

# CHAPTER VI

## Major Responsibilities of the Municipalities and Provincial Participation (concluded)

### D. UNCONDITIONAL GRANTS TO MUNICIPALITIES, WITH A COMMENT AND RESUME OF RECENT DEVELOPMENTS IN PROVINCIAL-MUNICIPAL RELATIONS

#### I. *Subsidy Payments to Municipalities* (*Unconditional Grants*)

1. The subsidy payments, as they are called in New Brunswick, are unconditional grants made by the province to the municipalities in support of their general revenues. They may, therefore, be used by a municipality for any purpose, that is, to help finance both its local and general services. The importance of these payments is indicated by the fact that in 1961 they accounted for 15.5 per cent of total revenue in the cities, 10.5 per cent in the towns, 9.4 per cent in the counties, and 12.6 per cent in the one village of Port Elgin.

2. These payments were initiated at the time the province rented the income tax field to the federal government in 1942. The war-time tax rental agreement, negotiated for a five-year period in that year, in depriving the provincial government of the right to levy personal and corporate income taxes, also deprived the municipal governments of this right. To compensate the municipalities for the revenue lost as a result of this agreement, the province commenced making payments to the municipalities in lieu of the income taxes they had been levying. Although records are not available to show the amount of income taxes collected by the municipalities prior to 1942, it is known that the importance of the tax varied considerably among the municipalities. The tax seems to have been quite substantial in some municipalities, particularly in the cities and especially Saint John, and to have been not very significant in some of the others. The income tax cannot be administered very satisfactorily at the municipal level. Indeed, under present federal-provincial arrangements, even the provincial government does not collect its own income taxes although it does levy them, as the collection can be more efficiently administered at the federal level. No doubt the larger municipal units were able to administer the income tax more efficiently than the smaller ones. This probably helped to account for the greater importance of the tax in the larger units.

3. During the years 1947-1952 the second period of the federal-provincial agreements, the fixed amount of \$2,055,666 was paid by the province to the municipalities in the form of subsidy payments. Owing to changes in the status of

Dieppe and Edmundston the amount paid in 1952 was adjusted and the amount actually paid in that year was \$2,074,175. In 1947, the municipalities agreed that the cities should receive 54 per cent of the total payments, the towns 19 per cent and the counties 27 per cent after an amount of \$13,964 had been deducted for the village existing in that year and \$5,194 for commissions. These proportions seem to have been based in large part on the amount of money which had been collected in income taxes by the municipalities prior to the wartime tax rental agreements. The amount of money due to the cities calculated using the 54 per cent was then divided by the population of the cities according to the 1941 population, and this gave a per capita grant to the cities of \$12.38. In a similar way the per capita grants for towns and counties were calculated and found to be \$6.92 and \$1.66 respectively. The per capita grant for the villages was \$4.00. 'Since population figures for areas incorporated as commissions have never been available, per capita grants to this type of municipality could not be calculated. In 1952 the amount of money paid in subsidy payments was approximately 18 per cent of the revenue of the province from the federal government.

4. In 1953 an additional 25 cents per capita was added to the basic per capita grants of \$12.38 for the cities, \$6.92 for the towns, \$1.66 for the counties and \$4.00 for the villages. Thus, the new per capita figures were \$12.63 for cities, \$7.17 for towns, \$4.25 for villages and \$1.91 for counties. In 1953, the 1951 census figures were used in calculating payments. When the new per capita figures were multiplied by the 1951 population, an amount of \$2,622,688 resulted and this was paid to the municipalities in that year. In the calendar year of 1953 the province received \$16,084,873 from the federal government, and thus the subsidy payment of \$2,622,688 amounted to approximately 16.184 per cent of the money paid by the federal government.

5. At the Convention of the Union of New Brunswick Municipalities in 1953, the Minister of Education and Municipal Affairs announced that subsidy payments in 1954 would be basically the same as they were in 1953, that is, they would amount to 16.184 per cent of the payments from the federal government. The Minister went on to say that beginning in 1954, in the event of the

Table 6:1

## PROVINCIAL SUBSIDY PAYMENTS TO NEW BRUNSWICK MUNICIPALITIES, 1952 - 1962

YEAR	CITIES	TOWNS	VILLAGES	COUNTIES	COMMISSIONS	TOTAL
1952	1,137,063.12 (a)	373,821.77 (b)	8,220.00	550,826.22	4,244.75	2,074,175.86
1953	1,518,228.97	433,019.56	11,751.25	655,019.89	4,669.11	2,622,688.78
1954	1,534,695.10 (c)	443,378.60	12,032.37	670,689.80	4,780.81	2,665,576.68
1955	1,661,027.34 (d)	456,599.79	12,809.75	714,021.60	5,089.68	2,849,548.16
1956	1,716,957.91	473,241.97 (e)	9,659.34	698,674.80	5,071.56	2,903,605.58
1957	2,041,805.94	562,431.60 (f)	10,389.57	815,453.91	5,882.98	3,435,964.00
1958	2,403,299.43	597,411.01 (g)	4,773.82	1,385,127.73	5,927.01	4,396,539.00
1959	2,593,030.43	658,738.75	5,380.24	1,621,188.87	6,321.71	4,884,660.00 (h)
1960	3,263,277.69	810,897.14	6,547.58	1,872,010.18	8,260.72	5,960,993.31 (i)
1961	2,998,550.70	749,581.16	6,100.83	1,773,281.88	7,519.43	5,534,984.00 (j)
1962						5,988,000.00 (est.)

(a) Edmundston added to Cities

(b) Dieppe added to Towns

(c) Lancaster added to Cities

(d) Sunny Brae added to Moncton — figures include adjustment for previous year

(e) Oromocto added to Towns

(f) Rothesay added to Towns — figures include adjustment for previous year

(g) Shippegan added to Towns

(h) Figures include adjustment for previous year

Source: Department of Municipal Affairs

province receiving from the federal government by way of grants in 1954 an amount in excess of that received in 1953, the municipalities' share of the excess would be added to the basic grants. This escalator principle has been in effect since that time. Table 6:1 shows the payments made in each year from 1952 to 1961, with an estimate for 1962.

6. The municipalities are paid on their fiscal year, the calendar year, while the provincial government operates on a year beginning on April 1 and ending March 31 of the following calendar year. Thus, to arrive at the amount of money paid to the province by the federal government for the calendar years, it is necessary to use one-quarter of the payment for one fiscal year of the Province and three-quarters of the next.

7. The municipalities are paid each year an estimated amount and it is usually nearly two years after the end of a fiscal year before the province knows exactly what amount is actually paid by the federal government. This involves adjustments each year — in some cases the municipalities have been overpaid and in others underpaid. Thus, the amount of money actually paid to the municipalities in any one calendar year may vary somewhat from 16.184 per cent for that particular year but in the final analysis they do receive 16.184 per cent of all payments from the federal government.

8. Effective April 1, 1958, the province received the Atlantic Provinces Adjustment Grant

and the government decided to pay 16.184 per cent of this grant to the municipalities on a straight per capita basis regardless of the status of a municipality. This meant that in the calendar year 1958, the municipalities' share of this grant was 16.184 per cent of  $\frac{3}{4}$  of \$7,500,000 or \$910,393 or an extra per capita grant of \$1.64 for all municipalities. In the calendar year 1959 the municipalities received \$1,213,857 from this grant or an extra per capita grant of \$2.18 over those previously established. Distribution of this part of the subsidy on a straight per capita basis was most favourable to the counties and least favourable to the cities compared with the distribution of the rest of the subsidy. It had the effect of reducing slightly the differences in the over-all subsidies per capita.

9. Table 6:2 shows the distribution of the subsidy payments among the municipalities on a percentage basis for the years 1956-1961 inclusive.

10. The total amount of the subsidy is calculated by taking 16.184 per cent of the relevant payments from the federal government, including the Atlantic Provinces Adjustment Grant. The calculation of each municipality's share of the Atlantic Provinces Adjustment Grant is described above. The remainder of the subsidy for each municipality is calculated in the following manner:

(1) The basic per capita grants established in 1953 at \$12.63 for cities, \$7.17 for towns, \$4.25 for villages and \$1.91 for counties are multiplied

Table 6:2

PERCENTAGE DISTRIBUTION OF PROVINCIAL SUBSIDY PAYMENTS  
BY TYPE OF MUNICIPALITY, NEW BRUNSWICK

	1956	1957	1958	1959	1960	1961
Cities .....	59.26	59.43	54.66	52.94	54.03	54.09
Towns .....	15.96	16.37	13.59	13.47	13.53	13.53
Village .....	.44	30	31.51.11	33.35.11	32.20.11	32.14.11
Counties .....	24.16	23.73				
Commissions .....	.18	.17	.13	.13	.13	.13
	100.00%	100.00%	100.00%	100.00%	100.00%	100.00%

Source: Department of Municipal Affairs

by the total population for each category of municipality.

(2) The resulting amounts are added and the percentage that each category has of the total is calculated.

(3) These percentages are then applied to the total subsidy (excluding the municipalities' share of the Atlantic Provinces Adjustment Grants) to determine the amounts to be divided among the municipalities in each category.

(4) These resulting amounts are then divided by the total population in the relevant category, for example, the cities, to get the actual per capita payment for that category.

(5) The subsidy of each particular municipality is found by multiplying its population by this per capita payment and adding its share of the Atlantic Provinces Adjustment Grant.

11. This manner of calculation results in some variation in the final per capita grant each year because of changes in the total amount to be distributed and because of changes in relative populations of the different categories of municipality. For example, in the calendar year 1961, the cities actually received a per capita subsidy payment of \$20.71, the towns \$12.70, the village \$8.42 and the counties \$4.98. These figures do not include any money paid in 1961 in respect of adjustments for previous years.

12. The escalator clause has benefited the municipalities in that they have received 16.184 per cent of the revenue from the federal government. This principle will continue to be of benefit to them as long as the revenue from the federal government to the province continues to increase.

13. While the provincial government is to be commended for sharing its unconditional revenues from the federal government with the municipalities, the present basis for making the payments is most unsound. It ties the provincial government to a mechanical and arbitrary way of sharing these revenues with the municipalities. Specifically, it has two decisive weaknesses.

(1) It takes no systematic account of the differ-

ent types of services required of the various categories of municipality. It can be argued that the cities provide more services than the towns and should therefore receive larger payments and that the towns likewise should receive larger payments than the counties, but the present payments are not designed to reflect these differences in a rational manner. While the size of unconditional grants paid to municipalities should vary with the responsibilities assumed, the differentials should be related to the size of the municipalities and the costs of providing services efficiently in municipalities of different ranges of size, and the relative fiscal capacities in these various ranges, rather than to whether the municipality has city, village, county or town status, as is the case at present. A very undesirable feature of the present structure is that it provides an inducement, probably an illusory one, for unorganized communities or villages to press for town status and for towns to press for city status and for them to try to annex adjacent areas to obtain the required population rather than considering annexation and amalgamation solely on their actual administrative merits. The recent change of the community of Caraquet to town status and the movement of the Town of Bathurst towards city status appear to have been unduly and unwisely influenced by the lure of the subsidy.

(2) Per capita grants do not take account of the differing fiscal capacity (tax raising ability) of the different municipalities, even of the same type. Since the main source of tax revenue of the municipalities is property taxation, probably the simplest index of fiscal capacity is market value of taxable property per capita. A per capita grant to all municipalities within a given range of size always favours the municipalities with a high fiscal capacity and discriminates against those with a low fiscal capacity, for the burden of taxation to pay for the balance of the costs of services will have to be greater in the municipalities with the lower fiscal capacities. The same objection holds for proportional grants, which cover a fixed propor-

tion of expenditures. In other words, neither per capita nor proportional grants can equalize the burden of taxation to finance given levels of services, although equalization can be combined with proportional grants. To achieve equalization, such grants must be inversely proportional to fiscal capacity.

## II. Snow Removal Grant

14. The snow removal grant of one dollar per capita to all urban municipalities is also an unconditional grant, for although it is made with a specific service in mind the recipient municipalities are quite free to place it in their general revenue funds and to use it for whatever purpose they wish. It is intended to give relief to the urban taxpayers, inasmuch as the urban municipalities neither share in the gasoline or motor vehicle revenues nor receive, as do the rural areas, the benefit of the snow removal service of the Department of Public Works. This grant, although much smaller in magnitude, is objectionable for much the same reasons as the general subsidy just discussed. It is a highly inequitable form of tax relief for differently situated taxpayers — differently situated both with respect to the need for and therefore the cost of snow removal and with respect to ability to pay as measured by the property tax base.

## III. Comment on Recent Developments in Provincial-Municipal Relations

15. There has been no integrated reorganization in provincial-municipal fiscal and administrative relations in New Brunswick in recent years, but there have been some major departures from long-established policies in important areas. In the field of health, the province has assumed responsibility for the bulk of the operating costs of the hospitals, and makes some contributions to construction costs. It also has some powers over the building plan, but these have not been very effectively used. There is no overall plan under provincial jurisdiction designed to provide a rational and efficient network of hospitals throughout the province, to which municipalities must adhere. In the field of social welfare the province has departed from the principle that relief is purely a local responsibility, by making grants to the municipalities for the both indoor and outdoor relief and for its administration under its programme of social assistance, subject to the meeting of provincially-set standards.

16. The province appears to be on the verge of assuming complete responsibility for the administration of justice and for court houses and gaols; it already exerts considerable control over these services. In the field of education, although there is a distinct trend towards greater provincial par-

ticipation, there has been no major change in the past twenty years in spite of the strong recommendations of the MacKenzie Commission. This, paradoxically, may turn out to be fortunate as it provides an even more favourable opportunity than otherwise for integrating the reconstruction of the educational programme with that of the rest of the provincial-municipal fiscal and administrative system. Much change in some areas of provincial-municipal relations has already taken place, but this has occurred within an archaic administrative and financial structure. As a result, the municipalities are now in the position of helping to administer what are largely mandatory programmes in education, health and hospitals, social welfare, and the administration of justice, court houses and gaols, with widely varying and generally inadequate financial and administrative resources. The present time seems extraordinarily propitious for bringing into effect a new system of governmental organization and finance which will better serve the citizens of this province in the mid-twentieth century.

## IV. Resume of Present Provincial Financial Participation in Performance of Municipal Functions and of Provincial Payments to Municipalities

17. The following is a resume of present provincial financial participation in municipal functions described in this chapter and in the preceding chapters.

### (a) PROTECTION TO PERSONS AND PROPERTY

Policing of rural municipalities provided through a contract with the Royal Canadian Mounted Police.

Payment to municipalities of 50 cents per prisoner per day for prisoners under sentence in local gaols (\$3 1,878.75 in 1961)

Board paid to municipalities under liquor control legislation, 75 cents per day (\$2,827.75 in 1961)

Municipalities pay province \$550 per annum for boys in Boys' Industrial Home

### (b) ADMINISTRATION OF JUSTICE

*Coroners' Courts* — Except for the Chief Coroner all fees and expenses are paid by the municipality concerned. In 1961, the total cost of coroners' services was about \$30,000, of which the province paid \$2,000.

*County Magistrates and Juvenile Court Judges* — Prior to November 1, 1962,

when their salaries were entirely assumed by the province, county magistrates were paid on a cost-sharing basis by the province and the municipalities. In 1961, the provincial share was \$220,000 and the municipal share \$40,150. Recently, the province also assumed responsibility for salaries of juvenile court judges. Prior to this, the salaries and other costs had been solely a municipal responsibility. In 1961, the juvenile courts cost all the municipalities \$48,000, \$30,000 of which was the City of Saint John's cost.

**Clerks of the Peace** — The system of payment is a patchwork one. Depending on the classification of service rendered, they are paid in whole by the province or county, or jointly, either directly or with the provincial share taking the form of a refund of part of the cost incurred by the municipality. In 1961 the provincial share was about \$37,000 and the municipal share \$25,000.

**County Court Rooms** — Provided by the municipalities at an estimated cost, in 1961, of \$25,000.

**Sheriffs** — Prior to 1961, the municipalities paid the entire salary. In 1961 the province began to pay each County \$500 towards the salary of sheriffs. In 1961, the province paid \$7,500 and the municipalities about \$20,000 towards the salaries of sheriffs. The municipalities also provided offices and other facilities.

**Supreme and County Court Proceedings** — Items such as jury and witness fees, court clerks, etc., are shared at an average of 25 per cent by the province and 75 per cent by the municipalities. In 1961, these costs were probably about \$12,000 to the province and \$36,000 to the municipalities. The costs of secretaries to judges (about \$9,150 in 1961) and court office expenses (about \$2,000 in 1961) were entirely borne by the province, while the cost of County Court and Magistrates' Court stenographers (about \$8,000 in 1961) was borne by the municipalities.

### (c) PUBLIC WORKS

The provincial government pays for all highways and public roads in rural areas. It shares the costs of portions of highways through cities and towns on a fifty-fifty basis. Total assistance in fiscal year ended March 31,

1961, was \$68,766. The Department of Public Works also assumes responsibility for major bridges in cities, towns and villages and pays one-half the cost of sidewalks in local improvement districts (\$2,500 in fiscal year ended March 31, 1961). The Department makes grants for snow removal to cities, towns, incorporated villages and the Simonds Highway Board at one dollar per capita (\$211,985 in 1961).

### (d) EDUCATION

The responsibility for education is still regarded as being primarily local although the provincial government determines the curriculum, licenses teachers, and establishes a minimum salary scale for teachers. The province also pays ten kinds of operating grants and three kinds of capital grants. The amounts shown are for calendar year 1961.

**Operating Grants** (Total in 1961: \$8,361,102)

- (1) **Teachers' Grants:** directly to teachers according to qualifications and experience. (\$1,577,358).
- (2) **General School Grant:** a per capita grant to all school boards of \$6.837 for cities, \$6.481 for towns, and \$3.285 for counties. (\$1,391,579).
- (3) **Vocational Grants:** rebates on teachers' salaries of 60 per cent - 75 per cent, on tuition of non-resident pupils of 66 2/3 per cent and on equipment of 50 per cent. (\$1,876,832).
- (4) **High School Tuition:** on behalf of the County School Finance Boards and the rural school boards of Restigouche County to towns and cities, one-half the tuition of each rural pupil who attends an academic high school in a town or city up to a maximum total tuition of \$100. (\$246,636).
- (5) **Refund on Salaries:** to county school finance boards and to rural school boards of Restigouche County, limited to a total of \$260,000 per year. One-half is apportioned on school enrolment of the preceding year and one-half on the number of classrooms in use in the preceding year. (\$260,000).

- (6) *Conveyance Grants: to County School Finance Boards and the rural school boards of Restigouche [County, 50 per cent of the cost of approved conveyance of rural school children. (\$681,157)*
- (7) *Grants for 'Consolidated Schools: to County School Finance Boards and to consolidated school boards in Restigouche County, an annual grant of \$1,000 for a Rural High School, \$2,000 for a Regional High School, and \$1,000 for a consolidation whose children are conveyed to a high school outside of their district. (\$175,833).*
- (8) *Ten per cent Budget Grant: to County School Finance Boards and since 1961 to approved consolidated districts in Restigouche County, based upon ordinary operating expenses. (\$979,302).*
- (9) *Equalization Fund: to help provide school furniture, equipment, and teaching aids in rural schools; limited to \$110,000, \$10,000 of which is for Restigouche. One-half is distributed according to the number of classrooms and one-half according to the number of pupils in rural schools. Under the Restigouche Schools Act, the amount for Restigouche will increase from \$10,000 to \$20,000 for the next five years. (\$110,000).*
- (10) *Deaf and Blind Grants: not paid to school boards; the province pays tuition for the deaf and blind and the municipality refunds one-half of the cost to the province. (Net benefit to municipalities in 1961 was \$119,049).*

### Capital Grants

- (1) *To Rural School Boards for Buildings: forty per cent of approved costs of erecting or adding to buildings, installing electric lighting, modern sanitary systems, basements, and heating plants; and fifty per cent of approved costs for equipment.*
- (2) *School Buses: fifty per cent of the cost of school buses purchased by a consolidated school board.*
- (3) *Vocational Schools: to urban and rural school boards, percentage grants for buildings on a sliding scale, decreasing with total cost, ranging from sixty per*

cent up to the first \$100,000 to thirty per cent of the portion in excess of \$300,000.

### (e) HEALTH AND HOSFZTALS

*Public Health* — Programme of sanitation inspection, etc. is administered by 15 sub-district boards of health financed jointly by the municipalities and by the province, the funds for the provinces' share coming from national health grants. In 1960, the cost to the municipalities was \$167,029 and to the province, \$60,152. The province pays the salaries of the district medical health officers, who among their duties act as chairmen of the local boards (\$99,575 in 1960) and pays the cost of the public health nursing programme (\$229,000 in 1960), and of the dental health services programme (\$35,975) in all but one or two instances where districts have their own programmes.

*Mental Health* — The municipalities contribute \$2.00 per patient per week towards the cost of indigent mental patients in the two mental hospitals (\$134,200 in 1960). These payments amount to about 4 per cent of the cost of operating the two mental hospitals and four mental health clinics. Currently, national health grants cover about 8 per cent, patients themselves (largely from social assistance and old age payments), about 9 per cent, and the province, the remaining 75 per cent. Total cost of the programme in 1960 was \$3,358,000, in 1962-63, \$3,935,000.

### Hospital Care

*Approved Operating Costs:* paid by the Hospital Services Commission. Municipalities were previously responsible for hospital care of indigents and in some cases for hospital deficits, particularly arising through non-payment by others.

*Provincial Grants for Old Hospital Debt:* No assistance for hospital facilities not built or under construction on June 30, 1959. For old debt, (1) the province pays annually to the hospitals  $\frac{1}{3}$  of  $2\frac{1}{2}$  per cent of net debt outstanding and  $\frac{1}{3}$  of the interest paid by the hospital during the year on the allowable debt, (2) the province, in addition, pays to municipalities 50 per cent of the amount they contribute to the capital debt and interest of a hospital, and (3), in lieu of (2), it pays to the hospitals an amount equal to the municipal grants to the hospital plus private contributions to the hospital used for interest and capital debt retirement, provided the amounts under (2) and (3) do not exceed those under (1); that is, the total grants must not be greater than  $\frac{2}{3}$  of basic portion of debt and interest referred to in (1). Where

the payments by a municipality plus private donations exceed the amount required to obtain the maximum amount payable by the province in any year, the excess amount may be carried forward to a succeeding year. In 1960, the province paid \$493,720 capital debt assistance directly to hospitals under provision (1) and \$429,020 to the municipalities or directly to hospitals on behalf of municipalities under provisions (2) and (3).

**Capital Assistance with New Construction:** Provincial and federal governments each pay \$2,000 per bed for approved construction. The province pays for approved equipment. Total cost of general hospitals presently ranges from \$13,000 to \$22,000 per bed, depending upon the type of treatment.

#### (f) *SOCIAL WELFARE*

The province is responsible for all aspects of the programme except Social Assistance (Part II) and child welfare. Total gross expenditure by municipalities in 1961 was \$3,389,946, of which the provincial share was \$2,106,380.

**Social Assistance (Part II) :** With the assistance of the federal government, the province pays to each municipality \$1.00 per capita plus 70 per cent of approved costs above this amount for direct relief and care in municipal homes, also one-half of administration costs if provincial standards are met (municipality must form one welfare district and appoint full time qualified director or engage Children's Aid Society or other approved agency to administer assistance). Gross municipal expenditure on social assistance in 1961 was \$2,648,695, of which the provincial share was \$1,919,250. The total cost of municipal administration was \$168,138, of

which the provincial share was \$75,013; in 1962 these two amounts were \$236,663 and \$116,177.

#### *Child Welfare:*

**Maintenance of Wards in foster homes** is on 50-50 cost sharing basis (cost to municipalities in 1961, about \$143,000). The number of wards in 1961 averaged about 1450.

**Maintenance of Wards in institutions:** the province pays \$650 per year, the municipality of residence, \$550.

**Maintenance of mentally retarded children:** if cared for in licensed boarding home, the province pays \$1.00 per day, the balance is paid by parents, or if an indigent, is shared by the province and the municipality on a 50-50 basis.

**Support of Children's Aid Societies:** in 1960 municipal grants were \$59,355, provincial grants \$61,785, toward a total cost of administration of \$186,382.

#### (g) *CZVZL DEFENCE*

The federal government pays 75 per cent of the cost of approved projects of municipalities, the province 12½%, and the municipalities 12½ per cent. In 1961 the municipalities received \$42,197 under this scheme.

#### (h) *SUBSIDIES*

In 1961, these unconditional per capita payments to municipalities were \$20.71 for cities, \$12.70 for towns, \$8.42 for the one village and \$4.98 for the counties. (Total paid in 1961, \$5,534,984.)