

However, staff capacity is challenged by increased workloads related to bylaws, freedom of information requests, and changes to policies and procedures. The ability to address new regulatory, reporting, and planning requirements (i.e. climate change, sustainability, water quality, etc.) is further challenged by the need to respond to crises, such as urgent infrastructure repairs, flooding, or wildfires. In some cases, smaller municipalities do not have the fiscal resources or workload to hire full-time engineers, by-law enforcement officers, or legal expertise. Small municipalities have also been challenged to recruit and retain land use planners, social planners, as well as staff to manage and operate recreational facilities. Job advertisements may not attract any qualified applicants. As a

[3] The Northern Development Initiative Trust was formed following the provincial government's sale of BC Rail in 2005. The Province of BC allocated an initial $185 million in capital to support the trust which funds community and economic development projects in central and northern British Columbia (northerndevelopment.bc.ca).

result, it is common for staff to work in multiple roles. Engineering or economic development personnel may also fulfill IT functions for smaller municipalities. Corporate service staff may develop and implement planning and climate change strategies. In some cases, small municipalities have built in redundancies with staff in order to address service interruptions due to staff turnover or retirement.

## Amalgamation vs. Boundary Expansion

Northern BC has a dispersed geography with vast distances between communities. As a result, there have been few amalgamations. Instead, municipalities are more likely to consider boundary expansions in order to incorporate industry, property owners, and other developments that are adjacent to the community. Municipalities consider boundary expansions if there are concerns about a lack of equitable taxation to cover the costs incurred when nearby adjacent rural residents and businesses use municipal roads, protection services, recreation amenities, and other municipal assets. The goal is to assess if it is possible to acquire a strengthened tax base that provides commensurate fiscal resources to meet infrastructure and service demands, not just for infrastructure within existing municipal boundaries but also to bring rural service and infrastructure levels up to municipal standards. Expanding municipal boundaries, however, adds costs to municipal budgets in order to extend and maintain infrastructure to outlying areas that have lower service levels. Furthermore, small municipalities have limited staff capacity to navigate the Agricultural Land Reserve (ALR) regulations and processes in order to mobilize potential new properties for community and economic development initiatives.

## Restructuring of Local Government Roles and Responsibilities

Overall, municipal stakeholders identified 11 topic areas where there have been changes to local government roles and responsibilities, including:

- broadband infrastructure,
- climate change,
- community development,
- economic development,
- planning,
- housing,
- indigenous consultation,
- infrastructure,
- public safety,
- regional governance, and
- services.

### Broadband Infrastructure

Private sector claims and federal government broadband maps suggest that communities have adequate broadband infrastructure and service. This is because mapping is controlled by Internet service providers, resulting in some municipalities being designated as ineligible for funding related to broadband infrastructure upgrades. Municipalities are required to prove to the federal government that there is inadequate Internet service before submitting applications to the federal government's Universal Broadband Fund. Small municipalities do not have the staff capacity or fiscal resources to complete these assessments. As such, there are a number of municipalities working on their own, or in cooperation with regional districts, to invest municipal resources in studies in order to assess the capacity of existing broadband services. Others have hired consultants to assess the connections of each property in the community. Based on these studies, small municipal governments are considering investments in fibre optics in order to improve high speed Internet.

Municipalities are also pursuing resources through the Connecting British Columbia Program, which is funded by the provincial government and delivered through the Northern Development Initiatives Trust. Through this fund, municipalities may access funding to develop regional connectivity infrastructure plans that require a technical infrastructure assessment of current and proposed networks[4].

## Climate Change

Most municipalities have signed the province's Climate Action Charter[5] (Province of British Columbia 2007). Under new provincial requirements, municipalities must adopt emissions reduction targets and complete Climate Action Revenue Incentive Public Reports (CARIP)[6]. This has increased the workloads for staff in planning, public works, and other departments in order to develop new policies and procedures that are integrated into the Official Community Plan and other related zoning bylaws, communicate these new policies, and document how these actions are achieving targets. Not all small municipalities have the staff expertise to complete CARIP reports. These human resource challenges have been exacerbated by budgets cuts that have eliminated such staff capacity and expertise as small municipalities focus their limited resources on core municipal functions. Responsibilities for addressing climate change targets may be assumed by staff with no training and limited knowledge in these areas. Small municipalities are also unsure about where to find energy advisors or related specialists that deal with climate change, energy, and emissions for municipalities and community development. While many municipalities have measured local government's corporate GHG emissions, small municipalities have limited financial capacity to undertake a community energy emissions inventory. There is also a lack of strategic and financial planning to address broader climate change issues in these communities.

Local governments are also working to understand the Province's new energy-efficiency requirements in the BC Building Code to make buildings net-zero energy efficient by 2032 by implementing the BC Energy Step Code (see https://energystepcode.ca). These requirements are expanding workloads for municipal staff as they explain the new changes to developers and residents. The new Energy Step Code will also require small municipalities to hire energy auditors and retain building inspectors – a task that will be difficult to meet with small municipal budgets. In the absence of these professionals in small communities, such new legislation will stall new development in communities that are not able to provide access to an energy auditor.

## Community Development

Municipalities are increasingly becoming responsible for a broader range of community development infrastructure. A number of small libraries, for example, are voting to change from being a library association to becoming a municipal library under the Library Act (see: https://www.bclaws.gov.bc.ca/civix/document/id/complete/statreg/96264_01#section3). Small municipalities do not have a clear understanding about how these changes impact their operations. In this case, municipalities do not create or allocate a specific department to be responsible for the strategic direction and operations of the municipal library. An independent board continues to manage the library's assets and daily operations. The role for the municipality is relegated to addressing budget needs.

In other cases, municipalities are assuming control over private recreational assets. These can provide opportunities for the municipality to generate revenue through such municipal enterprises. In Mackenzie, for example, the municipality now owns and operates their own in-town ski hill.

## Economic Development

Municipalities are feeling increasingly pressured to fill gaps in economic development support that is no longer provided by the provincial and federal levels of government. With support from the Northern Development

[4] For more information about the Connecting British Columbia Program through NDIT, visit: https://www.northerndevelopment.bc.ca/funding-programs/partner-programs/connecting-british-columbia/phase-three-regional-connectivity-plan.

[5] The BC Climate Action Charter was launched in 2007, with 187 out of 190 municipalities, regional districts, and the Islands Trust signing the charter. It is a voluntary agreement for municipalities to take action on climate change. Under the charter, municipalities commit to developing carbon-neutral corporate operations, measuring and reporting community greenhouse gas emissions, and investing resources in more energy-efficient infrastructure (Province of BC 2021a).

[6] The Climate Action Revenue Incentive Program (CARIP) enables municipalities that signed the BC Climate Action Charter to obtain a grant equivalent to the carbon tax they pay each year (Province of BC 2021a).

Initiative Trust, local governments are now delivering business liaison programs, which are assisting local businesses to fill in applications for COVID-19 relief from senior levels of government. Local governments are also working with NDIT to provide more supports to local businesses through the Business Façade Improvement Program, as well as to provide support to businesses that have been unable to obtain Canada Emergency Response Benefit (CERB) funding throughout the pandemic. In this case, businesses may access funding for personal protective equipment. In BC, there are other case studies of local government working on their own or partnering with industry to provide support for local businesses who wish to develop or strengthen their on-line business model by developing a website, moving to a digital sales platform, increasing search engine optimization, or strengthening strategic on-line marketing. These initiatives are met with confusion about the extent to which local government legislation allows municipalities to provide support to local businesses without being viewed as aiding business.

As a small number of municipal staff pursue economic development initiatives, they must work through lengthy application and reporting procedures associated with senior government grant programs that add extensive time to economic development projects. Grant programs do not enable municipalities to be nimble and responsive to emerging opportunities, leading some projects to take up to 10 years to be completed.

### Planning

In BC, the provincial government now encourages municipalities to complete regional growth strategies (see: https://www2.gov.bc.ca/gov/content/governments/local-governments/planning-land-use/local-government-planning/regional-growth-strategies), without commensurate funding or adequate resources to hire appropriate staff to support the implementation of actions contained within these regional strategies. The provincial government also prohibits municipalities from approving building permits without certified building inspectors. Previously, contractors and engineers familiar with building codes and regulations could perform these tasks. The lack of training programs to certify building inspectors in rural regions is now impeding the ability of small municipalities to meet these stipulations and is impeding development. Processes that guide subdivision approval are also more complex.

### Housing

Municipalities are continuing to support housing by providing development services and approvals to senior government agencies, non-profits, Indigenous stakeholders, and private developers. In April 2019, however, the Province of British Columbia adopted new legislation that requires all local governments to complete housing needs assessments by April 2022 and re-assess every five years.[7] Local governments are then required to reflect on housing needs to inform changes to their official community plans. This is prompting local governments to play a larger role to address housing issues in their communities.

Some communities, such as Kitimat and Valemount, hired, or are in the process of hiring, a housing coordinator. These actions have been controversial due to concerns about mandate creep that may increase perceptions that municipalities are responsible for housing. Municipalities also deliver a number of housing programs, such as the Home Warranty Program, on behalf of the provincial government. These programs are administered by local governments on behalf of the provincial government without any extra fiscal resources for municipalities.

### Indigenous Consultation

The provincial government adopted the United Nations Declaration on the Rights of Indigenous Peoples (UNDRIP) into legislation in November 2019 (https://www2.gov.bc.ca/gov/content/governments/indigenous-people/new-relationship/united-nations-declaration-on-the-rights-of-indigenous-peoples). For municipalities, there are uncertainties about the implications of this legislation for municipal-Indigenous-industry relationships.

[7] For more information on new provincial requirements concerning housing needs assessments, please visit: https://www2.gov.bc.ca/gov/content/housing-tenancy/local-governments-and-housing/policy-and-planning-tools-for-housing/housing-needs-reports.

Municipalities are now required to engage in consultation processes with Indigenous communities. As municipalities submit project applications to provincial ministries, they must demonstrate that they have consulted with First Nations in the area. These consultation requirements are challenging for small municipalities with limited staff resources, as well as for small First Nation bands that are overwhelmed with consultation processes related to large-scale industry projects.

### Infrastructure

Infrastructure responsibilities are being shaped by new regulations and offloading of infrastructure assets that are exacerbating the fiscal and human resource pressures for small municipalities. There are more stringent regulations and standards for municipal water and sewage treatment without additional senior government funding to meet these new requirements. The federal government, for example, implemented new standards for the acceptable level of manganese in drinking water (Health Canada 2019). New regulations and standards for water and sewage treatment often requires investments in new treatment plants that are difficult for small municipalities to undertake. In the last ten years, more stringent environmental regulations also emerged that are difficult for small municipalities to implement with no additional funding for required reporting procedures. The additional staff time for reporting, replacing sensors, and completing maintenance must be covered by municipalities. Since 2014, the provincial government's Ministry of Municipal Affairs requires all municipalities to complete asset management plans. While this new initiative is useful for municipalities to plan future infrastructure investments, small municipalities are not equipped with appropriate fiscal levers or resources to implement them.

By looming the threat of small airport closures, the federal government offloaded the responsibility for small airports onto small municipalities. This exacerbated pressures for limited infrastructure budgets to maintain these additional assets. Provincial and federal levels of government have also offloaded infrastructure assets by forcing municipalities to inherit properties through tax sales and as properties have been 'sold' to municipalities for nominal costs. As municipalities inherit properties (i.e. former pulp mills or schools), they incur considerable costs due to high heating bills associated with inefficient buildings, the presence of asbestos, environmental liabilities due to on-site chemicals, and renovations.

The construction of new LNG plant facilities means that building inspectors and engineering departments must complete building inspections and permits for new developments that staff have limited expertise to evaluate. In some cases, senior government funding has been obtained to address the impacts that such new developments have on these building inspection and engineering departments.

### Public Safety

Public safety costs and responsibilities have been downloaded onto municipalities, with serious implications for small municipalities that have limited fiscal resources. Public safety responsibilities include emergency services, policing, wildfire mitigation, and regulating gun control and marijuana. In some small municipalities, fire departments are the first responders for highway incidents beyond municipal boundaries. Fire departments are also responding to calls in rural regions with limited provincial ambulance services. As fire departments fill a gap to respond to such calls beyond their municipal boundaries, village taxpayers accrue extra costs that are not fully reimbursed by the province.

Second, policing costs for small municipalities have increased at a faster pace compared to the share covered by the provincial government. Some stakeholders estimate that municipal policing costs have increased by 50% in the last 10-20 years. There are concerns that policing costs are not spread equitably amongst different sizes of local governments and with the provincial government. Municipalities, such as Fort St. John and Prince George, pay for 90% of policing costs, and smaller municipalities, such as Prince Rupert, Kitimat, Dawson Creek, and Quesnel, pay for 70%. There are also examples of cost-sharing programs established by the provincial government, such as Restorative Justice, that eventually were fully assumed by municipalities following provincial cuts. More recently, the federal government downloaded public safety costs by allowing municipalities to develop bylaws for gun control and marijuana.

Wildfire mitigation provides another example of public safety responsibilities that have been downloaded. In this case, municipal wildfire protection plans are not only for land within municipal boundaries, but also to address areas in the surrounding Crown land. This requires small municipalities to work with BC Timber Sales and obtain approvals from the Ministry of Forests in order to manage dead trees that pose a fire hazard in the surrounding area. While municipalities are now fully funded by the province to complete these treatments, municipalities must lead the process for wildfire protection. As more people engage in backcountry recreation, municipalities are also providing funding to support Search and Rescue operations.

The expanding costs for public safety has been exacerbated by increased provincial occupational health and safety requirements for local government operations, with no additional funding to implement these new measures.

### Regional Governance

Some municipalities are providing regional assistance to other small communities through engineering staff, emergency response support, building inspectors, and water and sewer specialists. These initiatives, though, are not only valuable to provide support for small municipalities with limited human resources, but also to strengthen regional collaborative relationships.

### Services

Small municipalities are feeling pressure to provide more support to sustain community services that have been impacted by provincial and federal funding cuts, or to cover gaps between grants to support everything from housing support workers to safe needle clean-up teams. Municipalities have also been working to address pandemic pressures for community organizations. In 2020, the District of Kitimat created a fund to strengthen the resiliency of local organizations during the pandemic. The fund, valued at $500,000, was designed to strengthen the resiliency of community groups by providing PPE to support the daily operations of non-profits or by providing PPE to support homeless counts. In some cases, local governments have either leased or sold building assets to community groups, such as food banks or seniors' organizations, for $1.

Municipalities are increasingly concerned about mandate creep for services, such as child care, mental health, addictions, and homelessness. For municipal stakeholders, mandate creep has unfolded in two ways. The first focuses on voluntary creep as municipalities engage in grant and senior government initiatives to develop resilient, sustainable communities. As communities pursue infrastructure grants to address social issues in their community, however, provincial ministries are not only asking how such initiatives fit within their asset management plans, but they are also asking municipalities if there are housing needs assessments, mental health addictions strategies, or poverty reduction strategies in place. These requirements are forcing municipalities to do work in jurisdictional areas that is not in the traditional domain of local government. The second is more insidious where provincial and federal levels of government require municipalities to be involved in deliberate ways. For example, a new provincial funding program that provides capital for new childcare facilities requires municipalities to become a public partner for community applications. As the Province of British Columbia (2021b) states, "the Ministry of Children and Family Development has established the Community Child Care Space Creation Program to assist local governments in creating new, licensed child care spaces within their own facilities or in a facility under a long-term lease agreement by the local government". Under these terms, the local government must apply for, build, and manage the child care facility for 15 years. As such, if there is no non-profit or private sector group to operate the facility throughout the duration of this period, the municipality remains committed to operate the facility for this 15-year period. The implications of this partnership on municipal operations, however, are not clear. Such a commitment does not dovetail with regulations contained within the Community Charter that stipulate municipalities are unable to incur any liability over 5 years without their consent. Furthermore, municipalities are required to complete an analysis to determine child care needs. Through this new funding program, childcare is becoming a new responsibility for some local governments.

As municipalities partner to support other service infrastructure and program initiatives, provincial ministries are also asking municipalities if there are housing needs assessments, mental health addictions strategies, or poverty reduction strategies in place. During the ongoing opioid crisis, some municipalities have engaged in community processes to address addictions in collaboration with BC Housing and Northern Health. For example, Quesnel created the Community Caring for People with Addictions Roundtable, and hired a health care coordinator to advance strategic directions recommended in the Quesnel Health Services Review (City of Quesnel 2021). Small municipalities, however, find that they do not have sufficient jurisdiction or levers of power to effectively play a role to address these issues in their community. Small municipalities simply lack the human and fiscal resources to manage the engagement of relevant stakeholders and street resources without the provincial government having consistent representation at stakeholder meetings. As such, while the municipality can facilitate processes to obtain more resources for the community, they are not the relevant resource agency or ministry to provide direct support.

## Fiscal Levers

As municipalities respond to changes in local government responsibilities, they are equipped with inadequate fiscal levers and outdated jurisdictional powers. In BC, municipalities rely heavily on fiscal levers such as property taxation, utility fees, and provincial and federal grants and transfers. Each of these fiscal levers have inherent constraints for small municipalities. Property taxes are the main source of revenue for municipalities. One concern amongst small municipalities with a limited tax base is that speculators may purchase property that is never developed. These speculators do not pay sufficient property taxes for the infrastructure and services that are developed to these properties. Stakeholders advocated for municipalities to be equipped with stronger fiscal levers or powers in order to entice people to develop properties that otherwise are left undeveloped indefinitely. A second concern with the property taxation system stems from adjacent rural property owners. With challenges negotiating cost sharing arrangements with regional districts, residents and businesses located immediately outside of municipal boundaries may still heavily use municipal infrastructure and services without contributing needed revenue to develop and maintain these assets. While utility fees provide a second source of revenue for municipalities, the revenues generated are tied to the utilities being used, meaning that municipalities are unable to use these revenues to address other community and economic development needs.

Small municipalities rely on provincial and federal grants and transfers that are often restrictive and have limited flexibility to address community and economic development needs. In BC, cost sharing ratios for infrastructure investments are equally distributed across local, provincial, and federal levels of government (one-third each) through infrastructure grant programs. There are few senior government grants that provide 100% of the project funds. One exception is the Northern Capital and Planning Grant that provides 100% of the capital for infrastructure projects. The challenge for small municipalities is that grants tend to focus on providing the original capital investment, with limited or no access to funds to maintain or replace assets. Despite new provincial and federal government policies that are requiring municipalities to develop and implement climate change action plans, one small municipality turned down a capital grant to install EV charging stations when the federal government rejected funding the maintenance and replacement costs of these assets.

Provincial and federal grants consume a lot of staff time for review, development, and reporting – tasks that are difficult for limited staff capacity and high workloads. Staff must review eligibility criteria and assess if it supports the community's strategic directions. Many provincial and federal grants are also 'shovel ready', with grants provided to infrastructure projects that have completed engineering reports. This places small municipalities at a disadvantage to quickly mobilize for such opportunities as few have engineers on staff. Costly and time consuming RFP processes to acquire such engineering reports make it difficult for small municipalities to meet short grant program deadlines. Some estimated that the cost of preparing shovel ready grant applications was roughly 10% of the capital cost of the project. Stakeholders felt that small municipalities would be better served by including the costs of such engineering requirements into the awarded grant. Larger grants may also require a large volume of baseline data and estimates. In the case of Internet connectivity grants, small municipalities must obtain evidence that they are underserved by existing Internet infrastructure. Furthermore, municipalities may only have 30-60 days to prepare grant applications. Again, small municipalities with limited staff and high workloads are placed at a disadvantage to meet short application timelines.

The limited time periods assigned to grant programs are not suitable for building collaborative partnerships or to support development during the short building season that exists in many northern BC communities. Some programs, for example, released grant funding in September, only to require projects to be completed by the end of December. Small municipalities may also become trapped by the lag period between the submission of funding applications and grant approvals as project costs escalate. Approval processes can unfold over a few months or take years. The cost differentials, however, must be addressed by small municipalities. Furthermore, provincial and federal grants tend to be restrictive in terms of how grant funds can be spent; often driven by top-down policy directives rather than bottom-up community needs. Small municipalities may also find themselves distracted and reacting to grants, rather than determining if the funding opportunities even address their strategic infrastructure priorities. Small grant programs are too piecemeal; either requiring municipal staff to compile small grants over time or such grants only fund part of a project.

Grants from trusts and other organizations can also be restrictive. For example, infrastructure grants provided by the Northern Development Initiative Trust stipulate that the funding cannot be used for hard infrastructure components of housing and community development projects that would relieve local governments of their responsibilities. A number of municipal stakeholders felt that there was more flexibility with Covid-19 related grants, federal Gas Tax funds, and the Northern Capital and Planning Grant.

Some small municipalities have accessed funding through NDIT to hire a grant writer to assess the details of grant programs and develop grant applications where appropriate. Despite this support, some small municipalities have struggled to obtain provincial and federal grants. When grant applications are unsuccessful, municipal staff have been unable to obtain clarity about the grant vetting and decision-making processes in order to strengthen future applications.

Unfortunately, as provincial and federal governments have downloaded more responsibilities onto local governments, there has been limited attention to modernize funding powers and mechanisms for municipalities. Small municipalities may struggle to support long-term planning and infrastructure investments with fluctuating fiscal resources. This has prompted some small municipalities to build their financial reserves in anticipation of industry closures. Borrowing restrictions, however, make it difficult for municipalities to be nimble and responsive to emerging opportunities. The liability servicing costs are contained to 25% of eligible municipal revenue. Approval for borrowing substantial funds may be acquired through a referendum planned with substantive fiscal and staff resources.

Some municipalities in BC are able to obtain additional revenue through a hotel room tax. The revenue generated, however, must be used for marketing and promotion for the tourism sector. Communities have been unable to use such revenue for infrastructure improvements and product development that could strengthen the tourism industry. Stakeholders advocated for other potential revenue streams from sharing cannabis, liquor, and gaming revenues, a vacancy tax, or a sales tax. Others advocated for a vacancy tax for municipalities experiencing rapid industrial growth and housing shortages, as property owners avoid putting units on the market in anticipation of higher rents from incoming mobile workforces. Municipal stakeholders also advocated for a sales tax in order to obtain adequate revenues to address infrastructure pressures due to the influx of tourists and temporary mobile workers that use local services and facilities.

## Jurisdictional Issues

In BC, municipal jurisdictional powers are shaped by the Local Government Act, and previously by the Community Charter and the Municipal Act. Small municipalities have limited staff capacity to keep up with legislative changes. For example, new building inspector regulations have recruitment, qualification, and capacity challenges that are difficult to address in small municipalities. Small municipalities may need to use consultants or contractors to meet the rules, regulations, and timelines required by provincial and federal levels of government.

A second significant concern for municipal stakeholders is that they have no jurisdiction or control over development of adjacent rural areas. Crown land is often controlled through leases to large-scale industry, leaving municipalities with limited options of land to offer new developers in order to break path dependency. Municipalities have pursued boundary expansions to address these issues; however, some municipalities have encountered new challenges through the province's Agricultural Land Commission that has denied the release of land within new municipal boundaries to be used for economic development opportunities. The municipality's ability to release land, use land, or use land-based reserves as needed (i.e. to sell land, collect development cost charges, etc.) are also constrained by provincial regulations. In one case, for example, municipal staff explored opportunities to develop municipal enterprises based on geothermal energy development on municipal land. These efforts have been challenged by regulations that require geothermal drilling to follow the same regulations as those implemented for drilling oil and gas, resulting in substantially higher costs. The removal of the appurtency clause[8] was also deemed to have weakened the position of municipal governments in forestry towns.

The jurisdictional power of Indigenous communities is also very different from municipalities. This impedes regional collaboration due to the diverging regulations that must be in place for municipalities and Indigenous

[8] The appurtenancy clause is defined as an agreement that links timber harvesting rights to specific local or regional manufacturing facilities built and operated as a condition to acquire tenure in order to generate more local benefits (Nelles 2005; Ross and Smith 2002).

communities. For example, municipalities must have bylaws in place to guide development, while Indigenous communities do not need to have the same requirements in place.

# MUNICIPAL REFORM IN ALBERTA

## Introduction

Several demographic and economic restructuring trends are unfolding in rural Alberta, but with inadequate provincial and federal policies and programs to address the fiscal pressures and sustainability of a relatively large number of small municipalities. As the coal and oil and gas sectors are undergoing substantial transformation, there are tourism-based communities experiencing pressures from rapid growth. The focus of policy and program investments, however, remain focused on larger populated municipalities and regions, with rural capacity challenges often addressed with one-time investments in rural programs and reduced support for regional collaboration. Drawing upon 9 case studies in Alberta, this section will examine the socio-economic changes unfolding in rural Alberta before examining the pressures that are challenging municipal operations. Based on an understanding of municipal structures and capacities in these communities, a series of changes to local government responsibilities are discussed. These changes stem from new regulatory requirements, legislative changes, program criteria and eligibility requirements, cost-sharing arrangements, restrictions on fiscal levers, and limitations to jurisdiction.

## Change in Rural Alberta

A diverse range of case studies were used to examine the impacts of local government reforms on small municipalities in Alberta. These case studies include: Forestburg, Hanna, Flagstaff County, the Municipal District of Wainwright, the Town of Taber, Olds, Lethbridge County, Canmore, and Parkland County. As demonstrated below, these communities are experiencing a breadth of demographic and socio-economic changes due to economic and political restructuring processes.

### Demographic

Small municipalities in Alberta have been experiencing diverse demographic trends related to population decline, population increase, as well as a general trend of population aging. Other factors such as transient workforces, shadow populations, and amalgamations have affected how municipalities manage these population changes. Population declines in some case studies can largely be attributed to a changing economic landscape. Downturns in the oil and gas industry paired with the Alberta government's phase-out of coal has left many regions with significant job losses. Demographically, this prompted workers in the energy sector to leave many small municipalities in search of other employment opportunities. This trend can be coupled with youth out-migration towards larger population centers such as Calgary and Edmonton to pursue education and other career opportunities. In the MD of Wainright, for instance, there are fewer small family-run farms as youth opt out of agricultural careers to pursue alternative opportunities. A decline in youth exacerbates another trend of various municipalities experiencing an aging population. While Alberta is considered a 'young province' as a whole, small municipalities are struggling with an increase in median age. The median age in these case studies, for example, changed from 29 to 39 years of age in 2001, to 32 and 47 years of age in the 2016 census period (Statistics Canada 2016, 2001). Issues related to accessibility and transportation provision become more of a priority for municipalities, while retirement housing needs also increase. In addition to this, some case studies reported that an aging population has come hand-in-hand with smaller and fewer families, creating issues in filling schools and offering full curriculums.

While some case studies struggle with population decline and aging, others have seen growth. Affordable housing and amenity migration is one of the primary drivers of this growth, especially throughout the COVID-19 pandemic. Flagstaff County, for example, has been actively advertising a 'small town lifestyle' as a means to attract new residents and tourists to the region while tourism-based towns such as Canmore have experienced significant growth due to the presence of amenities. Other municipalities have seen growth related to a higher influx of migrant populations. Taber, for instance, reports high immigration rates of Mexican Mennonites, Filipino, and Japanese populations, many of whom are attracted to the possibility of starting small businesses.

### Economic

Alberta's economy has been predominantly driven by the energy sector, particularly with oil, gas, and coal. While these industries still account for a large portion of its economic base, legislative changes have significantly shifted the economy for many small municipalities. In 2015, the NDP government announced the phase-out of coal power by the year 2030, which has left many regions struggling to fill the economic gap left by the industry. Additionally, the oil and gas sector has experienced a number of downturns, as many oil wells are approaching their end of life and with limited new drilling opportunities. This has resulted in the loss of many high-paying jobs in rural regions, as well as the loss of a significant portion of the municipal tax base.

As such, some municipalities in this study have had to shift their economies towards other sectors. While diversification efforts have not all come directly as a result of the coal transition announcement, the phase-out has been a factor which has increased the urgency to diversify in order to recoup losses. Communities have explored opportunities in the retirement industry, biomedical waste management, marijuana, as well as renewable energies. A common theme amongst our case studies in Alberta is an increased emphasis on the development of the tourism sector, both to attract temporary visitors and permanent residents. Hanna, for instance, is strengthening its tourism sector by using its historical roots as a railroad town to attract visitors in its 'All Aboard' campaign.

While the fossil fuel industry has historically had a strong hold in Alberta's economy, agriculture has also been paramount for job creation and investment attraction. Beef, cattle, seeds, grains, and general value-added agriculture are all important components of the agriculture industry in Alberta. The prominence of agriculture in Alberta's economy has been amplified by the mechanization and development of technologies within the industry. On top of this, foreign investments in various crops such as canola have also been a factor in growth. Municipalities, such as Lethbridge County and Taber, have developed regional partnerships as a means to increase the prominence of the region's agriculture industry as Canada's Food Corridor.

### Political

Alberta is a province which has largely been politically stable as evidenced through long-standing premiers and minimal shifts in the political parties in power. This stability has given way to an increasingly volatile political landscape in the last ten years with five different premiers and various political shifts. This change has brought uncertainty as provincial policies and provincial-municipal relationships are more prone to change. Municipal stakeholders have noted an increasing difficulty in being heard on both a provincial and federal level; most top-down policies, funding supports, and programs are focused on the large population centers and economic markets including Calgary, Edmonton, and Banff.

## Pressures in Small Municipalities

As communities respond to socio-demographic, economic, and political changes, municipal stakeholders identified eight key pressures for small municipalities, including:

- broadband infrastructure,
- infrastructure,
- climate change and environment,
- fiscal,
- housing,
- human resource,
- local government operations, and
- services.

### Broadband Infrastructure

A number of municipal stakeholders have reported limited access to stable, high-speed broadband to be a key pressure for development. Rural areas struggle with stable Internet access, with some still without Internet access at all. Limited connectivity has far reaching impacts, compounding other municipal pressures such as difficulty supporting business/investment attraction, as well as attracting new residents. As remote work and reliance on communications increases, residents and amenity migrants are in increasing need of stable connections.

The need for broadband development is not limited to home-use; industry is heavily reliant on connectivity, especially in the field of agriculture which has been undergoing a 'tech revolution'. Robotics, automation, GPS, remote sensing, and data collection/analysis all stand to improve efficiency in agriculture, but these developments in technology also require high-speed Internet and connectivity. In a landscape where active economic development is necessary to secure investment opportunities, limited broadband may be the deciding factor in a company choosing to locate elsewhere. As such, municipalities, such as Olds and Lethbridge County, have taken a more active role in developing this infrastructure, often pursuing broadband infrastructure investments themselves in the face of limited provincial and federal financial support. As small municipalities pursue such investments in broadband infrastructure, there are concerns about financial risks as municipal debt loads approach their limit.

### Infrastructure

Municipalities are facing growing pressures due to outdated infrastructure that is increasingly in need of repair. Many coal mining regions in Alberta incorporated towns as far back as the early 1900s, and consequently, much of their infrastructure has become outdated and in need of repair. In some areas, the most recent subdivisions were developed in the 1970s and 1980s. Machinery, heavy equipment, roads, bridges, sewers, and water treatment plants are all various aspects of infrastructure that study sites have listed as being in need of repair.

Infrastructure deterioration also can be attributed to industry expansion. As industries such as agriculture develop, road use, water demands, and waste also increase. Heavy machinery and transport trucksput added strain on roadways and bridges, necessitating more frequent repairs. This creates problems for municipalities as repair costs for even small bridges and irrigation canals can climb upwards of $100,000. It is necessary also to consider the upfront costs of developing infrastructure in small municipalities aiming to attract industry and development. While long-term economic benefits are plentiful with industry growth, the upfront costs of this development can cripple small municipal budgets.

Increasing repair costs are amplifying the infrastructure pressures faced by municipalities; replacing sewer and water infrastructure for one block can cost as much as $600,000 to $700,000. These high costs can delay construction when small municipalities lack adequate fiscal resources to fund these repairs, which put a strain on government operations and create concerns among residents. Higher expectations of infrastructure and services from residents only exacerbate these pressures. Alternately, repairs which are mandatory to complete may move municipalities close to their debt loads. To offset costs, municipalities may apply to the Municipal Sustainability Initiative (MSI), but there are concerns over its long-term future. Various stakeholders in our case studies have noted that the MSI is one of the primary programs which keeps infrastructure projects going forward.

### Climate Change and Environment

Rural municipalities in Alberta have reported increasing pressures related to climate change and severe weather events. Municipalities which rely on agriculture for economic development have been negatively impacted by climate-related pressures. Earlier winters have translated to lower crop yields which have cascading effects on local economies. The threat of water availability is a growing concern for municipalities in more arid regions. While developments in irrigation have allowed for massive growth in the industry, the future of water availability is increasingly in question. The growing pressures associated with climate change have driven Canmore to declare a local state of climate emergency, making it a priority in future planning, wildlife management, flood mitigation, and development of alternative energy sources.

Climate change pressures for municipalities also stem from provincial and federal policies. The federal government's implementation of the carbon tax has created financial challenges for municipalities which rely on the fossil fuel industry for their local economies. With a price of $40/tonne of emissions, municipalities are concerned about the competitiveness of the energy economy. A number of case study sites lost a significant portion of their tax base when the Alberta NDP government announced the coal phase out plans in 2015 in response to a need to divest from 'dirty' fossil fuels. Small municipalities which relied on the coal industry to fuel their economy have been struggling to replace lost revenues and mitigate cascading effects throughout their communities.

## Fiscal Pressures

Fiscal pressures reported in our case studies stem from infrastructure demands, downturns in various energy sectors, as well as increasingly limited funding opportunities. The current decline in the oil and gas industry paired with the coal phase-out in Alberta has created many issues for municipalities in the form of a loss in tax revenue and a need for economic diversification. Significant efforts have had to be made in replacing lost tax revenue with other forms of revenue, but the uncertainty of future coal mining and power generation has created difficulties for some municipalities to attract investment.

Another issue for municipalities is that of residents commuting to larger urban centers to complete their shopping and business needs, effectively minimizing localized economic benefits. Small business owners lose a significant client base, while economic benefits flow out of the municipality. Alternately, these same municipalities also struggle to attract permanent residents, as many opt to commute into small towns for work rather than residing in them.

Adding to these fiscal pressures, municipalities have experienced growing funding reductions from both federal and provincial governments. Funding programs have increasingly been replaced by a system of competitive grants which has forced municipalities to create dedicated grant-writing positions to offset financial pressures. Many service programs which have traditionally been offered by higher levels of government have been cut which has translated into municipalities shouldering the costs of these services. In instances where costs are too high to maintain services, they may simply dissolve. In addition to the dissolution of many government services, these fiscal pressures have caused municipal governments to cut back on human resources in order to mitigate the impacts of limited funding and a reduction in the tax base.

## Housing

Housing pressures are not widespread in Alberta due to relatively affordable prices and adequate availability in many small municipalities. As some municipalities struggle to attract permanent residents, these areas advertise affordable housing as a means to attract people to the region. While some municipal stakeholders talked about the pandemic as a barrier to housing development, these effects were short-lived and the housing market rebounded.

Despite the stable situation in some places, municipalities reliant on tourism as well as those closer to urban centers are struggling to meet housing demands. Amenity migration and secondary home buyers are a major driver of high housing costs in these places. Protected areas and other geographical barriers create growth restrictions for some municipalities, severely limiting options for development. When coupled with an active housing market, this creates significant shortages and limited affordable housing options. This issue is further complicated when many houses are purchased as secondary homes or income properties, leaving local residents with few options. High housing costs and limited rental opportunities not only create barriers for existing residents, but it can also prevent new permanent residents from settling in a municipality. Some may opt to commute to town or look elsewhere for employment, limiting the potential for economic activity. In other instances, aging populations are creating pressures for municipalities as they struggle to find adequate housing for a growing elderly population. Retirement homes are in high demand in communities with older populations, particularly for stage three and four assisted living.Some municipalities have mobilized innovative responses to manage housing pressures. Canmore, for example, developed the Canmore Housing Corporation in order to support affordable housing in rental and ownership streams. This initiative has been active during the pandemic by providing rental assistance, food aid, and other services.

## Human Resources

The aforementioned demographic trends related to population loss and aging create human resource pressures for municipalities as well. Small municipalities are finding it increasingly difficult to attract and retain a skilled and specialized workforce. Burnout amongst staff in various government departments is common as staff are overworked, older in age, and must juggle roles beyond their usual job description. In some municipalities, the EDO may assume the role of Safety Codes Systems due to limited staff. This creates further issues as government staff are not necessarily qualified to provide adequate quality control. This same issue of burnout amongst an aging staff is present in other services as well, especially with fire services and first responders.

The lack of human resources also creates pressures in highly specialized positions such as water testing, maintenance, and engineering. Due to financial stressors, it is difficult to fill more than a handful of these positions at a time, leaving municipalities in a dangerous position when employees use vacation or sick days. Many of these positions require daily maintenance and emergency repairs which means they must be staffed every day. Municipalities are trying to find a cost-benefit balance between adequate staffing, contracting out positions, and budgets, while still meeting community needs and regulatory requirements.

### Local Government Operations

Municipal stakeholders talked about increasing service expectations from residents and businesses, which has put a strain on government operations. The gap between service provision in urban and rural areas is growing smaller as people expect more access to health services, public safety, and recreational options. In part, this trend is driven by the increased presence of social media as residents can be more vocal about needs, while they also expect communication, transparency, and accountability from government operations. This higher expectation translates to other areas such as emergency response. There is an understanding that response times are longer in rural areas, but there is now an expectation that emergency services will be fully equipped and trained to the same degree as in urban centers. This growth in expectations is evidenced with public transportation as well. To better address community expectations in this field, Olds has implemented the Sunshine Bus, a public transportation system which helps older residents reach appointments and other services.

### Services

Service related pressures are increasing for municipalities in Alberta as the provincial government continues to download responsibilities onto lower levels of government. Many services such as family and child support services have traditionally been funded by the province, but over the years, funding has either remained stagnant or declined in the wake of growing costs. This has left small municipalities vulnerable in providing adequate social support services. As a result, municipalities have had to increase taxes to cover the loss or let these programs dissolve completely.

Police services are another responsibility which has been downloaded onto municipalities. Traditionally law enforcement has been paid for by the provincial government for small municipalities, but changes in funding have increased costs for municipalities. Municipalities under 5,000 who traditionally did not need to pay for RCMP services have now had to create a contract with the federal government for policing provision. Additionally, cost sharing agreements change depending on population size; municipalities over 5,000 pay in a 70:30 split with the federal government, while municipalities over 15,000 pay in a 90:10 split. Municipalities with growing populations may end up paying significantly more as they break the cusp of the 5,000 and 15,000 marks, significantly increasing financial pressures.

## Local Government Structure

Municipal government size and structure varied across the case study sites; larger municipalities generally had more diverse government structures while smaller municipalities had fewer staff and services (Table 2). A number of core services exist in every case study, including administration, finance, public works, recreation, and public safety departments. Larger municipalities have been able to expand their operative capacity to include engineering, IT and communication services, agriculture departments, and building and safety inspectors. Most municipalities also had an economic development department which is in line with a growing trend for municipalities to bring economic development in-house to expand investment attraction capabilities in response to growing financial pressures.

Despite some areas citing tourism as a primary source of economic activity, there was limited presence of designated tourism departments. This may be attributed to the lack of fiscal levers in place to collect a tourism-based tax; the MGA does not allow for a tourism designation within the province which limits the ability for governments to generate revenue through this field. While tourism is a growing focus for many regions, responsibilities related to this role may fall under other departments such as economic development. In other instances, independent tourism task forces have been created to develop reports and planning related to the field.

Table 2: Structure of Local Government

| | Flagstaff County | Forestburg | Hanna | MD Wainwright | Olds | Parkland County | Taber | Lethbridge County | Canmore |
|---|---|---|---|---|---|---|---|---|---|
| **Administration / Corporate Services** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Finance** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Planning** | ■ | ■ | | ■ | ■ | ■ | ■ | ■ | ■ |
| **Economic Development** | ■ | * | * | ■ | ■ | ■ | ■ | ■ | ■ |
| **Engineering** | | | | | ■ | ■ | ■ | | ■ |
| **Transportation** | | | | ■ | ■ | | | | ■ |
| **Tourism** | | | | | | | | | ■ |
| **Protection Services** | ■ | ■ | ■ | * | ■ | ■ | ■ | ■ | ■ |
| **Public Works** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Recreation** | ■ | ■ | ■ | | ■ | ■ | ■ | | ■ |
| **Agriculture Services** | ■ | | | ■ | | ■ | | ■ | |
| **Building Inspector** | | | | | | ■ | ■ | | |
| **Health and Safety** | ■ | | | | | | ■ | | |
| **IT Services** | | | | ■ | ■ | ■ | ■ | ■ | ■ |
| **Communications** | | | | | | ■ | ■ | ■ | ■ |

*Note: Economic development services are provided to Forestburg through BREOC and BRAED, and to Hanna through the Cactus Corridor Economic Development Corporation. The MD of Wainwright is part of a shared services arrangement to support an economic development officer position for the region.

Some municipalities use an "as needed approach" to staffing and planning issues. Where it is possible, work is completed in-house, but for specialized issues and areas, staff may be contracted out, consultants may be hired, and municipalities may engage in regional planning and committees. Many municipalities explained that there is no specific approach in this sense, as each problem is unique. Local government structures are experiencing mounting pressures, however, as they continually face increased downloads and responsibilities along with limited fiscal resources. Keeping staff for specialized positions can be expensive, so these may be contracted out. In other instances, there are high costs for specialists needed on site every day for areas such as water testing and maintenance.

Another pressure faced by staff in municipal governments is increasing responsibilities. It is common for staff to perform tasks beyond their designated title. CAOs may need to oversee financial and economic development tasks, while economic development officers are increasingly required to handle roles related to social media and communications as a means to promote municipal affairs for business attraction.

## Amalgamation vs. Boundary Expansion

The political-economic climate in Alberta has created a landscape in which municipal border changes have driven by amalgamation. Downturns in the energy sector, coupled with funding cuts at the provincial level, created economic hardship for a number of small municipalities (Hallstrom, Stonechild, and Reist 2015). These pressures created difficulties for municipalities to provide adequate levels of services to residents; thereby, prompting amalgamations in many regions. The coal transition announced in 2015 has continued this trend across the province. Recent changes to the MGA, which stipulate that summer villages can now legally amalgamate, have only expanded this process (Alberta 2018). While amalgamations benefit affected regions in terms of service provision and asset management, these amalgamations may produce a higher debt load to absorb aging infrastructure assets, provide services to rural residents, and expand governance structures for larger communities within these amalgamated arrangements.

In other instances, amalgamations have been seen as a way to increase efficiencies through regional governance and collaboration. Voluntary amalgamations in this context, however, have had mixed reception due to significant backlash from smaller towns and villages. There has been hostile sentiment from some areas as many wish to remain autonomous in their governance structures. The Alberta MGA provides the Province with the power to initiate amalgamation if deemed necessary, but to date, there have been no forced amalgamations in the province (Hallstrom et al. 2015). There is, however, an increase in viability reviews. These reviews allow municipalities to determine their viability to continue as a municipality by examining governance, finances, infrastructure, and services (see: https://www.alberta.ca/viability-reviews-for-municipalities.aspx).

## Restructuring of Local Government Roles and Responsibilities

Overall, municipal stakeholders identified 7 topic areas where there have been changes to local government roles and responsibilities, including:

- broadband infrastructure,
- community development,
- economic development,
- public safety,
- services,
- municipal operations, and
- infrastructure.

### Broadband Infrastructure

A number of the case studies in Alberta are limited by lack of Internet connectivity, necessitating investments in broadband infrastructure. As regions are starting to diversify their economies, it is increasingly apparent that high speed Internet is essential to both the attraction of investment and residents to the region. Broadband development is particularly a priority for industry attraction, especially in agriculture where technology, data transfer, remote sensing, and automation are shaping the future of this industry. In addition, as many industries develop global networks, efficient communication is a priority.

The COVID-19 pandemic has highlighted the need for stable Internet connection as remote work has become the norm in many sectors. Amenity migration has also become more common during the pandemic due to the ease of remote work. During the pandemic, there has been an increase in people looking for more affordable housing in rural areas, but municipalities with limited Internet connection cannot capitalize on these opportunities. While the benefits of developing broadband infrastructure are plentiful, municipalities may find it difficult to fund these projects as fewer grants and funding opportunities are available. Instead, a number of municipalities have shouldered development costs themselves, expecting the benefits will outweigh the costs. The Town of Olds has invested $18 million in broadband infrastructure as a means to effectively manage communications, stay competitive, and increase their economic development capacity.

### Community Development

As provincial funding sources become more difficult to access for municipalities, their need for social infrastructure, community programs, and public spaces remains the same. Pressures surrounding community development are growing as higher levels of government download more responsibilities onto municipalities. Social and community programs, however, are among the first to be cut when municipalities are faced with fiscal pressures; instead infrastructure, emergency services, and economic development take priority. There are various methods municipalities use to try to maintain the viability of these programs such as funding and grant applications, engaging in regional partnerships, or raising taxes. Such efforts are evidenced in Lethbridge County, where a cost-sharing system for recreation infrastructure has been created with municipalities within the region.

### Economic Development

As economic pressures continue through a downturn in the oil and gas sector, Alberta's coal phase-out, and an increasingly globalized economy, investment attraction has become more competitive and hands-on in the municipal world. Municipalities have begun to establish dedicated economic development departments and task forces to take a more active role in securing investments and bringing in a larger tax base to their communities. Where it once was possible to zone land for commercial use and wait for investment opportunities, it is now necessary to proactively pursue these opportunities as many other regions are competing for the same industry interests.

Many municipalities in this study have expanded their economic development departments in efforts to become more competitive, not only regionally and provincially, but globally as well. Canmore for instance historically outsourced economic development, but has recently brought it in-house, while Olds increased the size of its economic development department and created an economic development secretariat. These efforts have resulted in local benefits for communities; the Town of Olds, for instance, has experienced foreign investments from Asia, including investments in canola from one of the primary food and cooking oil producers from India.

In addition to dedicated economic development staff and departments, regional collaboration has become an important strategy for many regions. By taking a regional approach, municipalities can pool their resources to market the region and create more investment interest. 'Canada's Premier Food Corridor', an initiative undertaken by Lethbridge County, the Town of Taber, Coaldale, the City of Lethbridge, and the MD of Taber illustrates the benefits of regional collaboration. This initiative aims to market the entire region to potential investors, by emphasizing the whole region being greater than the sum of its individual parts and creating a collective food corridor identity has garnered more attention.

Regional Economic Development Alliances (REDAs) have been another effective avenue through which municipalities have been able to stimulate long-term economic development. REDAs are regional economic development organizations which collaborate to attract investment and create a sustainable economic future for rural regions. There are 9 REDAs in Alberta which receive approximately $100,000 in funding every year for economic development projects (Olsen 2020). While these have been effective in stimulating growth and activity, recent provincial funding cuts have limited the capacity of these programs, and consequently negatively impacted municipalities in their ability to pursue projects.

### Public Safety

A common theme across the case studies in Alberta is an increase in policing responsibilities. Currently, policing in Alberta is contracted out to the RCMP through the Provincial Police Services Agreement (PPSA), signed in 2011. Under this 20-year contract, the federal government pays for 30% of policing costs, while the Government of Alberta covers the remaining 70%. A new provincial police costing model came into effect in 2020, which stipulates that municipalities must now contribute a larger portion of the provincial policing costs. This cost-sharing agreement weighs equalized assessment, population size, as well as modifiers including crime severity, proximity to detachments, and shadow populations (see:https://rmalberta.com/wp-content/uploads/2019/12/police-costing-background-info.pdf).

This new costing model is seen as a direct download onto municipalities as costs will increase from 10% to 30% over a period of five years (RMA 2019). Small municipalities under 5,000 which traditionally did not pay for policing are now incurring significant costs which are putting a pressure on small budgets. While municipalities under 5,000 may experience some of the largest shocks as they adjust to new costs, municipalities of larger sizes are also reporting significant cost downloads.

Municipalities with populations over 15,000 have reported having to pay up to $3 million more per year for policing costs. This cost increase is of particular concern to regions with growing populations which may surpass a population of 15,000 during the new costing model implementation. Study sites also reported that cost increases would be paired with an increase of RCMP presence, but they have seen little of these benefits to date. The issue of provincial and federal downloading of responsibilities seems to be epitomized in policing responsibility changes as municipalities are experiencing significant additional costs and responsibilities with few benefits or additional resources to alleviate pressures.

Public safety pressures are increasing in the form of higher expectations from the public as well. The rural-urban divide is getting smaller as people expect amenities and fully staffed and up-to-date equipment, especially with emergency response. In recognition of a need to provide a higher level of service in this regard, the Town of

Olds has recently put in significant investments in updating all of their fire emergency services by providing more benefits and training to fire and emergency services. This was coupled with an update of equipment to a fully capable fleet of modern boom trucks. Other regions have entered into regional partnerships as a means to provide more effective services to residents; Lethbridge County entered into a service agreement with municipalities in the county which use their services. The municipalities pay a yearly fee and a per call fee to obtain better services, while Lethbridge County receives financial compensation and can maintain equipment.

### Services

Service responsibilities have increased significantly for municipalities, especially for programs related to family supports. Historically, family support services have been funded by the province, but over the years, funding has either remained stagnant or declined in the face of growing costs. This has left many programs and initiatives in danger of being cut as municipalities have limited fiscal levers to address these needs. Raising taxes for residents has been one of the only options to maintain these services to fill the gap in funding. Canmore has prioritized maintaining such services, especially during the COVID-19 pandemic. The Canmore Community Housing Corporation was developed by the town to help residents meet housing and basic needs. One of their grant programs contributes up to $20,000 or 75% of the total costs to assist homeowners to convert non-legal suites or municipally approved legal suites, while in other instances they provide emergency responses such as rental assistance, food aid, and matching down payments.

Municipalities also report increasing pressures in health care services. Reaching decision-making authorities and accessing expertise is increasingly difficult, while funding clinics is becoming more expensive. Despite this, municipalities assert that maintaining high standards within these clinics are necessary in order for residents to obtain an adequate level of service. The Town of Hanna, for instance, contributes $125,000-$135,000 annually in order to maintain the local clinic. This represents the equivalent of a 5-6% tax increase. To help alleviate some of these costs, the Town has partnered with Special Areas in order to develop clinic services and infrastructure.

Some case study sites have invested more efforts towards physician recruitment in order to better staff clinics and hospitals, but the Alberta Health Services (AHS) has played an active and efficient role in helping offset physician shortages. The Rural Medicine Locum Program is one initiative run by the AHS which provides incentives for physicians to practice in rural areas. Physicians are guaranteed $1,000 for a full day of work and $500 for a half day, while an overhead of $300 for a full day and $150 for a half day is provided to clinics (AHS, n.d.).

### Municipal Operations

Daily municipal operations have been complicated by increasingly stringent regulations and reporting requirements which have created barriers and inefficiencies for municipalities. Study sites have stated that this bureaucratic 'red tape' has prevented them from providing an adequate level of service to residents in a timely manner. While services and funding have been cut, reporting and red tape have not been reduced in conjunction with these cuts, limiting the agility within which municipalities can address pressures in their daily operations. This also creates more costs on a daily basis with little tangible benefit for residents.

Updates to the MGA are indicative of increased regulations and reporting requirements. The MGA now requires that municipal governments submit a 5-year capital budget and 3-year operating budget for their annual reports. Additionally, the MGA previously required municipalities with populations of more than 3,500 to provide Municipal Development Plans (MDPs), but recent changes to the Act now make this a requirement for all municipalities. While these are good practices, they create an added strain on small municipal operations and finances.

Extensive reporting requirements have been paired with an increasingly cumbersome decision-making process from higher levels of government. Study sites have reported that receiving timely decisions from ministers is increasingly difficult, creating barriers to getting projects off the ground. Timely access to expertise and decision-making is difficult to obtain, especially for transportation and health related issues. Time spent waiting for decisions from higher levels of government can negatively impact service provision, business attraction, and investment opportunities. MPs and MLAs have provided support for municipalities in advocating for local government issues to both provincial and federal levels of government on a stage where their voices would otherwise go unheard. Some study sites, however, reported increasing barriers for municipalities to lobby through their local MLAs.

Municipalities are seeing an increase in service responsibilities, not only due to downloading from higher levels of government, but also due to changing expectations from residents. With the growing presence of social media and communications, residents are expecting a higher level of transparency and communication from municipal governments related to infrastructure and services. Social media is becoming increasingly necessary for economic development, tourism, and resident attraction. In this sense, it can be both a benefit and hindrance to municipalities, as social media outlets present the possibility of reaching a large audience, though at the same time it is easy to get lost in the mix. This new method of business attraction requires governments to position themselves as most recent and popular searches, which is difficult for small governments with limited resources. With a growth in social media and communications responsibilities, municipal stakeholders explained that economic development staff have had to act as communications coordinators to address these new responsibilities.

There are more public expectations for community engagement. Community events harbor increased feelings of inclusiveness, which helps to create community resilience. This can be an effective way to attract visitors and residents to the region. In recognition of these trends, Olds has developed the 'Great Neighbours Program' as means to build community capacity through social events and volunteering.

### Infrastructure

Municipal stakeholders reported an increase in infrastructure responsibilities, coupled with a decrease in available funding to effectively address these costs. Funding for infrastructure projects was more abundant in the past as a strong fossil fuel industry created a framework through which the provincial government could afford more funding programs for municipalities. As economic downturns have affected the oil and gas industry, and consequently provincial revenues, municipalities are increasingly expected to absorb costs related to infrastructure development. Bridge, culverts, and road repairs have been cited as being one of the most significant pressures facing municipalities with industry activity, putting into perspective the difficulties which arise from the downloading of these costs.

Grants and funding programs such as the Investing in Canada Infrastructure Program (ICIP), as well as the Municipal Sustainability Initiative (MSI) have helped municipalities to cover some of the infrastructure costs. These programs are invaluable to municipalities; various study locations maintain that initiatives such as MSI are the primary reason many infrastructure projects are possible to complete. Despite the importance of MSI funding, there are concerns surrounding the future of infrastructure funding as it is slated to be replaced by the Local Government Fiscal Framework in 2024. The federal ICIP funding initiative also alleviates fiscal pressures related to infrastructure development, but this too is not immune to downloading.

Issues surrounding downloading and responsibility shifts are further evidenced through the push and pull dynamics between province and municipalities surrounding roadways. The province is increasingly pushing highway responsibilities onto counties; this includes road infrastructure, along with right of way maintenance on primary and secondary highways. This added responsibility continues to spread resources thin for municipalities. Reports indicate that road maintenance takes longer to complete and can even be of lesser quality. Some municipalities have to rely on volunteer work crews to help maintain some areas in the wake of limited funding.

While responsibilities related to the building and maintenance of infrastructure itself has increased, regulating the quality of these projects has also been downloaded onto municipalities. The province now requires municipalities to be responsible for administering safety codes. This adds to project timelines and also creates pressures on human resources and budgets as these positions require specialized staff and training. While this may work in larger urban centers, rural regions with limited resources are negatively impacted by this sort of download. This increase in regulatory requirements on the part of municipalities is also coupled with more liability for local governments. Road and bridge maintenance, public transportation, and even water treatment becomes a greater risk for municipalities when responsibility increasingly falls on them.

There is also a growing need for transportation, especially for municipalities with growing populations. In some case studies, this is attributed to an increasing need to provide a higher level of service to aging populations, as they require increased access to medical appointments or essential travel needs. Issues arise, however, as municipalities report difficulties in accessing provincial funds and grants to help fund transportation needs.

Transportation is another issue which falls victim to the rural-urban divide; provinces tend to consider this an urban issue putting a disproportionate amount of effort into developing these systems in urban settings despite their increasing need in small and rural municipalities. Municipal stakeholders have noted that populations of 10,000 is usually the trigger point for needing to expand public transportation networks, but it is difficult to access provincial funds for this reason. An established public transportation system is often regarded as an effective form of community attraction. Towns have recognized this need and implemented networks of public buses and bike paths.

## Fiscal Levers

Fiscal levers and revenue generating tools are limited for municipalities in Alberta. Most local governments rely on property taxes, user fees, linear assessments, as well as grants and transfers to leverage fiscal needs. In the face of downloading and increasing responsibilities, municipalities report limited tools through which to increase revenues, as property taxes are the primary source of revenue generation. Municipal stakeholders have also stated that even revenue generation through property taxes is limited, as a portion of municipal property taxes are used for the Education Property Tax. Municipalities are billed at a rate of $2.56 per $1,000 of residential equalized assessment value and $3.76 per $1,000 of non-residential equalized assessment value (Alberta n.d.b). As property taxes are the primary tool for revenue building, additional taxation such as the Education Property Tax limit the agility with which local governments can address fiscal pressures.

While property taxes are the primary source of revenue for municipalities, there is a hesitancy to raise these rates as there is an awareness of financial difficulties affecting residents in their communities. There is an understanding that economic downturns coupled with the COVID-19 pandemic have created financial difficulties for many. This especially rings true in those communities affected by coal transitions, as many workers have lost jobs and had to transition to new industries. Municipalities are adamant on maintaining support for residents while keeping property taxes as low as possible.

In other instances, municipalities can generate revenues through linear assessments. These are taxes collected by municipalities from companies that have properties or equipment within municipal boundaries. This may include oil and gas wells, pipelines, utility lines, and power generation. For municipalities with significant investments in industries such as energy, linear assessments can make up a significant portion of its tax base. Recently, provincial proposals have been made to adjust linear assessment rates as a means to support the competitiveness of the oil and gas industry. Municipalities and counties which predominantly rely on linear assessment for tax revenue, however, may be disproportionately impacted by these proposed changes. A review of provincial linear assessment changes conducted by the Rural Municipalities of Alberta (RMA) examined four scenarios in which these assessments were reduced between 7% and 20%. While impacts vary greatly among municipalities, on average, 44.9% - 50.7% of municipalities would not be able to cover shortfalls for one year with unrestricted reserves depending on the severity of linear assessment reductions (RMA 2020). This would generally result in the necessity of property tax increases, service level reductions, and an increase in debt (RMA 2020).

The lack of available fiscal tools for municipalities has been a particular concern for municipalities reliant on the tourism industry. The MGA has no stipulation which allows revenue generation from tourism. Areas with population influxes due to tourism feel additional pressures on infrastructure and service provision with little additional recourse. When infrastructure demands are already at their limits for permanent residents, growing the tourism industry becomes a major pressure when there are few additional fiscal levers which offset infrastructure and service use. Municipalities reliant on tourism have advocated for a tourism designation, or tourism tax which get distributed amongst municipalities to help offset these usage costs, but the provincial government has been reluctant to implement such measures.

Where revenue generation does not cover costs for municipalities, small municipalities look towards government funding programs to fill fiscal gaps. The provincial government has increasingly moved towards grant-based funding, with grants slowly becoming the primary resource for municipalities. MSI funding, for instance, has been the primary source of funding for infrastructure projects for a number of our case studies, but municipal stakeholders report increasing difficulty in accessing these funds. There is uncertainty about the future of municipal funding rates as MSI will be replaced by the Local Government Fiscal Framework in 2024.

Grants are also becoming more difficult to access; municipal stakeholders report increasingly stringent application processes and reporting procedures to be able to access these funds. Alberta's COVID relief fund, MOST, required two-years of financial reporting unrelated to the pandemic in order for municipalities to be able to access a one-time transfer of funds. This more restrictive environment translates to other areas of municipal fiscal operations as well. With this general movement towards a grant-based system, coupled with increasing difficulty in accessing provincial and federal funds, many municipalities have created grant-writing positions in their staff in order to better access these funds. This creates human resource pressures as it creates a need for additional staff, or in some cases, existing staff must split more time between multiple roles.

## Jurisdictional Issues

Municipal powers in Alberta are established through the provincial Municipal Government Act (MGA). These include bylaw powers, finance and revenue powers, natural person powers, quasi-jurisdictional powers, land-use and development powers, and other special municipal powers (Alberta 2013). Though the MGA was introduced in 1967 to afford municipalities with more jurisdictional powers, it has since undergone a number of updates throughout the years to better reflect changing needs of municipalities. These changes, however, have not always benefitted municipalities; the current iteration of the MGA has received both praise and criticism from municipalities across Alberta. Some updates are seen to help develop municipal capacity in a positive manner, while other changes are seen as continuing the trend of government downloading and limiting of jurisdictional powers.

With the current trend of provincial downloads and increasing responsibilities, municipalities in this study have reported that the MGA has not been updated in a manner where jurisdictional capacity is reflective of increasing roles and responsibilities. A Red Tape Reduction Act was introduced in 2019, with an expressed goal to limit regulatory and administrative requirements which result in unnecessary costs and resource use, while still maintaining requirements to ensure public health and safety. Despite this new Act, many municipalities still feel as if regulatory requirements are growing. Municipalities state that a need to be more agile and nimble in a fast-paced economic landscape is of increasing importance.

The aforementioned inability to leverage fiscal resources is another area of concern; municipalities do not have the jurisdictional powers to develop revenue generation beyond linear assessment, property taxes, and user fees. The MGA does not allow for any new form of taxation, such as a tourism designation, which severely limits municipalities primarily reliant on the tourism. In other instances, jurisdictional powers do not allow for municipalities to collect taxes from private entities which owe taxes, which can contribute to higher debt loads.

In other instances, some municipal stakeholders feel as though they have limited powers in deciding where money is spent; municipalities are required to have the same core administrative services as large cities which can cause expenses to rise significantly. Regulatory requirements which stipulate that all municipalities have the same administrative services, infrastructure requirements, and regulations as large municipalities place small municipalities at a disadvantage in cases where they have limited resources to leverage. This falls in line with observations from municipal stakeholders that changes to administrative abilities and staffing requirements have a different impact on governmental capacity between rural and urban areas.

# MUNICIPAL REFORM IN ONTARIO

## Introduction

In Ontario, municipal reforms have been juxtaposed against more complex multi-tier municipal structures. Despite the diverse range of socio-economic pressures and needs unfolding in small municipalities, standardized senior government policies continue to be mobilized – limiting the innovative capacity of small municipalities to be agile, collaborative, and responsive within current fiscal and legislative frameworks. Drawing upon 8 case studies in Ontario, this section will examine the socio-economic changes unfolding in rural Ontario before examining the municipal pressures and changes in local government responsibilities that are challenging municipal operations. These changes stem from amalgamation processes, new regulatory requirements, program criteria and eligibility requirements, cost-sharing arrangements, restrictions on fiscal levers, limitations to municipal powers, and jurisdictional limitations.

## Change in Rural Ontario

A diverse range of case studies were used to examine the impacts of local government reforms on small municipalities in Ontario. These case studies include: Dubreuilville, Sioux Lookout, Goderich, Brockton, Brock, Haldimand County, Newmarket, and Wellington County. As demonstrated below, these communities are experiencing a breadth of demographic and socio-economic changes due to economic and political restructuring processes.

### Demographic Change

There are a number of demographic trends observed in our case studies across Ontario. The first stems from population growth, driven by new industrial projects and migration from larger centres. New mining projects spurred an influx of transient, mobile workers to support new resource extraction. More remote communities have retained a younger population to support resource-based economies. In other cases, the loss of industries, attraction to small town living, and close proximity to health care services have led to an influx of older residents and an aging population. The median age in these case studies changed from 30 to 42 years of age in 2001, to 36 and 50 years of age in the 2016 census period (Statistics Canada 2001, 2016). Urban migrants, such as seniors or young families, are also attracted to the affordable housing options available in these communities. Other stakeholders observed that recent population growth is partially influenced by covid-19 pressures and opportunities to have more freedom where people live and work.

In contrast to municipalities experiencing growth, some of the agricultural communities in this study are experiencing population decline as there are fewer people interested in farming, more consolidation of farms, and provincial policies that inhibit alternative uses of agricultural fringe land. In these communities, there is a struggle to retain youth. Other municipalities have retained a fairly stable population despite industry closures.

### Economic Change

Case studies in Ontario captured tremendous diversity in the economic sectors underscoring local economies. In this diverse economic landscape, economic change stemmed from industry closures, provincial restructuring decisions, the emergence of new industries, and diversification within and across economic sectors. Industry closures, for example, stem from a decline in commodity prices, the loss of sawmills, the phase out of coal resources, the selling off and closure of auto manufacturing, and underutilized commercial assets and industrial parks. Since the 1980s, neoliberal provincial and federal policies have closed and regionalized services that have reduced the number and breadth of professional jobs. In some cases, economic restructuring pressures have been tempered with the development of new industries (i.e. gold mines, nuclear / electrical generation, windfarms, electronics manufacturing, automotive plants). This has intensified labour market pressures as multiple industries compete to recruit and retain workers within rural and rural-urban regions. Investments in tourism infrastructure have also prompted more waterfront activities and recreational fishing. Developments in new sectors, though, have not always been sufficient to replace the jobs lost from industry closures.

In agricultural-based case studies, production focused on pork, beef, poultry, dairy, and grains. Employment and economic development opportunities in this sector, however, have been impacted by a series of restructuring processes. Agricultural land prices have increased, prompting the consolidation of farms. Employment has declined as more companies adopt labour-shedding automation processes and as small meat processing facilities have closed. These changes have been accompanied by a decline in rail usage in some communities that have seen increased interest in port infrastructure. In some cases, new growth has been supported with investments in value-added agriculture (i.e. breweries, wineries, etc.).

Two streams of the service-based economy are also reshaping rural economies. The first stems from service hubs that serve smaller Indigenous and non-Indigenous communities in the region through the provision of government services, healthcare, social services, and transportation. As more people become comfortable commuting long distances for work, however, other municipalities have experienced a decline in services, such as gas stations, convenience stores, and restaurants.

## Municipal Pressures

As communities cope with socio-economic changes, municipal stakeholders identified seven key pressures for small municipalities, including:

- broadband infrastructure,
- fiscal resources,
- housing,
- infrastructure,
- local government operations, and
- services.

### Broadband Infrastructure

Similar to other jurisdictions in this study, small municipalities in Ontario continue to struggle with a lack of high speed Internet and limited investments in broadband fibre optics. Broadband fibre connection is poorest in rural county areas. The covid-19 pandemic has exacerbated the impacts of broadband infrastructure pressures as more people work, study, and operate businesses from home with insufficient Internet speed.

### Fiscal Resources

Small municipalities are coping with a series of fiscal pressures, including pressures to minimize tax increases while maintaining strong financial reserves to address infrastructure pressures. Despite the breadth of infrastructure and service pressures unfolding, municipalities do not have the ability to raise revenues beyond property taxes and user fees, making them reliant on provincial and federal government grants and transfers. In some cases, growth restrictions have impeded the ability of municipalities to expand their tax base. This has placed more fiscal burdens on a smaller property tax base.

### Housing

Housing pressures are making it difficult for some residents to obtain accommodations in these small municipalities. First, increased housing prices associated with growth have made it difficult for youth and long-term residents to obtain affordable housing in these markets. Median housing values ranged from $69,877 to $399,632 in 2011, and then from $80,020 to $650,910 in 2016 (Statistics Canada 2016). Housing pressures are exacerbated by the lack of apartments and condos, particularly in communities where the rental stock has been reduced as property owners sold rental stock during peak market conditions or converted rentals into Airbnb accommodations. This has forced some residents to live elsewhere and commute for work. In some communities, any new construction of affordable housing or rental developments is challenged by drastic increases in land values that is making it difficult for developers to generate a return on investment within a reasonable timeframe.

The expansion of residential development through new planned subdivisions is putting pressure on growth. Part of this demand is driven by young families seeking turn-key housing options. Retirees from metropolitan regions are also selling their homes and purchasing new affordable homes in these communities. The challenge for some municipalities is limited access to land to support new housing developments. Farms within urban boundaries are being sold. The rapid expansion of housing construction in some areas also sparked concerns amongst long-term residents about how the character of the community will change.

In resource-based communities, new mining projects require workforce housing developments within short timelines. Small municipalities, however, struggle to obtain additional Crown land and install new infrastructure to support new work camps under tight timelines. Rental costs increased as landlords sought to provide accommodations for mobile workers using living out allowances within the communities. Some suggested that the covid-19 pandemic intensified these housing pressures as fewer mobile workers could be placed in a house under covid-19 rules.

### Infrastructure

Stakeholders explained that small municipalities have limited fiscal resources to repair and replace existing infrastructure (i.e. roads, bridges, recreation centres, etc.). These challenges are exacerbated in rural counties where there are extensive road and bridge networks. Traffic from industrial vehicles, mobile workers, commuters, and bigger farm equipment are all accelerating these pressures. At the same time, the costs of maintaining and replacing infrastructure, such as municipal facilities, roads, water, sewer, and other waste, have increased, particularly in remote communities. In some cases, this required municipalities to scale back the scope of new projects.

For municipalities experiencing growth, the expansion of residential development and increased traffic compounded the need for more infrastructure investments in roads, water, sewer, pedestrian crosswalks, street and traffic lights, and more. This growth for business and residential development has been stalled by a lack of water and wastewater infrastructure. Natural gas infrastructure was also viewed as instrumental to attract new industry to remote communities, but was considered cost prohibitive. While small municipalities rely heavily on provincial and federal government grants to address infrastructure pressures, stakeholders argued that senior levels of government are pushing growth mandates without investing additional infrastructure resources to support that growth.

### Local Government Operations

Municipalities are experiencing operational pressures as well. There are challenges preparing for large-scale industrial projects and economic development investments while managing public expectations for growth and nurturing livable communities. At times, investments in recreational assets have been scaled back due to rising construction costs. There are also challenges to balance growth between small urban communities and the surrounding rural areas.

### Services

Service pressures unfolding in these case studies are shaped by demographic and economic change. An influx of a younger population in some communities created different demands for services. These experiences, however, are juxtaposed against the experiences of other municipalities where economic and service restructuring pressures undermined the capacity to support the renewal of small municipalities, and subsequently, an exodus of younger families. As industries and farms close, there are pressures to find ways to keep rural schools open in order to prevent further population decline.

In some municipalities, an aging population increased pressure for hospital and health care services. This subsequently increased the need for municipal staff to work with community partners to recruit doctors and obtain more funding for health care infrastructure and services. This includes seeking investments to address the shortage of long-term care beds in some communities. Service restructuring decisions, however, have reduced the role of public health to deliver addictions programs in some communities.

In terms of public safety and well-being, municipal stakeholders noticed an increased demand for policing and social services. Industry closures and declining populations have impacted the capacity of community organizations addressing social issues as there are now fewer groups and volunteers to support fundraising initiatives and deliver supports. This has prompted community organizations to re-evaluate their mandate and services. In response, through local governance structures, municipal staff are playing a larger role to work with community groups to identify projects and fundraise the resources needed to invest in community development infrastructure (i.e. recreational equipment, playgrounds).

## Local Government Structure

The structure of local governments varied across the Ontario municipalities included in this study (Table 3). There are single-tier municipalities[9] (Dubreuilville, Haldimand County, and Sioux Lookout), lower-tier municipalities[10] (Brock, Brockton, Goderich, and Newmarket), and an upper-tier municipality (Wellington County). Each municipality delivered core services, such as administration and corporate services, finance, protection services, and public works and waste management. Most municipalities had economic development staff in place. In some cases, services such as economic development, transportation library, child services, housing, long-term care, and social services were delivered for lower-tier municipalities by upper-tier counties. As the size of municipalities increased, they were more likely to have planning, legal / risk management, engineering, transportation, building inspection, and IT services in place. Tourism was either designated as a responsibility for economic development staff or committees.

Table 3: Structure of Local Government

| | Dubreuilville | Sioux Lookout | Goderich | Brockton | Brock | Haldimand County | Newmarket | Wellington County |
|---|---|---|---|---|---|---|---|---|
| **Administration / Corporate Services** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Finance** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Legal services / risk mgmt** | | | | | | ■ | ■ | |
| **Planning** | | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Economic Development** | ■ | ■ | ■* | ■ | * | ■ | ■ | ■ |
| **Engineering** | | | | | * | ■ | ■ | ■ |
| **Transportation** | | ■ | ■ | ■ | * | | * | |
| **Tourism** | | | ■ | | * | ■ | | |
| **Protection Services** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Infrastructure / Public Works** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Library** | ■ | ■ | * | * | ■ | ■ | ■ | ■ |
| **Daycare / Early Childhood Education** | | ■ | ■ | ■ | * | ■ | * | ■ |
| **Housing** | | | * | * | * | ■ | * | ■ |
| **Immigration** | | | | | * | | * | ■ |
| **Seniors' housing / long-term care** | | | * | * | * | ■ | * | ■ |
| **Climate Change** | | | * | | | | | |
| **Social Services** | | | * | * | * | ■ | * | ■ |

[9]In northern Ontario, all municipalities are single-tier and hence have District Social Service Administration Boards (DSSABs); these act as another level of government. DSSABS levy constituent municipalities based on population in order to generate revenue to deliver services.

[10] Upper-tier municipalities are responsible for region-wide functions, such as planning and transportation. Lower-tier municipalities are responsible for local issues, such as the management of public facilities and assets (Meligrana 2000).

| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Recreation** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | |
| **Building Inspector / Chief Building Official** | | | ■ | ■ | ■ | ■ | ■ | |
| **IT Services** | | ■ | * | * | * | ■ | ■ | ■ |

*Services are delivered through upper tier / county level of government.

○ Lower Tier (Brock, Brockton, Goderich, Newmarket)

● Upper Tier (Wellington Count)

▲ Single Tier (Dubreuilville, Haldimand County, Sioux Lookout)

These municipalities use a combination of internal staff, committees, and consultants to address municipal responsibilities. For example, committees maybe used for economic development, heritage development, climate change, and recreation. Consultants with specific expertise may be used to develop strategic plans, official community plans, and economic development strategies.

Staff capacity in many of these smaller municipalities is limited, resulting in higher workloads as staff work within budget constraints to address community needs and provincial requirements. Some municipalities struggle to compete with industry wages or larger centres, making it difficult to find people with appropriate qualifications (i.e. planning, economic development, asset management). As municipalities experience staff turnover, development processes can become disjointed as developers end up working with multiple planners. Limited staff capacity also makes it difficult to undertake analysis, reports, and comprehensive service reviews. Student support from universities has been leveraged for strategic planning and economic development processes.

The structure of municipalities are also challenged by the fragmented infrastructure following amalgamation processes. There are several sets of town halls, satellite offices, and community facilities to be maintained. This has undermined potential synergies and collaboration across staff and different departments. Some have been successful to acquire the capital necessary to develop centralized administrative buildings to support one-stop shop access to municipal services. There are also more on-line services offered.

## Amalgamation vs Boundary Expansion

In the late 1990s and early 2000s, the provincial government implemented a series of amalgamation policies to consolidate municipalities, as well as to encourage regional collaboration and streamlined operations (Cobban 2019). Overall, the number of municipalities was reduced by 45% between 1996 and 2004 (Douglas 2005). These amalgamation processes were accompanied with a downloading of services for municipalities. For some stakeholders we spoke with, amalgamation processes increased infrastructure pressures as newly amalgamated municipalities had multiple sets of facilities (i.e. arenas, town halls, libraries, etc.) that would have to be centralized or consolidated through new investments. More recently, the provincial government reversed some amalgamation processes, with cases of regional governments being split into separate counties in order to create two tier-one local governments that assume responsibility for all infrastructure and services.

Boundary expansions, annexations, or adjustments have also unfolded. For example, there were boundary adjustments in Goderich for surrounding rural areas in Central Huron County. Central Huron would continue to collect taxes for an extended period of time, with an increasing proportion of taxes collected by the municipality over time. In 1999, Sioux Lookout went from 25 $km^2$ to 536 $km^2$. These boundary changes have been accompanied with more costs for road maintenance, ploughing, garbage collection, and other municipal services within a sparsely populated area that does not have the capacity to provide the commensurate property tax revenue to recover those costs.

## Changes in Municipal Responsibilities

Overall, municipal stakeholders identified 10 topic areas where there have been changes to local government roles and responsibilities, including:

- broadband infrastructure,
- climate change,

- community development,
- economic development,
- housing,
- infrastructure,
- local government operations,
- public safety,
- services, and
- transportation.

### Broadband Infrastructure

Even though broadband infrastructure is not a mandated responsibility of local government in Ontario, municipalities need to provide funding in order to obtain provincial and federal grants as a part of cost-sharing arrangements. Municipalities are increasingly investing in broadband infrastructure due to limited investments from private companies and senior levels of government. In some cases, small municipalities are advertising RFPs and pursuing partnerships with local and regional companies due to limited interest by large Internet service providers that focus on larger urban areas. Municipalities have focused on installing fibre optics and small towers where possible.

### Climate Change

In 2009, the provincial government implemented the Green Energy Act[11]. In response, municipalities are working with stakeholders and partners to develop wind farms, solar panels, and other green energy projects. As municipalities engage in these initiatives, municipal staff are investing more time to manage public expectations and conflicts. This includes attention to address concerns and misinformation about potential negative impacts of these projects on real estate and property values.

### Community Development

Some municipalities are restructuring the management and operations of their community facilities. As noted earlier, some municipalities inherited multiple sets of community development assets following amalgamation processes. In response, some have developed partnership agreements with community groups. Under these arrangements, community groups are responsible for building maintenance and management of rentals for community halls. Municipalities retain responsibility for ownerships and structural repairs.

### Economic Development

Over the past few decades, municipalities have become more engaged in economic development. Previously, economic development was not considered to be a core municipal function. At times, economic development tasks were performed as additional planning duties. While legislation now stipulates that municipalities and counties are responsible for economic development, stakeholders also feel that municipalities need to have an economic development officer or department. Some case studies have economic development and tourism committees that are supported by regional staff.

Through their economic development capacity, municipalities are aggressively pursuing initiatives, partnerships, and opportunities to leverage grants in order to address the needs of local businesses. Some are exploring opportunities to leverage federal infrastructure grants for smart city[12] initiatives. Municipalities are more

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[11] The Green Energy Act (2009) was designed to encourage investments in solar and wind energy projects in order to reduce greenhouse gas emissions. Critics argued that the Act increased electricity costs by as much as 75% (Jaremko 2020). The Act was repealed in 2018, as the provincial government cancelled more than 750 renewable energy contracts (CBC News 2018, Sept. 20: https://www.cbc.ca/news/canada/toronto/ontario-green-energy-act-scrapped-1.4831927).

[12]The Smart Cities Challenge was a federally-funded competition which aimed to help communities develop sustainability through improving the well being of residents through innovation and connectivity (Infrastructure Canada 2020). The

engaged to develop entrepreneurial hubs and invest more resources in business recruitment and expansion. In some cases, when there were federal government delays to release funds to support businesses during the pandemic, there were municipal investments in business emergency covid-19 relief funds. Despite these changes, municipal leaders and senior staff find it challenging to justify investments in economic development capacity as they manage public expectations. Small municipalities lack the mechanisms or metrics to assess the success of economic development initiatives that may take years to unfold.

### Housing

More housing responsibilities have been downloaded onto municipalities as they are now responsible for enforcing the Residential Tenancies Act (2006) by monitoring compliance, receiving complaints, and completing inspections. They are also playing a more active role to support the development of affordable housing. As economic development becomes increasingly important within municipal operations, municipal staff are also more engaged in housing issues in order to attract professional talent and support business retention and expansion.

### Infrastructure

Stakeholders felt that more infrastructure costs and responsibilities are being transferred to municipalities from provincial and federal levels of government. For example, senior governments have transitioned from paying 33-50% of the shared infrastructure costs under various infrastructure programs to providing funding for up to 3 years (see: https://www.ontario.ca/page/available-funding-opportunities-ontario-government). More recently, the Province of Ontario rolled out the Ontario Community Infrastructure Fund that is not based on any cost-sharing arrangements, but rather a carefully calculated formula based on the value of core infrastructure as reported in municipal Financial Information Returns (see: https://www.ontario.ca/page/ontario-community-infrastructure-fund#section-5). In some cases, infrastructure grants have been eliminated. For example, road subsidies were cut in 1995/1996 before being reinstated in the early 2000s.

At the same time, the Province downloaded the responsibility for maintaining highways within rural counties. Certain highways, for example, were declassified and reassigned to counties or municipalities. This increased municipal costs for road maintenance and snow removal. These rural areas could not provide municipal governments with sufficient additional property tax revenues to cover these costs. In response, some municipalities have completed judicial review processes to reverse the reassignment of road networks. There are also highway networks situated within amalgamated or expanded municipal boundaries through annexation. The road networks, however, remain situated on Crown land; thereby impeding the ability of municipal governments to develop areas without working through extensive processes to release Crown land.

New provincial regulations have introduced additional infrastructure responsibilities for municipalities, but without commensurate funding to meet these changes. The province has introduced more regulations for septic inspections and water treatment that must be supported through revenues obtained from municipal property taxes. This included regulatory changes that were implemented for the chlorine residual in effluent from wastewater treatment plants (see Safe Drinking Water Act (2002), https://www.ontario.ca/laws/regulation/r03269). This required new expertise, and in some cases, a change in contractors and engineers. In some cases, municipalities replaced their chlorine system with a UV-based treatment system, costing several million dollars. Provincial policies also restructured the responsibilities for utilities and physical infrastructure. Previously, water and sewer assets were managed by independent boards that could strategically expand these assets across municipal boundaries in order to achieve greater economies of scale. These independent boards were eliminated with the responsibilities for these assets transferred to municipalities. Some stakeholders argued that the emphasis of managing infrastructure assets within municipal boundaries has limited growth and cross-border collaboration for water and sewer development and maintenance. The provincial government also introduced the Accessibility for Ontarians with Disabilities Act (2005) that requires all new buildings and significant renovation projects to comply with accessibility requirements. Municipalities are required to be fully compliant with the Act by 2025. Since few small

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competition was open to all Indigenous communities, municipalities, as well as local and regional governments. Communities had to overcome 'unsolvable' problems and create new collaborative partnerships with residents and other partners. Successful projects related to overcoming energy poverty, creating a sustainable circular food economy, creating more support for mental health, and increasing mobility and access to food.

municipalities have the fiscal capacity to hire a dedicated person to assess the accessibility of new projects, these requirements have increased the workloads for existing staff.

The transfer of infrastructure responsibilities has not always been between municipal and senior levels of government. Former company towns have experienced a transition from infrastructure that was maintained by resource-based industries to more infrastructure responsibilities assumed, and budgeted for, by the municipality (i.e. snow removal, public works equipment, etc.).

### Local Government Operations

In terms of local government operations, municipalities transitioned from being focused on maintaining physical or hard infrastructure to being more engaged in planning. Asset management plans must be completed to obtain senior government transfers to support infrastructure investments. Municipalities are also expected to develop innovative solutions to address industry, business, and other economic development needs. Volunteers with municipal fire departments must complete more procedural work.

In Ontario, there are also responsibilities that have been uploaded. If a developer does not agree with a municipal decision for a development permit, the developer can appeal to Ontario's Local Planning Appeal Tribunal. Any reversal of municipal decisions, however, may not reflect the potential impacts of new developments on long-term planning and municipal operations.

Municipalities have also modernized their operations, moving from paper-based operations to on-line / digital operations. They are expected to respond more quickly to requests through cell phones, social media, laptops, etc. With increased public expectations for instantaneous communication and responses to requests, some municipal stakeholders are concerned that small municipalities with limited staff can no longer do their due diligence.

### Public Safety

In Ontario, there have been several changes to the public safety responsibilities of municipalities. The Province mandated municipalities to develop public health and safety plans. This requires municipalities to hire more staff (i.e. emergency management coordinator, health and safety coordinator, etc.). Municipal stakeholders are also experiencing an increased demand for ambulance services, which have led to cutbacks in firefighting personnel and the consolidation of fire stations in order to pull together the resources needed to fund extra ambulance shifts, vehicles, and equipment. Furthermore, planning and recreational departments are paying more attention to ensure sidewalks and playgrounds are safe for public use.

Policing continues to consume a significant portion of municipal budgets. Despite these fiscal pressures, municipalities and counties do not have substantial input in police contract agreements. Ontario Provincial Police are legislated by the Province, prompting municipal stakeholders to advocate for policing services to be funded by the Province. Some municipalities have responded to these fiscal pressures by reducing policing levels for their community. At the same time, Ontario Provincial Police community safety programs and the regulation of handgun restrictions have been downloaded onto municipalities. Stakeholders find such changes ineffective as handgun regulations can vary across different communities, and as municipalities do not have the resources to implement these regulations.

### Services

In the mid-1990s, there was a major shift in the restructuring of services in Ontario. Stakeholders received more funding allocations from the province, but municipalities were responsible for the majority of services. Municipalities became more engaged in delivering community health and safety programs, and ambulance services with limited staff. Municipalities also became responsible for a continuum of care services, ranging from childcare to long-term care. These were contrasted with examples where some services were uploaded to a regional level (i.e. social services, court POA materials, etc.).

As more services are downloaded onto municipalities, provincial policies have impeded the ability of municipalities to obtain efficiencies through shared staff. Most notably, some counties used to share medical officers. The Province now mandates each municipality to retain their own medical officer, a requirement that is difficult for small municipalities to address. The costs of retaining a medical officer have been exacerbated during the covid-19 pandemic due to overtime costs incurred by these professionals.

The provincial government retained jurisdiction and responsibility for public health care. While the Province funds public health care operations, an important change is that municipalities are now required to fundraise or contribute municipal revenues for health care equipment.

### Transportation

Changes in transportation responsibilities have been shaped by both changes in senior government policies and programs, and amalgamation processes that restructured these responsibilities between lower and upper tier levels of local government. When the federal government divested its interest in operating small airports, municipalities assumed responsibility for these assets in order to retain this infrastructure for community and economic development. This added significant liabilities and costs for municipalities to manage with limited fiscal revenues, while diverging resources from other assets such as parks and recreational facilities.

Following provincial funding announcements from the Ministry of Transportation, some municipalities are exploring innovative solutions to address transportation needs in rural regions. Rural transit pilot projects are being mobilized. For example, in 2019, Wellington County introduced a five-year pilot project called Ride Well in order to address the challenges of delivering transportation services in a rural county[13]. The municipality mobilized a private sector partnership with RideCo to provide door-to-door service and address transportation service gaps in underserviced rural areas. Moving forward, municipalities are seeing more funding to support active transportation to address social, climate change, and workforce challenges.

### Responses to Municipal Reform

Small municipalities in Ontario have responded to these reforms by cutting budget deficits. This was accomplished by selling off municipal assets, such as buildings, properties, toll roads, and other assets. Some municipalities experienced public pressures to heavily draw upon reserve funds to generate stable budgets. As provincial transfers declined, municipalities reduced spending on roads, bridges, and other forms of hard infrastructure. Infrastructure maintenance and repairs were planned over multi-year periods. Service delivery reviews were completed to identify other opportunities to strengthen efficiencies. Municipalities transitioned from paper-based operations to computer-based and on-line operations by upgrading technology infrastructure. Human resource expenses were reduced by cutting cost of living adjustments for staff.

## Fiscal Levers

As municipalities respond to changes in local government responsibilities, we asked stakeholders to reflect on the strength of their fiscal levers to meet these needs. In Ontario, key sources of revenue for municipalities include property taxation, user fees, and senior government grants and transfers. The fiscal challenge for municipalities is their limited power to increase property taxes sufficiently to address the increased costs of new municipal responsibilities, making them heavily dependent on provincial and federal government transfers. Some counties and municipalities are in a precarious fiscal position due to their limited industrial tax base following industry closures or the relocation of industries to rural areas outside of municipal boundaries, leaving them heavily reliant on residential property taxes. In some cases, high residential property taxes are threatening the ability of homeowners to retain their homes. These issues are exacerbated by changes to property assessments by provincial authorities. Some municipal stakeholders have used their flexibility to change tax ratios for industrial and commercial properties versus residential to encourage investment. Others are collecting revenue from community development benefit charges, but face restrictions with how such funds can be used. In response to limitations with fiscal levers, stakeholders advocated for an increase in the HST by 1% in order to generate more revenue for municipalities.

[13]Wellington County received $500,000 from the provincial government to implement Ride Well (Khan, 2019). The service operates between 6 a.m. to 7 p.m. on weekdays. This has been a major development as it allows for a public transit system that covers a wide area with relatively low population densities (Strickland 2019).

Provincial and federal government transfers and grants do not always provide small municipalities with the flexibility needed to address infrastructure pressures or emerging opportunities to support economic renewal. Municipalities are coping with a decline in senior government funding, short-timelines for grant programs, and restrictions on the use of grant funding. To start, municipalities are experiencing a loss of senior government funding through new cost-sharing ratios related to grant programs. Cost sharing arrangements for infrastructure grants ranged from 33% to 50% in contributions required by municipalities. These cost sharing ratios changed in 2010 when the provincial government reduced revenues allocated to infrastructure grant programs. Provincial grants now distribute funds for up to 3 years on a declining scale.

Stakeholders suggested that there has been a decline in senior government funding for physical and transportation infrastructure. The Municipal-Rural Infrastructure Fund was initiated in 2004, but ended in 2014 after funding was disbursed (https://www.infrastructure.gc.ca/prog/programs-infc-summary-eng.html#mrif). This project provided funding for water and wastewater treatment projects, cultural facilities, and recreational assets in smaller municipalities and Indigenous communities. Some municipalities have drawn upon Infrastructure Canada grants. Municipal transfers from the Ontario Municipal Partnership Fund (OMPF) have also declined. While the contributions and transfers from the Province are declining, however, municipalities have not been able to acquire commensurate revenues to address their expanded responsibilities.

More recently, the provincial government mobilized modernization grants for municipalities to develop their digital infrastructure and update websites in order to expand the ability of people to obtain permits and pay bills on-line. Furthermore, the provincial government invested $135 million in natural gas infrastructure for rural and Indigenous communities. This provincial fund was developed by allocating $1 from each natural gas bill in order to generate $135 million in revenue. The goal of this program is to attract industrial investment to rural regions, while improving the value of properties in rural areas. The natural gas infrastructure will also allow agricultural producers to dry grain with natural gas instead of propane.

Stakeholders felt that provincial and federal grant programs are announced on short-notice, resulting in short timelines for municipalities to prepare and submit grant proposals. Despite short timelines for grant application processes, it can take multiple years for municipalities to receive the results of grant competitions. Such challenges can force municipalities to seek private financing.

Provincial and federal grants can be restrictive. Municipalities must have shovel-ready projects with engineering reports completed for any infrastructure projects related to roads, bridges, ports, airports, or broadband. There are restrictions on how the municipality can use grants. In some cases, infrastructure grants focus on repairs or specific infrastructure projects. Pressures from aging infrastructure and multiple breaks in water and sewage lines, however, is prompting municipal stakeholders to pursue a more aggressive, cost-effective approach by replacing extensive, community-wide infrastructure assets. Some suggested that grants are not available to upgrade community-wide water and sewer infrastructure, resulting in the need for municipalities to obtain loans. Others argued that provincial infrastructure grant programs are too focused on transitioning municipalities off septic systems. For municipalities that have already made this transition, there are concerns that other infrastructure needs are ignored. Gas tax funds, however, tend to be less restrictive and provide municipalities with a predictable stream of revenue to address infrastructure repairs and replacement. Moving forward, municipal stakeholders are concerned about the availability of future grants as provincial and federal governments balance their budgets following the covid-19 pandemic.

## Jurisdictional Issues

Municipalities struggle to engage with Indigenous communities due to their different jurisdictional and constitutional powers. Even though municipalities are required to consult with Indigenous communities on a range of issues, provincial and federal regulations require them to do so without funding or mechanisms to support relationship building and conflict resolution with Indigenous partners. Indigenous protests to some developments have also required more engagement from provincial and federal levels of government. Uncertainties generated from questions about land control and ownership continue to be unresolved. The recruitment of Indigenous staff has helped some municipalities to understand jurisdictional issues when working collaboratively with Indigenous communities.

Senior government regulations are impacting innovative and entrepreneurial municipal practices. The decline in OMPF funding, for example, has impacted innovation, economic development, and other arrangements. OMAFRA has reduced staff in rural regions, creating a gap in services. Municipalities are now expected to provide services formerly covered through OMAFRA (i.e. agricultural support, economic development, strategic planning, support services, etc.). Despite revisions to the Municipal Act in 2001 and 2006, there continue to be legislative constraints as stakeholders suggested that municipalities remain heavily regulated, with limited flexibility. Restrictions around fiscal levers and municipal enterprises were cited examples. Municipalities must work through extensive processes if they wish to use tax incentives to attract private investment. Provincial policies on the use of agricultural land guides development and does not always permit growth in small villages, resulting in rural decline. Some municipal stakeholders felt restricted with limited flexibility to create small estate lots. Municipal stakeholders also find it difficult to develop housing funds and various reserves as any surplus to be invested would be viewed as over-taxation by residents and businesses.

A further regulatory issue stems from transportation issues. Some communities provide training for military pilots and radar technicians. The federal Department of Transport has more restrictions for places to obtain accreditation. These restrictions determine the level of flyers and technicians that can be brought in to a community to be trained. Significant municipal resources must be allocated to maintain a high level of accreditation. The federal government also changed the gradation laws that impacted the ability of small municipal airports to compete in that sector.

# MUNICIPAL REFORM IN NEWFOUNDLAND AND LABRADOR

## Introduction

The rural landscape in Newfoundland and Labrador hosts a diverse set of municipalities that are striving to mobilize renewal processes in order to support resilient communities. Old rural economies are being transformed and diversified through the pursuit of new economic sectors (Halseth et al. 2010). With both the province and many small municipalities facing precarious fiscal conditions, the viability of fiscal and policy levers to support rural renewal was in question. Current legislative and governance frameworks need stronger investments in order to support small municipalities to be more innovative, entrepreneurial, and engaged in collaborative governance arrangements. Drawing upon 8 case studies in Newfoundland and Labrador, this section will examine the socio-economic changes and municipal pressures unfolding in rural Newfoundland and Labrador that are challenging municipal operations. Based on an understanding of the capacities in these small municipalities, a series of changes to local government responsibilities are discussed. These changes stem from new regulatory requirements, cost-sharing ratios for infrastructure investments, program criteria and eligibility requirements, restrictions on fiscal levers, lost resources for regional collaboration, and limitations to municipal powers.

## Change in Rural Newfoundland and Labrador

Case studies were selected from a breadth of rural regions to examine the impacts of local government reforms on small municipalities in Newfoundland and Labrador. These case studies include: Fogo Island, St. Anthony, Holyrood, Bonavista, Placentia, Deer Lake, Labrador City, and Grand Falls-Windsor. As demonstrated below, these communities are experiencing diverse demographic and socio-economic changes due to economic and political restructuring processes.

### Demographic Change

Following the 1992 cod moratorium, a number of small municipalities experienced population decline and out-migration. As youth migrated to other regions due to a lack of employment opportunities, small communities and outlying rural areas aged rapidly. The median age in our case studies ranged from 35 to 42 years of age in 2001, to 37 to 53 years of age in 2016 (Statistics Canada 2001, 2016). In some study sites, the population has stabilized in recent census periods, in part due to the influx of younger newcomers, retirees, and immigrants. Small regional centres have also stabilized through the attrition of residents from surrounding small communities and rural areas as people seek access to health care, schools, airports, housing, long-term care, and employment. As these small municipalities move forward, immigration is viewed as an important strategy to support future growth sectors related to the knowledge economy. Strategic policies and programs are also deemed to be important to attract young entrepreneurs that will invest in new growth.

### Economic Change

The economies of these case studies have been shaped by the volatility of resource-based sectors in Newfoundland and Labrador. Since the 1980s, the adoption of labour shedding technologies in forestry (i.e. logging and pulp and paper), fishing, and mining operations have produced fewer jobs. There have been plant closures stemming from the 1992 cod moratorium. Poor commodity prices for oil and gas have prompted layoffs, plant closures, and a delay of new projects in Newfoundland and Labrador. The volatility of the oil and gas sector in Alberta has also impacted mobile workers commuting to that province. Restructuring pressures have been tempered by the renewal in iron ore and gold mining as commodity prices recover. However, more recent economic pressures have been exacerbated by the covid-19 pandemic that have led to temporary and permanent closures in retail, food and accommodation, and transportation services.

A range of alternative sectors are emerging, including the blue economy, the IT-knowledge-based sector, healthcare training and genome research, the creative economy, and international exports of locally-produced goods and services. There is also growing interest to leverage investments in the development of service sector hubs that can support a growing retirement sector and attract the next generation of entrepreneurs. Small municipalities are working to diversify their economies through the development and marketing of tourism sector assets. Moving forward, however, the capacity of these small communities to support business start-ups is being challenged by the deterioration of business infrastructure, particularly with the closure of a number of chamber of commerce and other development organizations. This makes it difficult to support business transition investments in on-line marketing and operations.

## Municipal Pressures

As communities cope with socio-economic changes, municipal stakeholders identified eight key pressures for small municipalities, including:

- broadband infrastructure,
- climate change,
- fiscal resources,
- housing,
- human resources,
- infrastructure,
- local governance, and
- services.

### Broadband Infrastructure

Broadband infrastructure pressures stemmed from a lack of coverage of high speed Internet in some smaller and more remote municipalities, and subsequently, for example, a limited capacity to support the scale of web-based meetings used during the covid-19 pandemic. There are also concerns about the absence of back-up Internet infrastructure to maintain connections in the event of infrastructure damage or interruptions caused by wildfires.

### Climate Change

Climate change is producing more frequent and violent storms, flooding, and erosion for communities in Newfoundland and Labrador. These pressures are threatening a breadth of small municipal infrastructure, such as roads, houses, and water and sewer lines. Erosion is deteriorating fence infrastructure. Small municipalities are investing more time and resources in disaster mitigation and planning for muster areas, but lack the fiscal and staff capacity to obtain baseline measures to track and understand emissions from fleets, buildings, and other assets.

### Fiscal Resources

Small municipal budgets are facing pressures from a shrinking tax base, the ongoing covid-19 pandemic, as well as provincial insolvency concerns that are producing provincial policy and funding changes for municipalities.

### Housing

Housing pressures unfolding in these small municipalities stem from a lack of affordable housing. In the 2016 census period, median housing values in our case studies ranged from $94,000 to $299,000 (Statistics Canada 2016). There is also a lack of housing to address the needs of different demographic groups in these communities. Stakeholders identified the need to create new subdivisions in order to attract younger families and the next generation of professionals and entrepreneurs. Such efforts are stifled by increasing lots values for areas in close proximity to the City of St. John's. In some municipalities, improved commodity prices for the mining sector have also increased temporary housing pressures with an influx of mobile labour, prompting concerns about a lack of low-income and overall affordable housing for young families. These challenges have been exacerbated by the larger down payments (20% of the total home cost) that is now required by new homeowners (https://www.canada.ca/en/financial-consumer-agency/services/mortgages/down-payment.html). With an aging population and rise in older widows or widowers living alone, there has also been an increased demand for accessible, seniors' housing. Some of these small municipalities are engaged with mobile work camps to convert mobile work camps into renewed hotel accommodations. Other municipalities are either working with developers or mobilizing their own social enterprises to convert former institutional assets, such as schools, into housing assets for seniors and young families.

### Human Resources

In most cases, there is a lack of municipal staff to address the responsibilities of local government. Issues around an aging municipal workforce, staff turnover, and difficulties recruiting people to rural regions are some of the things shaping municipal staff challenges. A number of municipalities hire extra staff as needed for functions, such as IT and communications support. In one case, expertise was also secured through hiring summer students. While helpful, the recruitment of summer students is not a long-term solution to supporting stable municipal operations as they move onto other postings to develop their careers. The workloads for elected municipal leaders are also high, as many have full-time jobs.

### Infrastructure

The costs of maintaining, restoring, and replacing aging infrastructure are mounting for these small municipalities. A lot of the infrastructure in these communities has been in place since the 1950s and is reaching or exceeding its lifespan. Aging infrastructure pressures not only stem from deteriorating water and sewer systems, but also residential homes, historic buildings, and commercial buildings. The infrastructure costs are exacerbated by sprawling, low-density development and underutilized buildings. The replacement costs for higher quality infrastructure assets, however, exceeds the fiscal capacity of many small municipalities. At the same time, small municipalities are struggling to manage increased expectations for high quality infrastructure. Residents are expecting, for example, higher quality water treatment facilities, snow removal services, and energy-efficient infrastructure. There are also increased expectations for age-friendly sidewalks and accessible buildings, as well as recreational programs and facilities for different age groups. With increased expectations for recreational amenities, small municipalities are investing more time and resources in maintaining four-season trail systems.

### Local Governance

Some case studies are experiencing local governance pressures. Challenges with managing a lack of strong local leadership and turnover within municipal council is juxtaposed with limited public support for new development or raising property taxes to address rising expectations for services and infrastructure.  The pressure from mounting public complaints has led to municipal council resignations and reinforced gaps in municipal leadership.

### Services

Provincial and federal decisions to reduce, close, or regionalize services in the last three decades have intensified service pressures for small municipalities. The lack of childcare and loss of schools, for example, is having profound impacts on the recruitment and retention of young families and entrepreneurs. The loss of health care services is impeding efforts to attract and retain seniors. Once these services are lost, small municipalities find it difficult to regain them as economies and populations recover. Investments in emergency response strategies and related support services are also becoming increasingly important. Small municipalities are strengthening their emergency response capacity by working with consultants to prepare plans.

## Local Government Structure

The structure of small municipal offices varied across our study sites in Newfoundland and Labrador (Table 4). Each municipality had core services, such as administration and corporate services, protection services, public works, and recreation. Just over half of these small municipalities had economic development and planning staff in place. Due to the small size of these municipalities, few had engineering, transportation, building inspection, transit, and IT services in place.

These small municipalities use a combination of internal staff, consultants, and committees to address municipal responsibilities. For example, contractors and consultants with specific expertise may be used to address town planning, park master plans, engineering, and geographic information systems work. Students have been hired to support climate change mitigation. Municipalities are exploring opportunities to share staff for bylaw enforcement. And lastly, committees with council and community representation have been mobilized to address a range of needs from economic development to age-friendly community development.

Table 4: Structure of Local Government

| | Bonavista | Deer Lake | Fogo Island | Grand Falls-Windsor | Holyrood | Labrador City | Placentia | St. Anthony |
|---|---|---|---|---|---|---|---|---|
| **Administration / Corporate Services** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Finance** | | | | ■ | ■ | ■ | ■ | |
| **Planning** | ■ | ■ | | ■ | ■ | ■ | | |
| **Community Services** | | | | ■ | | | | |
| **Economic Development** | ■ | ■ | ■ | ■ | ■ | | | |
| **Engineering** | | | | | | | | |
| **Transportation** | | * | | | | | | * |
| **Tourism** | | | ■ | | ■ | | ■ | ■ |
| **Protection Services** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Public Works** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Recreation** | ■ | ■ | ■ | ■ | ■ | ■ | ■ | ■ |
| **Building Inspector** | | | | ■ | | | | |
| **IT Services** | ■ | | | ■ | | | | |

*Authority established for transportation services, such as port, airport, etc.

However, staff capacity is challenged by increased workloads. A number of these case studies had between 16-20 staff to address municipal responsibilities from administration to public works. Submission of annual financial statements to the province may be delayed. Monthly and quarterly reports that support annual financial statements may not be done. Some municipal stakeholders argued it was not possible to have adequate governance and administration with such limited resources. In the absence of policies to guide operations, there has been irregular or sporadic involvement of council members in the day-to-day decisions of municipal staff. Council members, however, may not have adequate training or expertise in local government management and legislation.

## Amalgamation vs Boundary Expansion

Since the 1990s, amalgamation and resettlement[14] processes unfolding in Newfoundland and Labrador have been driven by concerns about the viability of small municipalities[15]. These processes have produced tensions between municipalities and the provincial government. Some stakeholders argue that amalgamation and/or regionalization[16] has been necessary in order to strengthen the viability of small municipalities that have limited

[14] In 2021, the provincial government reduced the required percentage of vote needed in favour of resettlement from 90% to 75% (VOCM Local News Now 2021).
[15] In 1989, the provincial government introduced the Community Consolidation Program with a goal to reduce the number of municipalities from 113 to 43 (The Gazette 1989).
[16] In 2021, the Province of Newfoundland and Labrador formed the Joint Working Group on Regionalization to develop recommendations for planning regionalization. The working group consists of the Department of Municipal and Provincial Affairs, the Municipalities Newfoundland and Labrador, and the Professional Municipal Administrators of Newfoundland and

tax bases and high debt-service ratios. As the Province of Newfoundland and Labrador responds to insolvency pressures (Mercer 2020), some feel that the provincial government is not being aggressive enough to use amalgamation and/or regionalization as a tool to reign in unsustainable spending on small municipalities. Using the example of firefighting services, some questioned the viability of provincial grants awarded to purchase new fire trucks and related equipment for municipalities that consistently have limited volunteer or personnel capacity to operate fire halls. Amalgamation processes, however, are impeded by fears that smaller municipalities will lose their identity. Some advocated for a softer policy approach that invests in regional governance approaches that provide opportunities for small municipalities to share services while maintaining their independent identity. Stakeholders felt that the provincial government needs to be more consistent with their strategic communication and approach to amalgamation and regional governance.

## Changes in Municipal Responsibilities

Overall, municipal stakeholders identified six topic areas where there have been changes to local government roles and responsibilities, including:

- community development,
- economic development,
- housing,
- infrastructure,
- local government operations, and
- services.

### Community Development

In Newfoundland and Labrador, changes in cost-sharing arrangements, grant programs, and ownership of assets is prompting changes in municipal responsibility for community development. Small municipalities are more engaged in community development through investments in recreational and lifestyle programs (i.e. events, trails, theatre, museums, etc.). As municipalities obtain grants to support investments in community development infrastructure, however, the responsibility to maintain these assets is often solely assumed by these municipalities that have limited fiscal revenues. Some argued that revenues from property taxes and government transfers was only sufficient to address the costs of core services, such as water, sewer, waste management, and street lighting.

Some small municipalities are assuming control over more buildings that have been offloaded through industry land donations, the sale of senior government buildings, business closures, the dissolution of non-profit groups, or the abandonment of other houses and buildings. The challenge for small municipalities is that these offloaded assets often require costly renovations and maintenance. In some cases, municipal staff have successfully sold such properties to private ventures. Others have been converted into community development assets that are managed by non-profit or social enterprises on behalf of the municipality.

These responsibility pressures are juxtaposed against missed opportunities to strategically develop multi-purpose facilities that are owned, operated, and maintained by municipalities. Multi-purpose facilities, interviewees argued, would not only improve asset utilization and provide residents with more convenient one-stop shop centres to access health, education, social, and provincial services, but they could also provide new opportunities for small municipalities to generate revenue that could be reinvested in community development infrastructure and programs.

### Economic Development

Following a loss of senior government funding and support for regional economic development, municipalities are now assuming greater responsibility for economic development. The Province formerly had 19 regional economic development boards that were funded by ACOA and the Province. These RED boards were responsible for

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Labrador. In 2021, both regionalization and shared services were identified as key priorities in the provincial budget in order to strengthen the efficiency and sustainability of communities by achieving greater economies of scale (Ministry of Municipal and Provincial Affairs 2021).

providing RED and community planning, and business support services, such as assisting with the development of business plans. In 2012, the federal funding for RED boards in Newfoundland and Labrador was eliminated. Once provincial funding was also cut later that year, the RED boards ceased to exist (Hall et al. 2017). This left local governments to be responsible for economic development, without additional fiscal levers or sources of revenue to hire staff with appropriate expertise to mobilize economic development strategies. And while municipalities are more responsible for generating economic development initiatives, the provincial government has not removed any of the jurisdictional restrictions to enable local governments to be nimble as opportunities emerge. Municipal staff must work through lengthy funding and regulatory processes to finance, tender, design, and implement projects.

In some cases, municipalities, such as Deer Lake and Holyrood, have partnered with Memorial University to develop entrepreneurial hubs or ecosystems. Municipalities have also developed partnerships to support economic development initiatives in tourism, accommodations, health, and technology. In other municipalities, economic development is supported through the Chamber of Commerce, with municipal staff providing support through the development of community profiles that can help potential entrepreneurs to understand local opportunities. Some smaller municipalities, however, continue to operate without economic development staff or resources.

### Housing

Some municipalities are more engaged than other in addressing housing pressures in order to mitigate out-migration. The lack of developers and entrepreneurs to invest in new housing developments is a key motivating factor driving these changes. With no private investors, for example, the Town of St. Anthony is pursuing resources through the federal government's Rapid Housing Initiative[17] to support housing investments.

### Infrastructure

Municipalities are required to assume more responsibility for infrastructure than in the past. Some case studies, for example, assumed responsibility for more roads and highways previously maintained by the province's Department of Transportation and Infrastructure. While the province transferred funding for municipalities to maintain these road assets, the transfers are often only a fraction of the cost of repaving these assets.

There are new federal regulations for water and wastewater management that municipalities must implement without additional fiscal resources to address the costs of monitoring and compliance. For example, municipalities can no longer dump sewage into harbors. However, many small municipalities do not have the property tax base or other potential revenue sources to meet new infrastructure requirements to redirect sewage to treatment plants. Federal regulations also require municipalities to measure flows. In one case study, this is a costly requirement as the municipality must hire and cover travel costs of private companies from distant large centres. Moreover, the provincial government has implemented new waste management policies that consolidated waste management. Instead of each municipality retaining the responsibility and infrastructure to manage their own waste disposal site, many municipalities must now transport waste to centralized sites. The transportation costs can be considerable for small municipalities.

Municipalities are also assuming a larger portion of the cost sharing arrangements to maintain and replace bridges, water, and sewer infrastructure assets. In Newfoundland and Labrador, smaller municipalities used to contribute 10-20% of the costs for infrastructure. However, municipalities are now required to contribute 50% of the infrastructure replacement costs for assets that are designated to require environmental clean-up. The costs of these contributions can be insurmountable for small municipal budgets.

In order to access federal gas tax funding, municipalities must complete asset management plans. While asset management planning has been used in other provinces for some time, it is a new responsibility for municipalities in Newfoundland and Labrador. The challenge for small municipalities in Newfoundland and Labrador stems from a lack of fiscal resources to manage or replace infrastructure assets without relying on funding from provincial and federal levels of government. Small municipalities also need to invest in developing staff capacity and expertise to support asset management.

[17] The Rapid Housing Initiative is a federal government program delivered by the Canada Mortgage Housing Corporation as a part of the federal government's National Housing Strategy (https://www.cmhc-schl.gc.ca/en/professionals/project-funding-and-mortgage-financing/funding-programs/all-funding-programs/rapid-housing). The program was launched in 2020 with $1 billion in funding allocated to address the rapid construction needs of affordable housing.

Furthermore, new regulations have also been imposed on municipalities to install new technology software to maintain new firewalls and increase cyber security for municipal operations. These requirements are difficult for small municipalities to address with limited access to such specialized expertise.

### Local Government Operations

In terms of local government operations, the provincial government has downloaded tasks that were previously shared with municipalities. Financial audits, planning, and subsequent amendments were previously completed with provincial assistance from the Department of Municipal and Provincial Affairs. Interviewees explained that these tasks are now solely completed by the municipality. Furthermore, in 2005, the Federal Gas Tax Agreement required municipalities to complete Integrated Community Sustainable Plans in order to obtain funding from gas tax revenues.

### Services

Municipalities are more engaged in addressing service needs in order to mitigate out-migration and to better position communities to attract new investment. To recruit new doctors, for example, some municipalities have formed health care committees, strengthened collaborative working relationships with health authorities, provided free clinic space, and subsidized or offered free housing. Even though health care is a provincial responsibility, municipalities are now making financial contributions to new investments in local health care facilities in order to recruit and retain health care professionals and related health care services.

### Responses to Municipal Reform

As small municipalities cope with changes to local government responsibilities, there are challenges with managing public expectations. Taxpayers may have a lack of understanding about which issues fall under municipal, provincial, or federal jurisdiction. As municipalities continue to respond to their fiscal challenges, they are encouraging community groups to become more engaged in collaborative governance structures and processes to address community needs. There are ongoing discussions to consolidate the number of community halls in use in order to reduce operating costs. Municipalities are also looking for opportunities to offload buildings and other infrastructure assets by encouraging community groups to turn these assets into business opportunities (i.e. museums, coffee shops, etc.). In some cases, there are discussions to offer free rent to non-profit or private interests in order to prevent building assets from deteriorating. Furthermore, municipalities are responding to restructuring pressures through technology investments in order to transition towards digital and on-line operations. Tracking devices are installed on municipal public works equipment, for example, in order to track their location.

## Fiscal Levers

In Newfoundland and Labrador, municipalities rely heavily on residential and business property taxes as key fiscal levers to generate revenue. Municipalities can adjust tax rates for different types of businesses. However, stakeholders argued that there is a reluctance to increase property tax rates in order to retain a competitive local economy. When municipal councilors see constituents every day, they are more cautious to implement decisions that will impact people's daily lives. Instead, municipal stakeholders are seeking more powers to address the insufficient taxes paid by property owners with long-term vacant or undeveloped properties located along water and sewer infrastructure lines. There was also interest to pursue opportunities related to an accommodation tax for hotels or work camps to address the infrastructure and service pressures from an influx of temporary large mobile workforces.

Complicated formulas and provincial policies have made it difficult for municipalities to recover some revenue from the HST paid on goods and services. Newfoundland and Labrador has a 15% Harmonized Sales Tax. Municipalities may recoup the 5% (or one-third) of the 15% HST paid on purchased goods and services, which allows municipalities to recover 100% of the federal amount. Municipalities are also able to recover roughly two-thirds of the provincial sales tax that is paid on goods and services. The province retains the remaining one-third. This unique formula complicates municipal accounting and finance. This challenge is exacerbated by additional provincial policies guiding municipal refunds on HST. For example, municipalities may recover 100% of the provincial portion of the HST if a new municipal building is developed that is going to charge HST (i.e. pool user fees).

Municipal stakeholders expressed concerns about changing and inconsistent cost-sharing ratios for infrastructure projects. In the past, the cost sharing formula for infrastructure programs was 70/30 to 90/10, with 70-90% contributed by the provincial government and 10-30% contributed by the municipality, depending on their size (see: https://www.gov.nl.ca/releases/2018/exec/1005n01). The restructuring of these cost-sharing formulas is downloading more costs for infrastructure assets onto municipalities. Recent cost-sharing ratios in provincial funding programs are based on a 50/50 split with municipalities (see: https://municipalnl.ca/article/municipalities-maintain-operating-funding). Some argued, however, that the cost-sharing standard is not consistent for different types of infrastructure investments. While the provincial and federal government may contribute up to 80% for water and sewer infrastructure projects, municipalities must contribute 40-50% of the cost for road and transit projects (see for example: https://www.canada.ca/en/intergovernmental-affairs/services/safe-restart-agreement/letters/newfoundland-labrador.html). Cost sharing arrangements for new recreational facilities changed from a 90/10 to a 60/40 provincial / municipal split.

Provincial funding, however, is not always readily accessible. As small municipalities work to replace aging infrastructure, limited access to provincial funding is impeding their ability to manage these assets. Unfortunately, with small municipal budgets, these communities rely heavily on senior government grants to repair or replace infrastructure. Moving forward, municipal stakeholders are concerned about future changes in provincial transfers and grant programs. As the provincial government has confronted potential insolvency, some municipalities were advised to seek corporate sponsorship or to scale back infrastructure projects. Provincial funding for municipal infrastructure projects were often a fraction of the proposed grant request. In response, some municipalities are increasing their debt ratios after borrowing needed fiscal resources to address urgent infrastructure pressures. Other municipal stakeholders have suggested that they may not have the fiscal capacity to address infrastructure pressures under new cost-sharing ratios.

Provincial and federal grants are perceived as too restrictive to provide municipalities with the flexibility to strategically invest in new community and economic development priorities. Some argued that the criteria for provincial and federal grants is too restrictive and focused, leaving these programs incapable of supporting broader community development goals. Municipalities leverage capital funding in municipal reserves to obtain grants. Some suggested, however, that the Province has more restrictions on gas tax related grants. Stakeholders argued for greater flexibility to use gas tax revenues to maintain existing infrastructure assets. Concerns were also expressed about the need to maintain a separate bank account for these funds, which consumed more staff time to track.

Covid-19 recovery grants were deemed to be less restrictive. Pre-covid 19 programs were targeted and focused on infrastructure capital for infrastructure. Grant programs need to reflect future maintenance and replacement commitments. One recommendation is to designate a portion of municipal operating grants for maintaining infrastructure.

Despite constraints on revenue streams, municipal borrowing powers have remained unchanged. Municipalities are unable to apply for other loans after municipal budgets are submitted to the provincial government; thereby, restricting the flexibility and responsiveness of a municipality to sudden pressures or emerging opportunities. With limited alternatives to generate revenue and limited access to grants, small municipalities forgo planned investments in community and economic development in order to keep debt ratios low.

## Jurisdictional Issues

As the provincial government downloads more financial responsibilities, municipalities feel they have limited jurisdiction or authority to manage their financial plans. Municipal financial plans must be submitted to the Province, and operations are monitored periodically. Municipal regulations are in place to ensure that each municipality balances its budget and avoids financial debt. However, municipalities must still obtain permission from the Province to borrow any funds for projects. The debt-service ratio must be below 30%. Municipal stakeholders are seeking more jurisdictional powers to financially manage themselves independently, and therefore, obtain more flexibility with their budget and revenues.

# MOVING FORWARD

Municipal reforms have compounded the impacts of industrial and economic restructuring processes affecting small municipalities. In this study examining the impacts of municipal reform on small municipalities across Canada, our case studies represent a broad range of communities experiencing decline, stagnation, and growth in their population and economies. Some small municipalities have been challenged by forest sector closures, fisheries closures, a decline in the oil and gas sector, and the phase-out of coal. In some cases, municipalities are not just grappling with lost revenues from a declining industrial tax base, but are also incurring liabilities of assets left behind. Others have experienced growth pressures stemming from tourism, amenity migration, and the construction of new large-scale industrial projects. As communities respond to the pressures associated with either rapid growth or decline, there are challenges associated with limited access to high-speed Internet, aging infrastructure, a lack of affordable and accessible housing, and increasing expectations for amenities and services. Addressing these challenges are difficult for small municipalities that have fluctuating revenues from property taxes and senior government transfers. There are also capacity gaps within small municipal staff teams, prompting the need to rely on consultants, committees, and volunteers where possible.

Despite these pressures, our research across Canada suggests that more responsibilities and costs for broadband infrastructure, community development infrastructure, economic development, housing, public safety, infrastructure, transportation, services, Indigenous consultation, and regional governance have been downloaded onto small municipalities. As senior levels of government retreat from municipal affairs in the form of downloading responsibilities, municipalities are grappling with inadequate fiscal revenues, changes to cost-sharing ratios, and jurisdictional authority commensurate to these responsibilities. These issues are profoundly debated in rural regions where residents, businesses, and industries in both rural areas and municipalities use the infrastructure and services that are largely financially supported by small municipal budgets. Municipal legislation needs to provide clarity with the structural, fiscal, and jurisdictional relationships between municipalities and surrounding rural areas. Furthermore, operational pressures from the downloading of responsibilities have been exacerbated by increasingly restrictive and shifting requirements and regulatory processes.

As municipalities are encouraged to be more collaborative, innovative, and entrepreneurial, provincial governments need to revise municipal legislation in order to empower municipalities to operate more independently by reducing the issues requiring provincial approval. As some municipalities seek ways to be more agile and responsive to emerging economic development opportunities, more streamlined processes are needed to guide land transfers from the Crown to municipal governments. Some have advocated for a greater re-allocation of timber supply to support entrepreneurial strategies for community forests.

New mechanisms are also needed to develop a more sustainable approach to funding small municipalities that reflects the changing nature of the economy, as well as to empower small municipalities to generate adequate revenues. This may include, for example, revising the calculation of provincial and federal transfers to shift from a model solely based on per capita funding to a calculation based on both per capita population and a proportion of sales tax revenue generated in the community in order to address pressures from tourism, industrial activity, and the influx of mobile workforces. There is also strong interest to allocate education funding from general provincial revenues rather than property taxes. But municipalities struggle with fluctuations in provincial and federal government transfers that make it challenging for municipal staff to engage in long-term planning. Small municipalities, in particular, need guaranteed streams of provincial and federal government transfers in order to reduce the dependency on pop-up grants that will enable municipalities to manage long-term investments in planning, development, and growth. This should include consistent funding for asset management and municipal reporting for new responsibilities and assets downloaded from senior levels of government.

Moreover, as municipal reforms further unfold through senior government funding programs, there is a need to re-introduce more unrestricted funding programs to provide municipalities with the flexibility to make investments that support strategic priorities and directions contained within municipal plans and economic development strategies. Funding programs also need to be restructured to enhance the agility and readiness of small municipalities to take advantage of opportunities and address urgent needs with limited staff capacity. Such changes would command more streamlined application processes and reporting procedures for grant programs and project development. Municipalities with limited staff would also benefit from a provincial standard of cost-sharing formulas across different ministries in order to make wiser use of staff resources. Municipalities also need greater clarity to understand how to access federal grants that may be partnered with provincial grant programs.

As municipalities explore other mechanisms to generate revenue, municipalities need greater clarity from provincial governments about restrictions and opportunities to use density bonusing mechanisms, tourism designations, and municipal enterprises. Legislation may also be revised to empower municipalities to raise money locally and issue their own debentures.

The devolution of responsibilities onto municipalities, however, does not equal the capacity that is in place in these small municipalities. Top-down investments from senior levels of government are needed to develop stable capacities in small municipalities in order to meet the new requirements and responsibilities now commanded. This will require investments in training programs to develop the expertise and fiscal resources needed to enforce government regulations and support key infrastructure assets. This includes more training and logistical support for small municipal staff to develop grant proposals. Investments in sub-regional senior government offices in rural regions could provide the outreach and logistical support needed to strengthen the capacity of small municipalities. The sub-regional units could also play an important role to develop more fiscal, policy, and logistical resources to support collaboration and governance mechanisms at the local and regional level.

This project examined the impact of senior government reforms on the operations of small municipalities across Canada. The findings highlighted in this report are part of larger research efforts unfolding to explore the innovative and entrepreneurial activities of small municipalities in order to support more resilient rural communities and more sustainable rural economies.

# APPENDIX A: METHODOLOGY

Building upon the experiences in British Columbia, Alberta, Ontario, and Newfoundland and Labrador, this project explores how municipal fiscal and jurisdictional reforms are unfolding in rural Canada, and how small municipalities are responding to these changes through innovative or entrepreneurial approaches to community and economic development. The research methodology consisted of literature reviews, analysis of census and local government statistics, and interviews with key informants.

*Context of Case Studies*

Case studies were selected based upon an extensive literature review of local government entrepreneurial strategies unfolding in small municipalities. A total of 33 case studies in four regions were included (Table 5).

Table 5: Selected Case Studies

| British Columbia | Alberta | Ontario | Newfoundland and Labrador |
|---|---|---|---|
| Burns Lake | Canmore | Brockton | Bonavista |
| Dawson Creek | Flagstaff County | Dubreuilville | Deer Lake |
| Fort St. John | Forestburg | Goderich | Fogo Island |
| Kitimat | Hanna | Haldimand County | Grand Falls-Windsor |
| Mackenzie | Lethbridge County | Newmarket | Holyrood |
| Prince Rupert | Olds | Sioux Lookout | Labrador City |
| Quesnel | Parkland County | Wellington County | Placentia |
| Valemount | Taber | | St. Anthony |
| | Wainwright | | |

This has produced some important caveats for our research stemming from selection bias and convenience sampling and the potential impacts this may have on the external validity of the issues emerging from key informant interviews (Reed et al. 2003). By drawing upon a range of case studies in four regions across Canada, however, we hope that a more comprehensive understanding of local government reforms and insights into local government entrepreneurial strategies can be provided for small municipalities in Canada.

Drawing upon Statistics Canada data from the 2016 census period, participating municipalities in this study ranged from a population of 613 to 222,726 (Table 6). The latter reflects the inclusion of the largest regional rural county in Ontario. Similarly, revenues and expenditures across these municipalities varied. Based on audited municipal statements for 2019, revenues ranged from $2,706,055 to $238,779,119, while expenditures ranged from $2,553,117 to $224,785,257. Small municipalities in British Columbia generally exhibited a greater difference between revenues and expenditures. Understanding the breadth in fiscal capacity across these small municipalities provides a foundation to assessing small municipal responses to the impacts of local government reforms.

Table 6: Characteristics of Selected Study Sites

| Province / Municipality | Population (2016) | Total Expenditures (2019) | Total Revenues (2019) | Total Difference between Revenue & Expenditures | % Difference between Revenue & Expenditures |
|---|---|---|---|---|---|
| **British Columbia** | | | | | |
| Burns Lake | 1,779 | 4,744,885 | 10,151,324 | 5,406,439 | 113.9 |
| Dawson Creek | 12,178 | 44,834,244 | 57,993,438 | 13,159,194 | 29.4 |
| Fort St. John | 20,155 | 61,837,717 | 84,828,385 | 22,990,668 | 37.2 |
| Kitimat | 8,131 | 32,659,729 | 36,942,776 | 4,283,047 | 13.1 |
| Mackenzie | 3,714 | 11,459,750 | 17,988,777 | 6,529,027 | 57.0 |
| Quesnel | 9,879 | 28,440,174 | 29,679,580 | 1,239,406 | 4.4 |
| Prince Rupert | 12,220 | 40,057,419 | 57,701,448 | 17,644,029 | 44.0 |
| Valemount | 1,021 | 3,804,520 | 7,377,971 | 3,573,451 | 93.9 |
| | | | | | |
| **Alberta** | | | | | |
| Canmore | 13,992 | 64,038,465 | 69,517,574 | 5,479,109 | 8.6 |
| Flagstaff County | 3,738 | 25,679,940 | 25,697,784 | 17,844 | 0.1 |
| Forestburg | 875 | 2,826,167 | 2,706,055 | -120,112 | 4.2 |
| Hanna | 2,559 | 7,226,982 | 6,797,387 | -429,595 | 5.9 |
| Lethbridge County | 10,353 | 27,196,912 | 27,373,260 | 176,348 | 0.6 |
| Wainwright | 4,479 | 33,248,867 | 29,415,811 | -3,833,056 | -11.5 |
| Olds | 9,184 | 25,417,905 | 24,423,555 | -994,350 | -3.9 |
| Parkland County | 32,097 | 82,511,942 | 83,550,820 | 1,038,878 | 1.3 |
| Town of Taber | 8,428 | 25,919,281 | 24,084,647 | -1,834,634 | -7.1 |
| | | | | | |
| **Ontario** | | | | | |
| Brock | 11,642 | 14,355,736 | 15,565,771 | 1,210,035 | 8.4 |
| Brockton | 9,461 | 19,031,133 | 20,783,081 | 1,751,948 | 9.2 |
| Dubreuilville | 613 | 2,553,117 | 2,982,913 | 429,796 | 16.8 |
| Goderich | 7,628 | 20,155,564 | 23,396,407 | 3,240,843 | 16.1 |
| Haldimand County | 45,608 | 132,639,291 | 155,379,584 | 22,740,293 | 17.1 |
| Newmarket | 84,224 | 134,189,872 | 141,717,592 | 7,527,720 | 5.6 |
| Sioux Lookout | 5,272 | 35,584,373 | 38,673,977 | 3,089,604 | 8.7 |
| Wellington County | 222,726 | 224,785,257 | 238,779,119 | 13,993,862 | 6.2 |
| | | | | | |
| **Newfoundland & Labrador** | | | | | |
| Bonavista* | 3,448 | 2,930,392.42 | 2,930,392.42 | 0 | 0 |
| Deer Lake | 5,249 | N/A | N/A | N/A | N/A |
| Fogo Island* | 2,244 | 2,859,494.12 | 2,859,493.81 | | |
| Grand Falls-Windsor* | 14,171 | 19,859,227 | 19,859,227 | 0 | 0 |
| Holyrood* | 2,463 | 3,875,686.06 | 3,875,686.06 | 0 | 0 |
| Labrador City* | 7,220 | 24,866,148 | 24,866,148 | 0 | 0 |
| Placentia* | 3,496 | 6,304,434 | 6,304,434 | 0 | 0 |
| St. Anthony | 2,258 | N/A | N/A | N/A | N/A |

Sources: Infrastructure and Finance Branch 2020; Ministry of Municipal Affairs and Housing 2020; Municipal Affairs 2020; Statistics Canada 2016; Town of Bonavista 2018; Town of Fogo Island 2019; Town of Grand Falls-Windsor 2019; Town of Holyrood 2018; Town of Labrador City 2019; Town of Placentia 2018. *Note: information has been taken from the budget statement in absence of access to financial statements. N/A: Not available.

*Key Informant Interviews*

In 2020 and 2021, key informant interviews were conducted with elected municipal leaders, CAOs, EDOs, planners, and retired staff. Participants were recruited through publically available contact lists through municipal websites. There were a total of 62 interview participants in 33 small municipalities. A general breakdown of interview participants by region is shown in Table 7.

**Table 7: Interview Respondents**

| Region | Number of Respondents | % of Respondents |
|---|---|---|
| British Columbia | 17 | 27.4 |
| Alberta | 17 | 27.4 |
| Ontario | 14 | 22.6 |
| Newfoundland and Labrador | 14 | 22.6 |
| Total | 62 | |

Source: LGE Project 2020-2021.

*Ethics Review Protocol*

Our research is bound by protocols across all of the participating universities on our research team, including the University of Northern British Columbia, Simon Fraser University, University of Lethbridge, University of Guelph, and Memorial University. A key component to our research protocols is to provide research participants with a copy of the consent form that outlines the purpose of the study, how the research process will protect their anonymity and confidentiality, and that their participation is voluntary.

*Interview Questions*

The purpose of this project is to explore how municipal reforms are unfolding in small communities across Canada, as well as how local governments are responding to these changes through innovative or entrepreneurial approaches to community and economic development. This research also explores broader structural and policy related changes needed to better support innovative and entrepreneurial approaches adopted by local governments in these settings. This report assembles a summary of key issues that emerged from our interviews. Questions were asked to explore:

- The significant socio-economic changes in the community in the last decade,
- The key pressures facing local government,
- The structure and capacity of local government,
- How responsibilities for local government have changed in the last 20 years,
- How provincial and federal policies produced reforms for local government (i.e. fiscal powers, jurisdiction, amalgamation, etc.),
- Local government responses to reforms,
- How small municipalities have mobilized innovative or entrepreneurial strategies in order to strengthen the resilience of these local governments to address community and economic development,
- How provincial and federal policies and programs have impacted local government's ability to pursue more innovative and entrepreneurial approaches, and

- The changes that are needed to better position small municipalities to leverage more opportunities for innovative and entrepreneurial strategies that strengthen municipal and community resilience in these settings.

Following each interview, notes were provided to each participant for review. Latent and manifest content analysis was completed to identify, code, and categorize patterns and themes that emerged from open-ended questions.

# APPENDIX B: CONSENT FORM

UNBC UNIVERSITY OF NORTHERN BRITISH COLUMBIA | SFU ENGAGING THE WORLD

UNIVERSITY OF ALBERTA ALBERTA CENTRE FOR SUSTAINABLE RURAL COMMUNITIES | UNIVERSITY of GUELPH | GRENFELL CAMPUS | MEMORIAL UNIVERSITY

**Entrepreneurialism and Rural / Small Town Local Government**

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**Purpose** – Local government reform has accelerated since the early 1980s. However, local governments continue to struggle with outdated financial and jurisdictional structures even as senior governments ask them to become more creative, innovative, and 'entrepreneurial' in their responsibilities and approach to operations. Building upon the experiences in British Columbia, Alberta, Ontario, and Newfoundland and Labrador, this project will explore how local government reforms are unfolding in rural and small town communities across Canada, as well as how local governments are responding to these changes through innovative or entrepreneurial approaches to community and economic development. This research will also explore broader structural and policy related changes needed to better support innovative and entrepreneurial approaches adopted by local governments in these settings.

**How Respondents Were Chosen** - The interview participants were contacted through publically available contact lists of local government leaders and staff. Interview participants were selected for their potential to provide information that can help to better understand community change and transition, local government reforms as shaped by provincial policies, as well as innovative and entrepreneurial approaches being pursued by local governments to support local community or economic development.

**Anonymity and Confidentiality** - The names of participants will not be used in any reporting, nor will any information which may be used to identify individuals. All information shared in this interview will be held within strict confidence by the researchers. All electronic data will be managed, encrypted, and securely stored on password protected computers and will be accessible only to the research team. Our research team consists of Greg Halseth (UNBC), Laura Ryser (UNBC), Sean Markey (Simon Fraser University), Lars Hallstrom (University of Alberta), Ryan Gibson (University of Guelph), and Kelly Vodden (Memorial University). The information will be kept until the final project report is complete. After which time, shredding and file erasure will destroy all information related to the interview.

**Potential Risks and Benefits** - This project has been assessed by the UNBC Research Ethics Board. The project team does not consider there to be any risks to participation. We hope that by participating you will have a chance to share your experiences and provide input into issues relevant to policies shaping ongoing local government reforms, and its impacts on local government operations.

**Voluntary Participation** - Participation in the interview is entirely voluntary and, as such, interviewees may choose not to participate. Interviewees may choose not to answer any questions that make them uncomfortable, and they have the right to end their participation in the interview at any time and have all the information they provided withdrawn from the study and destroyed. The interview will be audio recorded and a summary of key themes will be created. A summary of key themes from the interview will be sent to the interviewee through an encrypted, password protected file, and they will have two weeks to provide any edits or corrections back to the research team. The interview should take about 45 minutes to complete.

**Research Results** - In case of any questions that may arise from this research, please feel free to contact Dr. Greg Halseth (250-960-5826; greg.halseth@unbc.ca) in the Geography Program at UNBC. The final project report will be distributed to all participants.

**Complaints** - Any complaints about this project should be directed to the Office of Research, UNBC (250) 960-6735, or email: reb@unbc.ca.

**I have read the above description of the study and I understand the conditions of my participation. My signature indicates that I agree to participate in this study.**

| | | |
|---|---|---|
| (Name -please print) | (Signature) | (Date) |

# APPENDIX C: INTERVIEW GUIDE

**Entrepreneurialism and Rural / Small Town Local Government**

**Interview Guide**

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Participant name: ________________________________

Contact information: ________________________________
________________________________
________________________________

Interviewer: ________________________________

Date: ______________________

Interview Time: Start_____________ Finish______________

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**NOTES:**

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## A. Background Community Questions

In this first section, we wanted to explore some key changes that have taken place in the community and the implications of those changes for you in local government.

---

1. What have been some significant changes that have taken place in your community over the last decade?
    a. What have been some of the significant ***demographic changes*** that have taken place in your community over the last decade?
    b. What have been some of the significant ***economic changes*** that have taken place in your community over the last decade?
    c. What have been some of the significant changes in ***infrastructure demands*** that have taken place in your community over the last decade?
2. Leaving aside immediate COVID-19 issues, what are the key pressures now facing the local government?
    a. *Prompts: infrastructure, housing, services (i.e. social, emergency, etc.), economic development, human resources, fiscal resources, climate change, etc.*
3. Has your local government been engaged in strategic planning to address these pressures and changes in the community? If so, what does this process entail?
    a. Internal planning staff, council committee, or regional planning
    b. Internal staff vs. external consultants

**Section B: Local Government Reform**

In this section, we wanted to explore issues around local government reform and how they are shaping or reshaping approaches to local government operations.

---

1. How is your local government office and staff organized to deliver on the functions of your local government?

2. How have responsibilities for your local government ***generally*** changed over the past 20 years?

    a. How have ***service*** responsibilities for your local government changed over the past 20 years?

    b. How have ***infrastructure*** responsibilities for your local government changed over the past 20 years?

    c. How have ***community development*** responsibilities for your local government changed over the past 20 years?

    d. How have ***economic development*** responsibilities for your local government changed over the past 20 years?

3. How have provincial policies produced changes or reform for local government?
    a. *Prompt: changes in jurisdiction or authority*
    b. *Prompt: fiscal levers / power*
    c. *Prompt: changes in transfers to local government (unrestricted vs. restricted transfers)*
    d. *Prompt: amalgamation*

4. How has your local government been dealing with these changes or reforms?
    a. *Prompts: hiring, training, cutbacks, restructured administration, retooling policies / bylaws, planning, shared services, municipal enterprises, etc.*

5. Have new municipal enterprises been established due to any governance/collaborative approaches in the community, and have these been led by the local government?

6. How do these changes affect the flexibility or opportunities for local government to pursue innovative or alternative arrangements to support community and economic development needs?
    a. Prompt: local vs. regional level.
    b. Opportunities for collaboration
    c. Specific governance arrangements that evolved

7. Have these changes enhanced or restricted your local government's ability to plan for and respond to challenges and future planning?

**Section C: Local Government Entrepreneurialism**

In this section, we wish to explore some of the ways by which local governments are mobilizing entrepreneurial responses to local government reforms. In this case, our conceptualization of entrepreneurialism goes beyond things such as municipal enterprises. We are interested in how local governments are mobilizing proactive responses or even taking risks to leverage their regulatory tools, partnerships, land, or innovative practices or arrangements.

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1. Were local government regulations / bylaw mechanisms updated / used to obtain additional fiscal resources to address infrastructure / service pressures? If yes, how?
    a. *Prompt: density bonusing, land trusts, contributions to local government fund, renovations to commercial / industrial buildings, secondary suites, funds for additional staff, etc.*

2. Did you need to negotiate, re-negotiate, or revise any agreements with industry, provincial / federal levels of government, other municipalities to address local government pressures?
    a. *Prompt: joint services, water, sewage, roads, bridges, housing, RCMP, inspection staff, training, studies, transportation, etc.*
    b. *Specifically with neighbouring Indigenous community(ies)?*
    c. *Specifically with the federal gas tax?*

3. Did you develop any municipal enterprise or joint enterprise with any other private or public sector partner? (i.e. Indigenous community, industry, private developer, provincial agency, etc.)

    a. If yes, please explain.

4. Was an investment strategy developed to strategically use fiscal resources? (i.e. an approach to guide decisions about investment priorities or how to invest revenues generated)

5. What happens to any additional fiscal resources / revenues obtained?
    a. *Prompt: general revenue, investments, housing fund, community fund, etc.*

6. What is your approach to risk management when considering new arrangements, mechanisms?

7. Have any provincial or federal regulations, policies, or structures impacted the local government's ability to pursue any new innovative or entrepreneurial approaches to address local community development and economic development needs? If yes, please explain.

8. Have these changes positioned your community to be better or less well prepared to deal with future challenges?

9. What changes do you think are needed to better position local governments to leverage more opportunities to pursue more entrepreneurial approaches?

    a. local level
    b. provincial / federal level

10. Is there anything else that you would like to say about local government issues that we may have missed?

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