



# Considerations on the potential impact of sharing HST revenue with municipalities

---

**Prepared for:**

Union of Municipalities of New Brunswick (UMNB)

**Prepare by:**

Jupia Consultants Inc.

**April 2025**

## Table of Contents

Executive Summary .....	3
1. Introduction.....	7
1.1 Overview of the report.....	7
1.2 Things are changing rapidly: Are municipalities prepared?.....	7
2. The Brett Report: Creating a stronger municipal fiscal foundation .....	8
2.1 Towards a new fiscal framework.....	8
2.2 One option: Sharing HST revenue .....	8
3. The size and impact of municipal government .....	9
3.1 GDP contribution from municipal government .....	9
4. New Brunswick's municipal capital investment gap .....	13
4.1 Municipal infrastructure investment: Ranking the provinces .....	13
5. The case for diversifying municipal revenue .....	15
5.1 Municipalities are increasingly reliant on property tax revenue.....	15
5.2 Reasons to reduce reliance on property taxes.....	15
5.3 Why the HST?.....	21
5.4 The impact of adding HST revenue to municipal funding .....	22
6. Towards highly effective and sustainable municipal government .....	23
6.1 Ensuring a right sized municipal workforce.....	23
6.2 Ensuring competitive compensation .....	24
6.3 Labour productivity in the municipal services sector .....	26
7. Boosting municipal economic impact .....	28
7.1 The economic impact model.....	28
7.2 Economic boost from new annual municipal spending.....	29
Annual household spending impacts: Detailed .....	30
7.3 Leveraging federal government and other sources of funding.....	32
8. Supporting the provincial housing target .....	33
8.1 Housing is a key provincial government priority.....	33
8.2 Keeping up with municipal infrastructure investment .....	34
8.3 Looking towards the future: Sustainably investing in municipal infrastructure .....	35
9. Conclusion.....	38

Appendix A: The economic impact model and sources.....40  
Appendix B: Dr. Craig Brett Report Conclusions .....41  
Appendix C: About Jupia Consultants Inc.....43

# Executive Summary

The purpose of this report is to provide insight into how the allocation of one point of the Harmonized Sales Tax (HST) revenue collected by the Government of New Brunswick each year to the province’s municipalities could benefit the economy and ensure sustainable investment in municipal infrastructure.

The concept of using a portion of HST revenue was developed in detail by Dr. Craig Brett of Mount Allison University in his report “*Toward a New Fiscal Framework for New Brunswick Municipalities*” published in August 2024. Brett concluded municipalities face a \$2.5 billion infrastructure deficit built up over the past 20 years. The report makes the case that allocating one point of provincial government revenue from HST (est. \$220 million) would address both *operational* and *infrastructure* investment deficits. This report builds on that study.

<b>Key finding:</b>	<b>Considerations:</b>
<b>Municipal government is much smaller in New Brunswick compared to its peers.</b>	New Brunswick ranks 8 <sup>th</sup> among the provinces for the relative size of municipal government (GDP contribution per capita). For New Brunswick to reach the municipal GDP level in Manitoba would require a 37% increase and to reach the level in Alberta a 2.5 times increase (Section 3).
<b>The relative size of municipal government is declining.</b>	As discussed in Section 3.1, the per capita GDP contribution from local, municipal and regional public administration in New Brunswick declined between 2019 and 2023. At this time when New Brunswick needs to attract tens of thousands of new residents and develop new industries, is the municipal government sector sized appropriately and fit-for-purpose?
<b>NB municipalities rank 8<sup>th</sup> among 10 provinces for infrastructure investment in recent years.</b>	According to Statistics Canada, capital expenditures (CAPEX) in the local, municipal and regional public administration sector (NAICS 913) was 38% below the national level in 2024. To reach the national level of investment in this sector in the past four years would have required an additional \$330 million. To reach the level in fast-growing Alberta would have required \$950 million more (note the population of New Brunswick increased by 9% between 2020 and 2024, only slightly less than Alberta's 11%). See Section 4.1.
<b>NB municipalities are far more reliant on a single source of revenue.</b>	In 2024, the warrant (property tax) accounted for 84% of total revenue raised by municipalities across New Brunswick. In Alberta it was 44%, in Nova Scotia 63% and in Ontario 42% (Section 5.1).

# Executive Summary (cont.)

Key finding:	Considerations:
<b>Property taxes hit lower income households the hardest.</b>	Unlike income tax rates, property tax rates are the same regardless of income. In New Brunswick, the lowest quintile (bottom 20%) of households by income pay five times more of their total tax bill on property taxes compared to the highest quintile of households <sup>1</sup> (Section 5.2).
<b>Property tax inflation in NB has been the 3<sup>rd</sup> highest in the country.</b>	Among the 10 provinces, only Ontario and British Columbia have witnessed a faster increase in property taxes paid between 2020 and 2024, again with disproportionate effects on the lower income households (Section 5.2).
<b>Renters pay an even higher share of income on property taxes.</b>	Due to the 'double tax', renters pay considerably more than owners. Further, renters tend to have lower average household incomes than owners. In New Brunswick cities, rented dwellings are an increasing share of total. In 2024, the City of Fredericton raised \$42 million in property tax revenue from rental units and \$65 million from owner-occupied dwellings (Section 5.2).
<b>The cost of renting is increasing much faster than owning.</b>	Across NB, the costs associated with rented accommodations (rent, insurance, etc.) increased by 36% between 2019 and 2024 while the costs for owners increased by only 22%.
<b>One point of GNB's HST revenue would provide a big impact.</b>	If one point of GNB's HST revenue was allocated to municipalities, it would boost the sector's GDP contribution by 18%, still less than six other provinces but a significant boost to help diversify revenue sources and sustainably address capital investment needs (Section 5.3).
<b>Using the HST is a reasonable way for GNB to shore up municipal finances.</b>	There are many potential options such as allowing municipalities to charge different types of tax including a sales tax. Many U.S. cities charge a sales tax and some even charge income taxes. GNB could also just provide new block grants. Sharing a portion of HST revenues is a reasonable solution as it diversifies municipal revenue, provides fairly predictable increases year-over-year, and would be tied to growth overall in the province (Section 5.3).
<b>One point of GNB's HST revenue drops reliance on the warrant to 72%</b>	As a share of total municipal revenues, still higher than most provinces but a good start at diversity and stability and should take some pressure off relatively annual high property tax increases (Section 5.4).

<sup>1</sup> Total tax bill includes property tax, income tax, sales tax and other taxes/fees.

# Executive Summary (cont.)

Key finding:	Considerations:
<p><b>NB has the 2<sup>nd</sup> lowest number of municipal workers per 10,000 residents.</b></p>	<p>Among the 10 provinces, only PEI has less. Further, the workforce per 10,000 residents has declined by 11% between 2013 and 2023. It is important to ensure we have a right sized municipal workforce. This includes compensation. The average hourly compensation in NB in the municipal sector is 25% below the country overall (provincial government administration hourly compensation is only 1% less) (Section 6.1).</p>
<p><b>NB municipal workers are productive.</b></p>	<p>Labour productivity in the public sector is an economic measure, but it does point to the economic efficiency of public service delivery. Municipal workers are 22% more productive than workers in the overall government sector (Section 6.3).</p>
<p><b>Allocating one percentage point of GNB HST revenue would generate significant economic activity.</b></p>	<p>As discussed in Section 7, assuming half was spent on operations and half on infrastructure investment, the one percentage point of GNB HST revenue would:</p> <ul style="list-style-type: none"> <li>✓ Boost provincial GDP by \$218 million.</li> <li>✓ Support over 2,000 full time equivalent (FTE) jobs and \$126 million employment income.</li> <li>✓ Induce \$95 million in household spending on goods and services.</li> <li>✓ Boost government taxes by \$55 million.</li> </ul> <p>And it should allow municipalities to leverage additional funding from the federal government, private sector and other sources.</p>
<p><b>If municipalities had been receiving the HST revenue, the infrastructure shortfall would be much less.</b></p>	<p>In the past five years, it would have added nearly \$500 million to municipal capital investment across the province, a 32% increase. This would have brought the five-year average per capita municipal capital investment up to slightly above the national level (based on Statistics Canada data). See Section 8.</p>

# Executive Summary (cont.)

Key finding:	Considerations:
<p><b>Keeping up with the GNB target of 6,000 housing starts per year.</b></p>	<p>Section 8 makes the case that municipalities need more infrastructure investment to support the GNB housing target. Dr. Brett's report estimates \$100 million more is needed each year to start catching up from the municipal infrastructure investment backlog. Further, based on estimated municipality costs per door, municipalities will need to invest \$357 million per year to support the 6,000 homes target (not including inflation).</p> <p>Without an infusion of new funding to support municipal infrastructure, the province's municipalities could end up boosting the municipal infrastructure shortfall by 2028-2029 by an additional \$593 million (not including inflation).</p> <p>With the HST point (half going to infrastructure investment), the increase in the municipal infrastructure shortfall by 2028-2029 declines to only \$117 million.</p>
<p><b>Conclusion: Highly livable communities will be critical to our economic development.</b></p>	<p>Having a strong and successful municipal government sector is more important than ever. The competition for population growth and business investment has never been more pronounced. People and investment are more mobile now than at any time in history. There has to be a strong 'value proposition' for living or operating a business in New Brunswick and municipalities are key to this value proposition (Section 9).</p>

# 1. Introduction

## 1.1 Overview of the report

The purpose of this report is to provide insight into how the allocation of one point of the Harmonized Sales Tax (HST) revenue collected by the Government of New Brunswick each year to the province's municipalities could benefit the economy. Specific objectives include:

- Summarize the case for the HST point transfer (diversifying/stabilizing municipal revenue sources, etc.).
- Develop an economic impact model showing the economic benefits around the province from both the operating expenditures (OPEX) and capital expenditures (CAPEX) spending each year.
- Summarize the role and benefits related to sustainable municipal infrastructure investment.
- Evaluate the multiplier effect - leveraging other sources of funding, etc.
- Discuss the impact of new municipal funding to the provincial government objective of 24,000 new homes built between 2025 and 2028.

## 1.2 Things are changing rapidly: Are municipalities prepared?

New Brunswick is facing the largest demographic shift in at least the past 80 years. The province has added an unprecedented 71,000 to its population between 2020 and 2024. A large share of this growth has occurred outside the three big cities. Nearly 90 percent of all municipalities in New Brunswick have seen population growth in the past two years<sup>2</sup>. Much of this population is newcomers to Canada. According to the federal Department of Immigration, Refugees and Citizenship Canada (IRCC), the City of Edmundston had the fourth highest immigration rate among more than 150 CMAs and CAs across the country in 2024. Miramichi attracted over 300 permanent residents.

Despite changes to the national immigration targets, population growth in New Brunswick is expected to continue and, indeed, needs to continue if the province is to ensure there are enough workers to meet workforce demand in the years ahead.

Municipalities are critical to this growth both in terms of service delivery and infrastructure investment.

---

<sup>2</sup> Using Statistics Canada population estimates for Census subdivisions across the province (pre-municipal reform).

## 2. The Brett Report: Creating a stronger municipal fiscal foundation

### 2.1 Towards a new fiscal framework

In 2024, UMNBC commissioned a report by Dr. Craig Brett of Mount Allison University that evaluated the current municipal funding gap and expounded on the “importance of creating a framework for adequate, sustainable, and transparent funding to local governments”.

The report entitled *Toward a New Fiscal Framework for New Brunswick Municipalities*, demonstrated the province’s municipalities are ‘hyper-reliant’ on property tax revenue as a primary source of revenue accounting for 84 percent of total revenue in 2023.

Further, the Brett report concluded municipalities “are facing a \$2.5 billion infrastructure deficit that requires a restoration of funding that has been reduced by the provincial government over the last 20 years”. Dr. Brett’s report made the case for an additional \$220 million annually to address both *operational* and *infrastructure* investment deficits. He concludes “in the end, it does appear that the infrastructure backlog is a \$100 million per year problem, at the very least”.

### 2.2 One option: Sharing HST revenue

The Brett report concluded that municipalities require a more consistent and indexed source of revenue that diversifies revenue beyond residential property taxes. One option mentioned by Brett would be the allocation of one percent of the HST collected each year to municipalities to offset and stabilize the property tax rates while allowing municipalities to address the current infrastructure gaps.

## 3. The size and impact of municipal government

### 3.1 GDP contribution from municipal government

One of the best comparative measures of municipal government spending across the country is the real gross domestic product (GDP) contribution from local, municipal and regional public administration sector (NAICS 913). It is not the same as municipal spending, but because it is inflation-adjusted, it allows for a meaningful comparison of trends adjusted for the recent spike in prices. GDP is essentially an economic measure of the value-added activity in the province arising from municipal spending<sup>3</sup>.

As shown in Figure 1, the per capita real GDP contribution from the local, municipal, regional and aboriginal public administration sector in New Brunswick ranks eighth among the 10 provinces. The other Atlantic provinces have relatively small municipal government sectors (note: this includes activities such as the regional services commissions). Manitoba and Saskatchewan, provinces with populations similar to New Brunswick, have a much larger municipal government sector.

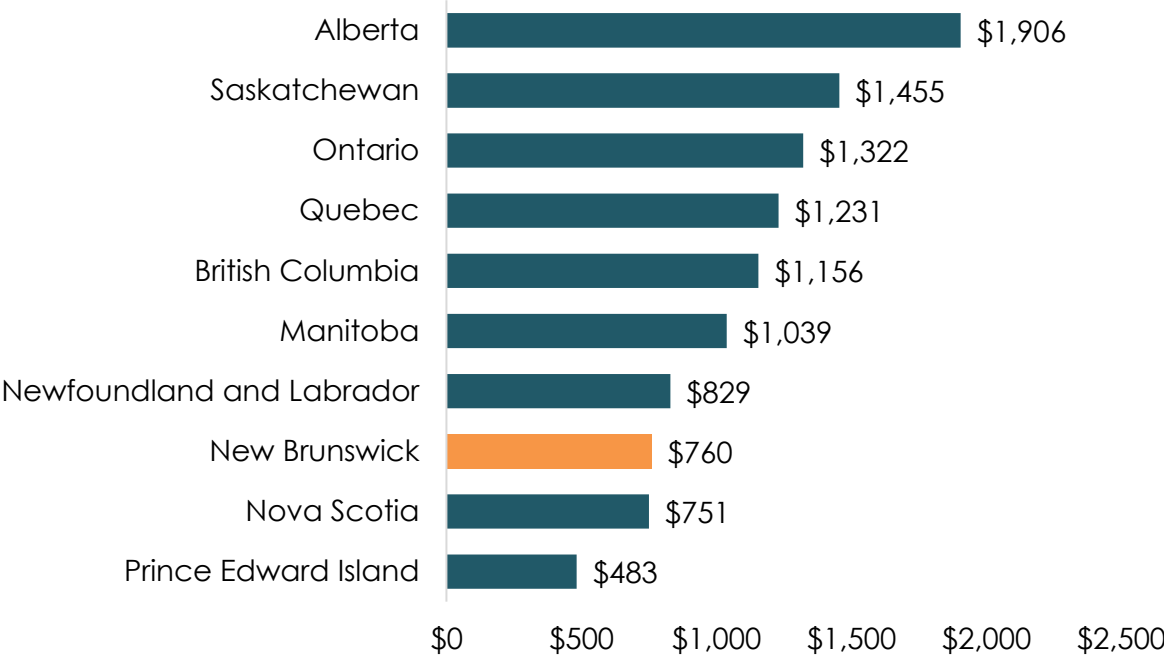
To put this into perspective, if New Brunswick municipalities generated the same per capita GDP contribution as Manitoba, the total GDP contribution would be 37 percent higher than it is now. If New Brunswick municipalities had the same per capita GDP contribution as Ontario, the total GDP contribution would be 74 percent higher. Municipalities in Alberta contribute 2.5 times as much to the provincial GDP compared to New Brunswick, adjusted for population size.

Of course, municipal and regional government is different in each province, so an apples-to-apples comparison is difficult, but this data certainly puts the municipal spending gap between provinces in perspective.

---

<sup>3</sup> For example, it excludes the spending on interprovincial and international imports.

**Figure 1: Inflation-adjusted per capita gross domestic product from the provision of local, municipal, regional public administration, 2023**



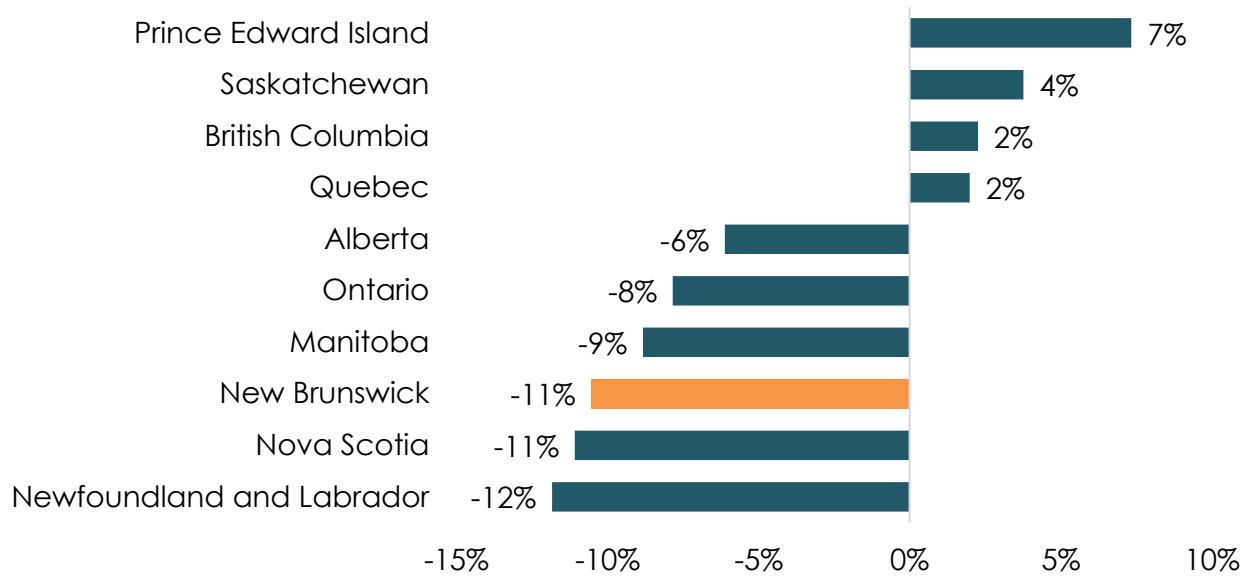
\*Expressed in chained (2017) dollars.  
 Source: Statistics Canada Table: 36-10-0402-01.

Over the four-year period 2019 to 2023, the real (inflation adjusted) per capita GDP contribution from the local, municipal, regional and aboriginal public administration sector in New Brunswick was down by 11 percent. This ranked New Brunswick eighth out of 10 provinces for the growth/decline of inflation-adjusted per capita GDP from local, municipal, regional public administration over the four-year period.

There was a wide variation by province, however, as Prince Edward Island, Saskatchewan, British Columbia and Quebec all witnessed an increase over the four-year period of inflation-adjusted per capita GDP from local, municipal and regional public administration.

New Brunswick went through a significant municipal reform process, but that has not translated into a larger GDP contribution from municipal government (adjusted for inflation and population size).

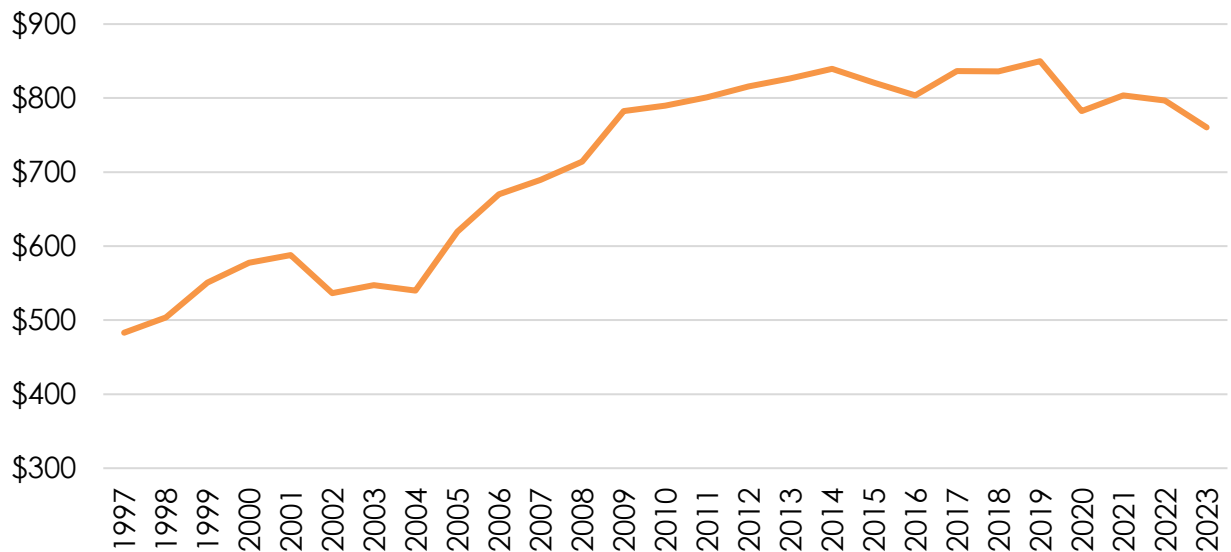
**Figure 2: Percentage change in inflation-adjusted per capita GDP from the provision of local, municipal and regional public administration, 2019 to 2023**



\*Expressed in chained (2017) dollars.  
Source: Statistics Canada Table: 36-10-0402-01.

Despite the addition of regional service commissions in recent years, on a per capita basis the amount of GDP from the provision of local, municipal and regional public administration services was higher back in 2009 than it was in 2023.

**Figure 3: Inflation-adjusted per capita GDP from the provision of local, municipal and regional public administration, 1997 to 2023**

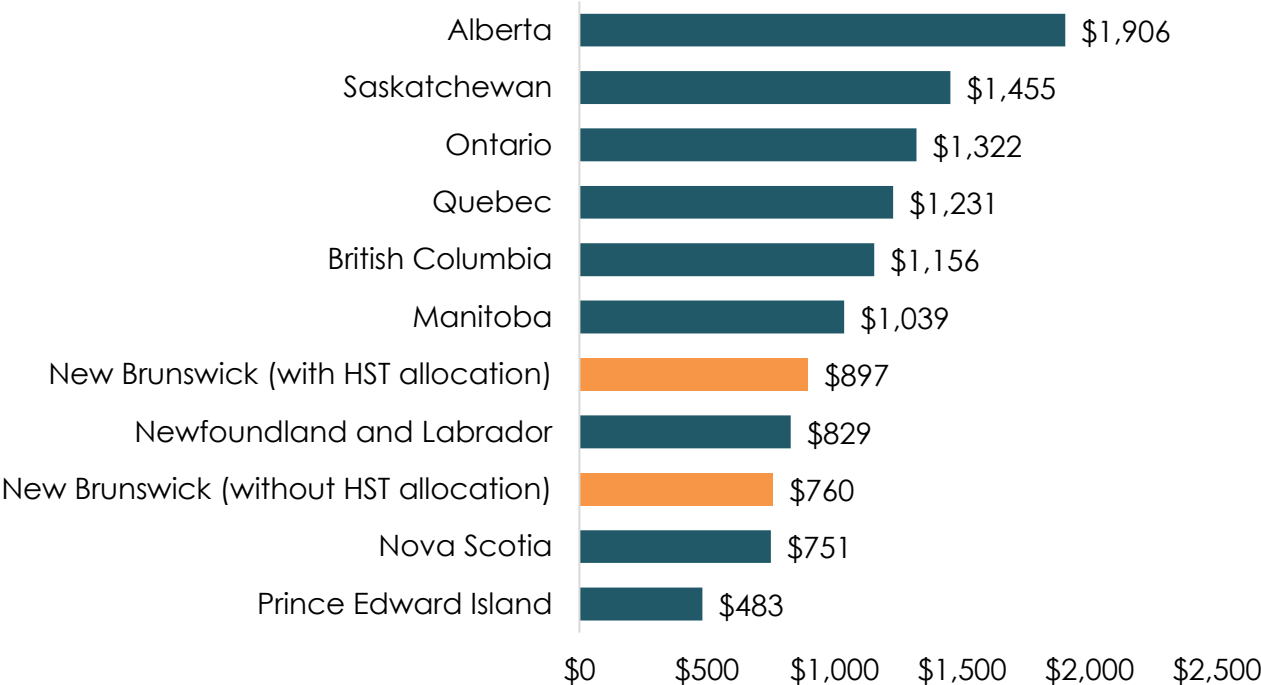


\*Expressed in chained (2017) dollars.  
Source: Statistics Canada Table: 36-10-0402-01.

Does New Brunswick have municipal government structure and funding level that is fit for purpose in the 2020s and beyond?

New Brunswick currently ranks eighth among the 10 provinces for municipal government per capita GDP. Adding the value of one point from the HST revenue collected by the Government of New Brunswick, would boost total municipal revenue by 18 percent (based on the 2024 revenue level). Assuming a correlated 18 percent increase in inflation-adjusted GDP contribution, New Brunswick would still rank seventh among the 10 provinces for per capita municipal government GDP contribution.

**Figure 4: Inflation-adjusted per capita GDP from the provision of local, municipal and regional public administration in 2023, with the addition of the proposed HST allocation in New Brunswick**



\*Expressed in Chained (2017) dollars.  
 Source: Statistics Canada Table: 36-10-0402-01.

## 4. New Brunswick’s municipal capital investment gap

### 4.1 Municipal infrastructure investment: Ranking the provinces

The GDP analysis above shows that New Brunswick municipalities contribute less GDP than most other provinces. This is a proxy for their size and role in the provincial economy. There is also data from Statistics Canada showing New Brunswick municipalities are underinvesting in infrastructure compared to most of their peers across the country.

Statistics Canada publishes annual data on capital expenditures (CAPEX) in the local, municipal and regional public administration sector (NAICS 913) across Canada. Table 1 shows a comparison of the 10 provinces and the roll up for the country overall. Across Canada, municipal government invested \$24.2 billion on capital expenditures in 2024. In New Brunswick, the local, municipal and regional public administration sector invested \$312 million. Adjusted for size, municipal CAPEX was 38 percent below the national level in 2024. New Brunswick ranked ninth out of the 10 provinces for population adjusted capital expenditures in the local, municipal and regional public administration sector.

Over the last five years, New Brunswick has ranked eighth among the 10 provinces for CAPEX in the local, municipal and regional public administration sector.

**Table 1: Municipal government capital investment (CAPEX) comparison**

	CAPEX 2024 (\$Million)	Per capita	Provincial rank	5-year average (per capita)	Provincial rank
Canada	\$24,172	\$585		\$451	
Newfoundland and Labrador	\$111	\$204	10	\$255	10
Prince Edward Island	\$91	\$511	8	\$406	6
Nova Scotia	\$551	\$512	7	\$338	9
<b>New Brunswick</b>	<b>\$312</b>	<b>\$365</b>	<b>9</b>	<b>\$379</b>	<b>8</b>
Quebec	\$4,943	\$546	5	\$445	4
Ontario	\$8,284	\$514	6	\$413	5
Manitoba	\$828	\$554	4	\$398	7
Saskatchewan	\$822	\$663	3	\$523	2
Alberta	\$3,957	\$809	1	\$609	1
British Columbia	\$3,993	\$701	2	\$455	3

Source: Statistics Canada Table: 34-10-0035-01.

This investment 'gap' can be quantified. In just the past four years, if New Brunswick municipalities had spent the national per capita level of CAPEX, it would have led to an additional \$331 million invested in the province (Table 2). Compared to the province of Alberta, the leader for municipal CAPEX across the country, the four-year investment gap was \$950 million.

**Table 2: New Brunswick's municipal government CAPEX gap, 2021-2024**

	<u>2021</u>	<u>2022</u>	<u>2023</u>	<u>2024</u>	<u>Total</u>
New Brunswick local governments - actual capital investment (\$Million)	\$253.1	\$274.2	\$341.6	\$311.9	\$1,180.8
New Brunswick local governments - assumes national per capita spending (\$Million)	\$309.8	\$324.7	\$377.3	\$500.2	\$1,512.0
<b>Four-year CAPEX gap (\$Million)</b>					<b>-\$331.2</b>

Source: Derived using Statistics Canada Table: 34-10-0035-01.

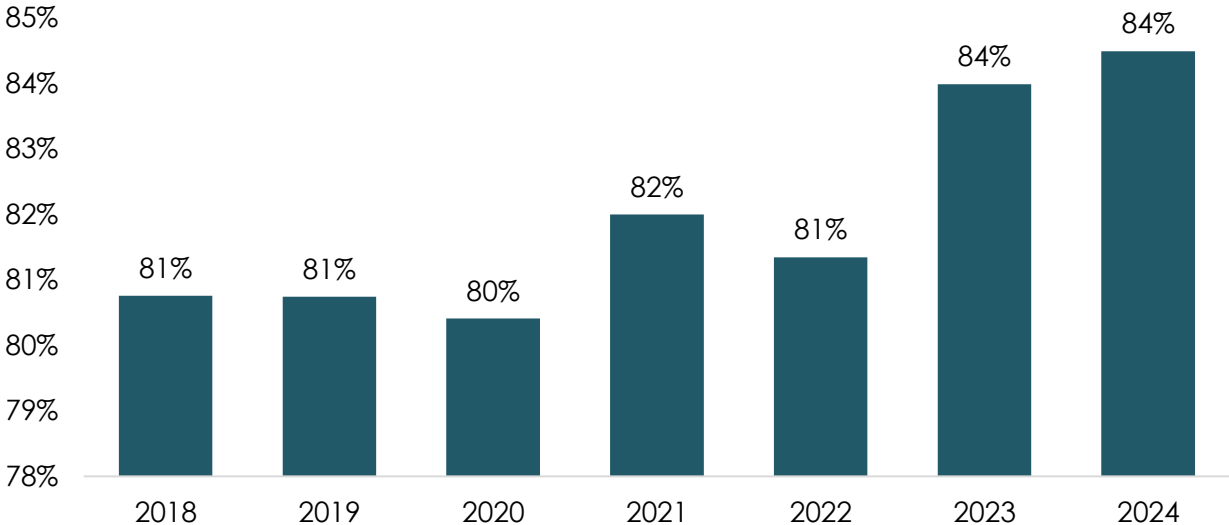
The Brett report referenced above concluded that New Brunswick municipalities are facing a \$2.5 billion infrastructure deficit with no clear plan to generate the revenue to address this deficit. The case for a sustainable source of new revenue to bring municipal capital spending in line with the rest of the country is developed below.

# 5. The case for diversifying municipal revenue

## 5.1 Municipalities are increasingly reliant on property tax revenue

New Brunswick municipalities are highly dependent on property tax revenue to fund the delivery of services and to support capital investment. As shown in Figure 5, this reliance has only increased in recent years. Adding all municipal governments together, the warrant accounted for 84 percent of total revenue in 2024.

**Figure 5: Warrant as a percentage of total revenue, all New Brunswick municipalities combined**



Source: New Brunswick Annual Report on Municipal Statistics.

## 5.2 Reasons to reduce reliance on property taxes

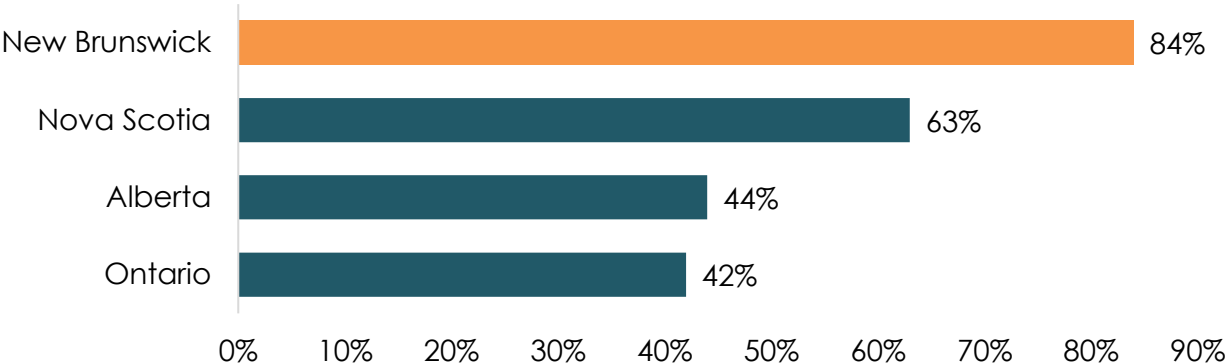
There are a number of important reasons why diversifying municipal government revenue makes good sense.

### **Reason #1: Other provinces' municipalities have much more diversified sources of revenue**

One main reason to try and broaden the sources of revenue for municipalities is that other provinces rely a lot less on property tax revenue. A detailed review of all provinces is beyond the scope of this report, but the examples of Nova Scotia, Ontario and Alberta are instructive. As shown in Figure 6, New Brunswick municipalities rely on property taxes for 84 percent of total revenue compared to 63 percent in Nova Scotia, only 44 percent in Alberta and 42 percent in Ontario.

Even with the \$238 million from one point of the HST revenue collected in 2024, New Brunswick municipalities would still generate 72 percent of all revenue from property taxes (see Section 5.4 below).

**Figure 6: Property tax revenue as a share of municipal government revenue**



Sources: New Brunswick Annual Report on Municipal Statistics, 2024, Nova Scotia Municipal Statistics Annual Report, 2022, Open data Alberta, municipal financial and statistical data, 2023, Altus Group Economic Consulting report, 2024.

**Example: Alberta municipalities**

On a per capita basis, Alberta has the largest municipal government sector in the country and the province's municipalities invest more each year in capital expenditures than all other provinces. Table 3 shows the breakdown of municipal revenue in Alberta by source. This information was taken from the province's open data portal for 2023 and represents the aggregate sources of revenue for all municipalities.

Property taxes account for only 44 percent of total revenue. Other major sources include direct sales and user charges (20.9%), provincial government funding (10.6%), federal funding and revenue from investments which accounted for 5.1 percent of total revenue in 2023.

It is important to note that in 2024, the community funding grants provided by the provincial government in New Brunswick to selected municipalities represents only 4.6 percent of total municipal government revenue.

**Table 3: Breakdown of revenue by source, Alberta municipalities (2023)**

Revenue source:	\$Million	% of total
Property (Net Municipal)	\$8,421.2	43.8%
Business Revitalization Zone	\$40.5	0.2%
Local Improvement	\$31.1	0.2%
Sales To Other Governments	\$32.1	0.2%
Sales and User Charges	\$4,017.3	20.9%
Penalties and Costs on Taxes	\$105.6	0.5%
Licenses and Permits	\$367.0	1.9%
Fines	\$147.5	0.8%
Franchise and Concession Contracts	\$782.9	4.1%
Returns on Investments (incl. Portfolio Investments)	\$982.9	5.1%
Rentals	\$254.8	1.3%
Net Gain on Sale of Tangible Capital Assets	\$27.4	0.1%
Contributed and Donated Assets	\$635.6	3.3%
Federal Government Operating Transfers	\$77.2	0.4%
Federal Government Capital Transfers	\$540.7	2.8%
Provincial Government Operating Transfers	\$578.7	3.0%
Provincial Government Capital Transfers	\$1,458.5	7.6%
Local Government Operating Transfers	\$102.5	0.5%
Local Government Capital Transfers	\$23.3	0.1%
Developer Agreements	\$290.8	1.5%
Offsite Levies	\$74.7	0.4%
Other Revenues	\$246.1	1.3%
Total Revenue	\$19,238.5	

Source: <https://open.alberta.ca/opendata/municipal-financial-and-statistical-data>

**Example: Nova Scotia municipalities**

The Nova Scotia government provides an annual report on municipal finances and other statistics<sup>4</sup>. In the report for 2022 (the most recent available online), property taxes accounted for 63 percent of total revenue followed by government transfers (17%), sales of services (10%), water fund revenues (3%) and other sources.

**Example: Ontario municipalities**

A recent Altus Group Economic Consulting report concluded that property taxes accounted for only 42 percent of total municipal government revenue in 2023.

<sup>4</sup> <https://beta.novascotia.ca/documents/municipal-statistics-annual-report-2022>

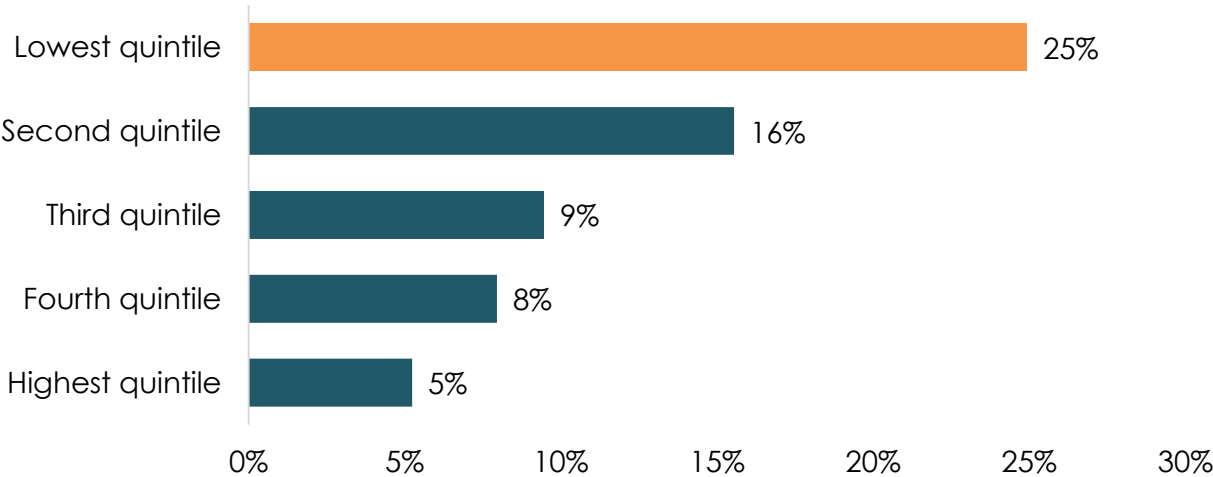
**Reason #2: Property taxes hit lower income households the hardest**

The property tax bill as a share of the total tax bill is much more pronounced at the lower household income quintiles. The steep increases in property tax bills in recent years tied to assessment growth has been particularly challenging for lower income households.

Property taxes account for an estimated 25 percent of total taxes paid by households at the lowest income quintile (based on owner-occupied households). By contrast, at the highest quintile, property taxes account for only five percent of the total household tax bill. Progressive rates ensure that lower income households pay very little income taxes and HST rebates limit lower income household exposure to sales taxes.

According to Statistics Canada, based on its annual survey of household spending, the lowest quintile households by income in New Brunswick spend 49 percent more on property taxes than on income taxes. By contrast, the highest income households in the province (highest quintile) pay 13 times more in income tax than property tax.

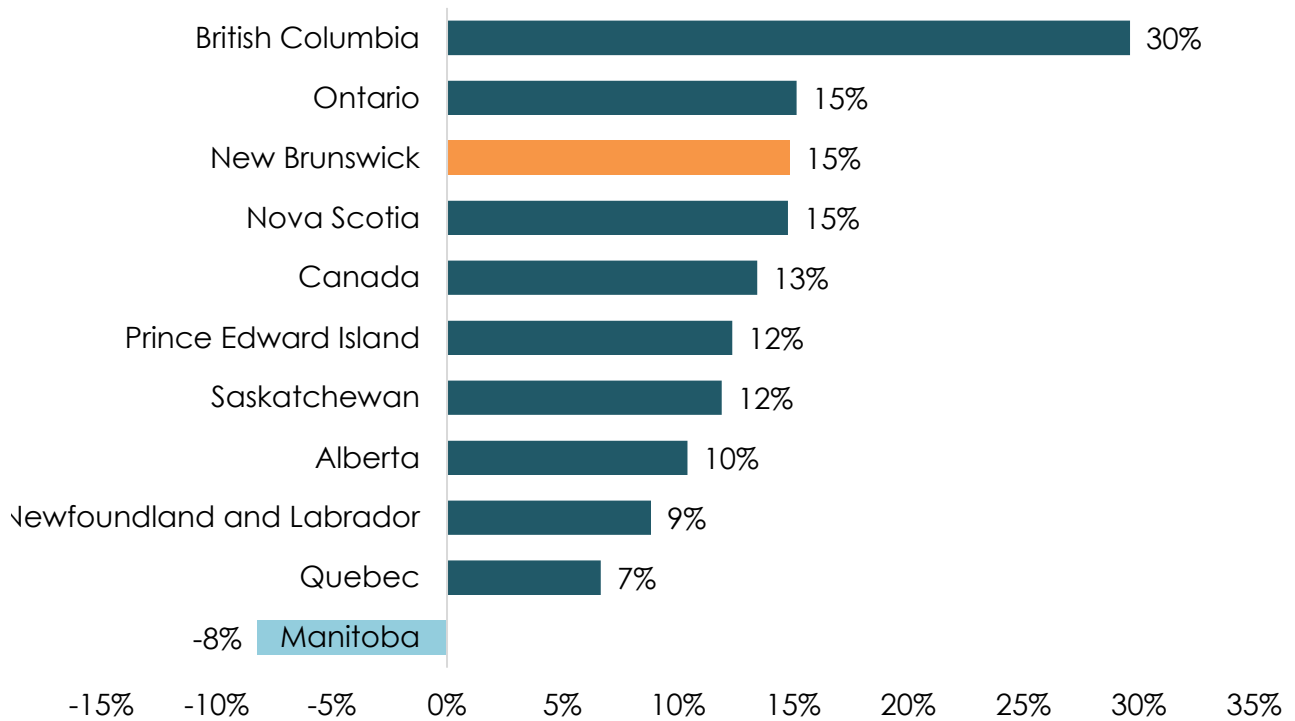
**Figure 7: Property taxes as a share of total taxes paid by household income quintile, New Brunswick**



Estimated for 2023. Owner-occupied households. Sources: Derived by Jupia Consultants Inc. using provincial government HST revenue data and other sources. Other levies include household fuel taxes.

Further, due to the rise in assessments, the overall inflation rate on property taxes in New Brunswick has increased faster than all other provinces except British Columbia. As shown in Figure 8, across the board property taxes have increased 15 percent in four years, similar to Ontario and Nova Scotia but faster than the rest of the provinces.

**Figure 8: Increase in the Consumer Price Index (CPI) associated with property taxes and other special charges, 2020-2024**

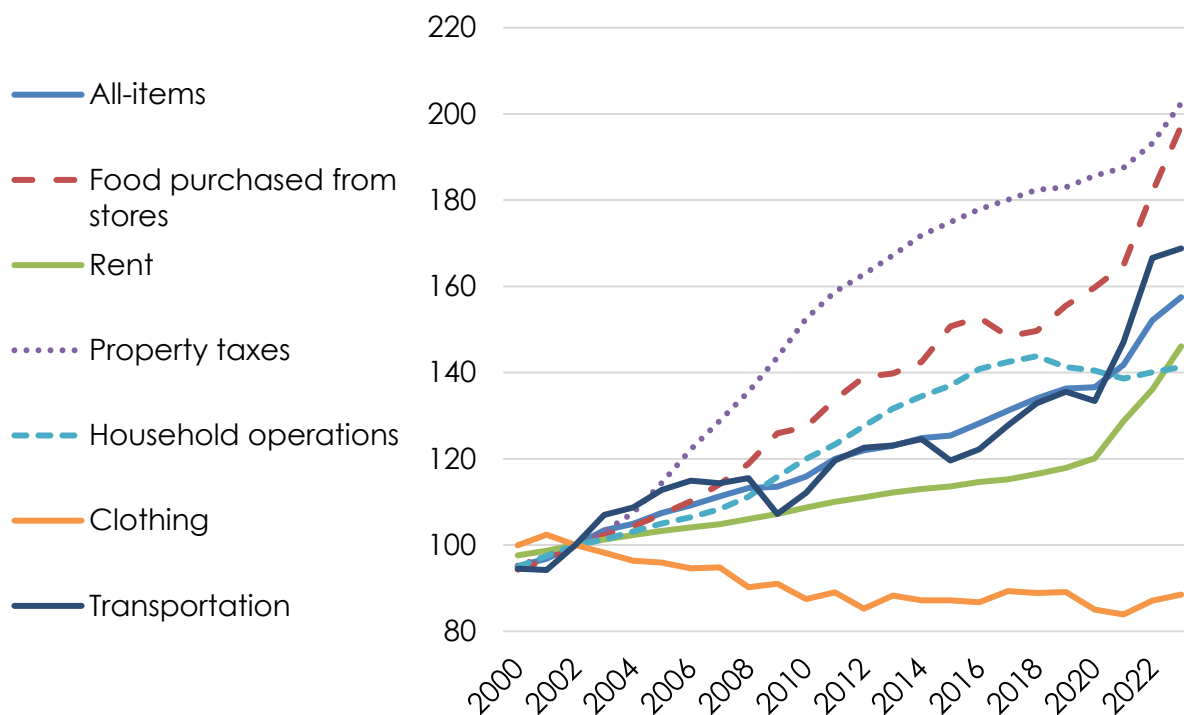


Source: Statistics Canada Table: 18-10-0005-01.

The increase in property taxes in New Brunswick has outpaced the growth of most other household costs since the early 2000s. As shown in Figure 9, the CPI level on property taxes in 2024 was 213 – meaning household property tax is now 113 percent higher than it was in 2002 (the base year set at 100).

Food costs are up 103 percent, rent is up 62 percent since 2002, household operations up 41 percent, transportation is up 70 percent. The cost of clothing has declined by 16 percent since 2002.

**Figure 9: Increase in the Consumer Price Index (CPI) on selected goods and services, 2000-2024 (2002 = 100)**



Source: Statistics Canada Table: 18-10-0005-01.

### What about renters and property tax?

Because of the double tax system in New Brunswick, renters contribute an even higher share of income to property taxes, albeit indirectly through rents. Table 4 shows the example of the City of Fredericton. Based on data from Service New Brunswick, in 2024 rental/non-owner-occupied dwellings provided \$42.3 million in municipal property tax revenue to the city or 29 percent of the total warrant. On a per dwelling basis, this represents just over \$2,700 per dwelling (and this is only the municipal portion of the property taxes owed).

**Table 4: Breakdown of the City of Fredericton's warrant by source (2024)**

Source:	Municipal property taxes paid	% of total	Per dwelling
Residential	\$107,201,609	72%	\$3,186
Owner-occupied	\$64,948,023	44%	\$3,585
Rental/non-owner occupied*	\$42,253,586	29%	\$2,721
Non-residential	\$41,010,938	28%	
Total warrant	\$148,212,547		

\*Municipal portion only. Source: Service New Brunswick

There are a number of considerations related to property taxes and renters. On average renters have a much lower household income compared to owners and this results in a larger share of income going to cover shelter costs. Shelter costs include rent, mortgage payments, property taxes, insurance and utilities. Again, using the example of Fredericton, from the 2021 Census, one in three tenant households in the city spent more than 30 percent of household income on shelter compared to less than 10 percent among households that owned their dwelling.

Further, inflation on renters has been much higher than on owned dwellings since the pandemic. The costs associated with rented accommodations (rent, insurance, etc.) increased by 36 percent between 2019 and 2024 while the costs for owners increased by only 22 percent.

**Figure 10: CPI percentage increase between 2019 and 2024, costs associated with owned versus rented accommodations, New Brunswick**



Source: Statistics Canada Table 18-10-0005-01.

**Reason #3: A diversified revenue stream will help keep property tax rates competitive**

In 2012, the average household in New Brunswick paid 30 percent less in property taxes relative to total household income compared to the country overall. By 2021, the gap had been cut to 16 percent and given the inflation rate since, has likely narrowed further.

If the province's municipalities are able to diversify revenue sources, it should moderate upward pressure on the amount of property taxes extracted from residents and businesses.

**5.3 Why the HST?**

There are many potential options to consider when thinking about diversifying municipal government revenue. One option would be to allow municipalities to charge different types of tax including a sales tax. Many U.S. cities charge a sales tax. Some even charge income taxes. Other options could be vehicle registration taxes, or other direct fees to cover specific costs. The provincial government could also just provide new block grants to municipalities based on a new formula.

Sharing a portion of HST revenues is a reasonable solution. First, it diversifies municipal revenue adding a completely different source. It would provide fairly predictable increases in revenue year-over-year and it would be tied to growth overall in the province. The amount (one percentage point) should be large enough to support both operational and capital investment needs.

### 5.4 The impact of adding HST revenue to municipal funding

What would be the impact of providing one of the 10 percentage points of HST revenue to municipalities? Table 5 shows the potential impact based on 2024 revenue sources for all municipalities combined. The expected HST revenue in 2024-2025, from the GNB Main Estimates document, is budgeted at \$2.38 billion. One percent of that amount is \$238 million.

Adding the \$238 million to the total municipal funding leads to total revenue growth of 18 percent. It pushes down the share of the warrant to 72 percent and brings up provincial funding closer to 20 percent.

HST is likely not as predictable a source of revenue as some others as it can vary from year to year based on the growth of household spending. Further, governments are targeting the HST for other public policy goals such as lowering electricity bills or the recent federal government sales tax holiday. Nevertheless, diversifying municipal revenue sources is a good idea and allocating a portion of the HST makes good sense.

**Table 5: Impact of adding the revenue from an HST point to New Brunswick municipal government revenue**

	Actual (2024)	% of total	with HST point	% of total
Warrant	\$1,115.1	<b>84%</b>	\$1,115.1	<b>72%</b>
Community Funding Grant	\$60.2	4.6%	\$60.2	3.9%
Services to other governments	\$25.2	1.9%	\$25.2	1.6%
Sale of Services	\$46.4	3.5%	\$46.4	3.0%
Other revenue own source	\$37.4	2.8%	\$37.4	2.4%
Conditional transfers	\$4.4	0.3%	\$4.4	0.3%
Other transfers	\$18.7	1.4%	\$18.7	1.2%
Previous year surplus	\$12.4	0.9%	\$12.4	1%
<b>Added: HST point</b>			<b>\$238.0</b>	<b>15%</b>
Total revenues	\$1,319.8		\$1,557.8	

Sources: New Brunswick Annual Report on Municipal Statistics, GNB Main Estimates.

## 6. Towards highly effective and sustainable municipal government

### 6.1 Ensuring a right sized municipal workforce

A primary goal of strengthening the fiscal foundation for municipal government in New Brunswick is to ensure it can play a valuable role in the province's growth and prosperity in the years ahead. It could be argued that most of the decisions influencing where people live in Canada are community-based (employment, housing, crime, schools, other quality of life factors). This is not to downplay the importance of provincial and national government – but without highly livable and successful communities, it will be hard to achieve provincial or national goals related to economic and population growth.

As discussed above, municipal government in New Brunswick is smaller than most other provinces in Canada both in terms of its per capita real GDP and capital investment activity. New Brunswick's municipal government services sector also has considerably less workers compared to its peers. As shown in Table 6, there were 6,310 employed in municipal government services across the province in 2023<sup>5</sup>, or 1.1 percent of the national workforce. Relative to population size, employment in municipal government in New Brunswick ranks ninth out of ten provinces. Adjusted for population size, there are nearly twice as many workers in the municipal government sector across the country compared to New Brunswick.

Again, relative to population size, no other province has seen a steeper decline in the number of municipal workers over the 10-year period 2013-2023. Over the decade, the number of municipal workers per 10,000 residents has dipped by 13 percent.

**Table 6: Total workforce, municipal government services, 2023**

	<u>Workforce</u>	<u>Per 10,000 residents</u>	<u>Relative change (2013-2023)</u>
Ontario	266,150	170	-3%
Saskatchewan	18,255	151	23%
Canada	568,895	142	-1%
Alberta	64,635	138	-2%
Quebec	108,850	123	2%
British Columbia	66,815	121	5%
Manitoba	17,380	119	-2%
Nova Scotia	10,510	99	-10%
Newfoundland and Labrador	5,115	95	4%
<b>New Brunswick</b>	<b>6,310</b>	<b>76</b>	<b>-13%</b>
Prince Edward Island	1,210	70	-8%

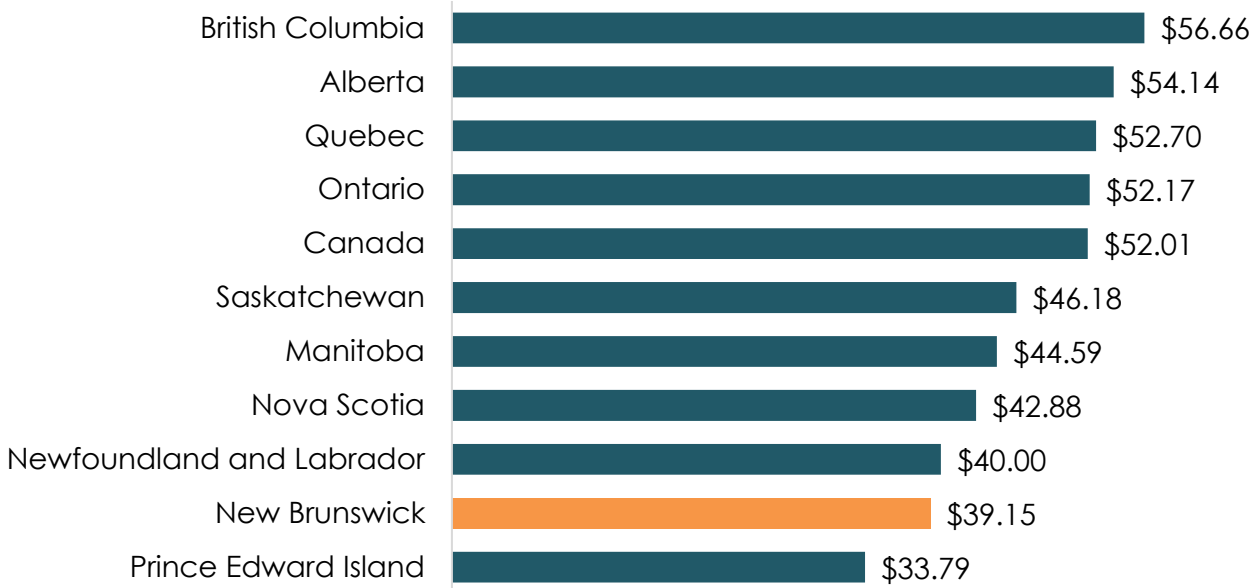
Source: Statistics Canada Table: 36-10-0480-01.

<sup>5</sup> Excluding First Nations government.

## 6.2 Ensuring competitive compensation

Municipal employees in New Brunswick are paid considerably less than their peers across the country. As shown in Figure 11, according to Statistics Canada, the total compensation per hour worked in this sector in New Brunswick was \$39.15 compared to \$52.17/hour across the country. Total compensation includes financial benefits such as health care and pension payments. Only Prince Edward Island has a lower total compensation per hour worked compared to New Brunswick.

**Figure 11: Total compensation per hour worked, municipal government services, 2023**

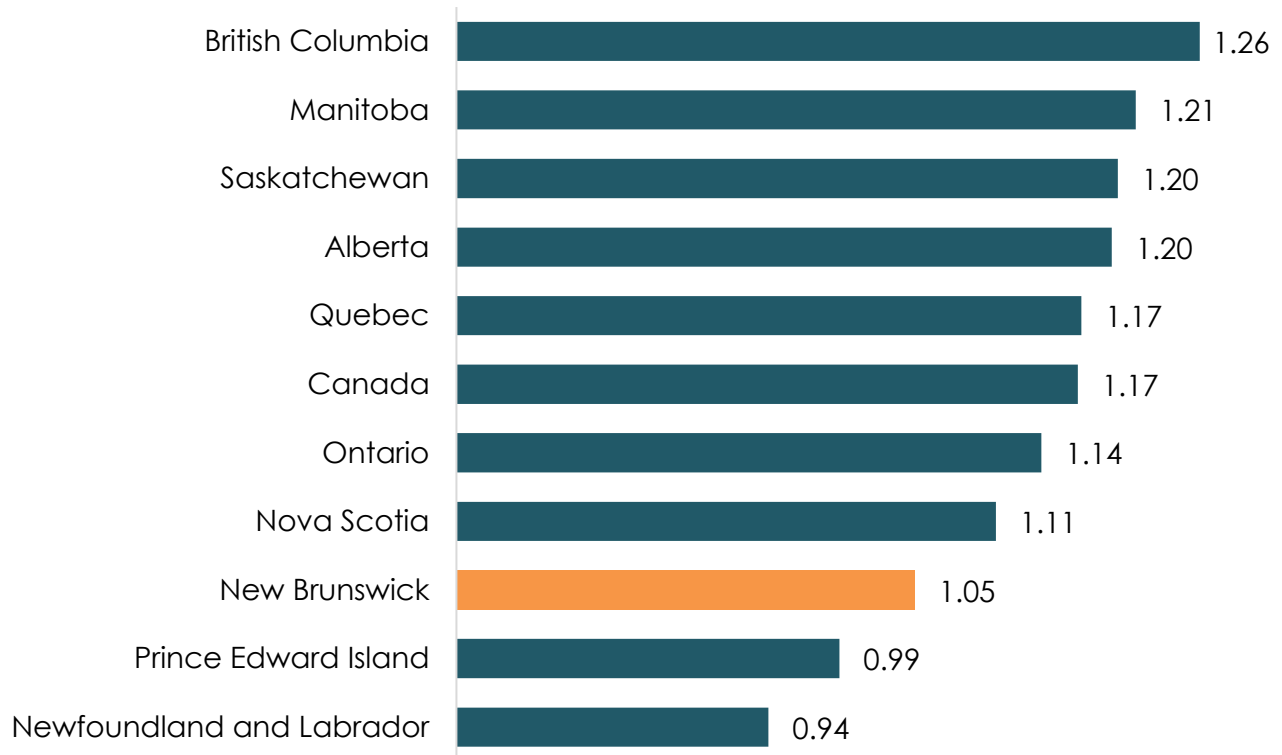


Source: Statistics Canada Table: 36-10-0480-01.

It is true in general that wages overall in New Brunswick are lower than most other provinces. To account for this, Figure 12 below shows the total compensation per hour worked in the municipal government services sector as an index with the all-industry average in each province set at 1.00. In other words, any number above 1.00 means a total compensation per hour worked above the provincial average.

In New Brunswick, the total compensation per hour worked in the municipal government services sector was five percent higher than the average for all industries (Index=1.05). That ranks the province eighth out of 10 provinces for municipal government services wages relative to the provincial average wage. In British Columbia, municipal workers earn 26 percent more than the average for all industries.

**Figure 12: Total compensation per hour worked, municipal government services, as an index with the all-industry average in each province set at 1.00, 2023**



Source: Statistics Canada Table: 36-10-0480-01.

How does total compensation per hour worked in the municipal government services sector compare to other levels of government? In 2023, federal government workers in New Brunswick earned an average total compensation per hour worked of \$66.57, or 70 percent higher than municipal workers. Provincial government employees (not including health care or education) received total compensation per hour worked of \$67.55, or 73 percent higher than municipal workers<sup>6</sup>.

Table 7 compares the total compensation per hour worked in New Brunswick to the sector across the country. Provincial government employees earn almost the national average (Index = 0.99). Federal employees in New Brunswick earn 20 percent less than their counterparts across the country (Index = 0.80) and municipal workers earn 25 percent less than the average worker in this sector across the country.

<sup>6</sup> Some of this variance is likely due to the higher levels of education required in the provincial and federal workforce. According to the 2021 Census, among full-time, full-year workers, 43% of the federal workforce in New Brunswick and 52 percent of the provincial government workforce had a university degree compared to 23 percent of the municipal government workforce.

**Table 7: Total compensation per hour worked by level of government, New Brunswick, 2023\***

	Total compensation per hour worked	Change 2019-2023	Index (CAN=1.00)
Federal government services (excluding defence)	\$66.57	15%	0.80
Provincial government services	\$67.55	31%	0.99
Municipal government services	\$39.15	12%	0.75

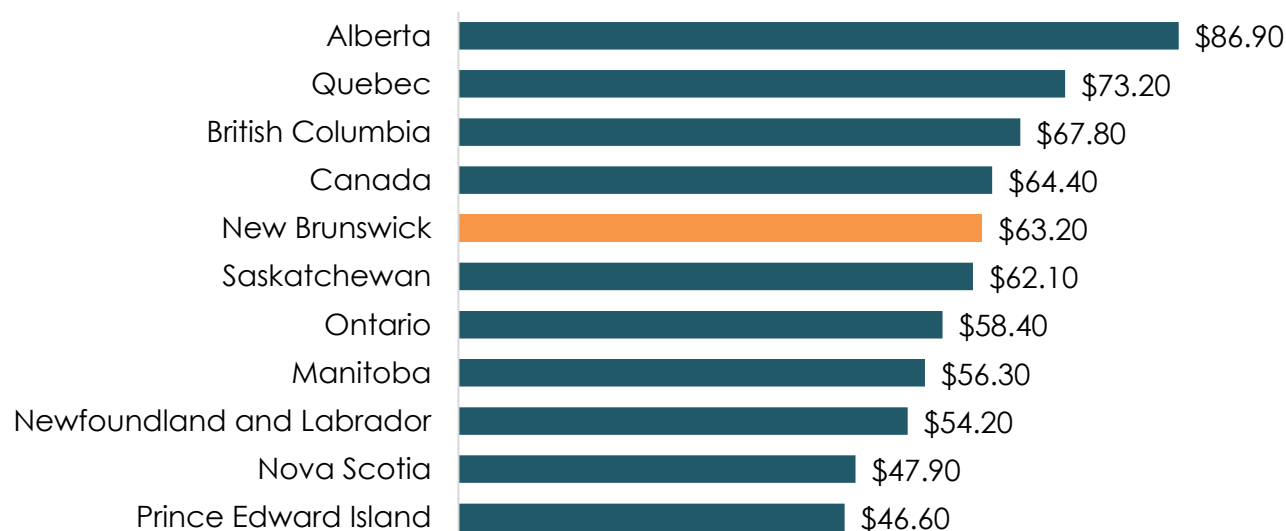
\*excludes health care and education.

Source: Statistics Canada Table: 36-10-0480-01.

### 6.3 Labour productivity in the municipal services sector

Despite this, the municipal government services sector in New Brunswick is more 'productive' than most other provinces across the country. Labour productivity represents the amount of 'value-added' per hour worked. Adjusted for inflation, labour productivity in the municipal government services sector in New Brunswick in 2023 was \$63.20/hour, considerably better than Ontario, Manitoba, Newfoundland and Labrador, Nova Scotia and Prince Edward Island.

**Figure 13: Labour productivity per hour worked, municipal services sector, 2023**



Chained (2017) dollars per hour.

Source: Statistics Canada Table: 36-10-0480-01.

Labour productivity in the public sector is an economic measure but it does point to the economic efficiency of municipal public services. As discussed above, not only is average compensation per hour worked is lower in municipal government services than other levels of government, labour productivity is mostly higher. As shown in Figure 10, labour productivity in municipal government services is 22 percent higher than the government sector overall, double the premium for the country as a whole.

**Table 8: Labour productivity per hour worked, municipal services compared to the overall government sector\*, 2023**

	<u>Canada</u>	New <u>Brunswick</u>
Government sector*	\$58.20	\$51.90
Municipal government services	\$64.40	\$63.20
Municipal productivity relative to the overall government sector (overall government sector =1 .00)	1.11	1.22

*\*includes federal, provincial and municipal public administration as well as government delivered health care and education services.*

Chained (2017) dollars per hour.

Source: Statistics Canada Table: 36-10-0480-01.

## 7. Boosting municipal economic impact

This section looks at the economic impact associated with the spending of the HST point transferred to municipal governments in New Brunswick. In 2024-2025 this equates to \$238 million (one percent of the \$2.38 billion revenue expected from HST in 2024-2025).

### 7.1 The economic impact model

The economic impact model used to estimate how the spending of the HST point transferred to municipal governments impacts the New Brunswick economy is based on Statistics Canada's Input-Output (I-O) tables which provide a detailed profile of how expenditures in specific sectors flow through the provincial and national economy, as well as through international trade. The economic impact model evaluates the direct, indirect and induced economic impact, using the following parameters:

- *Direct impact* measures the value-added to the economy attributed directly from the wages earned and the revenues generated from the workforce spending in New Brunswick and Canada.
- *Indirect impact* measures the value-added generated within the regional economy through firm and organizational demand for intermediate inputs or other support services (e.g. the supply chain).
- *Induced impacts* are derived when workers in the aforementioned industries spend their earnings. These purchases lead to more employment, higher wages and increased income and tax revenues, and can be felt across a wide range of industries.

The I-O tables trace the impact of economic activity (output shock) on the provincial and national economies (including imports and exports). In addition to the GDP and employment impacts, the economic impact model estimates the amount of tax revenue supported by the industry, as well as consumer spending impacts.

The industries used in the model included (industry classification in brackets):

- Other municipal government services [GS913000]
- Water, sewage and other systems [BS221300]
- Non-residential building construction [BS23B000]
- Transportation engineering construction [BS23C100]

This report only looks at the economic impacts within New Brunswick.

The model assumes 50 percent of the \$238 million will be spent on municipal government services operations and 50 percent will be spent on capital expenditures (CAPEX) with one-third being spent in each of the three areas: water, sewage and other systems, non-residential building construction, and transportation engineering construction. For this section, the economic impact is only associated with the new spending. The opportunity to leverage other sources of funding is discussed in Section 7.3.

See Appendix A for additional sources and methodological considerations.

## 7.2 Economic boost from new annual municipal spending

Using the economic multipliers as developed in Section 7.1, a range of economic impacts can be estimated. Table 8 shows the estimated annual economic impacts associated with the spending of the HST point transferred to municipal governments.

The \$238 million was broken into two equal spending categories: municipal operations and capital expenditures (CAPEX). The \$119 million spent on municipal operations is expected to boost provincial GDP by \$115.7 million per year, increase employment income by \$56.4 million and support 930 full-time equivalent (FTE) jobs. This includes direct, indirect and induced impacts (as defined in Section 7.1). The CAPEX is expected to increase provincial GDP by \$102.7 million supporting 1,126 FTE jobs and \$69.3 million worth of employment income. Combined, the operational and CAPEX will increase provincial GDP by over \$218 million, boost employment income by \$125.7 million and support 2,057 FTE jobs across the province.

An important impact is the amount of spending that flows right back into local communities across the province. Household spending on consumer goods and services, induced by the new municipal spending, will be an estimated \$94.5 million per year.

The new municipal spending will induce a considerable amount of tax revenue for municipal, provincial and federal governments. Through the property taxes induced from employment income and from businesses, new municipal tax revenue supported by the spending is expected to be \$4.7 million per year. This does not include any sales tax revenue transferred from the provincial government.

The provincial and federal government tax multipliers are based on employment income-based taxes (HST, personal income tax), indirect taxes as well as estimated corporate income tax. The provincial government is expected to see \$27.6 million in annual tax revenue and the federal government will generate \$22.2 million.

Combined the three levels of government will see \$54.5 million in tax revenue each year or an amount equivalent to 25 percent of the provincial GDP contribution.

**Table 9: Annual economic impacts – boost in municipal spending as a result of the one-point HST transfer to municipalities (\$000s)**

	Municipal <u>operations</u>	Municipal <u>CAPEX</u>	<u>Total</u>
Spending	\$119,045	\$119,045	\$238,090
Provincial GDP contribution	\$115,712	\$102,686	\$218,398
Employment income	\$56,427	\$69,277	\$125,705
Jobs - Direct (FTE)	554		
Jobs - Total (FTE)	930	1,126	2,057
Household spending	\$42,430	\$52,093	\$94,523
<i>Taxes</i>			
Taxes on employment income	\$16,542	\$20,309	\$36,852
Indirect taxes	<u>\$8,571</u>	<u>\$9,047</u>	<u>\$17,618</u>
Total taxes	\$25,114	\$29,356	\$54,469
<i>Taxes by level of government</i>			
Municipal	\$2,193	\$2,530	\$4,724
Provincial	\$12,770	\$14,792	\$27,562
Federal	\$10,150	\$12,034	\$22,184

FTE = full-time employment.

Source: Developed by Jupia Consultants Inc. See Appendix A.

### **Annual household spending impacts: Detailed**

How does the \$94.5 million in annual household spending filter through the economy? Table 9 estimates how the employment income flows through the economy. It is based on typical household spending in the province.

Grocery stores and restaurants will benefit from \$16.3 million worth of sales. Shelter costs supported will be an estimated \$24.1 million. This includes mortgage payments, rent, utilities, insurance and other shelter-related costs. Companies providing communication services will receive an estimated \$4.8 million while those selling household furnishings and equipment receive \$5.9 million. Transportation spending will be an estimated \$15.8 million including \$7.6 million on vehicle operations, \$1.8 million on insurance and over \$3.4 million on gasoline and other fuels.

Pharmacies, dentists and ophthalmologists will generate considerable revenue from the new spending as will the recreation sector (\$6.7 million).

**Table 10: Annual household spending in New Brunswick induced by the \$238 million in new municipal expenditures (\$000s)**

<u>Household spending category:</u>		<u>Household spending category:</u>	
Total current consumption in NB	\$94,523	Health care	\$4,266
Food expenditures	\$16,322	Medicines & pharmaceutical products	\$1,344
Food purchased from stores	\$12,870	Eye-care goods and services	\$312
Food purchased from restaurants	\$3,038	Dental services	\$545
Shelter	\$24,107	Personal care	\$2,009
Water, fuel and electricity	\$5,239	Private health/dental plan premiums	\$1,773
Insurance premiums	\$1,698	Recreation	\$6,700
Household operations	\$8,585	Entertainment	\$1,412
Communications	\$4,758	Purchase of recreational vehicles	\$2,009
Pet expenses	\$1,029	Financial services	\$807
Household furnishings/equipment	\$5,889	Retirement and pension fund payments	\$7,947
Clothing and accessories	\$3,312	Gifts of money & charitable contributions	\$2,043
Transportation	\$15,800		
Purchase of automobiles/vans/trucks	\$6,955		
Automobile/van/truck operations	\$7,643		
Vehicle insurance premiums	\$1,972		
Gas and other fuels	\$3,433		

Source: Derived by Jupia Consultants Inc. See Appendix A.

### **7.3 Leveraging federal government and other sources of funding**

The new municipal funding for capital expenditures can be used to leverage other sources of funding. For example, most federal government programs require some level of funding provided by the municipal and/or provincial governments.

A good example of this is the Canada Housing Infrastructure Fund. It was recently announced the Government of New Brunswick will receive \$150.5 million under this federal program to help communities build or improve infrastructure related to drinking water, wastewater, stormwater and solid waste.

The funding will be used to build or upgrade \$60+ million worth of water and wastewater infrastructure in Fredericton, Fundy-St. Martins, Riverview, Rothesay and Strait Shores. The provincial government is contributing more than \$20.3 million, the federal government is investing \$29.8 million, and the municipal governments are providing more than \$10.9 million for their respective projects.

The new municipal funding for capital expenditures should also accelerate private sector investment in residential and non-residential projects.

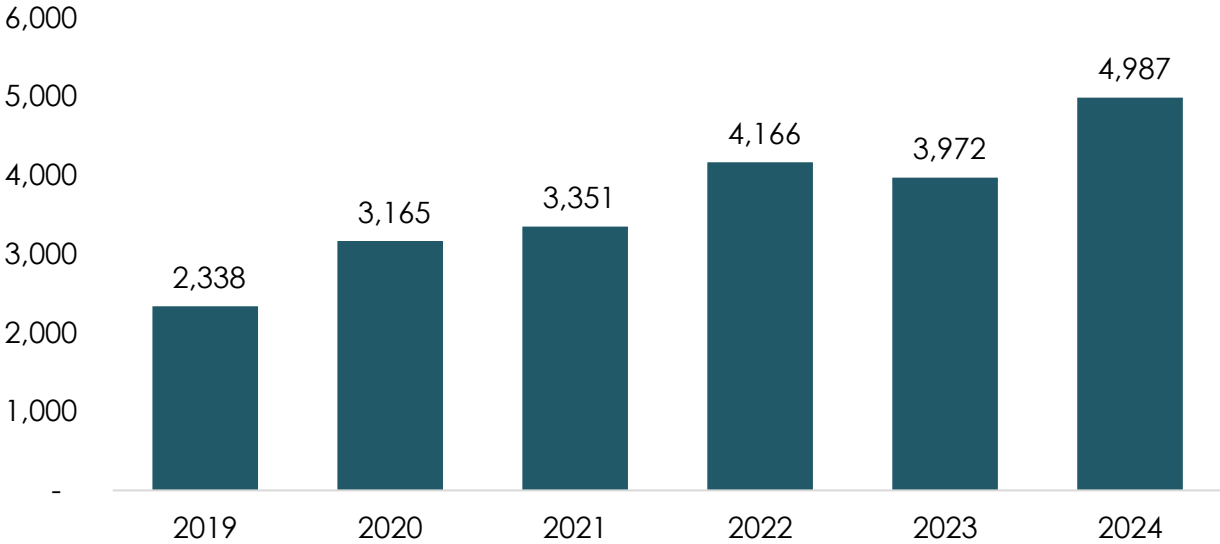
# 8. Supporting the provincial housing target

## 8.1 Housing is a key provincial government priority

One of the provincial government's top priorities is the building of more housing and "enhancing housing options" which "will help us support communities in building inclusive and accessible housing for everyone". The target is to build 24,000 more homes between 2025 and 2028 and increase the number of affordable housing starts. This represents an annual average of 6,000 new homes built.

As shown in Figure 14, the Canada Mortgage and Housing Corporation (CMHC) reports there were just under 5,000 housing starts in New Brunswick during 2024. To build 6,000 per year through 2028 will require a 20 percent increase over the 2024 level and a 37 percent increase relative to the average housing starts in the 2022-2024 timeframe.

**Figure 14: Housing starts by year, New Brunswick**



Source: Statistics Canada Table: 34-10-0143-01.

According to Statistics Canada, gross fixed capital formation (investment) in residential structures across the province in 2023 exceeded \$3.3 billion, up 63 percent from 2019.

## 8.2 Keeping up with municipal infrastructure investment

As discussed in Section 4 above, New Brunswick municipalities are investing less capital than almost all other provinces except Newfoundland and Labrador and Nova Scotia. The proposed new investment using 50 percent of the value of the HST point would significantly enhance municipal spending on infrastructure to support the provincial government goal of 24,000 new homes built between 2025-2028. The example below shows what would have happened if municipalities had been provided the HST point over the past five years and used half of it for capital investment (CAPEX).

If the \$119 million in HST funds for municipal capital investment had been provided in 2024 (50% of the \$238 million), it would have boosted municipal CAPEX from \$312 million to \$431 million. This would have raised municipal investment from \$365 per capita to \$504 per capita. Even with the new HST funds for municipal capital investment, in 2024 New Brunswick municipalities would have still been investing 14 percent below the national level and would still rank eighth among the 10 provinces for per capita investment.

Table 10 shows the increase in municipal capital investment in New Brunswick over the past five years if 50 percent of the HST point had been allocated to municipal CAPEX. It would have added a total of just under \$500 million to municipal capital investment over the five-year period which would have represented a 32 percent increase.

**Table 11: Municipal capital investment levels in New Brunswick if HST amount had been provided over past five years (\$Millions)**

	GNB HST collected*	Theoretical amount allocated to municipalities	Amount for CAPEX (50%)	Actual spent on municipal CAPEX**	If HST funds had been added	% change in municipal CAPEX
2020-2021	\$1,454.5	\$145.5	\$72.7	\$361.8	\$434.5	20%
2021-2022	\$1,823.5	\$182.4	\$91.2	\$253.1	\$344.3	36%
2022-2023	\$1,904.9	\$190.5	\$95.2	\$274.2	\$369.4	35%
2023-2024	\$2,248.2	\$224.8	\$112.4	\$341.6	\$454.0	33%
2024-2025***	\$2,380.9	\$238.1	\$119.0	\$311.9	\$430.9	38%
Five-year totals	\$9,812.0	\$981.2	\$490.6	\$1,542.6	\$2,033.2	32%

\*Source: GNB Main Estimates.

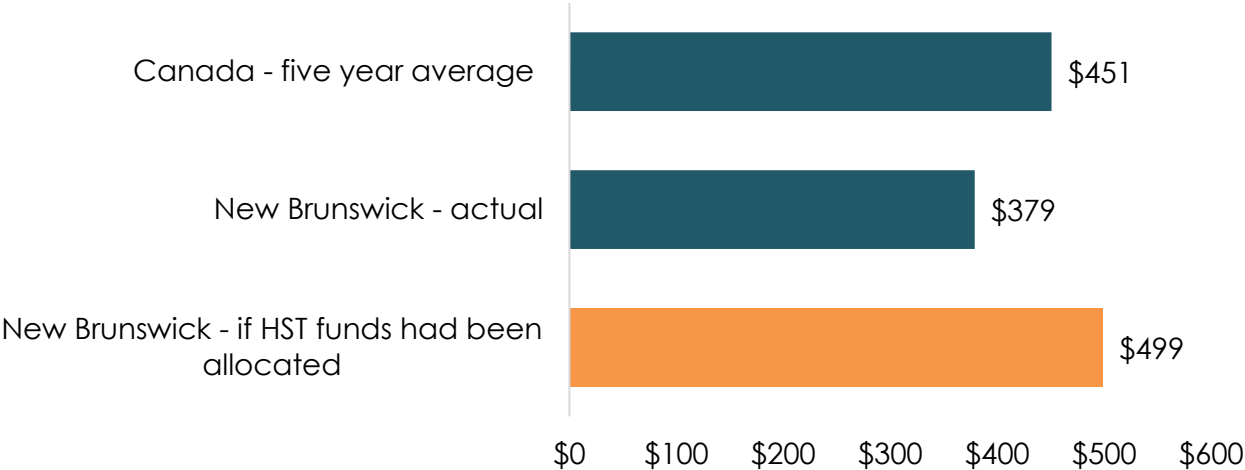
\*\*Source: Statistics Canada Table 34-10-0035-01.

\*\*\*budgeted.

Source: Derived by Jupia Consultants Inc.

Figure 15 shows how the increased municipal CAPEX would have compared to the national level of spending in this area. Over the five years, New Brunswick municipalities invested 16 percent less on CAPEX compared to the average for municipalities across the country. If the HST funding had been applied, New Brunswick municipalities would have been investing at slightly above the national level.

**Figure 15: Five-year average per capita municipal capital investment, 2020-2024**



Source: Derived by Jupia Consultants Inc.

### 8.3 Looking towards the future: Sustainably investing in municipal infrastructure

In order to meet the provincial government's target of 6,000 new homes per year through 2028, municipalities will be required to invest in related infrastructure.

In a recent report<sup>7</sup>, Dr. Craig Brett, Professor of Economics at Mount Allison University estimated the municipal infrastructure shortfall in New Brunswick to be approximately \$2.5 billion. While there is no comprehensive assessment of the shortfall, he based his estimate on a review of five of the largest municipalities in the province. This means municipalities will need to make up for this capital investment gap at the same time as supporting the provincial government's push for 6,000 new houses constructed per year through 2028. Dr. Brett suggests just addressing the infrastructure backlog will be a \$100 million cost for municipalities every year.

<sup>7</sup> Toward a New Fiscal Framework for New Brunswick Municipalities. August 2024.

According to an analysis completed by the Federation of Canadian Municipalities, the municipal government cost per door in 2024 is estimated to be \$59,475. This does not include the infrastructure-related costs incurred by the residential construction firms. It does include costs such as roads and bridges, public transit assets, active transportation, potable water assets, wastewater assets, stormwater assets, solid waste assets and culture, recreation and sports facilities.

Table 11 provides a framework that estimates the cost of municipal government required housing-related investment over the next four years with and without a boost in capacity to fund infrastructure using one half of the HST point transfer to municipalities considered in this report. It does not include inflation related considerations and, for simplicity, assumes the costs are spread evenly over the four-year period.

As discussed above, between 2021 and 2025, municipalities in New Brunswick made \$308.5 million per year in capital investment (CAPEX)<sup>8</sup>. This data is from Statistics Canada and is not adjusted for inflation. Based on the cost per door for municipal infrastructure in New Brunswick and the goal of 6,000 new houses per year, this results in the need for municipalities to invest \$357 million per year (\$59,475 times 6,000). Assuming municipalities also need to address the infrastructure backlog developed in the Dr. Brett report, that would require another \$100 million per year in municipal infrastructure spending. In total, municipalities should be spending \$457 million per year on infrastructure, not considering inflation.

Assuming municipalities continue to invest the \$308.5 million per year on infrastructure (i.e. no increase in investment), or a four-year total of \$1.23 billion, that would lead to an increase in the infrastructure backlog of \$593 million just over the next four years.

If one half (50%) of one HST point was added to municipal capital spending over the next four years, the increase in the municipal infrastructure shortfall by 2028-2029 would drop to only \$117 million.

Of course, this is a simple model that does not account for inflation and is based on the estimated cost per door for municipal infrastructure. Some of the costs of this infrastructure scales in parallel to new housing development and some is triggered at a certain level of demand. However, it does clearly show that if municipalities are to keep up with the demand for infrastructure and address the backlog, there is a need for significant new funding on an ongoing basis.

---

<sup>8</sup> Using NAICS 913 Local, municipal and regional public administration.

**Table 12: The risk of not boosting investment in municipal infrastructure**

**Historical investment in the NB municipal government sector (Statistics Canada)<sup>1</sup>**

<u>Fiscal year:</u>	<u>Total CAPEX (\$M)</u>
2020-2021	\$361.8
2021-2022	\$253.1
2022-2023	\$274.2
2023-2024	\$341.6
2024-2025 (projected)	\$311.9
Five-year average CAPEX	\$308.5

**Projected investment needs through 2028-2029**

	<u>Housing-related (\$M)<sup>2</sup></u>	<u>Addressing the infrastructure backlog (\$M)<sup>3</sup></u>	<u>Total CAPEX (\$M)</u>	<u>Amount needed in excess of the previous five-year average (\$308.5M)</u>
2025-2026	\$356.8	\$100	\$456.8	+48%
2026-2027	\$356.8	\$100	\$456.8	+48%
2027-2028	\$356.8	\$100	\$456.8	+48%
2028-2029	\$356.8	\$100	\$456.8	+48%
Four-year CAPEX	\$1,427.2	\$400.0	\$1,827.2	

If municipalities only invest at the 5-year average above (\$308.5M)<sup>4</sup>

\$1,234 million CAPEX total over four years

Leading to an increase in the municipal infrastructure shortfall by 2028-2029 of:

\$593.1 million

If 50% of HST point added to municipal capital spending the increase in the municipal infrastructure shortfall by 2028-2029 declines to:

\$117 million<sup>5</sup>

Notes:

1. Source: Statistics Canada Table 34-10-0035-01.
2. Assumes 6,000 houses at \$59,475 per door. Does not consider the impact of inflation.
3. Based on the recommendation in the Brett report.
4. Assumes municipalities continue to make capital investments at the same level as 2020-2021 to 2024-2025.
5. Assumes half of one HST point based on the 2024-2025 estimate of HST revenue to be collected by GNB in 2024-2025 (GNB Main Estimates).

## 9. Conclusion

New Brunswick is known for its high quality of life. Over many decades, crime rates have been relatively low, housing costs reasonable, commuting times well below average. On surveys of life satisfaction, New Brunswickers rank themselves quite high compared to other provinces. However, in recent years one statistic has become more concerning. Across the country, there has been a fairly pronounced decline in the share of the adult population that say they have a somewhat strong or very strong sense of belonging to the local community.

Among the 10 provinces, between 2017 and 2023, New Brunswick has seen the steepest decline in the share of the adult population that indicated they have a somewhat strong or very strong sense of belonging to the local community. This is likely due in part to the significant growth in the population over this period, but most other provinces have seen similar rates of population growth.

**Table 13: Share of the adult population with a somewhat strong or very strong sense of belonging to the local community, 2023**

	<u>2017 (%)</u>	<u>2023 (%)</u>	<u>Percentage point change</u>
Canada	68.2	60.6	-7.6
Newfoundland and Labrador	76.3	70.5	-5.8
Prince Edward Island	75.8	62.1	-13.7
Nova Scotia	70.3	62.3	-8.0
<b>New Brunswick</b>	<b>76.1</b>	<b>61.9</b>	<b>-14.2</b>
Quebec	60.2	56.3	-3.9
Ontario	70.7	61.4	-9.3
Manitoba	72.1	64.0	-8.1
Saskatchewan	73.0	67.9	-5.1
Alberta	67.3	61.2	-6.1
British Columbia	70.7	61.2	-9.5

Source: Statistics Canada Table: 13-10-0905-01.

There is an onus on both provincial and municipal governments to ensure we have highly livable communities. This includes reasonably priced housing, transportation infrastructure investments to limit congestion, investments in green spaces, recreation and culture. We need to have good access to municipal and provincial services, and we want to maintain a low rate of crime.

Having a strong and successful municipal government sector is more important than ever. The competition for population growth and business investment has never been more pronounced. People and investment are more mobile now than at any time in history. There has to be a strong 'value proposition' for living or operating a business in New Brunswick and municipalities are key to this value proposition.

The recent municipal reform was an important step, but it will be important moving forward to ensure municipalities have the right fiscal framework to be able to sustainably invest in infrastructure and provide high quality services to residents.

Formalizing a relationship that shares a portion of HST revenues with municipalities could be an important way to ensure municipal governments can do their part to ensure we have highly livable communities with a good quality of life in the years ahead.

# Appendix A: The economic impact model and sources

The data sources used in the preparation of this report include:

<u>Statistic:</u>	<u>Source/Description:</u>
Direct, indirect and induced GDP, employment and income estimates	Uses Statistics Canada Input-Output multiplier and impact estimates at the M industry level. Provincial Input-Output Multipliers, 2021. Catalogue no. 15F0046XDB. Industry Accounts Division. Statistics Canada. Includes multipliers for: output, gross domestic product (GDP) at market prices, taxes on products, labour income, wages and salaries, employers' social contributions, labour income of unincorporated sector, taxes on production and employment. The specific NAICS industries used are described in Section 7 above.
Tax multipliers	Using a model developed by Jupia Consultants Inc. based on a variety of sources including: <ul style="list-style-type: none"> <li>• Induced HST revenue: Based on the ratio of HST collected to total provincial personal income in 2023 (Source: provincial budget documents and Statistic Canada).</li> <li>• Induced personal income taxes paid: Derived using several sources including Statistics Canada personal tax-related tables and its Survey of household spending (SHS) for 2022.</li> <li>• Property taxes paid (from employment income): Derived using Statistics Canada's Survey of Household Spending (SHS) for 2022.</li> <li>• Indirect taxes: Derived using Statistics Canada multipliers for the various sectors used in the model as described in Section 7.1. These indirect taxes are levied on the business activity and include such tax areas as: business property taxes, fuel taxes, vehicle license fees, land transfer taxes, and any sales taxes arising out of the corporate activity.</li> </ul>
Household spending impacts	Derived using Statistics Canada's Survey of Household Spending (SHS) for 2022.

## Appendix B: Dr. Craig Brett Report Conclusions

*Excerpt from Dr. Craig Brett Report 'Toward a New Fiscal Framework for New Brunswick Municipalities. August 2024.*

Fiscal reform is about ensuring that municipalities have stable and secure funding to carry out the services they provide. It is also about deciding whether we want more of the tax burden to fall on residential property owners and their tenants. In the absence of fiscal reform, long term trends in the composition of the tax base will result in municipalities becoming increasingly reliant on the residential tax base.

The property tax base is currently growing at unprecedented rates. It is too early to call this a longterm trend and to base long-term fiscal arrangements on the assumption that the property tax base will always be as buoyant as it has been in the last two years. Evidence from municipal asset management plans and comparisons with recent findings in Ontario suggest that addressing municipal infrastructure backlogs requires a sustained increase in municipal revenue of approximately ten per cent (\$120 million).

The requirements identified here are likely a very conservative estimate of municipal needs. While the municipal asset plans recognize the need to meet the challenges posed by climate change and the continued need for greener infrastructure, dollar estimates are primarily tied to the costs of replacing existing assets. Moreover, the asset management plans feature relatively low ratios of annual expenditure to the estimated total infrastructure need, implicitly assuming very low financing costs.

There is considerable uncertainty about the future path of municipal payments to regional service commissions. The proposed financing model, which has some similarities to the PPSA formula, requires higher per capita fees from municipalities with larger tax bases, thereby enacting implicit equalization. Unlike traditional equalization schemes, equalization is both downwards and upwards.

Estimates show that in 2023 approximately seven per cent of municipal revenue (\$87.4 million) would have been sufficient to finance a traditional tax-base equalization scheme. With an equalization scheme in place, all municipalities would be on a similar fiscal footing; that is, they would all have similar abilities to pay for their services. Thus, there would be no need to resort to implicit equalization through differential per capita pricing at the regional level.

Over the past two decades, the HST base and the property tax base have grown at roughly the same rate. Transferring HST revenue to municipalities would provide a more diversified revenue stream, not necessarily a faster growing one. Moreover, the security

of tying the revenue stream to an observable target like HST collections would shelter municipal transfers from the slow and steady decline experienced in recent decades.

This report makes no attempt to quantify the cost pressures associated with recent population growth, to anticipate the costs of additional services that may end up in the purview of regional service commissions, nor to help so-called nonviable communities.

Estimated infrastructure needs and estimated equalization total approximately \$200 million per year, just less than one percentage point of HST (currently 10% of HST revenue). It seems reasonable, therefore, to allocate one percentage point of New Brunswick's HST to fund a stream of revenue to municipalities. This revenue stream can be used for unconditional grants and new infrastructure spending.

## Appendix C: About Jupia Consultants Inc.

New Brunswick, Canada-based Jupia Consultants Inc. is a full-service research and planning support consultancy specializing in the area of economic development. For over two decades the firm has been working with companies, communities, industry associations, economic development agencies and government departments across Canada.

This report was prepared by David Campbell. David is the President of Jupia Consultants Inc. and has more than 25 years' experience as a consultant working with industry, not-for-profit organizations and governments across Canada. His focus areas include economic development strategy, economic impact analysis, population growth, cluster development and investment attraction. David was formerly Chief Economist with the Government of New Brunswick. In that role, he led the development of economic policy and economic development strategy for the provincial government.

David is a newspaper columnist, published author, and writes weekly for the *It's the Economy, Stupid* newsletter as well as co-presenting the weekly podcast *Insights* with Don Mills and David Campbell. In recent years, he has had the opportunity to collaborate with multiple think tanks and policy research organizations including the Conference Board of Canada, Public Policy Forum and the Donald J. Savoie Institute at the Université de Moncton.

For more information visit [www.jupia.ca](http://www.jupia.ca).