



# Focus for the future:

A Strategic Response to the Challenge of  
Community Government Funding

Municipal and Community Affairs

August 2019



# Table of Contents

<b>Minister’s Statement</b> .....	<b>1</b>
<b>Introduction</b> .....	<b>3</b>
<b>Historical Approach to Community Infrastructure Investment</b> .....	<b>6</b>
<b>Environmental Scan</b> .....	<b>8</b>
<i>Table 1. Total Transfers as a Percentage of Provincial/Territorial GDP</i> .....	10
<i>Table 2. Total Unconditional Transfers</i> .....	11
<b>Reassessing the Municipal Funding Gap</b> .....	<b>12</b>
<b>Addressing the Gap - Since the Municipal Funding Review</b> .....	<b>14</b>
Community Public Infrastructure Funding.....	14
<i>Community Public Infrastructure Average Annual Replacement Rate</i> .....	15
Closing the Gap – Community Public Infrastructure Funding.....	16
Operations and Maintenance Funding Policy .....	18
<i>O&amp; M Hybrid Needs-Based</i> .....	18
Closing the Gap – Operations and Maintenance Funding .....	19
Water and Sewer Services Funding Policy .....	20
<i>Environmental Services - Water and Waste</i> .....	20
Closing the Gap – Water and Sewer Services Funding .....	21
<b>A Multi-Faceted Approach</b> .....	<b>22</b>
Apply for Funding Increases through Annual GNWT Business Plan/ Main Estimate Process .....	22
Revise Community Government Funding Policies / Funding Agreements .....	23
Recalculation of Needs-Base Funding Allocations .....	24
Continue to Reassess the Environment .....	24
Maintain Positive Relationships with Partners .....	25
Linkages to other GNWT Strategies .....	26
Support Improved Community Planning, Capital Planning and Strategic Planning.....	27
Challenges Remain.....	28
<b>Conclusion</b> .....	<b>29</b>
<b>APPENDIX A</b> .....	<b>30</b>
Municipal Funding Policy Review.....	30
<b>APPENDIX B</b> .....	<b>33</b>
Community Government Infrastructure included in the Community Public Infrastructure Replacement Calculation .....	33



# Minister's Statement



The Department of Municipal and Community Affairs (MACA), the NWT Association of Communities (NWTAC) and the Northwest Territories (NWT) community governments have a long-standing, collaborative working relationship that has enabled them to achieve significant milestones during and since the municipal formula funding review conducted in 2014. This review included extensive research and analysis that led to recommendations on how to update the community government funding models to ensure that funding provided to community governments was done in an equitable, transparent and understandable manner.

The recommended model considers the operation funding needs tied to the infrastructure in the community in addition to program delivery needs that are not tied to infrastructure. This integrated approach was supported by both MACA and community governments as meeting the objectives of the review in addition to being a fair and reasonable approach that identified basic needs. The completion of this work was a significant milestone for MACA and NWTAC.

Since the completion of the work, MACA has done a number of things towards adoption of the model.

For instance, in all federal funding agreements implemented since 2014, the model has been used to either support the funding requests or to help prioritize applications with the largest funding shortfalls for capital funding.

It has also allowed MACA to clearly explain funding methodology when seeking new funding from the Government of the NWT. Since the completion of the Municipal Funding Review in 2014, GNWT has approved \$3,660,000 in increases in the Operations and Maintenance (O&M) and \$4,583,000 million in increases to the Water and Sewer funding levels. This has helped close the gap in these community government funding budgets by 50%. Most recently, in recognition of the infrastructure funding needs of the NWT community governments, the Members of the Legislative Assembly approved an increase of \$1.8 million to the community public infrastructure budget beginning April 1, 2019.

One of the most important results of the Municipal Funding Policy Review was that it provided critical information to MACA and community governments. For the first time, MACA and community governments have been able to quantify and account for the infrastructure assets that support common community government programs and services allowing for improved decision-making and capital planning. It is enabling

community governments to make informed decisions about infrastructure priorities such as balancing the decision to build a new recreational complex with the longer term need to plan for the replacement of high cost infrastructure such as a water treatment plant.

While I acknowledge the funding levels are not at the level that NWT community governments were hoping to see, I believe that the relationships that have helped reached this milestone, will also help us find innovative ways to reduce the impact of the funding gap on NWT community governments and determine the best manner in which to use the funding resources we have available to us.

The 18th Legislative Assembly approved the Mandate of the GNWT 2016-2019. Included in the Mandate was a commitment to develop a strategy to close the gap in funding levels to meet municipal core needs (Mandate 5.4.5). This paper has been prepared in response to this Mandate item.

I want to acknowledge that we are unable to definitively answer when and how the funding gap will be closed. This will take time. Decisions about future funding are tied to the fiscal position of the GNWT and the priorities of the Legislative Assembly of the day.

Outlined within is an approach that MACA will use to continue to advocate for and seek additional resources for community governments - based on good data and research, effective planning, financing and development of infrastructure, improved asset management, effective training, consideration for the longer term objectives around climate and energy, strong financial management.

There has been significant progress since 2014. Our work, however, is not yet done and we need to continue to improve our management of infrastructure and funding resources. This work will take time. We are early in the evolution of this authority with community governments and must continue to work together over the long term to build the capacity that will achieve the benefits for all of our residents.

**Alfred Moses**  
**Minister of Municipal and Community Affairs**

# Introduction

The Northwest Territories (NWT) has thirty-two<sup>1</sup> community governments which are responsible for the delivery of municipal-type services to residents of the NWT. Community governments are led by elected Councils who govern the administration and delivery of a range of programs and services that typically include water treatment and delivery; the collection, treatment and disposal of sewage and solid waste; fire protection services; emergency planning and management; road maintenance; recreation; land use planning; and bylaw enforcement.



The Department of Municipal and Community Affairs (MACA) provides advice and support to NWT community governments, as well as the financial resources for community governments for the delivery of programs and services to their residents. MACA provides funding to NWT community governments through three main funding policies: the Community Public Infrastructure Policy, Operations and Maintenance Funding Policy, and the Water and Sewer Services Funding Policy. It also delivers federal infrastructure funding agreements to community governments including the federal gas tax funding which became a permanent funding program in 2012.

NWT community governments face a number of challenges as they deliver basic services to their residents. Limited populations and remote and isolated locations make collaboration or shared approaches to service delivery almost impossible. Four communities do not have road access and another 12 have only winter road access. As a result, all communities require their own basic infrastructure to support service delivery. If a population the size of the NWT was located in one physical location it would probably only have a few fire trucks to provide fire protection in their community. Our geography requires a minimum of 33 community fire trucks to provide basic fire protection services.

---

<sup>1</sup> On September 1, 2016, the Déljine Got'jine Government (DGG) was created through the implementation of the Déljine Self-government Agreement. The Charter Community of Déljine was dissolved on this date and this reduced the number of community governments for which MACA is responsible for from thirty-three to thirty-two. MACA provides funding unconditionally to the DGG consistent with the terms of the Déljine Financing Agreement.

The funding that MACA provides, accounts for between 40 to 90% of the revenue received by NWT community governments. The small population size and lack of economic development means that most communities have few options to generate other sources of revenue. At the same time, community governments employ approximately 1,000 employees across the NWT, and expenditures on community infrastructure accounts for approximately 20% of the total capital expenditures in the NWT.

In 2001, MACA made changes to its O&M Funding Policy which allowed community governments more flexibility in the use of their funds – similar to a block funding arrangement. In 2004, MACA updated all municipal legislation to be enabling legislation that offered broader powers under “municipal purpose.” The authority of community governments to set their own priorities was further expanded in 2007 during the implementation of the New Deal for Community Governments. One of the main objectives of the New Deal was to provide community governments with the authority to plan, finance and implement capital projects in their own communities. The Community Public Infrastructure Policy allowed for funds to be allocated on a formula basis to community governments for this purpose. With this change, MACA would support and advise community governments to complete and implement their own capital plans and community public infrastructure would no longer appear on the GNWT capital plan.

Despite these advancements, there remained a lack of understanding on how funding was allocated and whether or not the funding was adequate to meet basic needs. MACA was also interested in exploring ways to ensure a better linkage between infrastructure funding and O&M funding, using funding to encourage improvements in asset management and advancing community governments to be effective and efficient in delivering their programs and services. It was in this context that MACA launched the Municipal Funding Review in January 2014. For MACA, the review needed to engage stakeholders comprehensively and prioritize a base of credible data about and analysis of issues related to community government funding.

MACA worked with the Northwest Territories Association of Communities (NWTAC) to select a cross-section of community government representatives to participate in a working group with members of MACA’s senior management committee and representatives from NWTAC. The community government representatives included political leaders or senior administrative and finance officers, and represented communities of various sizes and all regions. MACA also engaged the services of a skilled facilitator with extensive background expertise in the development of government program funding models. This greatly assisted the Department in determining a recommended approach for each funding model which both MACA and community governments could support.



The working group discussed a number of needs related to community government funding including flexible funding arrangements, community government accountability, responsiveness to changing community needs, the regional role of some communities, the ability of smaller populations to generate revenue, and linkages between infrastructure costs and operations costs.

After reviewing all of the issues and objectives, the working group agreed that the funding formulas (and corresponding policies) should:

- Be needs-based;
- Be based on the most current data available to respond to actual cost drivers to communities;
- Link the amount of O&M funding to the infrastructure that the community government owns and operates;
- Provide for multi-year funding to give community governments stability and predictability in their revenue; and
- Incorporate equitable measures for own-source revenue capacity so that smaller communities are not disadvantaged by a decreased ability to generate revenue locally.

Throughout the Municipal Funding Review, MACA emphasized that community government expectations must be realistic, and that any proposed solutions would need to be addressed through a long-term view.

The review resulted in recommendations for revising the funding model. Calculations on the impact of the changes were prepared for each community government and shared with each community through visits by MACA staff in 2015. In general, the Municipal Funding Review found that some community governments were not being funded adequately, some were being provided with more funding than they require, and some were being funded at the appropriate level.

While the results of the review confirmed the original concern regarding inequitable funding, for the first time, there was now reliable information to support decision making and the capital planning process. Community governments now had the basis for information decision making about infrastructure priorities.

***For more information about the Municipal Funding Review, refer to Appendix A.***

# Historical Approach to Community Infrastructure Investment

At the time of the New Deal implementation in 2007, the GNWT Capital Plan included an average of approximately \$17 million in community public infrastructure projects. This was an era when the type and size of facilities constructed in community governments was determined by Capital Standards and Criteria. Community infrastructure priorities were required to compete directly with GNWT infrastructure priorities, such as schools and hospitals.

Over the years, significant investment was made in community public infrastructure, however, there were two significant issues identified. First of all, the overall investment ranged widely each year – from as low as \$5 million in a fiscal year to well over \$20 million. Secondly, since community infrastructure was competing against territorial needs, it was primarily health and safety infrastructure that was receiving investment – assets such as offices and garages would be bumped from the GNWT capital plan on a regular basis. The Department was successful in maintaining investment in water treatment facilities, thanks in part to it receiving national attention through the development of national drinking water guidelines.

In 2016, the investment in water treatment was highlighted in the Office of the Auditor General’s Report<sup>2</sup> where it was found that MACA had made adequate efforts to support community governments and mitigate risks to drinking water quality. The Auditor General noted that as of June 2016, 26 of 30 communities’ water treatment plants met the specifications and the GNWT had plans to work with communities to upgrade the remaining plants. Many of these water treatment plants were constructed prior to the New Deal or soon after communities assumed control of their capital plans. During this period, the GNWT had significant influence over infrastructure priorities at the community level.



---

<sup>2</sup> In 2016 the Office of the Auditor General of Canada completed a performance audit on MACA. Their findings and recommendations are contained in the report titled *“Support to Communities for Municipal Services in the Northwest Territories – Department of Municipal and Community Affairs.”*

With the implementation of the New Deal for Community Governments, the GNWT increased their historical investment. For the first time, \$28 million was made available annually, allocated on a base-plus formula basis and provided directly to community governments. While the new funding and authority were a welcome change for community governments, there were some limitations.

At the time, the formula was developed without good information on the value and condition of assets in each community government and there was no real valuation for underground infrastructure taken into consideration. MACA did not have a detailed list of all community assets or their replacement value, and valuation information was not available on infrastructure such as underground water and sewer, solid waste sites, sewage lagoons, or roads.

During the period from 2007 to 2014, there was a significant change with community governments. As would be expected, some communities did well with the new authority and quickly implemented their own capital planning process. At the same time, some communities experienced capacity challenges and needed support with capital planning and project management which continues today. Over this short seven year period, both community governments and MACA learned a great deal about infrastructure development and funding approaches. There are still challenges that need to be addressed in order to continue to balance priorities. This continued evolution of both the capital planning process and addressing challenges associated with municipal funding will take time - a message that MACA emphasized during the Municipal Funding Review.

In addition to managing Community Public Infrastructure funding, community governments also have access to Federal Gas Tax funding. In 2014, MACA signed an agreement to make the Gas Tax funding permanent, and although challenging due to the volume of money and the requirement to cost share, this program has been very successful in addressing many of the community infrastructure priorities. Beyond Gas Tax, the NWT has benefited greatly from significant federal investment through the Investing in Canada Plan.

Today, community governments are in control of their own capital plan. They no longer have to compete directly against GNWT priorities. They can manage projects based on their timelines and the priorities of community residents.

# Environmental Scan

As the GNWT moves forward with its efforts to bring greater clarity to the funding relationship between the GNWT and community governments, it was essential that the current environment was considered. Some stakeholders raised concerns at the rate at which the GNWT may be able to close the gap that exists in municipal funding. There were a number of factors impacting the ability to provide full needs-based funding to community governments over the short term.

Over the term of the 18th Legislative Assembly, the fiscal outlook was characterized by slow revenue projection (0.5 percent average annual growth rate) and increasing expenditures (1.1 per cent annually). The fiscal strategy was developed to improve the fiscal situation over the life of the 18th Assembly with strict expenditure management over the first two years to allow sustainable spending on the government's priorities in the last two years. To achieve elements of the fiscal strategy, including aligning spending growth with revenue growth and managing short term borrowing, a number of actions were taken including expenditure reductions in 2016-2017 and 2017-2018. At the same time that GNWT departments were undertaking more than \$75 million in budget reductions, funding to community governments was not reduced, but in fact, was increased.

As the GNWT continues to manage the fiscal outlook for the NWT, it will adhere to the Fiscal Responsibility Policy. This policy includes the following principles:

- Public debt should be managed at fiscally sustainable levels to ensure the delivery of programs and services is not adversely affected;
- Fiscal risks should be managed prudently; and
- A fiscal decision making system that is rational, fair, efficient, credible, transparent and accountable should be maintained.

Within this context, MACA must work with other government departments and agencies to ensure that the requests for funding that are brought forward are well substantiated, but also fair and realistic. MACA acknowledges that there are many competing priorities from other departments who are also delivering a wide range of programs and services to NWT residents. Ultimately, the processes in place to develop and approve funding within the GNWT are intended to reinforce the principles of the Fiscal Responsibility Policy.

As we consider the current fiscal environment, the 2019-2020 GNWT operating surplus is projected at \$60 million representing an increase in revenues greater than the increase in expenditures. We also know that operating surpluses are needed to fund at least half of the GNWT's annual capital investments in accordance with the Fiscal Responsibility Policy. Without this investment in capital including the preservation of existing assets, the GNWT will be hard-pressed to delivery programs and services to NWT residents and businesses.

Infrastructure supports government programs such as economic development and job creation, health care and education, social services, transportation, justice and environment and wildlife conservation.

The 2019-2020 GNWT expenditures include broad investment across many different sectors on a range of priorities. Within the total investment expected to exceed \$2 billion including federal investment and GNWT capital, there is \$125.8M allocated to Community Governments support and service. This represents 6.3% of total spending.

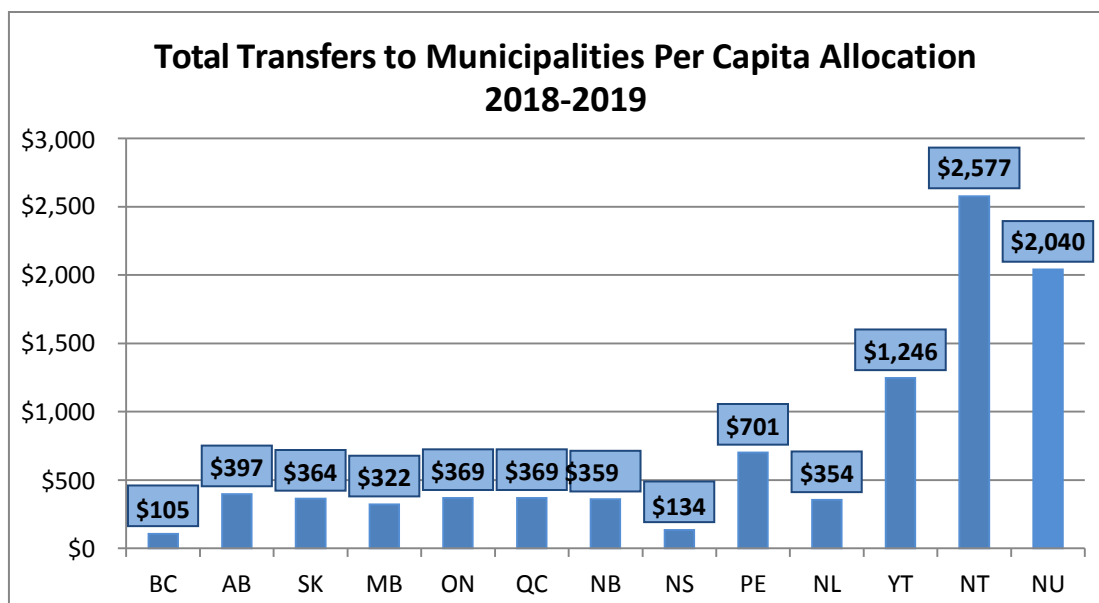
Looking forward, the revenues are projected to grow by 2.2 percent annually over the next five years to 2023-2024. Over that same period, expenditures are expected to increase at an average annual growth rate of 2.5 percent. The GNWT remains in a somewhat difficult fiscal situation despite its efforts over the past three years to restrain spending growth and to re-profile budgets to address the priorities of the 18th Assembly.

While addressing the challenges of fully funding community governments will undoubtedly require a long term approach, especially as we consider the current fiscal environment, we again should be reminded that despite budget reductions for GNWT departments and agencies during the 18th Assembly, no community government had their funding reduced. Instead, the GNWT increased funding by \$8.3 million for O&M, and environmental funding. Additionally, the GNWT increased community public infrastructure funding by \$1.8 million, and MACA continues to administer an unprecedented federal infrastructure investment.



It is helpful to consider the magnitude of the GNWT investment with community governments by looking outside our jurisdiction. The following two tables present a comparison of funding provided by Provincial/Territorial governments. They illustrate the progressive approach that the GNWT has taken with community governments.<sup>3</sup>

**Table 1. Total Transfers as a Percentage of Provincial/Territorial GDP**



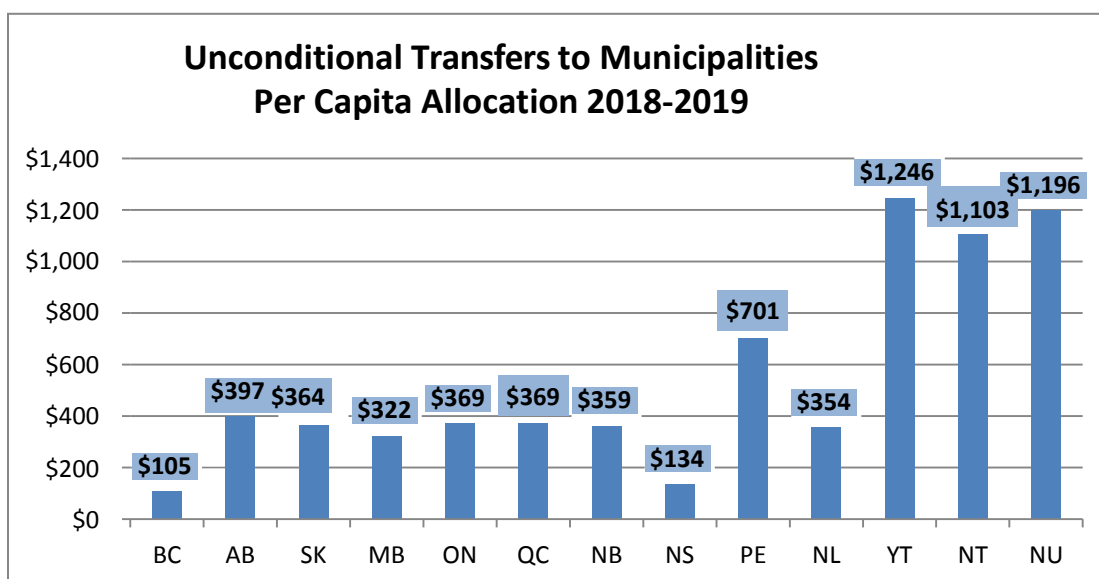
In terms of the total transfers - including unconditional grants, conditional grants, and grants in lieu - Canada's territories, with smallest populations, far exceeded most of the provinces. The Northwest Territories, Nunavut and Yukon provided the highest per capita transfers with \$2,577, \$2,040, and \$1,246 respectively.

Among the provinces, Prince Edward Island's \$701 per capita transfer is the highest. British Columbia provides the lowest amount of per capita transfer with \$105. The national average for 2018 is \$308 per capita.

---

<sup>3</sup>The Provincial/Territorial Officials Committee (PTOC) on Local Government provides secretariat support to the P/T Ministers of Local Government forum. PTOC also completes research related to local governments on behalf of provincial/territorial jurisdictions. In February 2019, the published a summary report titled Provincial and Territorial Transfers to Municipalities.

**Table 2. Total Unconditional Transfers**



Of all Canadian jurisdictions, the three territories also have the highest per capita allocation for unconditional transfers with Nunavut having the highest at \$1,196 per capita, followed by the Northwest Territories (\$1,103) and Yukon (\$492).

Among the provinces, there is a relatively large divide in terms of per capita allocations. Saskatchewan has the highest allocation per capita with \$207, followed by Manitoba with \$116. For all other jurisdictions, the amount of unconditional transfers per capita is lower than \$100. Alberta and Prince Edward Island do not have unconditional grant programs.

## Reassessing the Municipal Funding Gap

In 2014, the recommended funding model found that the aggregate replacement value of basic community infrastructure exceeded \$2.7 billion and the annual investment required to replace the existing infrastructure in communities was approximately \$64 million.

In 2019, the full cost of basic infrastructure has increased to \$2.9 billion with an investment of \$69 million needed annually. Even when we take into account the \$29 million<sup>4</sup> provided annually to community governments through the Community Public Infrastructure Policy and the \$16 million provided annually through the federal governments Gas Tax Agreement, community governments still have an annual funding deficit of over \$20 million.

### Changes in Funding Values (in Millions)

	2014	2019	Increase	2019-2020 Funding	2019 Gap	2014 Gap
<b>O&amp;M</b>	53.599	59.407	5.808	49.853	9.554	7.400
<b>Environmental</b>	23.404	26.690	3.286	19.887	6.803	8.038
<b>CPI</b>	64.617	69.268	4.651	44.723	24.545	23.122

The Municipal Funding Review highlighted that 14 of the 32 communities (44%) had funding levels higher than the annual replacement value of their infrastructure. This number has decreased to 11 communities. To maintain those community governments at current funding levels, an additional \$1.86 million is required. The total annual funding deficit for community governments is approximately \$24.5 million.

---

<sup>4</sup>The total CPI funding was reduced from \$28 million to \$27.2 million in 2016 to account for the implementation of the Deline Self-government Agreement.



One of the main benefits of completing the Municipal Funding Policy Review was the data that the review provided. For the first time, MACA and community governments have been able to quantify and account for the infrastructure assets that support common community government programs and services. This information is providing for improved decision-making and capital planning - enabling community governments to make informed decisions about infrastructure such as balancing the decision to build a new recreational complex with the longer term need to plan for the replacement of high cost infrastructure such as a water treatment plant.

The most significant increases in replacement value of assets are being seen in buildings, water treatment plants and other equipment. Values for buildings and water plants are provided by the Northern Community Insurance Exchange (NORCIX). MACA continues to work with the NWTAC to better understand the valuation methods. The Department is also undertaking a study of piped water systems to gain more information on the costs of those systems.

The funding review respected that some infrastructure in communities was built prior to councils having authority over it. It was decided that legacy-type infrastructure would be included in the asset listing. More analysis is being done for new buildings including decisions about size and service levels which will be incorporated into policy development and built into ongoing support programs.



# Addressing the Gap - Since the Municipal Funding Review

## Community Public Infrastructure Funding

For the community public infrastructure (CPI) component of the Municipal Funding Policy Review, the working group developed a listing of existing CPI assets specific to each community. Data for the listing came from NORCIX, the insurance consortium through which community governments insure most of their assets as well as information provided by the community governments. The assets included in each listing were limited to community infrastructure assets needed to support common community government programs and services. Appendix B outlines the types of infrastructure included and excluded from the list of existing CPI assets for each community government.

It is important to note that the model for the CPI funding policy includes roads and underground infrastructure (e.g. water and sewer mains). This is the first time that MACA has been able to include this infrastructure in its funding model and it represents a significant improvement. For even the smallest of community governments, roads represent a significant pressure point for community governments' annual infrastructure costs.

The data gathered included the current assessed condition and the replacement cost for each asset. Distinctions were also made regarding the levels of service. For example, costing differences were applied to road infrastructure based on the surface type – gravel, chip seal or asphalt.

### ***Community Public Infrastructure Average Annual Replacement Rate***

The CPI model incorporates an approach called the Average Annual Replacement Rate. This approach will provide community governments with replacement funding for actual assets they own on an annualized rate that considers the useful lifespan of that asset. Once implemented, this model will allow community governments to establish reserve funds for assets mid-life retrofits, and eventually, replacement. This approach is now possible due to improvements to infrastructure data flowing from the NWTAC's work with NORCIX.



One of the main benefits of the recommended funding model is that the community governments retain flexibility to establish priorities and allocate funding accordingly. The GNWT does not direct community governments on the infrastructure priorities. Instead, community government councils are encouraged to seek the input of their residents and respond according to the unique needs of each community. This means that while the funding model is based on a list of the community governments existing CPI assets, community governments can choose to invest in infrastructure that is outside of this list and can also determine the plan it will follow to construct new infrastructure or replace or retrofit existing infrastructure.

## Closing the Gap – Community Public Infrastructure Funding

The community public infrastructure gap is significant. It is more than double that of the total gap identified in the O&M and the Water and Sewer Funding models. This is not surprising since all territorial and provincial governments, and likely all other municipalities in jurisdictions across Canada, have significant infrastructure deficits. It is for this reason that the past governments at the federal level have invested millions of dollars over the past decades through various long-term federal infrastructure programs.

While the community public infrastructure gap may be unsettling, it does not mean there is nothing that can be done to mitigate the impact and to address the inequities that exist between community governments when it comes to approaches to infrastructure funding. In fact, MACA and NWT community governments have already begun to implement some of the available options.

The first opportunity came early in the implementation of the Municipal Funding Policy Review as the report was being finalized. The GNWT, in consultation with the NWTAC, approved the reallocation of the funding under the Gas Tax Fund in order to balance out the inequities between community governments. The result was all community governments receiving a base amount in Gas Tax Funding (\$75,000) each year and the remainder of the Gas Tax annual funding was distributed based on the infrastructure deficits for each community government. The below table illustrates how the revised Gas Tax Funding allocation model is applied in the case of two NWT community governments.

### Revised Gas Tax Allocation Model (example)

	Needs-based CPI Calculation*	Current Annual CPI Funding	Revised Annual Gas Tax Funding
<b>Community A</b>	\$600,000	\$900,000	\$75,000 (base amount)
<b>Community B</b>	\$2,000,000	\$1,000,000	\$75,000 (base amount) + \$600,000 = \$675,000

\*Amount required annually to replace community core infrastructure.

In a similar way, when the federal government rolled out its Small Communities Fund under the New Building Canada Plan, MACA again worked with the NWTAC to determine the individual community government allocations which provided a base amount of \$125,000 and then allocated the remaining funding according to the community governments' CPI funding gap.

There have been a significant number of federal programs delivered prior to and after the funding analysis was completed. The Gas Tax fund was included in the analysis as it was made permanent by the Government of Canada in 2012. With the 2014 renewal of the program, the NWT made adjustments to the allocation model starting in 2015 to reflect the results of the funding review. The current annual funding through the Gas Tax Fund is \$16.2 million.

In addition to the Gas Tax fund, MACA also utilized the results of the funding review to identify an allocation model for use in the Small Communities Fund (\$38.7M until 2022). Each community was provided an allocation target and then they submitted an application to Canada identifying a project to use their allocation. Since that time, the nature of the federal programs has changed and programs have become more application driven. As a result, MACA suggested and NWTAC supported, the funding deficit is included as a weighting factor in the review of applications. For example, one factor would be the funding gap – with those with larger gaps scoring higher than those with little or no capital funding deficit. This approach was taken in 2016 through the Investing in Canada Plan – Phase 1, including the Clean Water and Waste Water Fund (\$51.7 million for 29 projects) and the Public Transit Infrastructure Fund (\$320 thousand) for support to the City of Yellowknife.

The same approach is being used with the 2018 Integrated Bilateral Agreement with Canada for Phase 2 of the Investing in Canada Infrastructure Plan. Over the life of this 11 year agreement, additional investment in community public infrastructure will be made through the Green Infrastructure Fund (\$36.8 million), the Public Transit Infrastructure Fund (\$8.2 million), the Community, Culture and Recreation Fund (\$20.5 million) and the Rural and Northern Communities Fund (\$51.5 million).

When we assess the impact of federal infrastructure funding, it is difficult, if not impossible, to make a direct link to the community infrastructure gap. We can, however, state confidently, that federal infrastructure funding is helping to reduce and mitigate the infrastructure pressures on community governments. For example, the \$51.7 million provided through the Clean Water and Waste Water Fund provided investment into infrastructure projects that are directly aligned with the infrastructure definition used in the Municipal Funding Review.

Beyond this increased federal investment, the GNWT continues to deliver the Community Public Infrastructure Fund which provides \$29 million annually to community governments as they address their infrastructure priorities. This funding was increased in 2019-2020 by \$1.8 million - the first increase to the CPI Fund since the inception of the New Deal in 2007.

In coming years, MACA will continue to refine community infrastructure costs to inform and substantiate funding requests as part of the GNWT Capital Planning.

## Operations and Maintenance Funding Policy

The Municipal Funding Policy Review recommends a needs-based funding model for O&M which directly links the funding needed for the O&M for the actual equipment and infrastructure that currently exists within each community. With this change, as community governments replace or add new infrastructure, their O&M funding allocation will be adjusted to reflect the updated inventory of community government infrastructure. The proposed O&M funding model also incorporates costs for administration, governance, as well as recreation and protective service program areas.

The new approach to O&M funding also takes into account, a community government's ability to contribute to their expenditures through an own source revenue calculation. This component of the model takes into account, the ability of community governments to contribute determined by the wealth and income that is available within the community. The primary sources of revenue that community governments can access are property taxes and user fees such as access fees, services fees, licences, fine and penalties, facility and equipment rentals.

### *O&M Hybrid - Needs-Based*



## Closing the Gap – Operations and Maintenance Funding

The GNWT has made significant advancements in closing the O&M funding gap. In 2014, at the time of the Municipal Funding Review, MACA was providing \$47.6 million in O&M funding to community governments. Since that time, the GNWT has increased its funding contribution by \$3.6 million, to \$49.8 million - the funding available in 2019-2020. These funding increases have been distributed to communities proportionately according to the size of each community government's O&M funding gap.

The following table illustrates the increase in O&M funding over this period.

### O&M Funding (2014-2015 to 2019-2020)

Fiscal Year	Funding Increase	Total O&M Funding	Adjustments
2014-2015		\$47,684,000	
2015-2016	\$613,000	\$48,297,000	
2016-2017	\$969,000	\$49,266,000	
2017-2018*	\$528,000	\$48,303,000	\$1,491,000 (DGG)
2018-2019	\$800,000	\$49,103,000	
2019-2020	\$750,000	\$49,853,000	
<b>Total</b>	<b>\$3,660,000</b>		

\*In 2017-2018, there was a Main Estimate adjustment to create a Délìñę Got'ìñę Government (DGG) Self Government Grant. The noted adjustment reflects O&M money that was added to the Grant.

## Water and Sewer Services Funding Policy

The current Water and Sewer Services Funding Policy is a needs-based funding model which incorporates standard costs of an efficiently run service and factors in own-source revenue that should be collected by the community government in user fees. The Municipal Funding Policy Review recommends the continuation of the needs-based model but also adds in solid waste management to highlight the importance of both as essential services and address the funding issues identified through the funding review for environmental obligations.

The standard cost model used to calculate funding allocations under the current Water and Sewer Services Funding Policy assumes a due diligence approach to operations, and recognizes that there is a fixed cost of operations, regardless of consumption. The model recognizes that community governments have high fixed operational costs and low consumption. Full cost recovery from ratepayers is therefore not an option for most. The intent of the standard cost model is not to calculate precisely each community government's costs for operating water and waste services, but to determine the standard fixed costs, and address the challenges faced by smaller community governments in paying for those fixed costs when they have a small population and limited ability to raise revenues through water rates.

The model includes a number of community specific and territorial factors, such as population, fuel and power costs, plant classification, current replacement costs, and wages. In order to incorporate waste management into the water and sewer services model, waste management and collection services standards were developed (e.g. number of pick-ups per month, number of staff required) and the fixed costs of operations were calculated for waste management (e.g. O&M expenses as a percentage of the current replacement value, hazardous waste removal costs, staff time, and water licence fees and expenses). These needs-based costs were then added to each community's water and sewer cost needs in order to calculate the overall environmental services funding needs by community.

### *Environmental Services - Water and Waste*





Consistent with the current approach, the proposed new Environmental Services Funding Policy will include only services to residential homes in the community. Services to commercial, industrial, government and non-governmental organizations' (NGO) facilities are outside of the formula and communities are expected to provide services on a cost recovery basis with the restriction that no user charge can exceed the full cost-based economic rate.

The proposed Environmental Services Funding Policy will also continue the requirement for funding to be restricted for use in providing water and waste services and any surpluses must be retained in the environmental services account, with any deficits recovered in future years.

## Closing the Gap – Water and Sewer Services Funding

The GNWT has made significant advancements in closing the Environmental Services funding gap. In 2014 at the time of the Municipal Funding Review, MACA was providing \$15.9 million in environmental services funding to community governments. Since that time, the GNWT has increased its funding contribution by \$4.5 million, to \$19.8 million - the funding available in 2019-2020. These funding increases have been distributed to communities proportionately according to the size of each community government's environmental services funding gap.

The following table illustrates the increase in Environmental Services funding over this period.

### Environmental Services Funding (2014-2015 to 2019-2020)

Fiscal Year	Funding Increase	Total Environmental Services Funding	Adjustments
2014-2015		\$15,937,000	
2015-2016	\$1,652,000	\$17,589,000	
2016-2017	\$1,180,000	\$18,769,000	
2017-2018*	\$601,000	\$18,737,000	\$633,000 (DGG)
2018-2019	\$500,000	\$19,237,000	
2019-2020	\$650,000	\$19,887,000	
<b>Total</b>	<b>\$4,583,000</b>		

\*In 2017-2018, there was a Main Estimate adjustment to create a Déljñę Got'jñę Government (DGG) Self Government Grant. The noted adjustment reflects environmental services funding that was added to the Grant.

# A Multi-Faceted Approach

As has been noted earlier, although MACA understands the desire for a specific target for reduction of the gap within a specified time frame, addressing the funding shortfall for community governments is a mid to long term initiative. The following outlines the various ways that the GNWT will work with communities and other GNWT departments to address the funding gap.

## **Apply for Funding Increases through Annual GNWT Business Plan/ Main Estimate Process**

As a result of the Municipal Funding Review, MACA has learned a great deal about community government infrastructure, and now has much better data available to support requests for increased funding. This data is foundational to substantiate future funding requests. It is important, however, to remember that requests for funding are done so through the GNWT Capital Planning Process for Community Public Infrastructure funding and through the GNWT Business Planning Process for Community O&M funding and Environmental Funding. Within this context, MACA must continue to compete with other GNWT departments who have financial requirements to support their respective program delivery. The amount of funding available each year for new investment is limited. Operating surpluses, for example, are needed to fund at least half of the GNWT's annual capital investments in accordance with the Fiscal Responsibility Policy. While challenging, MACA will continue to bring forward annual funding requests for community public infrastructure, O&M, and environmental services on behalf of community governments.

Into the future, MACA will continue to administer Phase 2 of the Investing in Canada Infrastructure Plan as part of the Integrated Bilateral Agreement with Canada. Where possible, MACA will seek new federal funding sources, and work with the NWTAC and community governments on equitable distribution approaches consistent with the new funding formulas.

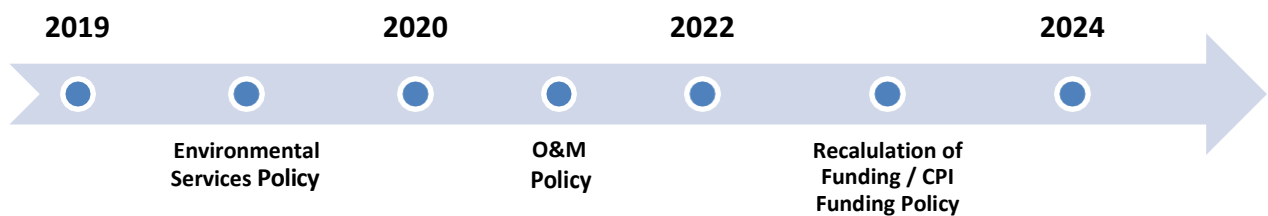
## Revise Community Government Funding Policies / Funding Agreements

In order to provide clarity and to be transparent, MACA will work over the next three years to develop the revised funding policies. This will also address a range of other policy issues which may be cost-drivers for community government operations.

The updating of the policies will be completed in consultation with community governments and NWTAC. The revised policies will include the needs-based funding models explained in the preceding sections, as well as the calculations necessary to allocate the current funding to community governments proportionately.

MACA will work on the revisions required to the Water and Sewer Services Funding Policy first as it will require consultation with the NWT Housing Corporation and community governments on the water rates charged by community governments to NWT Housing Corporation for the public housing units. The changes required to the Operations and Maintenance Funding Policy, the Community Public Infrastructure Funding Policy and the overarching Community Government Funding Policy will follow.

See below for a proposed implementation timeline.



At the same time as moving forward with the necessary policy amendments, MACA will also be working to revise the funding agreements between MACA and community governments to ensure they are consistent with the revised funding policies. Revisions will also be required to link the agreements with the Department of MACA's Accountability Framework, as well as the recommendations put forward by the Office of the Auditor General of Canada during the 2016 performance audit of MACA's support of community government essential services.

## **Recalculation of Needs-Base Funding Allocations**

In 2019, MACA completed a review cycle for the recalculation of the funding allocations used for the proposed three funding formulas. To do this, the review cycle was completed when the community infrastructure data was updated for the NORCIX community government insurance program.

The recommendation at the time of the review was to update on a three year cycle. MACA will work with NWTAC to ensure that this is the most effective timeline for review, and will incorporate the intended review cycles into the revised policies. This will support maintaining contact with key stakeholders on a regular basis as implementation of the funding models continues. Better data will also support better decision making through the capital planning process.

MACA will continue to work closely with community governments and the NWTAC to update numbers based on a logical cycle linked to the renewal of the community infrastructure insurance valuations.

## **Continue to Reassess the Environment**

The current environment facing community governments is challenging. At the same time that both the GNWT and community governments are managing funding pressures, we have also seen significant federal and GNWT investment in public infrastructure. New infrastructure funding presents project management challenges, and most federal programs include a requirement for a community funding contribution. O&M costs must be considered as new infrastructure is added.

Community governments are taking action to respond to climate change and high energy costs, and are adjusting to new or pending legislation such as Cannabis or ATIPP for municipal governments. It is also becoming increasingly difficult to hire and retain qualified staff. Simply put, the environment for community government is complex and changing.

There continues to be external factors which drive costs for community governments which may require consideration in the funding model. For example, continued work on municipal wastewater effluent with Environment Canada could result in new standards for wastewater effluent infrastructure, similar to what we saw when the Canadian Drinking Water Guidelines were adopted a number of years ago. It is important for MACA and its stakeholders to participate in those processes and to be able to engage regarding potential impacts to community governments.

With this continued assessment of the operating environment, MACA will determine when appropriate to reassess the Municipal Funding models and the data we are using to populate the funding calculations. It is important that MACA assess the factors impacting community governments, have meaningful engagement, and then be prepared to reconsider adjustments in the formula calculations where is it required.

## **Maintain Positive Relationships with Partners (both internal to GNWT and external)**

MACA will work collaboratively with our key stakeholders as we continue to enhance our approaches to municipal funding. MACA values the relationships it has with community governments and indigenous governments in their role as municipal services providers to their residents.

This will also include engaging with other GNWT departments as part of the negotiation and implementation of self-government agreements. Many of those agreements have specific financial requirements related to the delivery of local government services, as well as indicators for increases to the funding. MACA's engagement in that process will be critical to understand the impacts of each individual self-government agreement, how it may impact the delivery of local government services, and if it changes the current government structure (e.g. Deline Got'ine Government).

MACA will work with other GNWT departments and agencies to share information and advance common objectives. This could include housing, land acquisition and development, community planning, assessment and taxation, and well as GNWT infrastructure development. MACA will also support advancement of GNWT strategies where there is a community government component. By participating in this manner, MACA will strive to keep operating costs as low as possible, as well as provide other opportunities for revenue for community governments – both of which will support the implementation of the funding model.

As has been noted, the working relationship with the NWTAC is critical in this regard, both with political engagement as well as the provision of data from the Northern Communities Insurance Program. The third party data evaluating both the replacement cost and the current condition of the infrastructure in communities is essential for the calculations for the infrastructure needs in all communities.

The partnership with the Local Government Administrators of the NWT, as the senior staff leaders in the community, is also important to understand the operating context and challenges within each community.

## Linkages to other GNWT Strategies

MACA, in its role supporting community governments, participates in many interdepartmental initiatives and strategies developed and implemented by the GNWT. Some of these relieve pressure on community governments, while others may increase expectations for program and service delivery.

MACA, for example, supports the implementation of the 2030 NWT Climate Change Strategic Framework and the NWT Energy Strategy. MACA's role includes supporting community governments to access funding related to these strategies (disaster mitigation, renewable energy investments etc). The Department also has a role, through the School of Community Government, to work with our partners including the NWTAC, Local Government Administrators of the NWT, Ecology North, Arctic Energy Alliance, and the Department of Environment and Natural Resources, to provide resources and training on climate change and energy management. The School of Community Government provides this training through self- directed online eLearning portal, and through traditional classroom format.

More recently MACA has supported the efforts of The Department of Energy and Natural Resources on the development of a draft waste management strategy which, when implemented, will support community governments with the management of solid waste in their communities. The inclusion of solid waste into the new Environmental component of the formula was one of the initial responses to the Office of the Auditor General's report identifying a lack of support by MACA in the area of solid waste management for community governments. With the Waste Management Strategy, the GNWT has identified a wide range of initiatives to seek ongoing improvements to waste management, and a number of these will be targeted to community governments. In some cases, it will be to support the identification of funding to remove hazardous and bulky waste from facilities to expand their lifespan and reduce the environmental liability of the site. Policies and training programs for operators of waste sites will also need to be developed. Finally, as an example, MACA can play a key role to support community governments to remain compliant with their water licences in the area of waste management.

The above are just two of the GNWT strategies that impact community governments. It is important for MACA to remain at the table to understand the impact on community governments and assess whether or not there is a financial element to the implementation of the strategy that is not currently addressed.

## **Support Improved Community Planning, Capital Planning and Strategic Planning**

MACA administers the *Community Planning Act*, and provides support and assistance to community governments as they bring forward community plans on behalf of their residents. Community planning is an important process that allows a community to consider their current and future development needs and to define how they want their community to develop over time.

MACA recently developed some templates and support tools for communities to use when updating their community plans that will allow communities to adopt formal street addressing systems in support of 911 implementation. Although not critical to a basic 911 system, by including this work as communities update their community plans, MACA can support both the effective use of resources by communities while gradually building up the street addressing systems across the territory to support the implementation of 911.

MACA also supports community governments as they continue to plan for their own infrastructure priorities through the Capital Planning process. This forward thinking approach will help communities plan for the necessary mid-life retrofits of existing infrastructure, or the eventual replacement at the end of its life span. Capital planning sessions continue to include consideration for climate change priorities, energy efficiency, and waste management best practices.

Through the School of Community Government, MACA will continue to build capacity of community government staff, and will also supply them with strategic planning processes that allow them to review and improve all facets of community government operations.

With planning, there are, of course, two sides for consideration. With a funding deficit, it is possible that some communities may be challenged to invest in infrastructure and may require MACA support to identify alternate resources to address urgent needs. On the other side, however, is that with good planning there is less of a likelihood that communities will have to do emergency investment in infrastructure – which is often more expensive than a planned and strategic investment approach.

## Challenges Remain

Utilizing these multi-faceted approaches, the GNWT has made a significant investment in community governments to support the development of public infrastructure, operate and maintain a community government, and to support the delivery of programs and services. The GNWT has made progress in reducing operating deficits calculated through the municipal funding review, however, it is possible that the fiscal environment in the Northwest Territories may mean that the funding gap in public infrastructure may not be closed in the near future. This statement should not be alarming, as almost every public government - municipal and provincial / territorial - hold some form of infrastructure debt.

It is possible that priorities could change. As a result of recommendations from the Auditor General of Canada, for example, we are now changing our focus and putting greater emphasis on solid waste management, at the same time as maintaining our standards in drinking water management. At the national level, there are national performance standards for wastewater applied by Environment and Climate Change Canada, which the NWT is currently exempt from. Should those standards be adopted in the NWT, this potentially could add well over \$100 million to the infrastructure needs of municipal governments for sewage lagoons. These examples illustrate the challenge municipal governments are facing and the infrastructure funding needs that must be supported over the long term. This is not a quick fix.

In some cases, there are examples where community governments have made choices to develop new infrastructure in their community that may have exceeded their needs, and are now resulting in long term operating costs that are detrimental to the community governments. With the new authority, it is important that we use the data and information available to support sound decision making about new infrastructure. MACA must continue to support community governments with the capital planning process so that community governments make wise choices and invest in infrastructure that they need and can sustain its operation.

The Municipal Funding Review confirmed that some community governments are overfunded, and some community governments are underfunded. There was recognition that in many cases, the community governments that were overfunded were also some of the ones that were the most vulnerable. If the GNWT had chosen to reduce the overfunded community governments, it could have had very detrimental impacts. So the decision was made to “red circle” these community governments. The effect has been that any new funding that MACA has received through budget increases has been allocated to communities taking into account the size of their respective funding deficit. If a community government was overfunded, they received no increase. If a community government was underfunded, they received an increase. No community government lost funding. Taking this approach, we will eventually balance the funding so that it is equitably distributed, however, this will take time.

We will continue to administer Phase 2 of the Investing in Canada Infrastructure Plan as part of the Integrated Bilateral Agreement with Canada. At this stage, it is very difficult to factor in how this investment impacts the calculation of municipal infrastructure deficit. MACA will continue to assess this impact, and will continue to support community governments with the implementation of their various projects.



## Conclusion

It has only been a short time that the GNWT has been supporting community governments with new authority and funding. It is important to recognize that there continues to be a substantial investment in community governments and with the approach to funding overall. There has been tremendous evolution of community governments over a very short period of time. It has come with both challenges and successes. We do have to remember that we are all in it for the long term; we are working in a changing environment with multiple competing demands, and resources struggle to keep pace with the needs that are identified.

The GNWT commits to continuing this path with our partners, to ensure that we analyze the impact of the updated funding analysis, the use of a multi-faceted approach to both seek resources and provide tools to make effective decisions with funds that provided to communities across the NWT. This is the foundation for northern decision making, and the GNWT continues to support this evolutionary growth with community governments.

# APPENDIX A

## Municipal Funding Policy Review

April 2015

### Executive Summary

---

#### Introduction

The Department of Municipal and Community Affairs (MACA) is the primary government funding provider for the thirty-three (33) community governments in the Northwest Territories (NWT). MACA flows this funding to community governments through three funding policies; Community Public Infrastructure; Operations and Maintenance; and Water and Sewer Services.

In 2001, MACA changed its Operations and Maintenance (O&M) funding to maximize the authority of Community Councils. Councils are provided with one amount to support whichever programs and services in their community. MACA does not dictate how the community governments allocate this funding in their budgets. In 2007, Community Public Infrastructure (CPI) funding was introduced to allow Councils to make all decisions on the replacement of existing infrastructure and purchase of new infrastructure to support their programs.

These funding policies have been in place for many years and no longer are perceived to meet community government needs or provide equitable levels of funding. There are also concerns that the existing funding policies do not advance other strategic interests of the Government of the Northwest Territories (GNWT) such as improved asset management, advancement of the new Accountability Framework or encouragement for communities to become as self-sufficient as their respective economic base would allow.

## Method

In January 2014, MACA launched the Municipal Funding Policy Review to address these issues around municipal funding. It was important for the review to be fully informed and MACA was committed to extensive stakeholder engagement. With advice from the Northwest Territories Association of Communities (NWTAC), a cross-section of community government representatives were invited to participate in a working group with the MACA Senior Management Committee and representatives from the NWTAC. The invited community government stakeholders were either political leaders or senior administrative positions, and represented all sizes of communities and all regions.

The Review process was structured as a series of 2-day workshops with staff research and analysis occurring between workshop sessions. For continuity purposes, it was agreed that all Working Group members would remain consistent throughout the process and that no substitutions would be accepted. Each workshop was designed to address specific topics and contribute to the progressive research and analysis necessary for the Review to succeed. Starting with a discussion on strategic direction of funding policies, the workshops progressed to evaluation criteria and assessment of options, review of data and calculations followed by discussion of the recommended approach and implementation matters.

## Results

The Working Group discussed a number of issues related to municipal financing including: flexible funding arrangements, supporting accountability, responsiveness to changing community needs, regional role of some communities, ability of smaller populations to generate revenue and linkages between capital costs and operations costs.

After reviewing all the issues, it was agreed that funding policies should be needs based and:

- Be based on the most current data available to respond to actual cost drivers to communities;
- Link the amount of O&M funding to the infrastructure that the community owns and operates to address the need for additional operational funding to match the additional investments in community infrastructure;
- Provide for multi-year funding to give communities stability and predictability in their revenue; and
- Incorporate equitable measures for own-source revenue capacity so that smaller communities are not disadvantaged by a lower ability to generate revenue locally.

For the capital need, as a result of the research of the Working Group, a complete listing of all municipal infrastructure in the NWT's 33 communities was developed, including roads and underground infrastructure. This listing is used to calculate the annual capital replacement need for each community. The capital asset listing also serves as the base for O&M funding, by calculating the amount of funding needed to properly operate and maintain the actual assets in the community. With this change, as communities replace or add new infrastructure, O&M funding will be adjusted to provide appropriate care of the assets. The O&M component also calculated needs based approach to fund administration, including governance, as well as recreation and protective service program areas.

Water and sewer services continue to be calculated separately and on a cost needs basis. The Working Group recommended adding funding for solid waste management to highlight the importance of both these essential services and address funding issues for environmental obligations.

## **Moving Forward**

The results of the Municipal Funding Review are a significant departure from the current methods of funding communities. MACA Senior Managers will be visiting every community to update Council and staff of the Working Group findings. Adjustment may be made after all the feedback and comments are compiled.

The cost of implementing the recommendations from the Municipal Funding Review requires a significant investment from the GNWT and MACA will be presenting recommendations to the 18th Legislative Assembly for their review. MACA's transition plan will include options pending information on the GNWT fiscal framework and feedback from community governments and NWTAC.

# APPENDIX B

## Community Government Infrastructure included in the Community Public Infrastructure Replacement Calculation

Included in Calculation	Excluded Assets
<b>Buildings -40 Year Useful Life</b>	
Community Office	Club houses – golf/ski
Parking/Maintenance Garage	Daycares
Fire Hall	Libraries
Recreation Centre	Homeless shelters
Storage Buildings	Animal Shelters
Youth Centres	Tourist/Information Centres
<b>Waste Sites-60 Year Useful Life</b>	
Sewage lagoon	
Sewage treatment plant	
Landfill sites	
<b>Water Treatment and Distribution Infrastructure-30 - 50 Year Useful Life</b>	
Water Treatment Plant	
Intake Shelters	
Chemical Storage Building	
Water Storage Tanks	
Underground Pipes	
Utilidors	
<b>Mobile Equipment – 8 Year Useful Life</b>	
Water Trucks	Backup equipment
Sewage Trucks	Obsolete equipment
Garbage Trucks	Excess equipment
Service vehicles/pickup trucks	
Zamboni	
<b>Heavy Equipment – 12 -20 Year Useful Life</b>	
Graders, Loaders, Dozers	Backup equipment
Fire Trucks	Obsolete equipment
Fire Equipment	Excess equipment
<b>Roads – 50 Years</b>	
Roads within municipal boundary	