

Municipal Finance

Introduction

Canada's municipalities face a large and growing gap between the infrastructure and services they must provide and what they can afford. Municipal governments have fewer tools to raise revenue than Canada's federal and provincial/territorial governments, while the revenue-raising tools available to municipal governments in the United States and other member countries of the Organization for Economic Co-operation and Development (OECD) are much more diverse and flexible. In fact, out of every tax dollar collected in Canada, municipal governments receive only eight to ten cents (principally from property taxes), while the remainder is collected by the federal and provincial/territorial governments.

Key Principles

The Municipal Fiscal Crisis

Municipal governments' fiscal constraints, limited borrowing capacity and limited access to revenue mean that eliminating Canada's municipal infrastructure deficit will require significant financial support from the federal, provincial and territorial governments, as well as additional municipal fiscal tools and improved infrastructure management.

The current fiscal situation is undermining municipal governments' ability to serve their communities and support the national economy. To deliver municipal services and create the conditions that attract talented people and investment to their communities, municipal governments need adequate revenue. This revenue must be predictable, stable, and commensurate with their responsibilities, including those off-loaded to them by other governments.

The three causes for the municipal sector's tight fiscal circumstances are:

1. Excessive Reliance on Property Taxes

Property taxes are the principal source of revenue for Canadian municipal governments. Municipal governments have few additional sources of revenue, other than user fees. This is not the case in other countries. In 2014, property taxes accounted for 49 per cent of the revenue of Canadian municipalities but just 30 per cent of the revenue of municipalities in the United States (as of 2013). In addition to being regressive and fundamentally inequitable, reliance on property taxes encourages municipal governments to favour development practices that create urban sprawl as a way to increase revenue. This creates additional infrastructure costs and erodes environmental sustainability.

2. Offloading of Responsibilities by Other Governments

Beginning in the 1990s, federal deficit cutting caused provincial and territorial governments to off-load some of their responsibilities to municipal governments, without providing resources to meet these responsibilities. Municipal governments now deliver programs that support immigration, the environment, Aboriginal peoples, affordable housing, public health, emergency preparedness and public security. Today, many of these responsibilities remain unfunded or underfunded and require improved coordination with other orders of government.

3. Reduced Financial Transfers from Other Governments

Municipal revenues have remained relatively stable, even as demands on local governments have progressively and significantly increased. From 2008 to 2014, municipal revenues grew at an average annual rate of 0.6 percent (adjusting for inflation and population changes). This compares with an average increase of 0.1 percent provincially and an average decrease of 0.8 percent federally — but this

was a period that featured both a major economic contraction and policy-driven reductions in individual and corporate income tax rates.

The breakdown of revenue by source remained relatively constant through this period. There was a slight growth in the share derived from property taxes, user fees and taxes on goods and services (including lot levies and development fees). At the same time, revenue share dipped slightly for transfers from other orders of government. Due to limitations in the data provided by Statistics Canada¹, it is not possible to determine whether the decrease in transfers has been from the federal or provincial governments.

FCM Policies

RESOLVING THE MUNICIPAL FISCAL IMBALANCE

The federal government, in partnership with the provinces and territories, must commit to working with municipal governments to develop a long-term plan to eliminate the municipal infrastructure deficit and secure new revenue sources that support increased demands on municipal revenues.

Fiscal Renewal and Targeted Infrastructure Programs

Eliminating the municipal infrastructure deficit requires a two-pronged approach.

First, we need a more equitable division of current fiscal resources among all orders of government and a modernization of existing municipal fiscal authorities. This can be achieved in partnership with provincial and territorial governments by revising the municipal fiscal framework. This could include, for example, a share of sales and income taxes, a share of provincial fuel taxes, and increased capacity to levy user fees. In partnership with the federal government, this can be achieved through a long-term revenue-sharing agreement and a targeted infrastructure program that will ensure sustainable, adequate and predictable sources of revenue for municipal infrastructure. Dealing with the fiscal roots of the problem will reduce municipal dependence on property taxes, diversify municipal sources of revenue, and provide Canada's municipal governments with the resources they need to renew and maintain their infrastructure.

Second, the federal government must continue working with provincial/territorial governments and municipal governments to develop a 15 to 20-year strategic framework for ongoing infrastructure investments. Canada's fiscal deficit was eliminated in the 1990s through an aggressive and targeted strategy; the municipal infrastructure deficit must be tackled the same way. Given the scope of the problem and impact on Canada's competitiveness and prosperity, the Government of Canada must lead the way.

The federal government must work with provincial, territorial and municipal governments to:

1. Develop a comprehensive picture of the size, scope and nature of the municipal infrastructure deficit; and
2. Commit to a long-term, national action plan to eliminate the deficit and deal with the underlying fiscal imbalance that causes the deficit.

Strategies

FCM will continue to urge the Government of Canada to:

- Recognize the implications of the municipal infrastructure deficit on Canada's competitiveness, productivity, sustainability and quality of life;
- Work with provincial, territorial and municipal governments to provide long-term, predictable and dedicated funding to eliminate the municipal infrastructure deficit and deal with its underlying causes;

- Modernize cost-sharing for federal infrastructure programs— with the federal government providing a 50 per cent capital contribution (75 per cent in the territories), with provinces contributing no less than their traditional 33 per cent;
- Ensure the escalator to the permanent Gas Tax Fund continues to meet local needs;
- Commit to a long-term extension of federal infrastructure programs;
- Establish dedicated funds, in addition to existing funding commitments, to cover the direct and indirect costs of new national wastewater regulations and to help municipalities adapt their local infrastructure to climate change;
- Design infrastructure programs to respond to the unique needs and circumstances of rural and northern communities;
- Work with municipalities on the creation of a Canada Infrastructure Bank, ensuring that this new financing mechanism best responds to local needs in communities of all sizes; and
- Support a dialogue with FCM and other relevant stakeholders on innovating a sustainable fiscal framework for Canadian cities and communities.

INFRASTRUCTURE FINANCE AND PUBLIC-PRIVATE PARTNERSHIPS

Public-Private Partnerships (P3s) should be one of the tools available to municipal governments and their decision-makers, who have the best understanding of their communities' needs and capacities. The federal government must work cooperatively with municipalities to identify and develop real partnership opportunities. The government must also work closely with local governments to design the new Canada Infrastructure Bank.

Experience shows that public-private partnerships (P3s) can sometimes deliver value under the right circumstances, but they will not eliminate the municipal infrastructure deficit. Under the right circumstances and with sufficient expertise, municipal P3s may help local governments meet the needs of the community and deliver value for money.

P3s cannot and will not reduce the financial support municipalities need to provide adequate public infrastructure over the long term. The use of P3s must not distract from or diminish the federal government's financial contribution to municipal governments to help them meet the infrastructure needs of their communities.

Available research on P3s indicates:

- There is no evidence to suggest that P3s consistently cost less to deliver than traditional public projects or consistently provide better services. This is due in part to the complexity and cost of P3 procurement and contract negotiations, and the generally higher borrowing costs for private-sector partners.
- For smaller communities, even the cost of putting together a proposal for a P3 may be prohibitive.
- If municipalities grow too reliant on P3s, they may lose their capacity to manage projects through the retirement of key personnel or the lack of staff training and experience. This would limit the project approaches available to them in the future.

- P3s are normally used for new projects, which tend to be more attractive to potential private-sector investors. They do little to solve the more pressing problems municipalities face in funding repairs and maintaining existing infrastructure.

To support successful municipal P3s, the Government of Canada must work cooperatively with municipalities to identify and develop real partnership opportunities. It must not impose rigid, uniform requirements. P3s should be one of the tools available to municipal decision-makers, who best understand their communities' needs and capacities.

Strategies

FCM will strongly urge the federal government to:

- Support municipal governments in developing the capacity and expertise to implement P3s where P3s make sense. P3s depend too much on local factors to be successfully managed by the federal government. Municipalities are the on-the-ground experts that understand community needs, public sentiment and professional capacities in the local public and private sectors. The decision of when to pursue a municipal P3 should be left in local hands;
- Consult closely and consistently with municipal governments on any plan to develop P3 standards, requirements, comparators or evaluation methods;
- Measure success, not process. The new paradigm in public-sector management is geared toward accounting for results or outcomes, rather than inputs. Imposing P3s as a pre-condition for funding may hurt results by distorting local decision-making and accountability, and by adding unnecessary red tape and administrative costs; and
- Design the Canada Infrastructure Bank in partnership with FCM, to ensure this low-cost financing vehicle matches local needs and realities in communities of all sizes. Parameters should include:
 - Financing remains a complement — not an alternative — to stable, predictable public funding;
 - Decisions on using an infrastructure bank remain at the local level;
 - Financing is not conditional on certain types of projects or degrees of private-sector involvement;
 - The CIB should support multiple municipalities “bundling” smaller projects to secure low-cost financing;
 - The CIB launch timeline must not delay Phase 2 funding for public infrastructure programs; and
 - Unused portions of the \$15 billion allocated from Phase 2 to the CIB are redirected to grant programs, after a period to be determined.

GST (or the federal component of the HST)

In the spirit of the new intergovernmental partnership, the federal government should stop making legislation, regulations and tax rulings retroactive and stop charging HST on latecomer fees.

In the 2004 budget, the federal government increased the GST rebate for municipal governments to 100 per cent. This was an important step toward reducing the municipal tax burden. FCM will continue to work with its members and federal officials to resolve ongoing issues involving municipal governments and the GST. Through the Community Improvement Fund announced in the 2013 budget, the GST/HST rebate and the Gas Tax Fund will collectively provide over \$32 billion to municipalities from 2014 to 2024.

Strategies

- FCM will continue to monitor the application of the GST, or the federal component of the HST, on municipal operations and communicate its concerns to federal officials and ministers.
- FCM will continue to provide input to the Government of Canada on best practices governing public service body rebates and advance municipal concerns regarding the administration of these rebates.
- FCM will continue to work with the Department of Finance to ensure that the GST exemption for transit services under the *Excise Tax Act* is applied consistently across a transit authority's distribution network.

PAYMENTS IN LIEU OF TAXES

The federal government must commit to a better working relationship with municipalities in those areas where exclusive federal jurisdiction directly intersects with the orderly administration of municipal affairs. Examples are payments in lieu of taxes (PILT), information sharing, and airport authority regulation.

The federal government is constitutionally exempt from paying property taxes, but, as a result of FCM's advocacy, has provided payments in lieu of taxes on federal properties for the past 50 years. The *Payments in Lieu of Taxes Act*, introduced in 2001, was a substantial advance, but municipalities still have some concerns. The Minister of Public Works and Government Services Canada (PWGSC) decides whether PILT applies when federal tenants default on their tax obligations and there have been instances where PWGSC refused to make these payments.

There are also a number of other PILT-related issues that hamper and distort PILT, damaging municipal finances and administration:

- One such issue involves synchronizing PILT with municipal payment schedules. Payments are generally made province-wide, interfering with individual municipal budgets.
- Entire classes of property have been removed from PILT, including wharves, dry docks and gasoline pumps, which in private circumstances would be taxable.
- Municipal governments routinely find it difficult to get full access to PWGSC and Crown Corporation policies, financial data, leases, contracts and other documents needed to determine PILT.
- Once the Government of Canada passed responsibility for PILT to federal departments and agencies, these federal landowners cited departmental budgetary pressures as justification for reducing their payments.
- In some jurisdictions, airport authorities have moved to a passenger-based tax formula. In Ontario, this has been imposed by provincial regulations. The rate per passenger can vary substantially from airport to airport. Some jurisdictions have agreed to continue to tax airports using PILT formulas. Others have moved to full municipal property taxes. In Mississauga, the passenger-based formula implemented at Toronto-Pearson International Airport has led to a significant tax loss. Also of concern is remittance of development charges, sub-tenant tax defaults, building permits and overall coordination of policies with host municipalities.

The Montréal PILT Decisions

In 2007, a Federal Court released three groundbreaking decisions favouring the City of Montréal in PILT disputes with the federal government and two of its Crown corporations. The cases involved the federally owned P.E. Trudeau International Airport, the Canadian Broadcasting Corporation (CBC), and the Montréal Port Authority. FCM subsequently called on the Government of Canada and its Crown

corporations to withdraw their appeals of the Federal Court decisions and make their payments in lieu of taxes.

The federal government opted not to appeal the case involving Montréal-Trudeau Airport. While this demonstrated an increased acceptance by the government of its responsibility to make full and fair PILT payments for its properties, CBC and the Montréal Port Authority appealed their cases to the Federal Court of Appeal (FCA). The Court reversed the previous rulings and found in favour of the Crown corporations. In its ruling, the Court gave Crown corporations broad powers to determine their own tax rates. The Court's only condition was that the federal property owners choose a rate that is "reasonable," a highly unpredictable guideline.

The City of Montréal appealed the FCA decision to the Supreme Court of Canada (SCC), where FCM appeared as an intervener. The SCC's decision for the City of Montréal clearly and unequivocally stated that the federal government and its Crown corporations must pay municipalities for the services they receive in the same way private property owners pay. This decision will help municipalities across the country collect funds they are fairly owed from Crown corporations. This decision has reinforced the principle of fairness set out in the *Payments in Lieu of Taxes Act* and will contribute to a more equitable PILT system.

The Halifax PILT Decisions

On June 21, 2010, the Federal Court of Appeal overturned a ruling with respect to the valuation of the Halifax Citadel for the purposes of PILT calculations. This case stems from the inability of Halifax Regional Municipality (HRM) and PWGSC to arrive at a mutually acceptable value for the Citadel site.

The FCA upheld the ministerial decision to set the value of most of the Citadel property (the glacis) at the nominal value of \$10.00. HRM contends that the valuation of the Citadel property should be considerably higher. If left to stand, the ministerial decision could fundamentally undermine the purpose of the *Payments in Lieu of Taxes Act*. The Montréal case illustrated the court's belief that the principle of fairness should guide the decision of PWGSC and its Crown corporations when devising requisite PILT remittances. If local governments are to be treated equitably, this same principle must apply to both the valuation and the rate side of the equation.

In June 2012, the Supreme Court of Canada (SCC) handed down its ruling regarding the Halifax PILT case. The Court allowed the municipality's appeal and ordered that the matter of the valuation of the land at the Halifax Citadel site be remitted to the Minister for redetermination. In other words, the decision of the Minister to value the glacis at a nominal value was found in error. The decision confirms that the Minister must follow the lead of the municipality and the valuation of land must be based on the tax system that actually exists at the place where the property in question is located. The tax rate should be calculated as if the federal property were taxable property belonging to a private owner. In November 2016, the federal government agreed to pay a total of \$24 million in back taxes for the years 1997 to 2015.

Strategies

- FCM will continue to collect information from member municipalities regarding the PILT program and use this to shape its national advocacy strategies.
- FCM will help the Government of Canada to improve the laws, regulations, policies and best practices governing payments in lieu of taxes and advance the concerns and special circumstances of municipal governments regarding these payments.
- FCM will continue to incorporate the Montréal and Halifax decisions into its legal and political PILT strategies.

- FCM will urge the Government of Canada and Crown corporations to provide full access to relevant policies, financial data, leases, contracts and other documents needed by municipal governments to properly assess payments in lieu of taxes.
- FCM will urge the Government of Canada to review airport authority legislation and regulations that confer special privileges on airport authorities but harm municipal finances and practices.

Intergovernmental Arrangements

Introduction

As the order of government closest to people and with the greatest impact on their daily lives, municipal government in Canada has expanded to meet changing local needs. Municipal governments provide essential public infrastructure and services throughout Canada. Despite having budgets and responsibilities greater than some provinces and territories, municipal governments do not have the authority or resources required to meet ever-growing and more diverse local needs. Although progress has been made in fostering a spirit of intergovernmental partnership at the federal level, more work needs to be done.

Key Principles

FCM is committed to ensuring that the Government of Canada enhances its relationship with all of Canada's municipal governments. Although progress has been made in recent years, more must be done. FCM will be guided by the following principles in its discussions with the Government of Canada:

- accountability and transparency;
- fairness (helping those in greatest need while ensuring all governments contribute their fair share);
- fiscal, economic, social, cultural and environmental sustainability;
- adequate, predictable and stable funding;
- long-term planning;
- respect for provincial and territorial jurisdictions and local priorities;
- fostering a spirit of partnership among federal, provincial/territorial and municipal governments;
- program flexibility; and
- non-partisanship.

The agenda for cities and communities is about more than money. It is about reinventing how governments work together to serve Canadians. At the heart of this approach is collaboration among all orders of government, which will require accountability and transparency. The goal must be the creation of a federal culture that incorporates the municipal perspective.

A strengthened intergovernmental partnership must also incorporate the principles of sustainability if it is to build communities that balance economic opportunity, social well-being and environmental conservation. This partnership will encourage multi-level participation in decision-making, long-term planning and program flexibility. It will ensure that municipal governments have enough revenue and authority to meet their growing responsibilities. It will also encourage the efficient, effective and equitable allocation of resources among communities. This partnership agenda must respect jurisdiction and focus on cooperation, consultation and collaboration.

FCM Policies

MUNICIPAL STATUS IN THE GLOBAL COMMUNITY

Working with the federal, provincial and territorial governments, Canadian municipalities must assume the powers, recognition and resources that are enjoyed by their counterparts in other countries.

The status of Canadian municipal governments is out of step with the rule of law and principles found in the international community. This lack of recognition, powers and resources distinguishes Canadian

municipal governments from their counterparts in other countries. The International Union of Local Authorities (IULA), the Council of Europe, and the Habitat II Conference have formally recognized that municipal governments must be able to exercise power in relation to any matter that is not expressly excluded from their mandate. The IULA and the Council of Europe have also formally recognized that municipal powers must be adequate to meet local needs and not subject to adverse intervention by other orders of government.

RESPECT FOR THE MUNICIPAL INTEREST

For issues within federal jurisdiction, FCM calls on the federal government to recognize the municipal interest where federal jurisdiction directly intersects with municipal activities.

Municipal government reform is gaining momentum in Canada's provinces and territories. Unfortunately, reform is sometimes driven by the fiscal concerns of other orders of government rather than by a vision of empowered municipal government.

The federal government withdrew from many urban programs in the 1980s and early 1990s, compromising the economic and social stability of many municipal governments, which are grappling with new or underfunded responsibilities, such as immigrant settlement, Aboriginal opportunity, affordable housing and homelessness, public health, environmental stewardship, emergency preparedness and public security.

This trend was also seen in a rapid provincial and territorial devolution of programs and fiscal responsibilities, without adequate consultation and without an appropriate expansion of municipal government powers, resources and autonomy. Increasingly, federal, provincial and territorial governments are off-loading such duties and responsibilities as airports, ports, harbours, policing, health, welfare, highways, bridges, economic development, public transportation, affordable housing and environmental protection.

Strategies

- FCM will continue to pursue an advocacy campaign to advance the municipal sector's partnership agenda. This would entail seeking a commitment from the Government of Canada to a new intergovernmental partnership that includes:
 - Agreeing to real consultation with municipal governments before making decisions on issues affecting municipal responsibilities and finances, community competitiveness, and quality of life;
 - Ensuring that local priorities are considered fully in decisions affecting local interests;
 - Establishing a municipal lens for federal decision-making;
 - Building on existing bipartite and tripartite program coordination; and
 - Using community capacity building to achieve national objectives.

THE ROAD TO MUNICIPAL AUTONOMY

Canadian municipal governments must enjoy the powers and authority necessary to serve the broad and diverse interests of their communities and be empowered to bring about meaningful change and innovation in a global economy.

Canadians want their governments to be responsible and efficient and expect all orders of government to cooperate in the delivery of public services. Unless the role of municipal governments in the Canadian political system is recognized, the quality of our democracy, the efficiency of our public services, and the equitable treatment of taxpayers are all compromised. Many of the international principles of local self-government can be realized through provincial and territorial legislation. The provinces and territories can expand the jurisdiction and capacity of municipal institutions to permit greater local autonomy and greater innovation, as seen in the *City of Toronto Act*.

Canadian courts and the federal government have recently changed their views of the role of municipal institutions. In a recent decision, the Supreme Court of Canada confirmed that local government powers

must be interpreted broadly. Municipal authority may be limited only when a direct conflict exists between a local government bylaw and federal or provincial enactments.

Most provinces and territories have passed new municipal legislation since 1990 to adjust their legislative regime to allow local self-government and expand municipal autonomy. This includes legislation affecting the City of St John's (1990), British Columbia and the Northwest Territories (1993), Alberta (1994), Manitoba (1996), Nova Scotia (1998), Yukon and Nunavut (1998), Ontario (2001), Saskatchewan (2002), the City of Winnipeg (2002) and the City of Toronto (2005).

The British Columbia *Community Charter* (adopted in 2003) recognizes municipalities as an order of government and will provide opportunities for provincial consultation agreements with the Union of British Columbia Municipalities on specific legislative changes and potential reductions in transfers. This legislation ensures the following:

- Municipal governments will be provided with adequate powers and discretion to meet existing and future community needs.
- Municipal governments must be able to draw on financial and other resources that are adequate to support community needs.
- Before new responsibilities are assigned to municipalities, provision is made for the resources required to fulfill the responsibilities.
- The provincial government will respect municipal authority in areas of municipal jurisdiction.
- The provincial government and municipalities will attempt to resolve conflicts by consultation, negotiation, facilitation and, if necessary, formal dispute resolution; provincial governments must consult municipalities on new legislation or alterations to grants.
- Municipal governments will participate formally in the First Nations treaty-making process, offering advice and making recommendations to the provincial government.

FCM believes that every municipal government should, by way of provincial and territorial legislation, be an order of government that has:

- Autonomy;
- The authority to act on every matter within its financial mandate that is not expressly excluded from its responsibility;
- Adequate powers and financial and legal resources to ensure good local government and services, to meet existing and future community needs, and to apply creative, innovative and entrepreneurial solutions that other orders of government cannot alter unilaterally;
- The assurance that other orders of government will comply with a municipal government's validly exercised authority;
- Access to alternative dispute-resolution mechanisms to resolve disputes out of court with other orders of government;
- Discretion to refuse to take on what previously were responsibilities of other orders of government and to agree to take on such responsibilities in return for new financial or other adequate resources in relation to these responsibilities;
- The authority to determine its own form and structure; and
- Accessibility, democracy and accountability.

Strategies

- FCM will work with provincial and territorial municipal associations to urge provincial legislatures to adopt a model charter and to advocate bilateral or trilateral agreements with municipal governments.
- FCM will also strengthen its outreach to educate other orders of government, the business community and the general public on the importance of enhanced autonomy for municipal government.

CANADA POST

Improving Canada's postal services is an important issue for communities across Canada. FCM will engage with the federal government to ensure that municipalities are consulted in regard to any future operational changes to Canada Post and that decisions are made in congruence with municipal planning.

Since the announcement of Canada Post's decision to introduce new community mailboxes and make other operational changes, FCM has continued to engage Canada Post to ensure that the changes in door-to-door delivery respect municipal decision-making authority and do not lead to unnecessary conflict with local land-use planning practices or policies. Since 2015, the federal government has been conducting an independent review of Canada Post, in two phases, of which FCM has been an active participant.

Federal-Municipal Consultations on the Five-Point Action Plan

FCM identified three challenges related to the introduction of the Five Point Action Plan: the placement of community mailboxes in municipal rights of way (particularly in dense, urban areas), the costs of servicing community mailboxes, and the need to ensure congruence with local planning policies or processes. To guide Canada Post's consultation process with local governments, FCM's Board of Directors adopted three principles:

- *Meaningful Consultations:* Land-use planning, service delivery and right-of-way management is unique in each city and community across the country. A one-size-fits-all approach will not work for every municipality. Canada Post must work with every municipality individually to ensure meaningful consultation on the location of community mailboxes meets the needs of the community.
- *Partnerships:* Servicing municipal infrastructure is the responsibility of local governments. Yet municipalities must not inherit the mandate of maintaining federally owned community mailboxes without compensation. Either Canada Post must work with the local government to develop agreeable processes to maintain this infrastructure or Canada Post must compensate local governments for this work.
- *Congruence with Municipal Planning:* As much as possible, the changes to door-to-door mail delivery must align with local strategies and processes aimed at fostering and supporting age/disability-friendly communities. Unique strategies must be developed in partnership with local governments to ensure local policies are respected.

Postal Banking

The federal government created Canada's Post Office Savings Bank in 1868, which served Canadians with postal banking services across the country until the bank's closing in 1968. In the decades following the postal bank's closure, Canadians living in rural and remote municipalities have seen a decline in the presence of financial institutions in their communities. Many of these communities no longer have any local banks or credit unions and are left with little or no access to fair and affordable financial services.

FCM believes that municipalities without access to financial services through banks and credit unions would benefit greatly from expanded access to such services through Canada Post outlets. It is clear that the difficulties faced by remote, rural, and indigenous communities who have limited or no access to financial institutions can be remedied through the use of Canada Post's extensive retail network of over 6,300 outlets, many of which are located in municipalities that do not have any local banks or credit unions.

Rural Post Office Closures

In the 1980s and 1990s, Canada Post closed over 1,700 rural post offices to reduce its operating costs. In 1994, the federal government issued a moratorium on rural post office closures. After a 2008 strategic review, the federal government introduced the Canadian Postal Service Charter in 2009, which maintains the existing moratorium on rural post office closures and establishes service standards for both postal delivery and post office accessibility. The Charter also acknowledges that rural postal service remains an integral part of Canada's universal mail service. Significant operational changes, such as post office closures or major reductions in operating hours by either corporate or privately-operated retail outlets, could have detrimental impacts for rural residents and communities.

Strategies

- FCM urges Canada Post to conduct meaningful consultations with municipal governments on changes to postal services that could have significant implications for municipal operations.
- FCM will continue to urge the federal government to re-introduce postal banking services at Canada Post and to determine how new financial and banking services could be delivered through public postal services so that this matter can be properly assessed during the review of Canada Post.
- FCM will continue to support the enforcement of the moratorium on rural post office closures, protection for rural postal services and the maintenance of service in rural post offices.

INTERNATIONAL TRADE AND INVESTMENT ATTRACTION

A strong federal-municipal partnership on trade and investment through formal mechanisms like the FCM-GAC Joint Working Group will support integration of municipal perspectives in the negotiation and implementation of trade agreements and the development of trade and investment promotion strategies.

International Trade Agreements

International trade strengthens Canada's economy, draws foreign investment to our communities, and creates job opportunities across the country. Building trade links with the world is a team effort, one that involves Canadian communities, the private sector and every order of government. Municipalities have a vested interest in understanding the opportunities presented by the international trade agreements that the federal government negotiates on behalf of all Canadians. The federal government must ensure that international trade agreements benefit the interests of all orders of governments.

Canadian municipalities have expressed a growing interest in trade agreements on two fronts: trade policy and investment attraction.

FCM and the Department of Global Affairs Canada (GAC) have partnered on a number of initiatives related to the municipal interest in trade and international affairs. To facilitate the relationship and to examine municipal questions regarding Canada's international trade agreements, FCM and GAC established the Joint Working Group on International Trade in 2001. GAC advanced its commitment to working with municipal governments by renewing and expanding this Joint Working Group in 2014. The FCM/DFATD Working Group on International Trade brings municipal perspectives and concerns to the areas of international trade policy, trade promotion, two-way investment and other international activities.

FCM played a key role in GAC's development of resources for communities and local governments. These resources aim to help municipalities better understand Canada's international trade obligations and include a web-based tool *International Trade Agreements and Local Government: A Guide for Canadian Municipalities* (2013) (www.municipalguide.gc.ca), and a plain language booklet, *International Trade Agreements: A Pocket Guide for Canadian Municipalities* (2013). These documents have been updated and re-released in 2013 to reflect the current international trade environment. FCM's members were integral in identifying and ultimately resolving the Buy America trade issue in 2009–2010. The issue has since re-emerged in 2014 due to new Buy America provisions introduced in the United States at the

state and federal levels. The renewed FCM/GAC Working Group will continue to facilitate communication between GAC officials and FCM members on this important issue.

FCM was also highly engaged in communicating and championing the municipal perspective on the negotiations that led to the final text of the Canada-European Union Comprehensive Economic and Trade Agreement (CETA), released in September 2014. Building on the knowledge and experiences of municipalities under other similar inter-provincial/territorial and international trade agreements, the FCM National Board of Directors developed [seven key principles](#) that must be protected under CETA and any future trade agreement which will impact municipal procurement:

1. Reasonable procurement thresholds;
2. Streamlined administration;
3. Progressive enforcement;
4. Canadian content for strategic industries or sensitive projects;
5. Dispute resolution;
6. Consultation and communications; and
7. Reciprocity.

The Government of Canada committed to respecting these principles in the context of the CETA negotiations, and FCM believes that they were upheld in the final CETA text. GAC has also committed to work closely with FCM to provide local governments with appropriate guidance to assist with compliance with CETA and address all other implementation issues identified by the municipal sector. In 2015, GAC partnered with FCM to offer a workshop on international trade at FCM's annual conference and a [webinar on CETA and municipal procurement](#), it has been posted on FCM's website to serve as an enduring resource. GAC's commitment demonstrates a new partnership around protecting the interests of Canadian municipalities in an ever-changing global environment.

Strategies

- FCM will expand its efforts to ensure that municipalities continue to play an important role in Canada's success in the global marketplace and to take advantage of the opportunities that trade brings to cities and communities.
- FCM will continue to voice the concerns and opportunities of the municipal sector with respect to new and existing international trade agreements, including the Canada-European Union CETA agreement and the recent Trans Pacific Partnership.
- FCM will continue its efforts to better inform Canadian municipalities about international trade negotiations and to address their questions, as well as to ensure that their views and concerns on trade matters are brought to the attention of the federal government through the FCM/GAC Joint Working Group on International Trade.

International Investment Attraction

The global economic downturn has refocused all governments toward building Canada's economic competitive advantage internationally. All foreign direct investment is local. National governments play an important role in encouraging foreign direct investment, but those investments will inevitably be made in specific places under local jurisdiction. The qualities of that place and the policies of that jurisdiction will inevitably directly contribute to a potential investor's decision-making.

Federal-municipal cooperation on trade and investment, while growing, is hampered by the lack of well-defined relationships, cooperation and information sharing. The federal government's commitment to create a new investment promotion agency to work seamlessly with provincial, territorial, and municipal governments and provide concierge services to promote business investment in Canada provides an opportunity to enhance intergovernmental cooperation. This new investment hub has the potential to help build a more comprehensive, sustainable and mutually beneficial federal-municipal relationship that will more fully reflect today's municipal role in internationally oriented economic development.

Strategies

- Work with the Government of Canada to broaden, deepen and empower the FCM-GAC Joint Working Group (JWG) on International Trade with a focus on outreach and information-sharing at the political and technical levels; and
- Explore and seize upon opportunities to better link the work that all federal and municipal governments do to incent FDI into Canadian communities and better link Canadian goods and services to world markets.

INTERNATIONAL RELATIONS

Working with the United States and other international partners, FCM can influence the policy agenda of other nations through constructive dialogue and policy support to our partners.

Building relationships with U.S. municipalities is vitally important to Canadian municipalities. In recent years, Canadian municipalities have been hurt by a number of federal U.S. policies, including responses to BSE, the softwood-lumber dispute, passport restrictions, Buy American policies, and cross-border environmental issues.

Strategies

- To build FCM's capacity to represent Canadian municipal interests on such cross-border issues as trade, environment and border security, FCM will continue to strengthen institutional ties with the National League of Cities and the U.S. Conference of Mayors, both formally through joint working groups and informally through staff exchanges, annual conferences and ad hoc task forces.

Approved March 2017

Standing Committee on Municipal Finance and Intergovernmental Arrangements
