

# Municipal Fiscal Gap 2026 Update

## Purpose

This report identifies the financial impact of provincial downloading of services on The City of Calgary. It highlights how The City has limited capacity to take on these costs. The report helps Council understand the drivers of this pressure so they can make informed decisions about funding, service levels and advocacy with other governments.

## Key Messages for Council

- The City is taking on more responsibilities from other governments without enough funding.
- Costs are rising faster than revenues for municipalities, but not for provincial or federal governments.
- Provincial education property taxes limit The City's flexibility to fund local priorities.
- Municipalities depend heavily on funding from other governments, which can change and create risk.

# 1. Downloading of responsibilities adversely impacts Calgary's municipal finances

## 1.1 Downloading of responsibilities resulted in Calgary bearing significant costs over the last decade

Municipal downloading of services refers to responsibility for a service being pushed down to municipalities from either other order of government, but typically the provincial government. While the concept is discussed widely, there is no single, universal definition.

For the purpose of this analysis, we have defined downloading as:

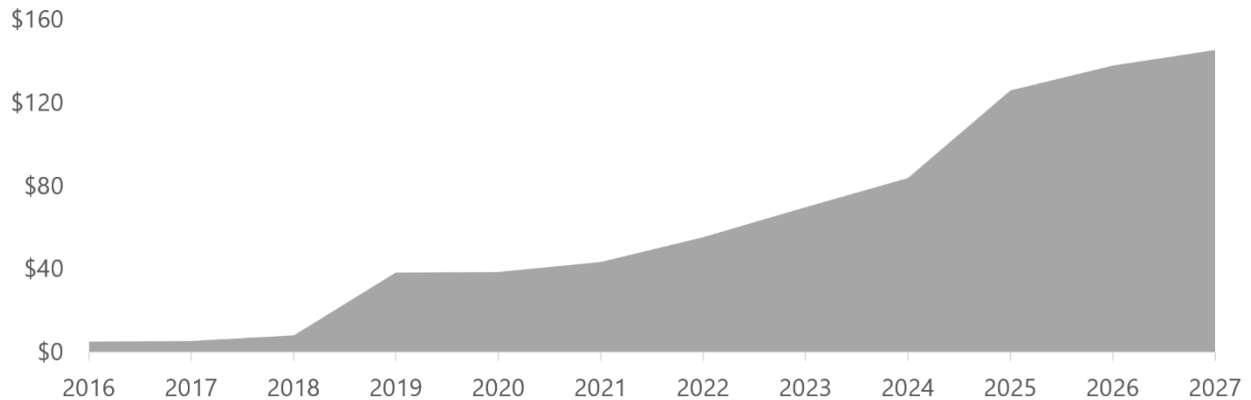
- 1) a provincial responsibility for a service (e.g., income support) on an ongoing basis that is not funded properly. As a result, The City has to either pay extra to keep the service running or deal with the consequences, such as higher costs for emergency services or policing; or,
- 2) changes in laws, policies or regulations by other orders of government within the past 10 years that lead to new costs for The City or reduce the funding The City receives.

The second part recognizes that even when there is not a clear responsibility for a service, provincial decisions can still have an impact on The City's ability to fund services. The City needs time to adjust its own source funding or service level expectations from Calgarians.

Based on this definition, we estimate that the province directly downloaded a total of approximately \$1.05 billion from 2016 to 2026 to The City of Calgary, comprising \$297 million in total capital downloading and \$754 million in operating downloading (Figure 1).

Since this analysis focuses only on direct and quantifiable costs, these estimates are conservative. Indirect impacts from downloading that are hard to quantify, such as increased demand for emergency services resulting from changes in photo radar usage, are not captured in these estimates, but could indirectly impact The City's finances.

*Figure 1. Annual operating downloading costs continue to climb due to increasing unfunded responsibilities (\$million)*



## 1.2 Downloading responsibilities and costs keep increasing over years

The data collected spans 2016 through 2026 and shows the number of downloaded responsibilities and associated costs have been steadily increasing.

For 2027, it is expected that the municipal budget will need to cover an estimated \$145 million in downloading.

Major downloaded items by department include, but are not limited to, the following estimated annual impacts for 2027:

- Community Services
  - o Costs related to medical response units - \$4.6M
- Infrastructure Services
  - o Costs related to Provincial Priorities Act - \$0.2M
- Operational Services
  - o Lost revenues related to low income transit - \$75M net of provincial funding and costs related to delivering school buses - \$8.7M
  - o Costs related to hazardous waste - \$2M
- People, Innovation & Collaboration Services
  - o Costs related to occupational health and safety legislation changes - \$0.6M
- Planning & Development Services
  - o Costs related to intermunicipal planning - \$0.3M and off-site levies legislation - \$1M
- Law, Legislative Services & Security
  - o Costs related to Bill 20, 50, 51 and 54 - \$3.8M

Changes to policies concerning revenues from fines shared with The City and Calgary Police Services have seen also reductions, including a loss of \$28M in revenues due to changes in photo radar usage.

Although certain downloading pressures have been eased through provincial policy changes (e.g., parking, hazardous waste and restored grants in place of taxes), overall downloading costs have increased far more rapidly. In addition, funding increases are often not retroactive, failing to offset previously incurred costs and lost revenues.

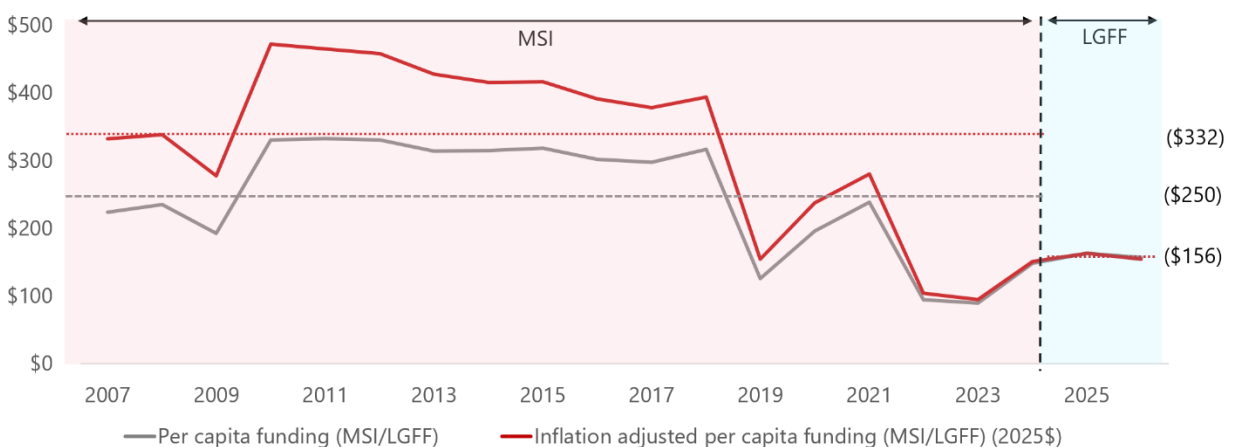
### 1.3 Capital funding has not kept up with inflation and population growth

Capital funding, which comprises a major share of provincial funding to The City, has experienced a significant funding gap. The Municipal Sustainability Initiative (MSI), a provincial funding agreement established in 2007, fell short of its committed funding and was delivered with delays. The downloading costs associated with MSI from 2007 to 2024 are estimated to be about \$297 million. Of this amount, \$152 million reflects the gap between the original funding commitment and actual funding received, while \$145 million represents financing costs that The City had to absorb as a result of delayed funding. As noted below, this does not include the impacts of inflation, population growth or extension of the original timeframe. The MSI program was replaced by the Local Government Fiscal Framework (LGFF) agreement and is now indexed to provincial revenues.

However, LGFF funding has not kept pace with population and inflation growth, constraining capital projects in Calgary to meet its growing needs. During MSI periods (2007–2023), average per-capita funding for Calgary was about \$250, which has been reduced to about \$156 per capita during LGFF periods (2024–2026). When adjusted for inflation, the average per-capita funding during the MSI periods was \$330 (in 2025 dollars), more than double what Calgary has been receiving under LGFF (Figure 2).

Put differently, Calgary’s LGFF funding would have been about \$515 million instead of the actual \$255 million in 2025, had capital funding been maintained at MSI per-capita levels on an inflation-adjusted basis, representing an annual funding gap of about \$260 million.

Figure 2. Inflation adjusted per capita funding under LGFF is less than half of the funding under MSI (average)



## 1.4 Service decisions by Council

As noted above, downloading does not have a clear, objective definition. Our definition does not encompass every service that The City provides that is a provincial responsibility. A service is only considered downloading if The City would face different costs if it does not provide the service directly. Essentially, The City only has the choice of which types of costs to incur, but not the choice of whether or not to incur costs.

Other than the Low-Income Transit Pass identified above, The City offers some services to qualifying low-income Calgarians at lower discounted rates compared to most Calgarians. Because these discounts are based on income, they are more similar to income support programs, which are usually funded through income taxes rather than property taxes. The City cannot raise income tax revenue, so this type of support could reasonably be seen as a provincial responsibility.

In this report this level of support is treated as a policy choice, not as downloaded costs. That is because there is no clear evidence that The City would face additional costs if it chose not to provide them. In other words, these programs respond to a real need, but they are not counted here as downloading under the definition used in this analysis.

Other examples of City choices that are not treated as downloading include funding for a possible bylaw on theft under \$100. As the conversations around downloading can be sensitive, it is important that when entering these areas Council is aware that these types of areas are choices, not truly downloading.

## 2. Municipal fiscal gaps widen in Alberta

Downloading of responsibilities to municipalities is particularly burdensome on municipalities' finances because their fiscal capacity is significantly lower and more constrained compared to the federal or provincial governments. This means that municipalities have a harder time funding these costs. The following section outlines the differences in fiscal capacity that result in the municipal fiscal gap to illustrate the magnitude of the challenges. Due to data limitations, the bulk of the analysis looks at all municipalities in Alberta collectively.

### 2.1 Alberta's economic expansion yielded limited municipal revenue, which was outpaced by rising expenditures

In 2024, the **own-source revenues**<sup>1</sup> for federal and provincial governments grew significantly owing to revenue streams that increase directly with economic growth. In contrast, municipalities experienced much smaller revenue growth, constrained by limited revenue tools that do not grow as fast. Alberta municipalities' own-source revenues grew by \$1 billion, but their **own-source expenditure**<sup>2</sup> grew faster by \$1.3 billion (Figure 3). Meanwhile, own-source revenues for provincial and federal governments grew faster (\$13.1 billion) than their own-source expenditures (\$8.9 billion).

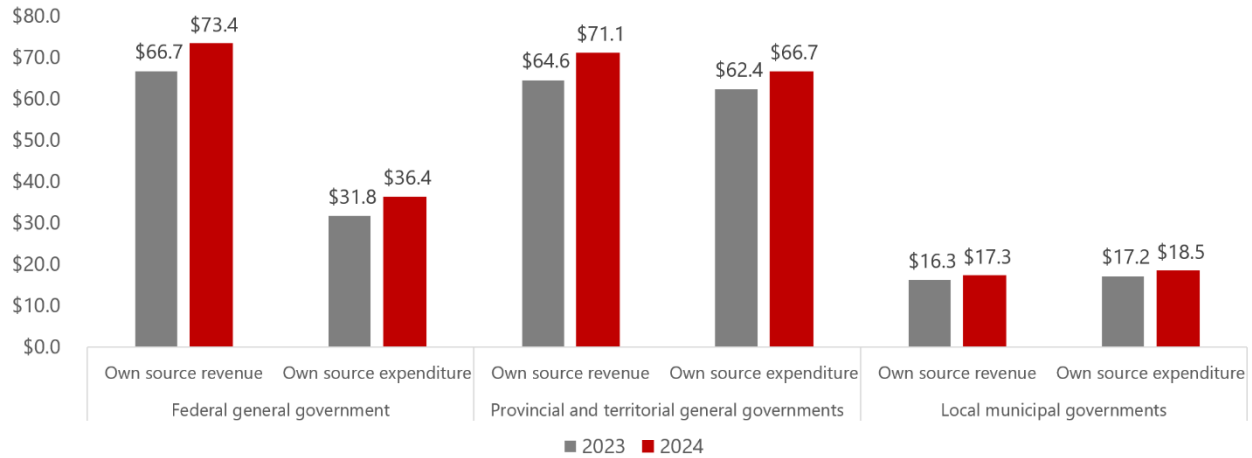
Among the primary government revenue sources, the largest annual increases were observed in royalties (+\$3.8 billion) and personal income tax (+\$3.1 billion) for provincial and federal governments, supported by high energy prices and robust economic growth. The reinstated gasoline tax also generated an additional \$1.2 billion for the provincial government. In contrast, property tax revenues, the primary revenue source for municipalities, increased by \$0.6 billion.

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<sup>1</sup> Own-source revenues refer to total revenues less of intergovernmental transfers from other orders of governments

<sup>2</sup> Own-source expenditures refer to total expenditures less intergovernmental transfers to other orders of governments

Figure 3. Own source revenues and expenditure by the three orders of government in Alberta (\$billion)

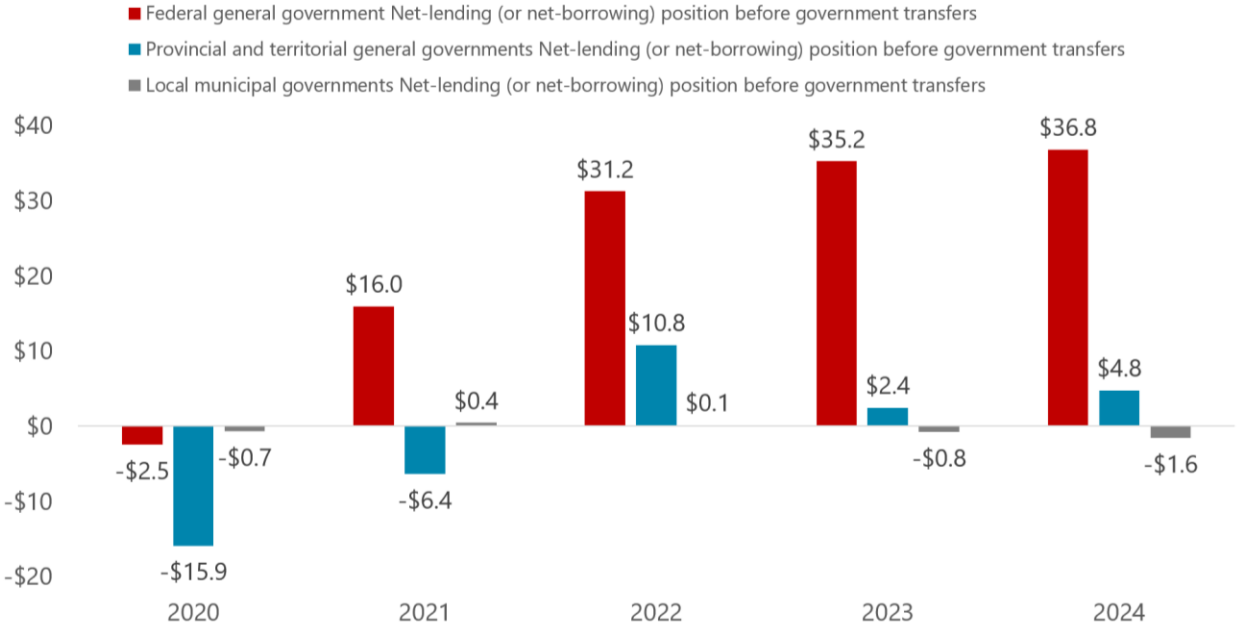


## 2.2 Municipal fiscal gaps in Alberta widened in 2024 due to limited revenue growth and rising cost pressures

The municipal fiscal gap represents a structural imbalance between the fiscal outcomes (surplus/deficit) of municipalities compared to those of federal and provincial governments. This gap is driven primarily by a misalignment between revenue-generating capacity and spending responsibilities. In 2024, municipal fiscal gaps in Alberta continued to widen (Figure 4). While **fiscal capacity**<sup>3</sup> improved for both federal and provincial governments, municipalities were the only order of government to experience a worsening fiscal position compared to 2023. This further widened the municipal fiscal gap in Alberta

<sup>3</sup> Fiscal capacity is measured as own-source revenue minus own-source expenditure, adjusted for net changes in assets (less non-financial capital acquisition plus consumption of fixed capital). Municipal fiscal gap describes the difference in fiscal capacity between other two orders of government.

Figure 4. Fiscal capacity in Alberta by three orders of government (\$billion)



### 3. Higher provincial education property taxes for Calgarians lower municipal fiscal flexibility

#### 3.1 More reliance on provincial property tax requisitions to fund education means less fiscal flexibility for municipalities

Since 2010, the national trend in education finance has been to fund more through provincial general revenues and less through property taxes. In contrast, Alberta has been increasing its reliance on local property taxation, which is collected by municipalities and requisitioned to the province. Higher provincial education property taxes leave less room for municipalities to raise revenue without increasing the total tax burden on residents.

Furthermore, total municipal and provincial combined property tax revenues in Alberta have been growing at a faster rate than the overall tax base, represented by nominal GDP since 2007. Albertans also pay the highest per capita combined property taxes in the nation. As a result, municipalities in Alberta have limited room to further increase property taxes to meet rising expenditure needs.

#### 3.2 Higher provincial education property taxes disproportionately impact Calgarians

A single provincial mill rate for education, combined with higher property values, results in higher taxes paid in Calgary. In comparison, personal income, another major provincial revenue source to fund education, is more evenly distributed across the province on a per capita basis (Figure 5). This means that Calgarians contribute a disproportionately higher share of revenue than other regions while receiving the same level of per student funding (Figure 6).

Higher education property taxes may also create broader economic challenges.

1. **Vertical inequality:** Property taxes are levied on asset values rather than income-based ability to pay, which can create a regressive burden. For example, a retired homeowner in Calgary on a fixed income may face a high tax burden relative to their current cash flow regardless of the value of their home.
2. **Location decisions:** Differences in taxes without corresponding differences in benefits can influence location decisions and incentivize businesses and households to relocate to municipalities with lower taxes.
3. **Housing Affordability:** In addition to placing greater financial pressures on current homeowners, higher property taxes can reduce rental supply, potentially worsening housing affordability.

The Province's decision to increase the reliance on property taxes will only amplify the negative impacts from these issues.

Figure 5. Personal income per student, 2024<sup>4</sup>

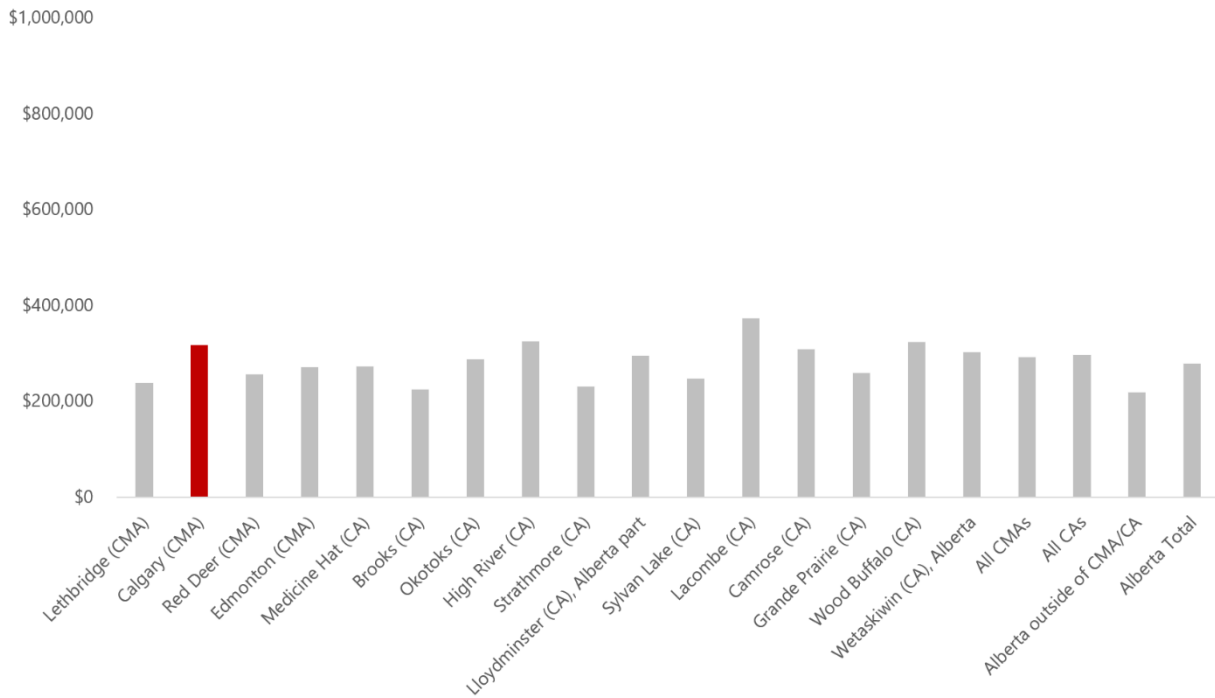
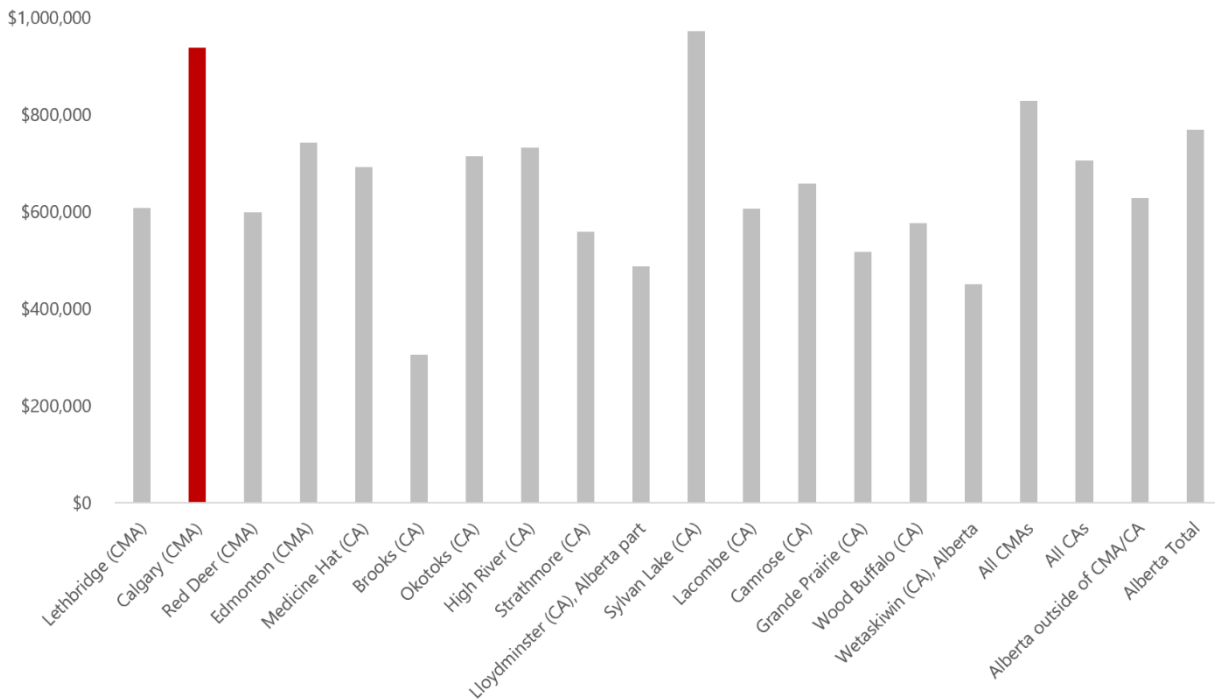


Figure 6. Equalized residential assessment value per student, 2024



<sup>4</sup> CMA refers to Census Metropolitan Area and CA refers to Census Agglomeration

## 4. Municipalities in Alberta rely on intergovernmental transfers to fill the municipal fiscal gaps

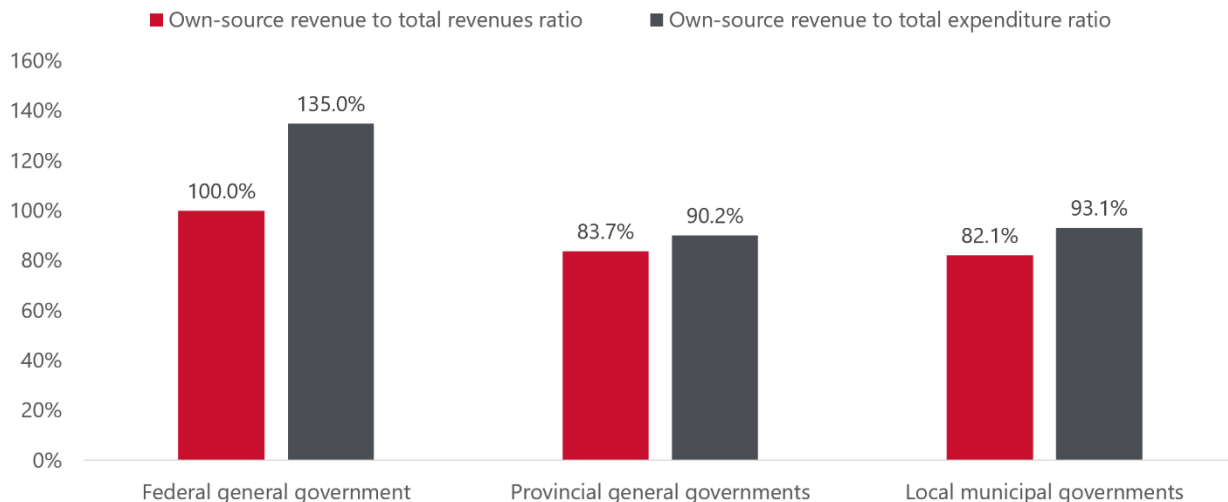
### 4.1 Municipalities in Alberta increase reliance on intergovernmental transfers

The municipal fiscal gap means that municipalities depend on transfers from provincial and federal governments to balance their budgets and fund infrastructure.

As shown, municipalities' low own-source revenue relative to both total revenue and total expenditure ratios indicate higher shares of total revenue/expenditures being funded by intergovernmental transfers (Figure 7). In contrast, the federal government fully funds its expenditures and is in fact in a net lending position. Municipal governments lack this financial autonomy.

Recently, municipalities in Alberta are increasingly reliant on intergovernmental transfers, which are inherently volatile due to shifting political and fiscal priorities. Greater reliance on these transfers makes municipal finance particularly vulnerable to changes in transfer programs, as any reductions could result in significant revenue shortfalls for municipalities, which have limited revenue tools to respond to this situation.

Figure 7. Ratios of own source revenue to total revenue and to total expenditure: Alberta, 2024

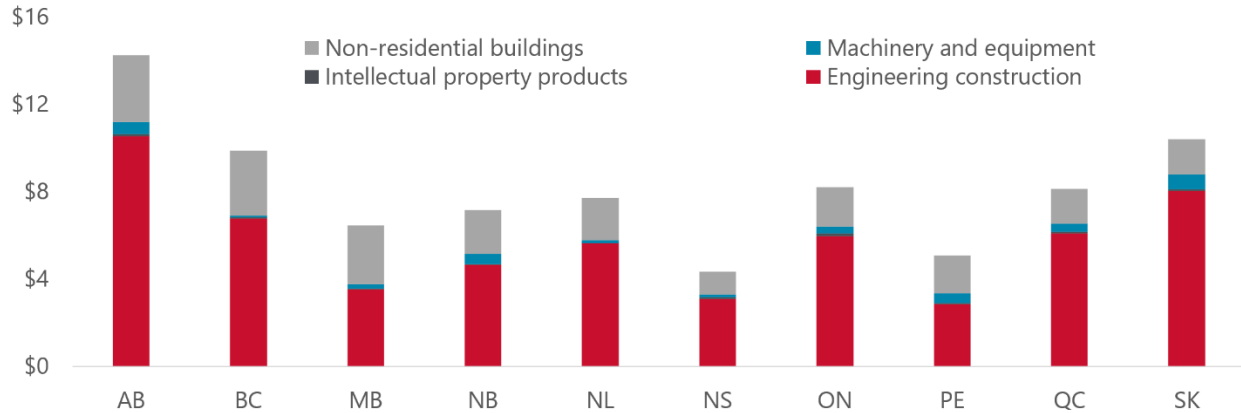


### 4.2 Albertan municipalities maintain the highest stock of per-capita fixed nonresidential assets in Canada

Municipalities in Alberta own the highest per capita stock of fixed nonresidential assets in Canada. Much of the difference between Alberta and other provinces stems from Alberta municipalities holding a larger share of engineering construction assets, such as roads, bridges, transit infrastructure and water systems (Figure 8).

Because municipalities cannot fully fund capital projects on their own, changes to capital transfers to local governments in Alberta could directly affect infrastructure investment levels and the maintenance of assets that Albertans rely on.

*Figure 8. Per capita fixed non-residential assets owned by municipal governments by asset type and province, 2024 (\$000)*



In conclusion, this report finds that municipal fiscal gaps in Alberta have deteriorated as expenditures continue to outpace constrained revenue growth. To manage this imbalance, municipalities have become increasingly reliant on intergovernmental transfers, which have declined over time, creating growing risks for capital investment amid rising service demands. Calgary also faces additional pressures, including higher provincial education property taxes that limit its fiscal flexibility. At the same time, ongoing downloading of provincial responsibilities has increased costs for The City, further compounding these fiscal challenges.

## Glossary of Terms

**Own-source revenues** refer to total revenues less intergovernmental transfers from other orders of governments

**Own-source expenditures** refer to total expenditures less intergovernmental transfers to other orders of governments

**Fiscal capacity** refers to an order of government's fiscal standing, measured as own-source revenue minus own-source expenditure, adjusted for net changes in assets (less non-financial capital acquisition plus consumption of fixed capital). A negative value indicates a net borrowing position, while a positive value reflects a net lending position.

**Municipal fiscal gap** represents a structural imbalance between the fiscal outcomes (surplus/deficit) of municipalities compared to those of federal and provincial governments. This gap is driven primarily by a misalignment between revenue-generating capacity and spending responsibilities.

## Reference

**Figure 3:** Statistics Canada Table: 36-10-0450-01 Table 18

**Figure 4:** Statistics Canada Table: 36-10-0450-01 Table 18

**Figure 5:** Canada Revenue Agency Individual Tax Statistics by Area for All Returns Filed - 2024 Tax Year and Statistics Canada Table: 17-10-0148-01

**Figure 6:** Government of Alberta Municipal Financial and Statistical Data and Statistics Canada Table: 17-10-0148-01

**Figure 7:** Statistics Canada Table: 36-10-0450-01 Table 18

**Figure 8:** Statistics Canada Table: 17-10-0148-01 and 36-10-0096-01