



The Institute for Public Sector Accountability
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Taxed Enough Already

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Taxed Enough Already was prepared by Marcel G. Latouche MBA, FCCA President & CEO of The Institute for Public Sector Accountability.

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Introduction

After years of Mayor Bronconnier supported by seven Aldermen, Calgarians saw their taxes soar, without much increase in the quality of services. With the election of a new Mayor and Council, we had some hope of things being done differently at City Hall.

Not even a year into his term this mayor and Council has showed that they are no different from their predecessors. The promise of 'change' by Mayor Nenshi during his electoral campaign has so far seriously missed the mark.

Having promised more transparency, his budget exercise has been anything but transparent. The idea that spending \$800,000 on a survey has produced nothing but more taxes as proposed by the latest three year budget exercise. In addition Council has also approved another \$100,000 in consulting fees to explore the idea of a 'zero base service reviews', plus another additional, undisclosed consulting fee to explain why utility rates must go up. All in all an expenditure of close to \$1 million to tell Council what we already know – no cuts, more expenditure and therefore higher rates and taxes.

This paper proposes to examine the parameters and results of this survey. We shall look at the missed opportunities and the continued idea that City Hall should be the sole provider of services.

It seems that as a result Calgarians will face potential tax hikes of 16.4% over three years, on the heels of a 10.4% increase this year, to be accompanied by a further increase in water and sewer bills that will jack up the average bill \$300 a year by 2014.

We shall also examine the claim that the utilities rates must go up because the level of debt is so huge that it will become unmanageable. We shall provide Calgarians with the true reasons; we believe the utilities are in trouble.

Finally we shall recommend alternatives to the proposed budget of Council.

The Survey

The consulting firm Dialogue Partners consulted 25,000 Calgarians including the fact that 38% of the people surveyed were members of the City staff, how does this show transparency? The staff surveyed may well have a conflict of interest and a reason to protect their territory. At some meetings there were children and more staff members than citizens. The number of people who took part in this consultation was either members of some group or people who had a specific agenda, while very few people who really understand the process and ramifications of a city's budget really took part in this exercise.

The survey asked the following questions:

1. WHAT SERVICES PROVIDED BY THE CITY ARE MOST IMPORTANT TO YOU? PLEASE REMEMBER TO REVIEW THE BUDGET KIT BOOKLET BEFORE YOU ANSWER THESE QUESTIONS. THINK ABOUT THE SERVICES YOU VALUE AND THAT MAKE UP THE CITY YOU ENVISION.
2. FROM YOUR LIST ABOVE, PLEASE RANK THE TOP FIVE CITY SERVICES IN ORDER OF PRIORITY. 2. FROM YOUR LIST ABOVE, PLEASE RANK THE TOP FIVE CITY SERVICES IN ORDER OF PRIORITY.
3. WHICH CITY SERVICES DO YOU THINK ARE WORKING WELL? WHY DO YOU THINK THEY ARE WORKING WELL?
4. WHICH CITY SERVICES DO YOU THINK COULD BE IMPROVED AND TELL US HOW YOU THINK THEY COULD BE IMPROVED.
5. ARE THERE ANY SERVICES THAT THE CITY DOESN'T CURRENTLY OFFER THAT YOU THINK THEY SHOULD ADD?
WHAT ARE THEY AND WHY DO YOU THINK THEY SHOULD BE ADDED?
6. WHAT SERVICES DO YOU THINK ARE NECESSARY FOR THE FUTURE LONG TERM SUCCESS OF OUR GREAT CITY?

While these questions are important, in our opinion some of the following questions should have been included.

1. WHICH SERVICES SHOULD BE DELIVERED BY THE CITY?
2. DO YOU BELIEVE IN THE PRIVATIZATION OF SOME SERVICES?
3. SHOULD CALGARIANS BE CONSULTED BEFORE HUGE NON ESSENTIAL CAPITAL PROJECTS ARE UNDERTAKEN?
4. SHOULD THE CITY PROVIDE CALGARIANS A LIST OF PRIORITIES FOR FUTURE EXPENDITURE?
5. WHICH SERVICES CURRENTLY DELIVERED BY THE CITY SHOULD BE REDUCED OR ELLIMINATED IN ORDER TO SAVE COSTS

Utilities Rates

Since Council is considering a utility rate hike of approximately \$300 per year, it would be nice to know why these increases are required. The Mayor himself acknowledges that we must now atone for the mistakes of the past. In our opinion it is a combination of bad financial polices and mismanagement of the revenues generated over the years which has driven us to this point. To say that this situation was not forewarned would be a misinformation since in 2005 Alderman Ric McIver commissioned a report entitled: **“A case for controlling Utility Rates “**. This report outlined the problems and excerpts from this report follow:

Financial Policies

In the past, the key goals and objectives of the City of Calgary Utilities are:

- Ensure compliance with current legislation and public health and service requirements,
- Ensure the financial viability of the utilities within normal business criteria as established in the private industry and **in compliance with the requirements of the (EUB)**

There was another objective which was recently removed and it was as follows:

- Ensure customers are **charged the lowest possible long term rates**, while providing the City of Calgary a **reasonable return** on its equity in the Systems,

It is obvious that we no longer observe the third one which seems to have been removed deliberately to allow for the maximum charge possible.

To fulfill the mandate of operating a utility within legislated regulations and operating under sound financial acceptable accounting principles, The Calgary Utilities have adopted the following financial policies:

- Attain a 40% equity ratio, by the next plant expansion, but with no cap, meaning that the equity could grow up to 100%
- Pay the City a 10% return on the equity in each utility (ROE),
- Pay the City a 10% franchise fee in lieu-of-tax on sales and service charges from within the City,
- Depreciate its assets by rates prescribed by the City,(this policy has since been superseded by the new Tangible Capital Asset that now require municipalities to depreciate assets in a standard rather than a “made-to-suit ourselves” way.)
- Establish rates for services based upon cost of service and/or user pay approach
- Excess of revenues above revenue requirements are considered as a contribution to equity.

We have found that these policies are consistent with those established by such industry associations like the AWWA. While this is true, the City of Calgary policies have ignored other policies, which prevail in the industry.

The current policy of an equity return payable to the City provides a return in perpetuity. Notwithstanding that the initial investment has already been paid for over the years, the customers continue to pay the City for assets that they already own and paid for through their rates. In effect the current policy of a return on equity of 10% to the City is contrary to one of the tenets of utility rate computation: ***“that utility fund should not be used for non-utility purposes”***. Which if applied properly would reduce the revenue requirement of the utilities and therefore reduce the rates.

After years of mismanagement of the debt and misallocation of funds through archaic and outdated policies successive Council have transferred funds belonging to the utilities to the general fund, instead of paying the debt. Now Calgarians are being asked to pay the piper once again, after having already paid for the assets in the past.

Over the years at least \$50 million dollars a year have been transferred from the utilities. This after Council decided to put a cap on the appropriation. Before the cap even more millions were taken from the utilities. The culprit was a policy of charging a 10% on equity and a 10% franchise fee on the profits, in the meantime charging ratepayers for the service as well as the repayment of debt.

Then for some years an additional \$10 million was transferred out of both the Water and Sewer utilities as a penalty for not transferring enough money under the equity dividend in previous years. These transfers are what we called ‘vicarious taxation’, because the utility rates are used to charge additional amounts to keep the property tax lower than it would necessarily have been.

There is a real problem with this policy as it tends to affect many fixed income Calgarians since it is charged on a necessity.

Transparency

During his electoral campaign Mayor Nenshi promised more transparency. However, given the recent issues on the budget survey as well as new policies being undertaken by the administration, it seems that this promise has been left by the wayside.

We have yet to be informed about the new so called 'zero base service reviews', once again a concoction of the administration, which is nothing like the accepted concept of 'zero based budgeting'. In the past we have seen engineered concepts by the administration which always resulted into higher taxes. Calgarians should be reminded of the three year budget which was a business plan masquerading as a budget with predetermined tax rates for three years without yearly consultation with the public.

Furthermore the use of the so called Municipal Price Index became the basis for budgeting purposes. This was defended by the City's CFO in a letter to the Calgary Herald (November 04, 2009) in these terms: "The Municipal Price Index (MPI) is provided to council and the public every quarter. The index is calculated using Conference Board of Canada data."

The true facts are that, the Conference Board of Canada uses StatsCan numbers and only produces a forecast. Then, the MPI is fabricated in Calgary. If it is revised by the city every quarter, why are Calgarians still paying taxes based on figures prepared in November, which are out of sync with economic reality? In addition the MPI as an economic concept does not really exist, but in the figment of Calgary's Administration imagination, unfortunately reported by the media as a real economic tool. While surveys are good, the type of questions asked is very important. The latest survey to judge the appetite of Calgarians for change was so blatantly bias that it could have been scrapped and let administration provide its own set of answers. Most if not all the questions were designed to get only one answer – the city should be the provider of all services.

Furthermore instead of asking which services could be cut, we were asked what services could be added. Transparency demands that there is no bias, and that the questions within a survey are fair and balanced. This was not done and the taxpayer paid \$800,000 to get the same answers that will not provide ideas for efficiencies but rather to support tax increases.

Fallacies

At the heart of any budget preparation at City Hall is the basis upon which our taxes are based. In past years we have seen the introduction of a three year budget and then the use of the MPI. Now with the help of a consultant we shall experience a new basis instead of a proven concept to explain budget increases. The latest one being the zero base tax increase instead of zero based budgeting. All these rhetorical concepts are nothing but further obfuscation of the real problem at City Hall – increasing taxes as a result of excessive spending.

Calgarians deserve an explanation of these bogus concepts being used versus the true ones.

CPI v/s MPI

Statistics Canada produces the Consumer Price Index and its use and calculation is fully explained in their publication “Your Guide to the Consumer Price Index”:

*“The CPI is defined, more precisely, as an indicator of the changes in consumer prices experienced by Canadians. It is obtained by comparing, through time, the cost of a **fixed basket** of commodities purchased by Canadian consumers in a particular year. Since the basket contains commodities of unchanging or equivalent quantity and quality, the index reflects only **pure price movements**....”*

*The CPI is not a **cost-of-living index**, though people frequently call it this. In theory, the objective behind a cost-of-living index is to measure price changes experienced by consumers in maintaining a constant standard of living. The idea is that consumers would normally switch between products as the price relationship of goods changes. “*

As Dr. Frank Atkins wrote : “There is an interesting, and well known flaw in the CPI. If a consumer faces a higher price for a good, economic theory (and common sense) tells us that the consumer will substitute another, cheaper good. In order to be a good index from an informational perspective, the CPI cannot measure this substitution, as it must be a fixed basket over time. This is especially damning for the MPI. If the City of Calgary faces increased costs for its purchases, it should substitute out of expensive items and into cheaper ones. Similar to the CPI, the MPI would not be able to measure this substitution. In this sense even a poorly constructed MPI would substantially overstate inflation in municipal costs.”

While the federal government has fiscal and monetary tools to affect changes in the economy, Council does not have these tools. When the MPI goes up there is only one thing to do, cut costs or raise taxes. Unfortunately Council has always resorted to the latter solution. Once again in a 11-4 vote Council refused to look at the privatization of certain services as a solution in finding efficiencies and lower costs.

Zero Base Budgeting

As a long time advocate of zero base budgeting, IPSA is very disappointed in Council's decision to spend more money on consulting fees to advise them, not on zero base budgeting but another concoction called 'zero base service reviews'. At least we have the pros and cons of zero base budgeting. The following are conclusions from the **Testimony by Michael LaFaive, Director of Fiscal Policy, Mackinac Center for Public Policy- Before the House Appropriations Subcommittee on General Government -November 4, 2003:**

"As with most policies, there are both benefits and costs to be taken into account when considering zero-based budgeting. Case studies about businesses and governments that have adopted zero-based budgeting, or some hybrid of it, generally report some improvement quantitatively or qualitatively. That is, the process has either saved money, improved services, or both.

In addition to saving money and improving services, zero-based budgeting may:

- *Increase restraint in developing budgets;*
- *Reduce the entitlement mentality with respect to cost increases; and*
- *Make budget discussions more meaningful during review sessions.*

On the cost side of the equation, zero-based budgeting:

- *May increase the time and expense of preparing a budget;*
- *May be too radical a solution for the task at hand. You don't need a sledgehammer to pound in a nail;*
- *Can make matters worse if not done in the right way. A substantial commitment must be made by all involved to ensure that this doesn't happen.*

Zero-based budgeting can be useful for shaking up a process that may have grown stale and counterproductive over time. But I must offer three serious warnings.

First, the success of such a change like this hinges strongly on leadership that is dedicated to the task. If those appointed to conduct budget reviews are unwilling to truly assess every item in their budget, word will get out quickly that this new budgeting technique is more symbolism than substance. Indeed, it is incumbent upon proponents of zero-based budgeting to ensure that those reviewing the budget do not have a pecuniary interest in maintaining the status quo. Allowing people who will be most affected by the elimination of programs to conduct their own reviews may be counterproductive, since most people are quick to defend their own interests."

"Zero-based service reviews"

Calgarians and Council have yet to know what 'zero base service reviews' really mean, since once again it is not an academically recognized concept. How is it computed? What are the criteria used in the exercise? Why does it take three years to be completed? What the pros and cons of the concept? Answers to these questions should surely be answered before we implement its use.

Reserves

Since the nineties the number and size of reserves have continuously grown, to the point that at the present time they are approximately \$857million (2010). While some of these reserves are already accounted for as capital expenditure, it is the nature and size of the Sustainability Fund that should be questioned.

The Sustainability Fund once known as the Mill Rate Stabilization Fund currently stands at \$ 225 million. While some Aldermen want to use some of it for its original intended purposes- mitigate the size of tax increases, others want to keep as a slush fund to be used at their whim and to fulfill their agendas, and cover bad financial decisions

Whichever way one looks at reserves, there is only one source for their existence – excess of revenue over expenditure. If the City constantly finds a means to increase its reserves the truth is that they come from over taxation. Without surpluses you cannot have reserves, except if money comes from another source, like senior governments for example.

Reserves are a prudent way to shelter an organization from sudden changes in its financial position that may result in deficits. However given the size of the reserves of the City of Calgary, it is about time that the policy be changed to cap the rate of growth and the size of reserves and return the use of the Sustainable Fund to its original usage of mitigating tax increases.

Priorities

For years the City Administration and Council have tried to tell citizens what their priorities are when in fact it has been their own priorities, usually delivered by fiat. During the electoral campaign the most important priority to Calgarians was transportation, however as soon as the new Council met, this issue took a back stage to other Council agenda.

To start with the fluoridation issue became the most important debate after the tax increase for 2011. Then we had the Tunnel and discussions with the Airport Authority. While this was an important election issue, it took precedent over the South East LRT and was finally passed at a final cost as yet to be determined due to contractual agreements with the Airport Authority and other additional intersections being added to the final design.

In the mean time, the bicycle issue has taken a life of its own. With Oregonians being consulted and Council's plan to extend the use of bicycles in a City which has less than 6 months of *'bikeable'* days, yet we plan to spend millions.

The cost of the proposed library is being constantly raised as we add new usage to the new building. While England and some parts of California are closing libraries, Calgary with apparently limited capital funds plans to build a new library in an era where books are being replaced by e-books.

Finally, the Mayor has issued his list of priorities for Calgary. They are as follows:

- Ensuring every Calgarian lives in a safe community and has the opportunity to succeed;
- Investing in great communities and a vibrant urban fabric;
- Moving people and goods throughout the city efficiently and sustainably;
- Making Calgary the best place in Canada for a business to start and flourish.
- In order to do this at a reasonable cost to citizens, we need to work in two further areas:
- Becoming a more effective and disciplined organization;
- Changing the rules of the game to ensure better financial capacity (this means continuing to press the provincial and federal governments for tax reform).

While there are some good intentions, there are still platitudes and motherhood and apple pie suggestions without concrete financial back up. We should still look at where the money will come from. Do we have to finance many of these follies through taxation? Should funds from other levels of government be used to fulfill legacies?

These priorities are well intentioned but are also fraught with unintended consequences, which in the main have not been explained to Calgarians. The words used by the Mayor to explain his agenda, is no different than his predecessor, despite his promises for change

Reading between the lines we can see that the idea of a “City Sate’ is still there. That means new powers of taxation. Do Calgarians want to entrust new taxation powers to this or any Council, without caveats?

Quality of life is always a good place to start. However does this mean that we should have everything we wish for, even when we cannot afford it?

The Mayor said that: “We want to become a more effective and disciplined organization “, and yet 11 members of Council voted to reject privatization of certain services.

“We want to move people and goods around the city more efficiently”, and yet we want to put more bicycles on the road, and postponed the South East leg of the LRT because we do not have any money, but we shall spend any money returned to the City by the Province on a new library.

Does all this makes sense? Or is it the same old Council agenda being implemented by a new group of people? Calgarians thought that they voted for change, but as it changes the more it stays the same. The exception is that this Mayor has a more likeable personality than his predecessor, but perhaps with a more dangerous spending agenda.

Recommendations for Actual Change

- Cut the bloated communications department budget in half. Today.
- Contract out as much street cleaning as possible in order to get the city in summer condition before summer is well on it's way.
- Let every non emergency department know that they will live on 10% less cash next year. The department managers that do so successfully are probably fit to manage into the future. This will be a good way to sort them.
- Stop hiding the taxes collected by the city. Move the city fees and taxes on utilities, over to the tax bill, where they are more transparent to citizens.
- Reduce business taxes by 2% per year over ten years financed by spending reductions. At that time evaluate the opportunity to go further.
- Put to open tender the provision of transit, road maintenance, garbage and recycling pick up, and recreation centers in new areas of the city. Use a managed competition program to deliver these services..
- Stop expansion of current departments and the development of new departments through scope creep. As new work occasionally crops up and can be demonstrated to be absolutely essential and falls strictly within the municipal mandate that new expense must be more than matched by a reduction in another department.
- Rally to push as many provincial jobs as possible back to the provincial government
- Implement zero based budgeting, while it has its negatives, the concept is still better than the one used by the city.

Conclusions

Despite the Mayor's good intentions during the electoral campaign, it seems that he has fallen into the trap of following some of Council's worst spenders. While some of the new Aldermen are trying their best to reduce costs in some instances, they are all following the mantra 'of getting along' and passing many policies which have serious tax implications.

The honey moon is over as Calgarians see their taxes go up while increasingly pet projects are being started and supported seemingly unanimously. It is frustrating to see Aldermen seemingly negotiating their votes to support their pet projects rather than follow the real, not perceived or poll driven, public desires.

The use of bogus or fabricated financial and economic concepts verges on arrogance and insult Calgarians' intelligence. The continuous refusal to implement 'zero base budgeting' coupled with the publication of half-truths to support additional expenditures without looking at alternatives ways of delivering services including privatization will lead to further double digit tax increases.

While it may be a factor, it is not because Calgarians want services that produces higher rate of taxes; it is how these services are delivered that causes the problems.

Local governments cannot have a deficit, unless it is covered within a three year period. While we do not proposed that we run a deficit, we maintain that taxes do not have to increase to cover expenditures. We must start living within our means and set priorities. When we do not have the money, we must curtail our expenditures. We do not need service or infrastructures that are not a priority, and can cost us in the long run. Debt levels (\$3 Billion in 2010) must be brought down, because if we do not pay for it today, we will have to pay for it tomorrow.

There are enough examples around us to ensure that we take another view of the financial management of Calgary. It is doubtful that Calgarians want to face the problems of California, Greece or other European countries. Calgarians must demand that their city council manage their taxes in a more responsible manner, and the time is now.



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 non-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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The Institute for Public Sector Accountability is a not-for-profit organization, and we cannot enhance democracy and promote your ideas without your help. We invite you to support us and make a donation. Please contact our President and CEO at (403) 238-3865 for more information.

**P.O. Box 81126
3755, Lake Bonavista Dr. S.E.
Calgary, AB T2J 7C9
E-mail : ipsa@shaw.ca
Website: www.theipsa.org**