The City-state Agenda:

Concealed Empire Building

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Executive Summary

In recent past there has been a serious discussion about the relationship of municipalities with senior governments and their role within the greater economy of Canada. The issues have been concentrated around the perceived lack of revenues generated by municipalities and the creation of more autonomous entities to deal with the rising urbanization of our structural social fabric. While we do not dispute the disparity between senior governments and their ability to raise revenues compared to municipalities, we also believe that there should be a greater understanding and discussion about the role and delivery of services by municipalities before we reach any conclusions about devolution of greater powers of taxation to municipalities.

There are many options being offered has to how this new relationship should be undertaken and what forms new municipalities should take. The range varies from city-states to powers of differing nature for major cities and smaller rural municipalities. While we sympathize with larger urban areas that a new relationship between senior governments and themselves should be explored, we cannot accept the basis for change to be only based on a revenue problem. We believe that a revenue problem is one reason for change, but that there are more issues at stake that have not been explored in the greater debate about a change in relationship between senior governments and municipalities.

This study looks at the following issues:

- Taxation powers of local governments, their role and use of such powers.
- We examine the relationship between local governments' revenues and spending patterns. We look at several municipalities and analyze their financial results for the past five years, to determine whether there truly is a revenue shortfall at the local government level.
- We look at some of the issues of sustainability and what has been achieved in some jurisdictions
- Since the argument revolves around revenues, we look at the budget process and how it can affect the financial decisions made by municipalities
- Furthermore we look at the way that utilities, operated as monopolies, are being used to tax ratepayers without proper regulatory supervision.
- We look at the possible effect of giving local governments more powers of taxation and some of the different taxes, and/or levies that are already being used or could be used in the future.
- Finally we offer solutions to the existing problems that we have identified.

We conclude that Canada is already one of the most taxed countries in the world, and as international competition between cities increases, we do not need a solution which could make our cities so heavily burdened by local taxes that we may lose businesses to other parts of the world.

Introduction

Most countries in the Western industrial world enjoy the comfort of a Constitution that is understood to say what it clearly means and mean what it says. In Canada, however, we are blessed with a flexible, inscrutable Constitution which can be relied on not to mean what it seems to say until judges have spoken. Many people think that Canada has three levels of government, and most municipal politicians try to promote this brand of misinformation, but it isn't true at all. Canada has only two levels of government, speaking constitutionally; the Federal and the Provincial.

The Canadian constitution establishes the relationship between provincial governments and municipalities, and such municipalities are deemed to be a creation and a subordinate structure to provincial governments. As a result of this relationship most, if not all, municipal powers are derived from legislation imposed by provincial governments in the form of different Municipal Government Acts. This form of tiered government seemed to have worked very well in the past, but due to new challenges faced by many municipalities, it is becoming increasingly apparent that this structure is no longer serving its purpose. As a result in recent years, a debate has arisen with the increased notion that municipalities should be given more autonomy – not only to manage themselves but more importantly to be allowed to raise taxes as they see fit.

Local governments, the municipalities, are merely the result of Provincial arrangements to get housekeeping done as effectively as possible. Local governments have exactly the powers and authority delegated to them by the provinces, and those can be changed in any way at any time. Nonetheless, the concept of local, municipal government has turned out to be a useful one for downloading problems and conflicts to the private sandboxes of local politicians. These, of course, need to have some measure of supervision and oversight from the real government, the Provinces, because many of them seem to have a track record of building their own empire by spending as much money as they can get their hands on. Calgary represents a fine example of this kind of activity, and many other municipalities follow very closely in that regard.

Provinces set the rules for the management of local authorities, including municipal governments. It seems that the most important issue to municipalities is the inability to raise taxes other than property tax. In Alberta, the Municipal Government Act is the legislation that governs the operation of local governments, and other provinces have similar legislation for their jurisdiction. Larger municipalities would like to see provincial governments 'vacate' the property tax for financing education. In addition they would like to have the right to raise other taxes such as local sales tax, hotel tax, and different other taxes to finance their continued ballooning expenditures.

The problem is not only about revenues but rather the continued spending patterns of municipalities. While we are in the twenty first century, in general, municipalities still operate with nineteenth century policies. These policies are mostly based on the provision of services as a monopoly or in a monopolistic environment. With the exception of a few private/public partnerships on some projects, very little thought or attempt to privatize or deliver services in partnership with the private sector has been undertaken.

Too often municipalities have argued that their problems are caused by growth and that they do not have enough revenue to provide the services demanded by their citizens. Another notion is that senior governments have seen it fit to download the delivery of services to municipalities without any funding to match the costs. While this may be true in some circumstances, our research shows that it is not always the case that dwindling revenues are the only source of the problems faced by municipalities, but rather that most, if not all municipalities we looked at, have a spending problem. We agree that municipalities face an increase in demand for services, but we also found that while taxes are increasing the services are either being reduced or restricted or are becoming very costly to deliver.

Most municipalities do not have a revenue problem they have a spending problem.

Some Canadian municipalities have adopted user-pay services but not to the extent that other countries have to control their costs. In Canada it seems that municipalities are hell bent on continuing to be the provider of all services and thus must rely on a tax based system to finance the delivery of services. Too often there is a reluctance to privatize or use other methods of delivery of services which have become more available due to competition and technology. Further, elected officials eager to be seen as "doing something" are prone to bringing forward "new initiatives" which often are just personal agendas which go outside the core responsibilities of the municipality and add costs to the already heavily burdened municipal ratepayers.

We acknowledge that the existing problems cannot be solved in a 'cookie cutter' fashion, since the size and demands of each municipality will have an impact. But we propose that the approach to better and more efficient delivery of services can be adopted by all municipalities no matter what the size or location, albeit with small adjustments. While this study is based in great part on the Calgary - Alberta experience, our conclusions can be extended to other jurisdictions. We believe that Alberta municipalities have an opportunity to be leaders of change in that very important sector.

Methodology

To enable us to prepare this paper, we have used research done over a number of years and from different sources. We have used financial statements published by the various cities in our study to analyze and compare revenues, expenditures, surpluses, reserves and long-term debt, complemented by data from Dominion Bond Rating Service (DBRS). In addition we note that due to the differences in the presentation of financial information from city to city that some disparities may exist. We looked at some specific policies regarding the financial management of municipal utilities, and referenced our study to published opinions, experience, and judgement.

Limitations

We acknowledge that our study focuses mainly on taxation and financial management, but where appropriate we have also examined the greater impact of sustainability concerns and how some municipalities are coping with it. In the examples we used, we did not single out one jurisdiction or another, but rather took the best or the worst examples we could find to illustrate our point. More importantly we have picked our examples to show that big or small cities have their own ways of dealing with their problems, and to illustrate that when there is a will to implement change, size does not matter.

While we have used the cities of Toronto and Vancouver in our study, we have focused our analysis on Alberta cities, primarily Edmonton and Red Deer, and Medicine Hat but more importantly Calgary. We believe that given the increasing prosperity of Alberta, owing to its increasing oil revenues, it is appropriate to concentrate on the ability of these cities to manage themselves today and in the future. Therefore, wherever we mention the Municipal Government Act (MGA), we refer to the latest version of the Act in Alberta with amendments in force as of March 10, 2005. We focus our attention on Calgary, because the city has been at the forefront of a movement for greater municipal autonomy and for the sharing of taxes by senior governments, and the acquisition of more powers of taxation by municipalities.

We ask the following questions:

- What are current municipal powers of taxation?
- Do municipalities have a revenue problem?
- Do municipalities have an expenditure problem?
- Do they have any additional sources of revenue?
- Have municipalities addressed their current service delivery systems?

Once we have looked at these issues it is important to ask the most important question of all: Should municipalities be given more autonomy?

We understand that Canadians from small and large municipalities are concerned with the growing pains of their respective communities. How municipalities acquire and maintain infrastructure has become a real issue at all levels. The most important topic of discussion has been the source of financing for an increasing infrastructure deficit in both small and large municipalities. Ignoring corporate taxation, the bulk of taxation by all levels of government, federal, provincial and municipal originates from the same taxpayer – is it wise to give more powers of taxation to municipalities?

Taxation Powers

Before we even get into a discussion about the merits or disadvantages of devolution of taxation powers to municipalities, let us make it quite clear that this approach is nothing new. In fact in 1975, a similar attempt was made by municipalities. Under the Trilevel Task Force on Public Finance it was proposed to develop a comprehensive data base from which to develop the fiscal and financial policies necessary to serve the needs of the public sector of the Canadian economy. The statistical evidence gathered was to be used to support a variety of positions ranging from a description of Alberta as a municipal heaven to a municipal hell. The following topics were considered to be material to the conference:

- An analysis of the trends apparent in the statistics
- An analysis of expenditure growth,
- A discussion of the regressivity of the property tax.

If the above looks familiar, it is even more so when the task force arrived at the following conclusion:

"Alberta local governments request a commitment in principle to revenue sharing by both the Federal and Provincial Governments." [1]

Despite the discussions under taken between 1975 and 1977, at great cost to the taxpayers, nothing came out of the conference. Today we are examining the same problems; once again at great cost to the taxpayer, but with a different agenda in the minds of today's politicians. To better understand the real reason for this request for autonomy and more consultation and consensus-based decision making we should look at some of the more important legislation regarding taxation by local governments.

The provincial government has the power over the taxation process.

Each provincial jurisdiction has different rules that allow municipalities to levy taxes. In some jurisdictions provinces have allowed the creation of 'Charter cities', which gives these designated cities additional powers and responsibilities not normally given to other municipalities within their jurisdictions. Provinces which have used this devolution of power include, Quebec, British Columbia, Manitoba and Newfoundland. These provinces have transferred different powers to their respective municipalities, based on the needs of each city. The devolved powers have included annexation of surrounding territory, control over remedial health issues, and more importantly on property assessment and taxation powers.

In most jurisdictions the provincial government has the authority over the taxation process. Provincial governments can share those powers by legislating the extent to which municipalities can tax its citizens. Since Alberta was chosen for our study we must look at some of the taxation powers granted under the current legislation.

The following are extracts from the Alberta Municipal Government Act:

- 353(1) Each council must pass a property tax bylaw annually.

(2) The property tax bylaw authorizes the council to impose a tax in respect of property in the municipality to raise revenue to be used toward the payment of:

(a) the expenditures and transfers set out in the budget of the municipality, and

(b) the requisitions.

- 371(1) Each council may pass a business tax bylaw
- 381 The Minister may make regulations respecting a business revitalization zone tax
- 382(1) Each council may pass a special tax bylaw to raise revenue to pay for a specific service or purpose by imposing one or more special taxes…
- 393(1) A council may on its own initiative propose a local improvement

In addition to these legislated revenue opportunities, municipalities also gain revenue and assets from, traffic tickets, bylaw fines, pet licenses, user fees, interest on reserve investments, inspection fees, fuel tax rebates, GST rebates, utilities taxes, utilities return-on-equity requisitions, and the dedication (or gifting) of lands and assets through the development approval process. Many of these are new large dollar amounts revenue sources introduced within the last 4 years. Furthermore, a gravel extraction tax payable to municipalities is now under consideration by the Government of Alberta.

We are very cautious in supporting any increase in the powers of taxation of municipalities.

Not content with these taxation powers, many municipalities are seeking to extend their rights to impose taxes in their jurisdictions. Notwithstanding the rates charged by municipally operated utilities, some would like to have the ability to raise taxes such as hotel occupancy, sales tax, and include other modes of taxation such as Tax Increment Financing, which we shall discuss later, as part of their portfolio of revenue generation. And in some cases even to grant selective subsidies or exemptions from taxation. All because municipalities strongly believe that they have a revenue problem.

Unfortunately some provinces are taking steps to give municipalities new fiscal authority. In Ontario with the introduction of the Respect for Municipalities Act, 2005, Municipal Affairs and Housing Minister John Gerretsen stated "This bill reflects our commitment to treat municipalities as a mature level of government. This is about strengthening our cities and improving our economic advantage. This legislation is another step towards treating municipalities with the respect they deserve. Our aim is to remove obstacles that prevent the introduction of legislation that would broaden revenue tools for municipalities." [2]

However having introduced the above mentioned bill, the Ontario government still states that these new powers do not propose to directly extend any new revenue tools to municipalities. If new revenue tools do not mean taxation, what do they mean? This is the type of rhetoric that taxpayers should be afraid of.

Revenue V/s Spending Problem

Much of the discussion about Municipal/Provincial relationship is based on the premise that municipalities should be given more powers of taxation so as to alleviate a revenue problem. While we believe that there is a growing disparity in the sharing of taxes collected by different levels of government – municipal, provincial and federal, we do not believe that giving more powers of taxation to municipalities will alleviate the overall tax burden and provide services more efficiently.

The general public is often led to believe that if the municipalities were given more powers of taxation that services would be better and more efficiently provided. This reasoning is far from being correct given the historical past. Larger cities lament that they have more responsibilities than smaller jurisdictions and therefore should be given different powers to better serve their citizens. What is ignored is that smaller cities often manage their affairs more efficiently than larger cities. There are smaller cities which have been known to give tax rebates, and used a more innovative approach to land development and town planning, while larger cities have been reluctant to use other means of providing services or even privatizing their services. In so doing the costs incurred by larger cities continue to rise and there seems to be no end to it - hence their strong representation for more powers to raise taxes.

We are very cautious in supporting any increase in the powers of taxation of municipalities. On the other hand we strongly support a redistribution of the revenues collected by senior governments to the appropriate municipal jurisdictions. Taxes collected from the sales of gas should not be appropriated by the senior governments, this is the reason why we support a return of part of the tax collected by the federal government. The recent agreement to return part of the GST to municipalities is also welcomed.

We support any sharing of taxes between jurisdictions because in the end, there is only one taxpayer. However we strongly believe that any amount returned to municipalities is specifically earmarked for projects directly related to the tax, for example roads, bridges and intersections from gas taxes. Some would argue that imposing restrictions on the money returned is tantamount to dictatorship, but we argue that given how Calgary dealt with its first return of GST from the federal government it would be wise to see the imposition of caveats. In Calgary the 'windfall' was in part quickly appropriated and allocated to building tourist attractions and political-legacy parks instead of being used solely for infrastructure and road building. Instead property taxes continue to increase despite revenues from the federal government. The result is still the same, more expenditure by municipalities and no sight of any tax relief.

Municipalities argue that they are not allowed to have deficits; in fact there are no reasons why they should. While we do not advocate that municipalities should run deficits we would like to clarify that some jurisdictions have incurred deficits and are also authorised to do so, in fact in Alberta it is clearly stated under 244(1) of the MGA.

- If the total revenues of a municipality over a 3-year period are less than the total expenditures and transfers of the municipality for the same period, the operating budget for the municipality for the year following the 3-year period must include expenditure to cover the deficiency.

The notion of no 'deficits allowed' has often resulted into the practice of over estimating expenditures and under estimating revenues at budget time, and thus enable the increase in taxation. In many cases the idea of allowing new taxation powers to increase revenue does not hold water. A careful analysis of financial statements of cities like Toronto, Vancouver, Calgary, Edmonton and Red Deer shows clearly that we do not have a revenue problem but clearly a spending problem.

CPI and Inflation

In recent past the City of Calgary, and other municipalities, have raised taxes above the Canadian inflation rate. When this fact has been pointed out by numerous advocacy groups, the response has been that a city has a different rate of inflation. In the latest brochure to the citizens of Calgary, Council stated: " The City's Price Index – the cost of providing municipal services – is going up at a rate that's almost double the Consumer Price Index (CPI)…The City's inflation rate is driven by salaries, commodities, vehicles and equipment." [3]

Now we have different definitions for the Consumer Price Index - the measure of inflation. According to Calgary's Council, we no longer use the CPI for Canada or the regional CPI for Alberta or Calgary, but we should instead use an organization CPI computed by the city. Given the commodities in the city's basket, we would call this basket the 'cost of doing business', and not a new CPI. If it were true that it was a new CPI, wouldn't this theory apply to every business in the world, they would all have their own CPI. Since in macroeconomics the CPI is a measure of inflation, and that it is a government's role to control inflation through contractionary fiscal policies, doesn't it stand to reason that the municipal government should take responsibility to control its inflation? Therefore shouldn't the city control its costs, in other words its expenditures on salaries, commodities, vehicles and equipment? Instead of trying to use concocted economic theories to justify their increasing expenditures, municipalities should take a hard look at their service delivery to cut costs. Beware of any attempt by municipalities to create a Municipal Cost Index to justify their spending habits.

Expenditures

All cities in our study conform to the same accounting standards. As a result they all present their annual financial results in a similar format. When these results are published they are usually presented in the format which shows their expenditures by the type of services that they provide. **(seeTable1)**.

However, the expenditures are only broken down by function in a remote page at the back of the report and are only part of the notes attached to the results. It is only in that format that one can see the true problems faced by municipalities **(see Table 2)**.

Labor is the largest municipal operating expenditure.

In fact as we have found salaries, wages and benefits account for the largest expenditure. Our study showed that in Calgary a 1% tax increase is equivalent to an estimated $6.1 million. If we use this ratio we can see that, in Calgary, for every 1% increase in labor cost, taxpayers will have to pay the equivalent of an additional 1.3% in taxes to cover this increase alone. **(See Table 3)**

Notwithstanding that Calgary has one of the most lucrative pension plans of any municipality, in 2003; it was found that the pension fund had not been properly funded. "Furthermore since the revelation of possible shortfall in the pension reserves, council approved the appropriation of $6.5 million from the 2003 operating surplus to reduce the deficiency." [4] Unknown to most taxpayers a similar pension plan has been accepted by the Alberta Urban Municipalities Association (AUMA) for other municipalities. This will be an increase costs to taxpayers in future years for all municipalities who adopts the pension plan.

Municipalities and other levels of government are not the only ones faced with increasing cost of labor. The private sector in most industrialized countries is facing similar problems and causing many large corporations to face the reality that due to labor costs and benefits they may becoming less competitive. Let us look at the case of General Motors for example. "GM now has 2.5 retirees for every active worker, for example, and experts note that GM's projected $5.6 billion health-care bill this year will be the same whether the company sells 4.66 million vehicles in the United States, as it did in 2003, or sells about 3.98

million vehicles, as it is on a pace to do this year. But at least with the higher number, GM's health-care tab per vehicle is $1,200, while at the lower number it's about $1,400 per vehicle. The more vehicles GM sells, the more flexibility it theoretically has to lower prices with each successive sale."[5]

If GM and other organizations seem to have problems with labour costs, shouldn't municipalities look at their labour costs too? In all the jurisdictions we analyzed, labour costs are the largest expenditure ranging from 48% to 66% of total operating costs **(See Table 3)**. In effect we do not have a revenue problem, but we definitely have an expenditure problem, which in our opinion is never addressed for fear of alienating the labour unions.

Over the years governments in other countries, and some Canadian cities, like Winnipeg, have resorted to alternative means of delivering services to cut costs. They have used privatization of services, private/public partnerships, and managed competition, among other means, to great effect. In Canada, most municipalities refuse to look at those alternatives, and continue to raise taxes to fuel their appetite for spending.

Table 1 — Calgary Operating Fund 2003/4 ($000s)

	2004	2003	% Change
Revenues			
Net taxes available	887,449	828,901	7.1%
Sales of goods and services	587,153	528,724	11.1%
Gov. transfers/ revenue sharing			
agreements: ***Federal***	4,693	3,717	26.2%
Provincial	57,520	56,184	2.4%
Dividends from ENMAX Corp.	50,414	49,980	0.9%
Investment income	29,829	33,331	-11.0%
Fines and penalties	48,698	44,421	9.6%
Licenses, permits and fees	43,622	38,381	13.7%
Miscellaneous revenue	15,039	14,792	1.7%
Total revenues	**1,724,417**	**1,598,431**	**7.9%**
Expenditures			
Police	209,218	186,809	12.0%
Fire	111,619	110,731	0.0%
Emergency medical services	37,958	36,595	3.7%
Public Transit	190,054	177,743	6.9%
Roads, traffic & parking	120,793	113,000	6.7%
Wastewater treatment/disposal	59,203	60,364	-2.0%
Water supply and distribution	52,726	42,645	23.6%
Waste and recycling services	36,349	33,908	7.1%
Community/social development	47,247	45,455	3.9%
Social housing	36,884	33,112	11.4%
Parks/recreation facilities	100,442	91,318	9.9%
Societies/related authorities	21,219	15,547	36.5%
Calgary Public Library	30,764	27,423	12.1%
General government	121,672	133,378	-9.0%
Public works	72,893	68,559	6.3%
Real estate services	50,935	26,032	95.7%
Interest and financing	94,819	96,344	-1.6%
Total Expenditures	**1,394,795**	**1,298,963**	**7.4%**

Source: City of Calgary

Table 2 City of Calgary - 2004 Operating Expenses ($000s)		
Salaries, wages,& benefits	854,015	**61%**
Contracted & General services	177,999	13%
Material, equipment, supplies	141,698	10%
Interest charges	94,819	7%
Social, cultural and recreation	76,296	5%
Utilities	49,968	4%
Total Expenditure	1,394,795	100%

Source: City of Calgary

Table 3 2004 Salaries/Wages as a % of Operating Expenses		
	($000s)	
Calgary	854,015	**61%**
Toronto	3,542,407	**46%**
Vancouver	542,991	**59%**
Red Deer	50,293	**48%**
Edmonton	652,738	**66%**

Revenues

All the cities included in our study derive their revenues from similar sources, primarily property taxes. While this is true, it wrongly leaves the impression that property taxes are the only source of revenue upon which municipalities rely upon. In fact property taxes in some cases account for less than half of the municipality's revenues. They also derive revenues either directly or indirectly from wholly owned utilities, and other levies, and user fees.

Revenues of cities within our study have, in general, increased over the past five years **(see Tables 4-8).** Of course these revenues have increased at different rates due to the difference in growth within each jurisdiction. In Calgary while growth has been accelerating in the past five years we see that for each year, with the exception of 2002, the increase in revenue has been over the rate of inflation. This is quite understandable due to the fact that growth should pay for itself and for Calgary this has been the case for the past 5 years. In fact the following is an extract of the city's own quarterly bulletin: "In the past year the total assessed value of Calgary properties increased by $10 billion – almost 10% and now stands at $113 billion. We're one of only four Canadian cities – others are Toronto, Montreal and Vancouver – confirmed to have reached this level Calgary now has 369,000 properties on the property assessment roll, 14,000 more than in 2004. Taxes resulting from property and business assessments will bring in over 50% of the City's revenue in 2005, revenue which helps pay for the municipal services, facilities and programs needed to support our community's dramatic growth." [6]

As the assessment base increases so will the property tax revenues. Calgary has benefited from an increase assessment base and an increase in property values. Based on our analysis other cities have faired pretty well, albeit at a slower rate than Calgary. They have all generated enough revenue to support themselves and yet have been unable to restrain their rising expenditures.

Table 4	Calgary Operating Fund ($ millions)				
	2004	2003	2002	2001	2000
Revenues	1,725	1,599	1,487	1,462	1,327
Expenses	1,395	1,299	1,265	1,127	1,049
Excess Revenue over Expenses	**330**	**300**	**222**	**335**	**278**
Debt repayment	(142)	(127)	(116)	(108)	(106)
Reserves	(180)	(161)	(100)	(211)	(148)
Surplus	**8**	**12**	**6**	**16**	**24**

Source: City of Calgary

Table 5	Vancouver Operating Fund ($ millions)				
	2004	2003	2002	2001	2000
Revenues	951	879	837	798	745
Expenses	914	862	822	772	723
Excess Revenue over Expenses	**37**	**17**	**15**	**26**	**22**
Debt repayment/New Issues	92	(26)	83	25	(24)
Reserves	(65)	(34)	(39)	(1)	(43)
Surplus	**64**	**(43)**	**59**	**50**	**(45)**

Source: City of Vancouver

Table 6	Red Deer Operating Fund ($ millions)				
	2004	2003	2002	2001	2000
Revenues	145	131	127	120	127
Expenses	105	96	89	84	104
Excess Revenue over Expenses	**40**	**35**	**38**	**36**	**23**
Debt repayment/ Capital transfer	(35)	(31)	(37)	(30)	(27)
Reserves (to) -from	(5)	(4)	(1)	(5)	3
Surplus	**0**	**0**	**0**	**1**	**(1)**

Source: City of Red Deer

Table 7	Toronto Operating Fund ($ millions)				
	2004	2003	2002	2001	2000
Revenues	6,930	6,749	6,602	6,374	5,829
Expenses	6,628	6,407	6,114	5,948	5,580
Excess Revenue over Expenses	**302**	**342**	**488**	**426**	**249**
Debt repayment/ Capital transfer	(318)	(660)	(315)	(321)	(404)
Reserves (to) -from	229	151	82	72	110
Surplus	**213**	**(167)**	**255**	**177**	**(45)**

Source: City of Toronto

Table 8	Edmonton Operating Fund ($ millions)				
	2004	2003	2002	2001	2000
Revenues	1,296	1,415	1,154	1,322	1,104
Expenses	987	942	862	816	830
Excess Revenue over Expenses	**309**	**473**	**292**	**506**	**274**
Debt repayment/Capital transfer	(165)	(170)	(188)	(190)	(152)
Reserves (to) -from	(25)	7	0	(12)	(5)
Surplus	**119**	**310**	**104**	**304**	**117**

Source: City of Edmonton

Surplus

Cities in our study, with the exception of Vancouver and Toronto, have continuously produced an excess of revenue over expenditures. After the repayment of debt, which is also steadily increasing, they have enough to build reserves, which should be used in future years for the purposes for which they were created. However we can see clearly that, over the years, these reserves continue to grow and taxes continue to increase. **(See Table 9-13)**

In Alberta during the late nineties, the provincial government decided to give a school tax rebate. In Calgary instead of allowing the tax rates to fall, Council decided that they would appropriate the school tax amount and not charge any property taxes. These years were called the zero tax years, and are now being blamed for the higher tax rates of the past three years and the current trend towards higher rates for the next three years up to 2007.

Table 9	Calgary Debt & Reserves ($ millions)				
Reserves	**2004**	**2003**	**2002**	**2001**	**2000**
Miscellaneous Reserves	346	281	260	256	171
Fiscal Stability Reserve	84	89	93	79	65
Total Reserves	**430**	**370**	**353**	**335**	**236**
Debt	**1,517**	**1,424**	**1,293**	**1,245**	**1,258**

Source: City of Calgary

Table 10	Vancouver Debt & Reserves ($ millions)				
Reserves	**2004**	**2003**	**2002**	**2001**	**2000**
Miscellaneous Reserves	283	232	235	196	195
Fund Balances	233	169	211	152	363
Total Reserves	**516**	**401**	**446**	**348**	**558**
Debt	**541**	**463**	**490**	**406**	**381**

Source: City of Vancouver

Table 11	Red Deer Debt & Reserves ($ millions)				
Reserves	**2004**	**2003**	**2002**	**2001**	**2000**
Miscellaneous Reserves	81	81	75	40	39
Fund Balances	27	9	10	23	21
Total Reserves	**108**	**90**	**85**	**63**	**60**
Debt	**20**	**11**	**14**	**17**	**23**

Source: City of Red Deer

Table 12	Toronto Debt & Reserves ($ millions)				
Reserves	**2004**	**2003**	**2002**	**2001**	**2000**
Miscellaneous Reserves	879	933	891	787	681
Fund Balances	1,975	1,857	1,747	1,716	1,693
Total Reserves	**2,854**	**2,790**	**2,638**	**2,503**	**2,374**
Debt	**2,673**	**2,494**	**2,378**	**2,397**	**2,345**

Source: City of Toronto

Table 13	Edmonton Debt & Reserves ($ millions)				
Reserves	**2004**	**2003**	**2002**	**2001**	**2000**
Reserve Fund	120	95	102	106	101
Operating Fund	2,590	2,437	2,032	1,928	1,624
Total Reserves	**2,710**	**2,532**	**2,134**	**2,034**	**1,725**
Debt	**418**	**367**	**377**	**411**	**316**

Source: City of Edmonton

However during these 'zero-tax' years the city still accumulated surpluses **(see Table 14).** In our opinion the explanation is very simple. The yearly surpluses prove that growth generates revenues and should not be blamed for increased expenditures. More importantly our analysis supports the thesis that over these years Calgary under estimated its revenues and overestimated its expenditures, thus resulting in surpluses. Or, the tax base was large enough that even with a zero property tax rate for these years the City was able to collect enough revenue to meet all its expenditures, pay its debt and appropriate excess of revenue over expenditure to reserves and still have additional surpluses which in fact grew to $22m in 1997. Could we conclude that during those years there could have been over taxation, instead of a revenue deficiency as claimed by current politicians?

Table 14	Calgary's Zero Tax Years ($ millions)			
	1997	**1996**	**1995**	**1994**
Surplus	22	3	7	10

Source: City of Calgary

Municipalities are creating more reserves under the guise of sustainability. All municipalities in our study use excess of revenue over expenditure for the repayment of debt and the creation and maintenance of many reserves. This plethora of reserves covers a number of purposes ranging from Endowment Funds for specific programs to the financing of future capital and replacement projects. Furthermore after these appropriations there still exists a residue which is further appropriated to reserves called Operating Funds or in the case of Calgary -The Fiscal Stability Reserve (FSR).

The FSR is a very interesting reserve because until January 2005, this reserve was used to stabilize tax increases from year to year, although citizens have rarely seen any true benefit from its use. After January 2005 its purpose was changed so that it became a contingency fund for the operational emergencies, and investment income from the reserve will now be used to fund one-time operating budget expenditures. The result of these changes make it possible to use these reserves as a source of fund for political legacies instead of the appropriate application of these surpluses to mitigate future increases in taxation, In some cases these reserves may also be used to cover over-expenditures during the course of the year and thus prevent possible scrutiny of excess spending.

Any surplus can only be the result of over taxation.

The proponents of increase powers of taxation for municipalities will argue that these jurisdictions do not have enough money to provide the services demanded by their citizens. The problem with this argument is that reserves cannot be built if there is no excess of revenue over expenditure, and any additional surplus, after repayment of debt, can only be the result of over taxation.

Sustainability

The new buzz word for the 21st century is – ***sustainability***. What is sustainability? A comprehensive definition can be found in Paul Hawken's book which states: "Sustainability is an economic state where the demands placed upon the environment by people and commerce can be met without reducing the capacity of the environment to provide for future generations. It can also be expressed in the simple terms of an economic golden rule for the restorative economy: leave the world better than you found it, take no more than you need, try not to harm life of the environment, make amends if you do."[7]

All levels of government seem to have adopted policies pertaining to sustainability. While this position is very noble, the questions remains whether governments are doing enough and how are they fulfilling their vision of sustainability?

The Environment

Municipalities are increasingly concerned about their role in maintaining the proper balance in the growth of their jurisdictions. Some municipalities, large or small, have been better than others in recognizing the importance of planning for sustainability. Others seem to have only paid lip service to the concept of sustainability in order to raise taxes.

Sustainability should not be achieved only through higher taxation.

Sustainability should not be achieved only through higher taxation. It requires good urban planning that focuses on long term solutions. Increasingly taxpayers are being asked to pay twice for growth - Once for new development and again for maintenance in future years.

In the mean time most municipalities continue to allow development based on old planning models. We continue to support urban sprawl and ignore the realities of energy management and the ecological damage that may be caused by badly managed growth. In 2001, The Calgary Herald asked a number of writers to take a futuristic view of the city. In our contribution to this series we advocated the development of a fictitious sub division called Kleinville.[8] The idea was to have a self-contained development with housing and employment centers close at hand. Furthermore, this development would make use of solar energy and other environmentally friendly resources. While we have seen the

City invest in the use of wind power electricity for the LRT and a few municipal buildings, we have yet to see a program geared to encourage citizens to participate in greater numbers. The point is that to date very few developments in Calgary have used ecological energy sources or built residential/work communities. On the other hand, since 1998, "the Town of Okotoks has implemented many sustainable community initiatives. Using alternative energy sources and retrofitting Town buildings with energy efficiency equipment and lighting is an ongoing commitment to reduce the higher costs of using non-renewable resources for heating, cooling and lighting for public buildings. By implementing solar projects and reducing the use of non-renewable fossil fuels, which produce harmful green house gas emissions, the Town is able to deliver on its commitment to leading a healthier environment for the future generations".[9]

Furthermore the Town of Okotoks continues to make use of ecological strategies to become more sustainable. With the help of many partners, including the governments of Canada and Alberta, the Federation of Canadian Municipalities, Sterling Homes, ATCO and other partners, Okotoks is developing a small sub division of 52 homes which will use solar energy for its space and water heating. "The system is unprecedented in the World, fulfilling ninety percent of each home's space heating requirements from solar energy and resulting in less dependency on limited fossil fuels"[10].

We understand that this pilot project needed a P3 agreement to get off the ground, but there is no reason why a forward thinking municipality could not promote a larger sub division of say 800 -1000 homes which would pay for itself and not necessitate government funding. After all it seems that Drake Landing in Okotoks is doing quite well, since to date, most of the homes have been sold.

The reverse coin of good environmental policies seems to be the increasing problems encountered in some existing sub divisions. In Calgary we had many instances of residential areas like Lynview Ridge, and other areas where either remediation is needed, or sink holes have appeared. In fact the negotiations to remediate the area have stalled many times and no action has been taken in years. Residents are still awaiting their fate, and in the meantime property values have declined. To talk about sustainability is not good enough, we must not only plan for it but we must ensure that new projects conform to all the necessary parameters so as to prevent future ecological problems.

Recycling

Most Canadian cities use landfill sites to get rid of their garbage. Some cities have no landfill capacity available and in some cases it is getting critical to the point of shipping the garbage to neighbouring communities or even to the United States as does Toronto. The solution is not only to find new sites but for ecological purposes we must learn to recycle.

The problem is that once again governments have not only promoted recycling, by using so called blue boxes, but have increasingly promoted that they should be the sole provider of these services. In many jurisdictions governments already charge a fee at the point of purchase. In addition to the fee, municipalities plan to charge the taxpayer to collect the recyclable.

In Calgary, where the LRT is already powered by some wind power generated electricity, it is planned to use the same source of energy in some public buildings. This strategy is very commendable; however the power will now cost more, and obviously will have to be paid through higher taxes. Furthermore this power will be purchased from Enmax, the wholly owned subsidiary of the city, which means that there will be a transfer of funds from the taxpayer to the utility.

The fact is that to promote recycling does not require another punitive tax, but demands that governments provide incentives to recycle. Many private operators are already in the recycling business, we do not need another government operated service. As we know, one man's garbage is another man's treasure. There is room for the private sector to play an active role in recycling, and government should facilitate their participation instead of blocking it.

Fiscal Transparency

Sustainability requires that we have the right vision and policies in place to actually make it happen. However, it also requires the proper investment by the municipality and the community. Municipalities are doing their utmost to convince citizens that sustainability is important. Unfortunately it should not be used as another excuse for additional taxes or user fees. Accounting for sustainability is required to make the whole process more transparent and accountable. Without trying to reinvent the wheel, organization such as the Association of Chartered Certified Accountants (ACCA), the world's largest accounting body, already has a set of accounting standards to deal with this issue. Not only does the ACCA promote sustainability, they also sponsor an annual award for good practices. In fact Suncor was one of its recent recipients. "ACCA Awards around the world reward companies for excellence in environmental, social and sustainability reporting. The aim of our Awards is to identify and reward innovative attempts to communicate corporate performance, although we do not comment on performance itself. Our aim is to reward transparency"[11].

In its Transportation Plan Update 2005, Calgary admits that while it has achieved many of its initial goals, there has been some set backs, mainly in the inability to increase the use of Town Centers, living close to where we work and of course continued urban sprawl. The whole issue of sustainability should incorporate good planning, new building practices, and incentives for citizens to take part in the whole process. As recently stated by Ken Greenberg: "If Calgary is a city that prides itself on being fiscally responsible then it must build things with not only just a sense of permanence, but ones that are permanent, well-maintained and give the community pride."[12]

True sustainability requires bold initiatives like Okotoks, demands that we curtail urban sprawl and the adoption of policies which take the environment into consideration. Sustainability should not become another issue which government can use to raise more taxes.

The Budget Process

To promote transparency and accountability, any government needs a budget system which allows participation by the community and a public debate by members of that government. We believe that the budget document is one which has the most impact on the taxpayer, and therefore the process which goes into its preparation is of utmost importance. As a result we would like to use the following guidelines issued by The International Federation of Accountants (IFAC) as a basis for our argument:

"Most, but not all, governments prepare and issue their annual financial budgets as public documents, or otherwise make them publicly available. There are three main stages in the budgetary process which may be conducted on a cash or accrual basis at each of the levels of government (local, state, and national): (1) During the **formulation** stage, initial budgets are developed and submitted to the legislative bodies for consideration. Spending authority is granted by legislative bodies based on the political priorities and fiscal policies of government. These budgets reflect the financial characteristics of the government's plans for the forthcoming period and are used to analyze the potential consequences of those plans on the economy. (2) Adherence to these fiscal policies is accomplished during the **execution** stage. (3) Ex-ante public **reporting** of the initial budgets and forecast budgetary data (important for transparency) permits the government to identify its financial intentions. In the ex-post **reporting** stage, a comparison of the actual results with the final budget permits the government to identify its actual performance against the approved budget (accountability) and provide explanations of significant variances." [13]

Once again we shall use the City of Calgary as an example, because it has been claimed by members of that Council that their current budget system is so good that many other municipalities are seeking to adopt a similar system. While we find a multi-year budget beneficial, we contend that this present budget system is nothing but a business plan and not a budget. It lacks transparency and public input and does not seek to reduce expenditures but in fact promotes multi-year tax increases.

In 2003, the City of Calgary changed its budget process, from one directed and advised by administration to one driven by politicians. However, despite the insistence that the public is involved in forums and town hall meetings, the new process is not driven by the citizens, and not even by the qualified administration. The budget process is instead driven, mainly behind closed doors, by the politicians. In the past the presentation of the budget document was made by the administration to Council, and the public, sometime in November, was allowed to make presentations to Council, including statements but not put questions to members of Council. This process was followed in March/April of the budget year by a Budget Finalization meeting held to confirm and approve the budget for the current year.

The 'shadow budget' process is less transparent and leaves more questions unanswered.

While the old process was still lacking the insight of the previous year's final financial results, it was one which allowed for debate and public input. The new process which uses mostly arbitrary rates for tax increases and which impacts future years' budgets based on assumptions which have total disregard for prudent and good financial management principles, continues to put its emphasis on expenditures rather than initiatives for the delivery of services through efficient cost management. In addition it continues and extends the use of back door taxation through the utilities and user fees. It is merely a tool that shows how decisions made in one year will impact future years. It also seems that the system allows for additional costs to be included in the current year's envelope without much consultation, as long as the impact on future years' taxes is reflected. In fact this process is not a budget but a business plan. If the document were a budget it would be deemed illegal under the MGA 242 (1), because municipalities are required to approve a yearly budget, not a multi-year budget.

The result of the 'shadow budget', as it has been called, is more increases in spending and very little examination of activities and their continued viability. It follows very few of the prescribed standards of IFAC and ignores the use of medium-term fiscal framework (MTFF) to provide better fiscal management. The 'shadow budget' process is less transparent and leaves more questions unanswered. Recent Council deliberations of the 2006 - 2008 budgets showed clearly how bad the system is. Even former Alderman John Schmal, who did not have the fortitude to disagree with the new budget when he was on Council, must now agree that the process is a sham when he wrote: "While it may benefit the administration somewhat, council is provided with much less detailed budget information, replaced by more "summary budget lines", that make it much harder for the politicians to find possible budget cuts. Unfortunately, it also results in much less council debate. The three-year process makes it easier to take current numbers and tack on inflation allowances for the next two years."[14] The problem with the 'shadow budget' is that it originated from politicians, many of them unqualified financial or economic experts, who wanted to rest control of the budgetary process from the administration. The result is that politicians are not only in charge of the policies but also of the process, and taxpayers are worse off for it.

A good budget process should continuously examine the activities required for the delivery of services and their associated costs. Proper inflationary rates should be used and if mistakes are made in the preparation of the budget due to wrong estimates, any large amounts of surplus should be returned to the taxpayer in the following year. In the past the budget system continuously overestimated expenditures and under estimated revenues, thus creating large surpluses. However, current budgets seem to underestimate both revenues and expenditures, yet the results are larger revenues and increasing expenditures, which still result in continuing surpluses. The 'shadow budget', in our opinion, does not fulfill the intent of the above guidelines set by IFAC. Before any jurisdiction adopts this system, the public should really look at the pros and cons before giving it their tacit acceptance.

We have been a proponent of multi-year budgets for a long time, and the continued over taxation is another reason why we favour Zero Base or line-by-line budgets over the 'shadow budget' which deals only with process rather than methodology. Instead of focusing on how much revenues we have to raise through taxes to meet our current and future expenditures, we should be looking at how we can minimize expenditures and taxation and still meet the delivery of services. Through the examination of each service through either methodology mentioned above, a municipality can start looking at each activity and decide whether it is still viable and set priorities for services to be delivered. It forces an organization to look at both revenues and expenditures and not focus on the future level of taxation alone. The problem is that most municipalities in Canada have failed miserably in seeking alternative ways for the delivery of services. Some have contracted services, some have used P3, but there are still many services being delivered by municipalities that could and should be delivered by the private sector in a more competitive market place. Under the 'shadow budget' system, there is no incentive or will to minimize expenditures but there is always a reason for increased taxes. No wonder that it is becoming popular with other jurisdictions. There is less accountability, less transparency and more taxes. Only municipal rent-seekers can support such as system.

Municipal Utilities

In general terms a public utility can be defined as a system or works used to provide one or more services for public consumption, benefit, convenience or use. In the past most government-ran utilities have included such services as water or steam, sewage disposal, public transportation, irrigation, drainage, fuel, electric power, heat and waste management to name but a few services.

The role of government institutions in the management of utilities has always been one based on the fact that the goods and services involved were important to society. The argument is that the benefits from these services are so wide spread over a large segment of the population that it is difficult to charge a fee based on the benefits received. It is also thought that these services cannot be divided into units that can be sold in the market place, and that government cannot rely on the free market to provide the good or service.

Today, the preferred mode of operation of many utilities is to allow private industries to deliver the service within a regulated or deregulated environment depending on the commodity or service and the government jurisdiction. Therefore we shall examine the pros and cons of municipal operations of certain utilities.

Why?

The government operation of a utility is acceptable in many cases, because the services are either deemed to be of a national security nature, or had no other parties to deliver the service, or is deemed to be a necessity which only a government should control.

We understand that not all municipalities are in a position to operate a major utility such as water, sewer or electric power. The size, the location of the municipality and of course the costs of operation will have a significant effect on the decision to either operate or contract out a utility. Some smaller jurisdictions, adjacent to a big city may get their services from the larger city. For example, Cochrane, Airdrie and Chestermere get some of their water and sewer services from Calgary. Edmonton, and some other municipalities serve many of their surrounding communities.

Why not?

Despite the claim by some municipalities that: "In the past, local governments had simple responsibilities. They looked after the community's roads coordinated the volunteer fire brigade, and kept the water and sewer systems working… Today, cities like Calgary run major businesses, like utility, companies and transit systems…" [15] The truth is cities do not have to run utilities and businesses, they choose to do so because these services are unregulated and a major source of hidden taxation.

Cities do not have to run utilities, they choose to do so.

In many cases, around the world, the operation of utilities by governments is becoming redundant. Over the years as capital costs and the ability for governments to invest in utilities have declined; more and more private sector corporations, albeit with some regulation in many jurisdictions, have been used to deliver services which in the past were deemed to be delivered only by governments.

Since many utilities' services can be delivered by the private sector at cheaper costs than the public sector, it would be wise for municipalities to seek more private/public partnership. In addition bringing these utilities into the private sector will make them subject to the scrutiny of a regulator such as the Alberta Energy and Utilities Board (EUB). Currently the City utilities do not come under the scrutiny of an independent regulator; their rates are only subject to review by the Gas and Power Committee of the City of Calgary and rubber-stamped by City Council, whose decisions cannot be challenged, except by a customer outside of the city limits. As far as we know these rates have never been challenged.

Given the parameters under which municipal utilities operate, in some jurisdictions like Calgary, the government is finding it very lucrative to turn as many services as possible into a utility because it removes the burden of providing the service from the mill rate, which derives its revenue from property taxes. In recent past Calgary has transferred such services as fire hydrants, and storm sewer to a utility model, as a result there has been a constant increase in rates paid by Calgarians. The problem with this strategy is that there is no more transparency in the amount being charged for the service and the rates keep going up because these utilities are unregulated and do not come under the scrutiny of an independent regulator like the Energy Utilities Board (Alberta). Further, these formally mill rate supported services become double charged, since there is no equivalent reduction in tax rates to offset the new increase in utility rates. The other reason for transferring services to utilities is very simple, because the Municipal Government Act states:

- 33. When a municipality provides a municipal utility service, the council may by bylaw prohibit any person other than the municipality from providing the same or similar type of utility service in all or part of the municipality.

This legislation in fact states that every utility provided by a municipality becomes a monopoly, which can charge any rate it so wishes because a rate payer has very little recourse against gouging:

- 43(1) A person who uses, receives or pays for a municipal utility service may appeal a service charge, rate or toll, made in respect of it to the Public Utilities Board, but may not challenge the public utility rate structure itself.

The above section of The Act is so restrictive and gives so much power to the municipality that in Calgary the rates charged by its utilities are nothing more than a means of taxing citizens by a hidden tax.

There are still many utilities being operated by governments of every size. While some municipalities have placed some of their utilities under one corporate umbrella, for example EPCOR in Edmonton, others continue to operate their utilities as separate entities within the municipal corporation, or wholly owned subsidiaries, like Enmax. The mode of incorporation has made the operation of utilities different, even in the same province, and as a result regulated or not regulated where appropriate. The control of utilities by municipalities is becoming a major issue of discussion because some municipalities like Calgary are using these utilities as a means to raise taxes vicariously

In contrast, for example EPCOR which services many jurisdictions adjacent to Edmonton has agreements which in the long run allow these jurisdictions to challenge the rates charged for these services. Therefore under these circumstances the rates come under the scrutiny of the EUB; a good thing for customers in those areas, because EPCOR cannot charge rates which would be unjustified under common utility financial principles. On the other hand ENMAX which is a wholly owned subsidiary of the City of Calgary, although the EUB has powers of scrutiny over the rates charged for electricity, Calgary Council still holds the power to indiscriminately charge other fees and dividends which increases the rates payable by ENMAX customers. In 2004, although the EUB found that the utility was over charging its customers, and ruled that a refund was appropriate, Council immediately changed the rules and appropriated the refund mandated by the regulator.

Additional Powers of Taxation

Since municipalities are unable to control their costs they have recently started a campaign, led by Calgary, to acquire more powers of taxation. This is a move that, if accepted by provinces, will give additional powers to raise taxes other than property taxes.

Canadian municipalities seek to adopt some of the worse American tax policies.

Canadians very often criticize our American neighbours for many different reasons. We pride ourselves in having some of the best practices in the world, but recently our municipal politicians have started to adopt some of the worse American tax policies. While we know about some of the effects of the more popular taxes such as, sales tax and hotel tax, many Canadians are not conversant with the other taxes that may be used to pick their pockets in the near future. It is those taxes that we plan to discuss in greater detail.

Tax Increment Financing (TIF)

This particular type of financing, which Calgary proposes to introduce if it gets permission form the province, is not only going to change the tax base but will in our opinion create a corporate subsidy. In the United States this tax is operated under stringent legislation with specific rules attached. However, most Canadian taxpayers do not have an opinion on the proposal because most of them do not understand what TIF is all about; we therefore provide a short overview of the tax and the possible consequences that may result from its implementation.

TIF provides infrastructure dollars for areas that would otherwise not be developed because the area may be deemed to be blighted, or the land needs rehabilitation. This form of financing has been in use in the U.S.A since the forties, and since 1952 it has been implemented in California and 48 other states, not without controversy.

The idea behind the use of TIF is that it brings development to unproductive areas, therefore a city should encourage its development by financing the necessary infrastructure upfront through either a bond issue, which we do not have in Canada, or through municipal financing to be paid for by the taxpayer. The first step in the process is to clearly designate the area which will subject to the TIF. The second step is that all existing properties in the area are valued at current assessment, and they are frozen for these existing properties. The old assessment value is called 'baseline'. Now property owners in the district pay two taxes. One on the 'baseline' and two on new assessment values after redevelopment. The first tax goes to general fund and the second tax goes to repay funds used for the infrastructure. When the borrowings are repaid the TIF is closed and all taxes go to general fund.[16]

There are a number of general concerns about this financing method and we are not the only ones to express them. In fact even in the United States there is growing reluctance for its continued usage in certain jurisdictions. TIF was designed to be used as a last resort for redevelopment of areas which cannot be developed due to some very difficult circumstances such as a blighted area, urban brown fields, and land reclaimed from pollution etc. TIF areas would not otherwise be developed by private sector due to difficulties mentioned above.

Although TIF has been used in the United States for a long time, results have been mixed. There have been problems of TIF in Chicago under Mayor Richard. M. Daley. Studies have found that TIF has been used as a planning tool to influence the character of land use. In fact it was found to be a budgeting tool to support the administrations or politicians' pet projects -*If you build it, they will not always come.* A study by Richard F. Dye and David F. Merriman concluded: "Our analysis of 235 municipalities in the metropolitan Chicago region finds cities… that had TIF districts actually grew more slowly than municipalities that did not use TIF."[17]

TIF has been used in Winnipeg for the Forks North Portage partnership, and Toronto's Waterfront Revitalization Corporation. As it concerns the East Village in Calgary there are some facts that have been left out. Although the area has been under a cloud for a number of years it is not a blighted area. The location is good enough for private sector development without government involvement. Calgary is in the midst of an economic construction boom and its economic status does not require the use of TIF, certainly not downtown. Some experts have already hinted that with proper density allocation their may be no need for City finance. To support our position that TIF is not needed in Calgary; it was recently reported that all of the 220 units in a condominium, not 2 kilometres away from the East Village called Sky Tower sold in one day. Is this symptomatic of a blighted area? Does development in Calgary need government financing?

The most important issues have not been discussed at all. In the first place the province has not yet given permission for the use of TIF. The City has not designated the boundaries of the TIF area, and already the Mayor has announced that the East Village will now start at Centre Street and will include a development by EnCana, one of the richest oil companies in Canada. When the City funds the initial infrastructure it will need to borrow. The repayment of the funds required will have to be paid by the City until it recovers from TIF in future years. To borrow and repay funds the City will have to raise taxes from everybody and once the TIF is closed there is no guarantee that the increased tax rates used to finance the project will come down. When used to fund companies like EnCana, TIF may be construed as corporate welfare. If new EnCana tax revenue, which has nothing whatsoever to do with TIF, is funnelled away from general revenues to pay for TIF zone infrastructure, the taxpayers are denied the financial benefits of the EnCana development which could be used to keep taxes down. Furthermore, before even starting the project Calgary Council, despite the advice of both the project consultants KPMG and the administration, has appointed a board of Directors to be paid an honorarium, at a cost of $3 million over the term of the project in addition they also appointed the Mayor as a member of the Board. KPMG stated in the report: "This approach seems impractical for a public sector entity focussed on bettering the community."[18]

Furthermore the Chicago model being used may not be adequate for Calgary. In Chicago, much of the development was for education infrastructure purposes. The problem with education infrastructure is that only the residential portion will generate taxes, and this is usually a very small proportion of the entire development. If this is the case how are sufficient revenues going to be generated to repay the debt incurred and paid for by taxpayers under TIF? This is further cause to doubt the use of TIF in Calgary.

TIF is corporate subsidy.

In fact in the United States it has already been shown that the taxpayer does not benefit from this scheme but corporations involved are definitely the beneficiaries. Chris Potter wrote: "Up until the PNC and Mellon deals, city TIF deals were directed solely to paying off the cost of the project. But for the operations centers, only about *half* the money is being used to subsidize construction of the buildings themselves. The balance -- a total of $14 million -- has been earmarked for Fifth and Forbes. Now, instead of using their increased tax obligations to pay for their own buildings, the banks will pay to build somewhere else. In other words, instead of paying into the government till – where they could cover the cost of police and firefighters – the money will subsidize Fifth and Forbes."[19] In Calgary the use of TIF may not be as widely advertised as in the States, but the possibilities of influence peddling and hidden transfer of funds may yet be very possible.

Eminent Domain

Another bad municipal policy, from the United States, that Canadians do not need, is eminent domain. This scheme is only another name for appropriation of property. In Canada it is nothing else but the expropriation of private property by governments.

This power is used by Governments when the acquisition of real property is necessary for the completion of a public project such as a road and the owner of the required property is unwilling to negotiate a price for its sale. In many jurisdictions the power of eminent domain is tempered with a right that equitable compensation is made for the appropriation. The problem is that some governments are using this power for other uses. For example small residential properties are being expropriated and the land sold to large corporations for redevelopment. The new building or business generates more taxes that the small homes, therefore the property becomes more lucrative for the municipality.

In the United States where this practice is becoming so common, and that it was being upheld by some courts, it is refreshing to see that the House in a bipartisan move repealed this practice as reported: "The bill, passed 376-38, would withhold federal money from state and local governments that use powers of eminent domain to force businesses and homeowners to give up their property for commercial uses".[20]

As the practice grows in many states, this congressional act may be good news for our neighbors to the South, but here Canadians do not have any type of protection from unscrupulous politicians who would just like to adopt similar policies to solidify their political legacies. Canadians beware of new tax powers.

Part-time Residents Tax

Canmore is a fantastic town in some of the most beautiful mountain sites in Canada. In recent past the town has grown considerably due to foreigners and out-of-towners purchasing recreation properties and condominiums. To make up for another so-called shortfall in revenue, the town of Canmore is proposing to tax its non-permanent residents. To tax non-residents may not only curtail future investment but will also be divisive. The short-sightedness of this type of tax is another reason not to allow more taxation powers to local governments.

View Tax

Another tax that may be included in the 'new powers' could be a view tax, as imposed by some places in the United States. It is simply a new way of assessing the value of a property, where a property with a view of the surrounding hills and distant mountain makes the property seven times more valuable than if it had no view, therefore increasing the taxes payable on the property. Once again bureaucrats very quickly justify their taxing ways, as stated by Katharine Webster: "State officials say there is no such thing as a "view tax" _ it is a "view factor," and it has always been a part of property assessments. The only change is that views have become so valuable in some towns that assessors are giving them a separate line on appraisal records".[21]

As far as we know, this issue has not arisen in any part of Canada, yet. But watch out Albertans, if the province gives more taxation powers to municipalities, citizens of places like Calgary, Canmore, Banff, Jasper etc. could be in for a rude awakening.

Existing Tax Powers

While municipalities are seeking more powers of taxation, we already have more types of taxes than one can imagine. The problem is that these taxes are usually identified as something else. They may be called user fees, or levies, but in the end they result in the same thing more money for governments and less for the taxpayer. While we advocate the use of user fees, because they affect only those people who use the service, we have noticed that more municipalities are switching ordinary mill rate supported services to user fees, without an equivalent decrease in the property tax. Or in the case of a 'levy' it is being used to raise funds surreptitiously for specific programs.

Taxes can be identified as something else.

The Art Levy

In January 2004, Council decreed that all city capital projects over $1 million, including upgrades and growth, will bear a 1% levy to fund the arts. So far $8m has been collected and with financing from other levels of government upcoming, this fund may balloon up to $18m, equivalent to a 3% tax increase. The money is going to be funded by debt and reduces the availability of much needed capital for infrastructure. Furthermore if Calgary receives more money from the other levels of government and that money is spent on badly needed infrastructure, Calgarians will find that their tax bill will increase by an additional amount to finance the art levy.

Art has much to offer to the community and we should be grateful that Calgary is well served by a growing arts community. Funding is required but not in the way it is being done. There are other means of achieving the same goals without taxing the citizens. Council's surreptitious tax is wrong. The most insidious result of this levy is that it will also apply to projects for the utilities, which will result in an increase in future rates. Water, sewer and transit are necessities, which many fixed income citizens can barely afford. For example, if the City builds a new sewage plant costing $400 million, an additional $4 million will be added, and that cost will be borrowed as part of the total construction cost. Ratepayers will go on paying year after year just as if it was part of a sewage treatment plant.

While we do want to help the arts community, we do not support that it be done through a levy on badly needed capital projects. We propose a better alternative. Philanthropists have always been the source for arts funding and since Alberta is awash with increasing revenues from oil, instead of taxing citizens who can ill afford to pay their utilities we should instead increase the tax deductibility of donations to the arts by both corporations and individuals. Funding for the arts should continue to be funded through existing programs, devoid of any political interference. A tax under any other name – a levy- is still a tax.

New Home Levy

Prior to the 2004 Calgary municipal election, Alderman Ric McIver warned the electorate about a plan to raise a levy on the sale of older homes. Of course this revelation was denied by all other incumbents. No sooner had the 2006 municipal budget been approved, that Council introduced a new tax on new homes. Under the guise of financing the capital costs of police and fire stations, recreation areas and libraries in new developments, the Urban Development Institute is being asked to add up to $3,500 to the price of a new home, in addition to the existing $5,150 average charge per household. The problem with new taxes is that they tend to take a life of their own, and already some Councilors are saying that the levy should be added to all new houses, no matter where they are located, or worse add the same levy on the sale of older homes. In effect just tax every piece of real estate to death.

Speeding Tickets Tax

For years Canadians have suspected governments' use of photo radar, and other means of traffic enforcement tactics to be nothing more than a money grab – in other words a form of taxation. While it is recognized that some form of enforcement should be used to curtail speeding in certain areas, in no way should the issuance of speeding tickets be viewed as a municipal revenue generation tool. However, the suspicions have now been totally justified when Calgary's City Council specifically approved the use of speeding tickets as a source of revenue in its 2006 budget to supplement the Police budget; once again proving that governments will do anything to raise taxes instead of cutting costs.

School Tax

In many jurisdictions, certainly in Alberta, municipalities collect a tax on behalf of the province to pay the Alberta School Foundation Fund requisition. Due to its size this tax has become a bone of contention between the province and municipalities. In Alberta municipalities would like the province to 'vacate', what municipalities have termed as a tax grab, and allow them to invade the space left by the province to be able to tax their constituents.

First let us look at the mechanism of this tax. Municipalities in Alberta and in many other jurisdictions have become the collector of a tax on property on behalf of their provincial government – this tax is called a school tax. While the tax is collected for the purposes of financing education, in Alberta it does not make its way into education at all, but goes to the province's general fund. In Calgary this tax which accounts for an average of $470 million per year is nothing but another property tax. In 1977, municipalities and the province had the same discussions as stated in an article in the Herald: "Interestingly, at the Edmonton meeting last week it was the education tax action that Municipal Affairs Minister Dick Johnston cited as the reason why the province is refusing to give municipalities a formal share of provincial revenues." [22]

Now there are some who believe that the province should give back this tax room to the cities, believing that the cities would do a better job at providing services to their constituents. While we believe that provinces who can afford it should not unduly tax its citizens we would argue that a tax on property for education purposes is wrong in the first place. Property values and the education costs have nothing in common and it is preposterous to think that the contribution to education should be made on the basis of one's residence or property. For that reason we do not support the education property tax.

However, increasingly the public complains about the lack of funding for education. If the money collected is not enough now, and if the province does not collect taxes to fund education, what's next? The proponents of Alberta moving out of the property tax for education seem to believe that since the province has a surplus, everything should be done to promote expenditures. They ignore the fact that education will still need funding. Just because we have a surplus today does not mean that it will last forever. In the future if we need more money for education the government will have to raise taxes and since the current education tax would have been vacated, they will have to introduce a new provincial tax. If this happens, the citizens will then pay three taxes – first the original municipal property tax, second any new municipal tax replacing the current 'vacated' education portion , and third a newly introduced provincial education tax. This proposal to 'vacate' the tax is another ploy by municipalities to have a cash grab. In fact some years ago when Alberta reduced its take of school taxes, Calgary appropriated the amount and did not raise property taxes. This decision not to raise taxes is often blamed for the need to increase taxes today. This reason does not hold water given that during those years, even without raising taxes, Calgary produced surpluses. **(See Table 14**) This must mean that either growth contributed to the increased revenues, or that the base used for the mill rate was high enough to continue to overtax Calgarians

> Those who support giving more powers of taxation to municipalities and believe that giving them more room to tax do not understand the inherent culture of governments – spend and tax the citizens anytime they can. If there is room to vacate a tax, shouldn't the taxpayers benefit from it? Why should they continue to pay the same amount of

tax, albeit to a different level of government? In fact what should happen is that any tax vacation should be handed to the taxpayer and not to the municipalities. If municipalities have an expenditure problem, which they do, they should seek to solve it by spending less and finding other means of financing their expenditures instead of continuously looking for new ways to tax their constituents. In this case to vacate the education portion of the property tax means only one thing; 'What the province *giveth*, the municipality *taketh* away'; the result no gain for the taxpayer, but the same pain of over taxation by one level of government or another.

Downloading

Over the years senior governments have downloaded services to the next level of government. This practice has been done to either alleviate one level from responsibility or to save money. Either way it has created financial problems for the lower level government who had to deliver the service, sometimes without additional funding. On the other hand junior level governments, like municipalities, have very readily embraced or appropriated responsibilities for the delivery of services which had been provided by their provinces. The reason, in some cases, has been to provide the service for the local community, but more importantly to garner power and as a result a larger base for justifying future taxation. Once the service has been entrenched into the municipal system, even if the provincial government wanted to retake responsibility, municipalities have been reluctant to do so. Or if they have agreed to return the service to the higher level of government they have demanded more money in the guise of compensation for the transfer of the services. Recently this was the case with the Emergency Medical Services transfer from municipalities back to the province of Alberta. Due to the excessive amounts demanded by the municipalities, the province decided to defer the transfer. Very often this downloading and uploading of services between provincial and municipal governments, is nothing more than a transfer of power over the services. As a result taxpayers see very little improvement in the service delivery or in their taxes.

Benchmarking

While it is good management to benchmark, what is more important is to make use of successful strategies experienced by other organizations to help reduce costs or to better deliver services. Many governments have used benchmarking to good effect. Through the exchange of ideas and practices many municipalities have improved and reduced or maintained taxes at the same level.

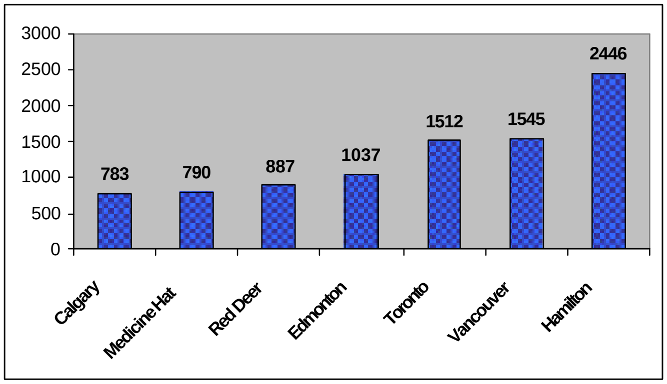
Benchmarking by some municipalities has a tendency to justify increased spending.

One very interesting tactic of some governments is the use of comparison between different jurisdictions to formulate their strategy. However while some have sought to improve their services or reduce costs, some have chosen benchmarking to justify their continued spending. We understand that the taxes for each city may not be entirely comparable due to different charges being included in different jurisdictions. **(See Figures 1& 2).** More revealing would be the analysis provided by DBRS, **(see Table 15)** which uses excess of revenue over expenditure to identify operating surplus. This is different from most municipalities' interpretation of surplus, which is calculated as the amount left after payment of debt and appropriation to reserves. Municipalities, who currently have lower taxes, use the higher taxes of their counterparts as examples to justify increases in their jurisdictions. It is ironic that those municipalities with higher taxes very rarely compare themselves to municipalities who have lower taxes. For example Calgary will always compare itself to other jurisdictions to justify any increase in taxation. In fact to justify the new home levy mentioned earlier, Calgary's Mayor already stated that his proposed $3,500 levy pales in comparison to similar levies in Toronto, Ottawa and Vancouver which range between $20,000 and $30,000 per home. The question is why should Calgarians be interested in taxes paid by Torontonians? In fact Torontonians should be demanding to have their taxes at the same lower level as Calgarians. Very rarely do we see Calgary adopt cost cutting measures implemented by successful cities like Phoenix, or Christchurch, but on the other hand they have been very quick to adopt tax increment financing, or other tax schemes from less successful cities like Chicago.

At the last Federation of Canadian Municipalities conference in Newfoundland, many of the discussions centred on new ways of doing things, most of them involving new expenditures. Very few, if any, new initiatives to cut costs or the alternative delivery of services were discussed. In fact much of the discussions were about getting more money from the federal or provincial governments without having to cut costs. Even the guest speakers from other levels of government were more ready to talk about transfers of tax collected than cutting costs. Not one speaker talked about reducing taxes, why? - Because it was the politically correct thing to do; result no relief or progress for the taxpayer.

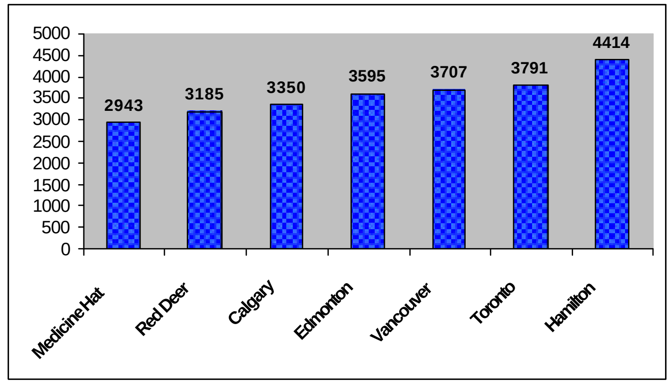
Should provinces give local governments any additional power of taxation, taxpayers are very likely to see increases in taxes rather than costs reduction. The problem as explained above is that we have too many examples of tax increases that will be used by municipalities, and not enough will to reduce costs despite many good examples around the world.

Figure 1
Municipal Property Tax for a Single Detached House 2004Canadian Cities



(1) Figures include municipal and regional taxes, but exclude school tax, and are net of homeowner grants if applicable.
(2) The sample house is defined as a 25-30 year old detached 3-bedroom bungalow with a main floor area of 1.200 square feet, finished full basement and a double garage, on a 6,000 square foot lot.
(3) Information for Vancouver is based on an average-value single detached house which may not correspond to the sample house as described above.

Figure 2
Total Property Tax and Utility Charges for a Single Detached House 2004 Canadian Cities



(1) Property tax shown includes, municipal, regional and school taxes, but is net of homeowner grants or credits
(2) Utility charges include telephones, power, water, sewers, land drainage and garbage collection.
(3) Utility charges also include surcharges for water mains and sewer upgrading where applicable.

Source: City of Edmonton Planning and Development Department -2004

Table 15	**Canadian Municipal Government Fact Sheet**				
	Vancouver	**Calgary**	**Edmonton**	**Hamilton**	**Toronto**
Effective Date	Dec 23/04	Nov 15/05	Dec 20/04	Dec 16/04	Dec23/04
Value of Bldg. permits **($m)**	1,063	2,635	1,075	664	3,726
Operating Surplus ($m)	**189**	**427**	**184**	**110**	**450**
- per capita **($)**	324	457	264	213	172
Total property tax *					
- per capita **($)**	**1,425**	**1,287**	**1,037**	**1,351**	**1,848**
Total property tax & user					
fees - per capita **($)** **	2,119	2,116	1,603	1,723	2,468
Source: DBRS Nov. 15. 2005					

* Includes property taxes levied on behalf of provincial governments (generally for schools) and overlapping regional government entities in the case of Vancouver.

** To improve compatibility across municipalities DBRS includes in Vancouver's user fees a share of transit revenues collected by the regional transport authority.

Solutions

We do not profess to have all the solutions to the plight of municipal financial management, but we believe that the notion of revenue starvation by municipalities is grossly overblown. Our research shows that municipalities in general do not have a revenue problem but rather a disguised spending problem. Instead of seeking additional powers to tax their citizens we suggest that municipalities explore and adopt some of the better practices used by some cities like Winnipeg, Phoenix- Arizona, Christchurch-New Zealand and Indianapolis-Indiana to name but a few. We offer some solutions for municipalities:

Managed Competition

One of the many ways that municipalities can cut cost is through the use of managed competition. While some experts would categorize this method as privatization, we would not go that far. Managed competition is a process which allows organizations in the private sector to compete against municipal departments for the delivery of services normally provided under a monopoly by city departments. "The City of Phoenix was successful in developing a process of public-private competitive bidding that achieved a high level of credibility…Managed Competition can provide the public agency's customers with the "highest level of services at the least possible cost."[23]

The use of managed competition in many cities has helped to reduce costs and still deliver services of the highest quality. Phoenix was recognized as the best-run city in the world and received the prestigious Carl Bertelsmann Prize.

Inner City Initiative

As discussed earlier we do not support TIF because we believe that the pitfalls are numerous and will add the possibility of influence peddling and corporate subsidies at the municipal level. This method also penalizes taxpayers outside of the development area, because their taxes will also go up. Through our research we have found other ways to revitalize inner cities without many costs to the taxpayer. The inner city initiative put forward and facilitated by Harvard Professor Michael Porter, is in our opinion a much better alternative to TIF.

The model for the revitalization of inner cities departs from the old model which chose to drive economic development through government policies and incentives. Instead the new model for economic development is driven by collaboration between government, companies, teaching and research institutions.

Municipalities must change their service delivery systems.

The traditional model driven by government was commonly used to reduce poverty, focus on social needs and deficiencies and was usually focussed on the neighbourhood. The new model by contrast is driven by the private sector and is focussed on the creation of wealth and jobs, competitive advantage and investments and is viewed as the development of a region. The strategic location of such revitalization is usually near a central business district, and is also close to transportation networks; doesn't this look like Calgary's East Village?

According to Professor Porter: "Inner city vitality frees up resources now required to address social and economic disadvantage, enhances the return to public investment in transportation infrastructure, expands the housing stock, and mitigates urban sprawl, eases constraints to regional economic growth through utilizing the inner-city's labour force, land, and infrastructure more fully. Creates more efficient spatial organization of regional industry, and brings substantial growth opportunities in the inner city itself." [24]

The best part about the use of this model is that it does not involve tax dollars but the development is done with the help and investment from the private sector.

Municipal Bonds

As another alternative to municipal financing of development, we could use municipal bonds as a vehicle for financing. Municipalities should be allowed to raise financing through tax-free municipal bonds. The bonds could be secured by the provincial government and being tax-free will carry a lower rate of interest, resulting in cheaper money. The private sector will then borrow the money from the municipality for a specifically earmarked development. The municipality will lend money at a lower rate than market rate to developers approved to implement the project.

Once the project is fully developed, the development will generate taxes on normal assessed value of properties in new area. The Incentives for the developer is to pay a lower rate on borrowed money and perhaps a lower property tax rate in the first 5 years. Under this scenario the City collects full taxes after 5 years, and repays the Bond debt from developers' repayments and taxes. The City can make money from becoming a lender for the project, and tax payers in other areas have no costs. In addition, if we use this method of financing, every bond issue should be put to the electorate for approval, thus creating more transparency and accountability.

Environmental Alternatives

We agree that the issues affecting the environment must be addressed in a more proactive manner. We should encourage recycling and other ecological uses of power to stop the deterioration of our environment, but it should not come at a higher cost. We suggest that incentives instead of punitive taxes or levies be instituted to promote environmental friendly strategies. Government should play a greater role in promoting recycling but should not be the sole provider of the service. Private companies should notonly be allowed to compete, but should be encouraged to provide the recycling services.

Alternative Budgets

We have been a proponent of multi-year budgets for a very long time. However our approach to multi-year budgets involves one caveat. Every three years a thorough review of all municipal activities should be undertaken either through a zero-base budget or a line-by-line concept. Under this review municipalities will avoid to increase their current expenditures without careful scrutiny and prevent undue increases in taxation. Contrary to some politicians' opinion, that a multi-year budget which just takes into account the impact of one year's budget on future years', is the wave of future municipal budgets, we take the view that no multi-year budget should be approved without at least undertaking a periodical review of all costs.

We should follow the example of cities like Phoenix and Indianapolis for their leadership in adopting alternative budgets and delivery systems, instead of trying to re-invent the wheel with nefarious budgets like the 'shadow budget', which is nothing more than a beefed-up business plan. Leadership in municipal budgets is better explained by Mayor Bart Peterson of Indianapolis who said: "Today being comfortable with the status quo is not even an option for us. I will submit a budget to the City-County Council this evening that is fully funded, does not raise taxes, and does not cut essential government services."[25]

Privatization and P3s

Many municipalities and other levels of government have used privatization and public/private partnerships, albeit some with mixed results. Given the higher costs of building new infrastructure it is becoming imperative that governments consider alternative financing methods. Taxpayers, in Canada like those in other countries, are overburdened by taxes. It is no longer necessary to rely solely on government monopolies to supply such things as water, electricity or drainage and wastewater. In the 21st century the private sector is not only better suited to provide these services, but also can provide it at a more competitive cost. Municipalities who own utilities could sell these services to private companies and use the proceeds to provide better government delivered programs, such as fire protection, police and emergency medical services.

There is a fear that through the use of privatization and P3s, we would create unemployment. This is far from the truth because if done properly and at the right time, any displaced employees could be redeployed within the municipality or find work with a private company. There will be some loss of government positions but those affected could replace employees who choose early retirements and/ or leave for other positions outside of the municipal organizations. In fact we believe that this is the right time to privatize and cut the largest expense incurred by municipalities–labour. In a time when we have the lowest rate of unemployment, when every industry, especially in Alberta, is experiencing a shortage of labour, it should not be difficult for the few displaced workers not wanting alternate city jobs to find other employment.

Conclusions

We sympathize with municipalities who are struggling to meet their duty to provide services to their citizens. We also acknowledge that in Canada, we have too many levels of taxation. We would like to see not just a sharing of tax revenues between the three levels of governments, but a complete rethink of the municipal approach of dependency on increased taxation to fulfill their service delivery.

As our research shows, in most if not all cases, municipalities do not have a revenue problem they have a 'spending problem' pure and simple. The so-called revenue 'deficit' is more likely due to the lack of investment in infrastructure by all three levels of government. Over the years taxpayers have paid increasing taxes, while governments instead of re-investing tax dollars in badly needed infrastructure were spending the revenues on political legacies, feel good programs and debt repayment sometimes incurred to finance increasing operating costs. In recent past, governments in Canada have resorted to surveys to substantiate their appetite for spending and higher taxes. Canadians are bombarded by survey results which state that this country, or this province or municipality is either number one in the world or the best in the country. We must guard ourselves from what Gwyn Morgan stated when he accepted his award as Canada's Outstanding CEO of 2005: that" Canadians are taken in by state propaganda"[26]

> **"Canadians are taken in by state propaganda."**
> **Gwyn Morgan.**

Canadians should be very wary of this 'feel good paradox'. In the first place many surveys are designed to produce a certain result, and just because they have a certain level of margin of error does not make all of these surveys correct or indicative of the population's belief. In the second place we should thrive to be 'one of the best', and not claim to be the 'best', because if one is the best there is only one direction to go – *Down.* Government should stop leading the population into the belief that higher taxes are the only means to guarantee them a higher standard of living or better delivery of services. To this effect a quest by municipalities to gain more powers of taxation is not the answer, and Canadians should be vigilant not to let this devolution of power happen, or if it does to have strong caveats attached to the changes..

Some Canadian municipalities want to become city-states with absolute power of taxation, because they believe that they have a revenue scarcity. The real problem with government at all levels is that they have been operating in a state of diseconomies of scale for a very long time. Inefficiencies abound at all levels, and taxing people is not the answer to their problems. They must seek new models of service delivery and remove themselves from operating utilities as monopolies. If it were true that municipalities have a revenue problem how do they justify their reserves and, in most cases, yearly surpluses?

In economic terms governments should only operate while making normal profits, but the same people who complain about a revenue problem, have been generating economic profits year after year. In the public sector any economic profit/surplus, is only the result of over taxation.

Furthermore, one of the most plausible reasons for apathy may well be that some media outlets have chosen the path of least resistance by reporting what they are fed by government agencies. What we need is more investigative reporting and the publication of views from independent policy and advocacy groups, without selective bias by editors.

The result of our study leads us to conclude that while we support more dialogue and revenue sharing between the three levels of government, there is much to do to alleviate the tax burden of Canadians in general. Just because one level of government is collecting more revenue than another does not mean that we should just transfer the taxation powers to another level to balance the disparity of revenues. At the end of the day all taxes come from the same taxpayers, as they will also have to pay indirectly a portion of any businesses taxes. In fact not only should we encourage all levels of government to curtail their appetite for revenues, we should even consider the imposition of new rules to make it possible for the electorate to approve certain expenditures before government incurs them. An often ignored reality is that these proposed additional taxes will result in killing the goose that lays the golden egg.

More importantly we should stop accepting 'unqualified' politicians' distortion and manipulation of sound economic and financial concepts to justify tax increases. It is one thing for politicians to try to justify their spending addiction, but what is most dangerous is the role of some qualified civil servants in aiding and abetting politicians in this quest for higher revenues. We understand that there is a certain level of fear among administrators in challenging their political masters. Many civil servants would love to expose their political masters' greed and penchant for spending, but we understand that not all civil servants are Allan Cutler. Should any one decide that he or she wants to be like him, they should be protected by 'whistle blower' legislation at all levels of government.

Canadians do not need new super mayors or small state emperors.

We support more dialogues between all levels of government, as long as it results in the betterment of the taxpayer and society. The sharing of revenues between higher and lower levels of government is imperative since there is only one taxpayer. However, in light of recent developments we are very skeptical about the new search for autonomy by municipalities. Our research and the track record of governments in general do not give us comfort for the future of devolution of powers to lower levels of government. We anticipate that once municipalities are given more powers of taxation, there will be a complete reluctance on their part to adopt alternative modes of service delivery. In addition the recent obsession of some Mayors to seek the status of city-state for their jurisdictions does not bode well for the taxpayer. While the proponents of city-states wants us to believe that once given more powers, the citizens of these new states will be better off, in our opinion, we cannot agree that this will be the case. In fact, we see the establishment of city-states as another power grab and a further vehicle for increased taxation. The larger the city or city-state, the more perceived responsibilities, therefore another excuse for more revenues without abandoning the financial models of the past, which are always based on further taxation. City-states are not the answer to the current problems of municipalities. We cannot support any further downloading of powers to municipalities, because there are too many politicians always eager to build a new empire. Some politicians would love to extend Mayoral powers with a deciding vote or even 'veto' power. Canadians do not need new super mayors or small state emperors. What we need are balanced budgets, better financial management and alternative approaches for the delivery of services.

The time is right for change in local government, but not like the ones made by Ontario, which has decided to give more taxing powers to municipalities. Devolution of taxing powers is a cowardly way to pass responsibility to another level of government. When taxes go up, it will no longer be the fault of the province but the blame can be passed to the municipality. Change needs leadership, and Alberta can take the initiative to make it happen. Instead of trying to tax people more we should be able to restructure and provide services by alternative means. While the rationale for more diverse tax structure for municipalities may not be to increase the burden of taxation, our study shows that we cannot agree with those who support greater taxation powers because we have yet to see any willingness on the part of municipalities to examine, and implement, cost cutting measures. The problems of municipalities should not be centered on revenues and taxation problems. We must once and for all determine which level of government is responsible for the delivery of certain services. We must curtail the dangerous trend of triplicate responsibility which results in increasing costs. The discussions must focus on the delivery of services and more importantly, how all levels of government have to work together to provide the citizens of this country the quality of life they pay for and deserve.

Glossary

Appropriation: An authorization granted by a legislative body to set aside funds for purposes specified by the legislature. It is usually limited in amount and time over which it can be expended.

Budget : A quantitative expression of a contemplated plan of action

Business Plan: Is a summary of how a business intends to organize and implement activities necessary and sufficient for the venture to succeed. It precisely defines the business, identifies the firm's goals, and serves as a firm's resume.

City-state: A region controlled by a city, and usually having sovereignty

Consumer Price Index CPI) : An index that measures the changes in the prices of consumer goods and services over time.

Contractionary fiscal policy: Any change in government spending and/or taxes designed to reduce total spending

Depreciation : The reduction in value of fixed assets due to obsolescence, use, or accounting convention (standards)

Diseconomies of scale : Bureaucratic inefficiencies in management that result in decreasing returns to scale

Economic profit : Revenue over and above all costs, including normal profits

Economies of scale : Cost advantages achieved as a result of large-scale operations

Equity : The difference between the assets and liabilities of a firm. Also called net worth.

Fiscal policy : Changes in government spending and taxes designed to promote economic stability

Inflation: A sustained increase in the average level of prices over time

Infrastructure Asset: A long lived asset that normally is immovable, part of a system or network, specialized in nature, does not have alternative uses, and may be subject to constraints on disposal. Examples include roads, bridges, tunnels, drainage systems, water and sewer systems, dams and lighting systems.

Line item budget: The budget is separated into expenses by economic classification such as compensation of employees, use of goods and services, etc., as well as the purchase of capital assets.

Medium-term Fiscal Framework (MTFF): A process for improving government expenditure programs that assists decision-makers to gauge what is affordable in aggregate over the medium-term and to reconcile this with spending policies and their costs over the same period.

Multi-year Budget: A budget that takes into account not just the budget year, but two or more subsequent years. Usually lapse of funds occurs at the end of the budget year. Figures for 'out years' are indicative.

Normal profit : The minimum profit that must be earned to keep the owner in a particular line of business

P3 : A method of delivering services in the public sector using private, public partnerships

Public good : A good or service for which the consumption by one person does not diminish the amount available to others.

Public sector: The sector of the government where production decisions are made by government or government agencies

Public Utilities: Goods and services regarded as essential and therefore usually provided by government

Subsidy: A payment made by the government to a firm, which may be either a lump-sum grant or depend on the amount produced

Zero - base Budget: A budget that is justified from zero. Each agency has to justify its whole budget as if it were applying for funding for the first time.

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Canada is one of the most democratic countries of the world. Its diversity and cultural richness are the basis for our prosperity. However in recent past there have been too many instances of government mismanagement, which if left unchallenged can and will endanger our democratic system.

In the 21st century we can no longer manage our public institutions with 20th century models. It is time to re-examine the role of government in our society and seek new ways for the delivery of public services. We need more transparency and accountability in the public sector. There is a need for a new vehicle to allow citizens to express their opinions and provide new ideas to maintain our prosperity.

The Institute for Public Sector Accountability (IPSA) is a not-for-profit organization founded to promote transparency and accountability in the public sector. **IPSA** is dedicated to the enhancement of democracy.

Vision:
Through research, analysis, evaluation and the publication of papers and articles, IPSA will inform and provide new ideas and add a new voice to the democratic process.

Mission:

- **To inform the public on issues related to the public sector**
- **To be a voice to make government more transparent and accountable**
- **To educate the public on matters concerning public policy**
- **To promote dialogue between the public, politicians, and public sector administrators.**

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