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A fair and equitable sharing of cannabis excise tax revenues for New Brunswick municipalities

Local governments are on the front lines of implementing the federal commitment to legalizing certain activities related to the production, distribution and use of cannabis. They will have new and permanent responsibilities, particularly in matters of public safety and municipal administration. All three associations of municipalities of New Brunswick are asking the provincial government to ensure that municipal governments have the resources they need to assure communities' protection and to ensure that they have sufficient resources to take on their new responsibilities.

Benefits of revenue sharing:

- Revenue-sharing with municipalities will be good news in every community across New Brunswick, reaching all regions of the province.
- Limited financial capacity of municipalities should not be a barrier to public safety. Each level of government must be able to count on the resources needed to fulfill its responsibilities properly.
- On multiple occasions, past federal and provincial governments have transferred new responsibilities to municipalities without providing additional financial resources in order to assume them. Too often, this means higher property taxes or reduced services for the citizens of these municipalities. The current government says it wants to do things differently. This is a key opportunity to demonstrate it to New Brunswickers.
- This provincial government has made an historic shift by recognizing municipalities as a responsible and accountable level of government in the new *Local Governance Act*. A fair revenue-sharing model that recognizes municipal responsibilities will demonstrate the government's commitment to give real meaning to this new relationship.

Key Facts:

- **Local governments are on the front lines of implementing this federal commitment.** Municipalities will have new permanent responsibilities, including in matters of public safety and municipal administration.
- **The federal government recognizes that municipalities will have increased responsibilities and that more resources will be required.**

Prime Minister Justin Trudeau's statement to the House of Commons on Dec. 13th, 2017:

“Mr. Speaker, cities and towns across the country are among our most important partners in our effort to legalize and strictly regulate access to cannabis. That is why we are providing the provinces and territories 75% of collected excise tax from cannabis, **so municipalities can get the resources they need** to keep cannabis away from kids and profits out of the hands of criminals. This agreement will be reviewed within six months of legalization to confirm that communities, cities, and towns are well supported by the provinces.” (Hansard)

- **The Federation of Canadian Municipalities (FCM) has calculated a preliminary range of ongoing annual costs for municipal administration and local policing of \$3-4.75 million per 500,000 of population.**

Due to economies of scale, these costs may be at the higher end of the range for small municipalities & rural communities.

- **Other provinces have committed to sharing excise tax revenues with municipalities.**

Several provinces have already outlined their preliminary plans for the provincial portion of the cannabis excise tax. For example, the Province of Ontario stepped up in support of municipalities and law enforcement by willingly providing \$40 million of its revenue from the federal excise duty on recreational cannabis over two years to help all its municipalities with implementation costs related to the cannabis legalization and to ensure communities and roads safety. Along the same lines, the Province of Quebec will allocate \$26 million in the first year and \$36 million in the second year to its municipalities in order to assume their local responsibilities. Part of these funds will come from excise tax revenues. With regard to the last case mentioned, it should be noted that the total amount of this two-year agreement is greater than the anticipated income sharing from excise tax between the federal government and that same province.

- **A fair revenue-sharing model will recognize that all three levels of government are partners in the implementation of this new law.**

New Brunswick's recent *Local Governance Act* recognizes local governments as a responsible level of government, accountable to its citizens. Excise tax revenues should be distributed fairly and equitably so that new revenues can help all levels of government meet additional and recurring costs of legalizing cannabis.

Responsibilities and additional costs:

The costs attributed to municipal administrative management and police services represent the main sources of additional expenditures. Here are some examples of costs associated with this federal commitment, under municipal jurisdiction:

Police services:

- Additional, or new, training **on drug recognition** including Standard Field Sobriety Test (SFST) and Drug Recognition Expert (DRE) (both short and long term);
- Purchase of **roadside screening equipment and supplies** (short and long term);
- Continued application of laws aimed at fighting illicit activities. (organized crime, illegal production and distribution); and
- **Additional human and material resources required** in order to respond to traffic control service calls related to drugs, seizures and offenses, motor vehicle collisions, road safety enforcement, court attendance, etc.

**It should be noted that no distinction is made between municipalities that have their own municipal or regional police force and those that have a direct contract with the Royal Canadian Mounted Police (RCMP) or that are part of the Provincial Police Service Agreement (PPSA). Municipalities purchasing RCMP services will experience a consequent increase in their annual bill as the integration of new costs will be phased in.*

Municipal Administration:

- **Fire prevention** (e.g. fire prevention officers, fire inspection for retail and manufacturing/production facilities, increased risks associated with improperly wired grow operation – home grown);
- **Citizens' complaints handling and administration** (e.g. nuisance complaints related to cultivation and public consumption, number of plants, visibility of plants, security of plants, nuisance complaints regarding odors, complaints on suspected illegal sales from private premises, etc.)
- **Municipal by-law enforcement** (full municipal by-law or by-law amendment requirements will be determined once the details of the roll-out of provincial laws and regulations are adopted.) New service requests will place greater emphasis on resources devoted executing these new by-laws to the point that new resources may need to be added at an additional cost);
- **Communication and commitment to citizens** (e.g. responding to public requests for information on landlords' rights, legal regime, points of sale, public consumption, home culture, impaired driving and safety at work);

- **Public education** about municipal zoning by-laws (e.g. where people can and can't consume cannabis at public events and on municipally-owned properties such as parks and recreation facilities);
- **Human resources** (e.g. HR management policies)

The cannabis legalization is new for everyone. Therefore the province all three associations of municipalities of New Brunswick will monitor and measure actual costs as its implementation unfolds.

Our Recommendation:

1. **That one-third (33%) of the total excise tax revenues collected on the sale of cannabis products be redistributed unconditionally to all municipalities in the province (44% of the 75% transferred to New Brunswick via the federal-provincial agreement).**
2. **That this agreement be reviewed after the first and second year in order to make the necessary adjustments to the total amount paid to the municipalities, in the light of the actual costs and new financial data that will be available following the entry into force of the legalization.**

Municipalities, now a recognized tier of governance in New Brunswick, must be assured that they will not have to increase their property tax rates to ensure that the legalization of cannabis is safe, effective, efficient and sustainable in their territory. By transferring a fair and equitable share of municipal excise tax revenues to municipalities and considering other financial mechanisms to meet the new costs, the province will ensure that it respects the spirit of the agreement between federal and provincial governments and allow all three levels of government to achieve their common goals.

Revenue sharing between municipalities

With respect to the distribution of cannabis excise tax revenues among New Brunswick municipalities (and LSDs), the three associations of municipalities jointly propose a formula based on a consideration of the two following factors: the population (50%) and the tax base (50%). This formula presents several advantages and is currently used, among other things, to determine the cost sharing for RCMP services (PPSA).

See **attached Appendix A** for the revenue sharing scenario between municipalities.