BUDGETING BY GROPING ALONG
CIVIC DECISION-MAKING IN AN ERA OF FISCAL RESTRAINT:
A PRAIRIE RESPONSE

BY

C. SHELLY CORY

A Thesis
Submitted to the Faculty of Graduate Studies
In Partial Fulfillment of the Requirements
For the Degree of

MASTERS OF ARTS

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0-612-32084-7

THE UNIVERSITY OF MANITOBA

FACULTY OF GRADUATE STUDIES
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ABSTRACT

After decades of prosperity and growth, local government officials are faced with having to do more with less. They have entered an era of fiscal restraint, where their expenditure demands are exceeding the revenues they perceive can be raised from the voting public. In response to this relatively new challenge, they are resorting to "budgeting by groping along." They are developing incremental approaches to balance burgeoning expenditure demands with perceived revenue limitations rather than devising long term strategies. Although consorts of the provincial government, they are discovering that their attempts to find equilibrium between the revenue and expenditure sides of their revenue equations are being thwarted by provincial governments. The four major urban centres on the Canadian Prairies, Winnipeg, Regina, Edmonton and Calgary are no exception. They are groping their way to fiscal equilibrium.

ACKNOWLEDGEMENTS

While hundreds of hours spent in front of a computer screen can make completing a Masters thesis seem like a very solitary, and sometimes lonely undertaking, it is in many ways a team effort. There are a number of people who have provided invaluable support and assistance over the tenure of this project on both academic and personal fronts.

First and foremost I wish to extend sincere appreciation to my advisor, Professor Paul Thomas whose considerable academic credentials and insights are exceeded only by his commitment to his students. His comments and questions were always provocative and improved the quality of the document. I also wish to acknowledge Peter Diamant for asking me to collaborate on *Budgeting and the Prairie City: A Commentary* which formed the basis of some of the chapters.

I would like to thank the members of my examining committee, Professor Bill Neville and Professor Tom Carter for their valuable insights and recommendations.

A heartfelt thanks to my parents, Gene and Marguerite, and my grandparents who always made education a priority and whose support has been unwavering. Of my many wonderful friends whose unfailing encouragement has been so important in this project, I wish to acknowledge two people in particular, Blanche Miller and Peter Darke, whose determination that I complete my thesis often exceeded my own and was instrumental in seeing me through to the end.

CHAPTER I - INTRODUCTION

The budgetary decisions of metropolitan governments may have important consequences for those living and doing business within its boundaries. Increasingly, civic officials are having to make difficult budgetary choices as a fiscal gap develops between the revenues being raised and the services being demanded. Therefore, an understanding of how local governments are addressing their fiscal challenges is important for policy makers who are contending with this issue and voters affected by their decisions. To accomplish this goal, the 1994 budgets of four Canadian Prairie cities were analyzed. The analysis identifies emerging trends in metropolitan finance and provides broad recommendations to assist civic governments in their ongoing quest to balance their budgets. It will also provide civic voters with a tool for evaluating budgetary decision-making at the local level and provincial policies impacting civic budgeting.

Particularly since the Second World War, the budgets of urban governments in Canada have expanded exponentially. Between 1945 and 1957 alone, expenditures by urban municipalities in Canada increased by 131 per cent.[1] This has been the result of a number of factors. Urbanization has added new budget lines for services such as transit, recreation facilities, social assistance and public health programs. As the twentieth century has progressed, some of the responsibilities local governments have traditionally provided such as education, roads and social assistance have become more significant and more

[1] Tindal, C.R. and S. Nobes Tindal, *Local Government in Canada*, 4th ed., (Toronto: McGraw-Hill Ryerson, Ltd., 1995) p. 77

costly.[2] The expectations of citizens have also continued to rise[3] bringing political pressure to bear on local government officials to provide the services demanded.

Although until the mid 1990s, the expenditure side of local government budgets reflected an ever-expanding list of programs and services, a similar evolution did not occur on the revenue side. Local governments are restricted to revenue mechanisms approved by the province. Unfortunately provincial exuberance for transferring responsibilities is not matched by a similar willingness to allocate new revenue sources. Not only has the local mandate expanded, it has also evolved from strictly the provision of "hard services," those directly related to property such as roads and water mains, to "soft services" such as social assistance, public health and recreation. As a result, the appropriateness of the existing property tax base for funding non-property related services has been brought into question.

Until the past decade the growing shortfall in urban revenues has been "remedied almost entirely by the grants from the senior levels of government."[4] However, fiscal austerity at provincial and federal levels has placed this important funding source in jeopardy. As a result, there is a growing belief that alternative revenue sources suited to the urban Prairie context are required to replenish local coffers and provide a more

[2] *Ibid.*, p. 77

[3] McMillan, Melville, "Taxation and Expenditure Patterns in Major City Regions: An International Perspective and Lessons for Canada," In *Urban Governance and Finance: A Question of Who Does What*, Paul R. Hobson and France St.-Hilaire (eds.) (Montreal: Institute for Research on Public Policy, 1997) p. 1; Masson, Jack with Edward C. LeSage Jr., *Alberta's Local Governments Politics and Democracy*, (Edmonton: University of Edmonton Press, 1994) p. 323; Chekki, Dan A., *Citizens' Attitudes Toward City Services and Taxes*. (Winnipeg: Institute of Urban Studies, University of Winnipeg, 1985) pp. 27-28

appropriate funding base for the wide variety of programs and services local governments now provide.

The shortcomings of the current revenue structure has resulted in a paradigm shift in local government finance. Whereas in the past expenditures determined revenues, in the 1990s, revenues are determining expenditures. Provincial legislation requires that local governments balance their operating budgets and Prairie cities are finding that there are insufficient revenues to meet current budgets. Increasingly, local officials are turning to the expenditure side to balance their books.

Cutback management is a relatively new concept for local government officials. This presents its own challenges because it has been proven that to be most effective, an immediate and comprehensive approach is required.[5] In formulating a restraint response, local officials can turn to a host of methods used by other levels of government, local governments in other jurisdictions, business and alternatives proposed by analysts. Fiscal restraint provides local governments with an opportunity to re-evaluate their priorities[6], their operations, the services and programs they provide, and how they provide them. It can be the impetus to explore alternative funding options and new ways of delivery programs and services. The analysis will seek to determine whether urban governments are presenting a timely, coordinate approached based on a new vision of service delivery in

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[4] Tindal and Tindal, *Local Government*, p. 78

[5] Allen J. Proctor, "Six Steps for Communities in Crisis," *GFOA Budget Bulletin*, September 1992, p.3

[6] Baldersheim, Harold, "Fiscal Stress and Local Political Environments," In *Managing Cities in Austerity: Urban Fiscal Stress in Ten Western Countries*, Poul Erik Mouritzen (ed.) (London: Sage Publications, 1992), p. 85

an era of fiscal restrain or if they are resorting to what Robert Behn may have termed "budgeting by groping along:"[7] adopting incremental, ad hoc measures to tide them through to the next fiscal year. "Groping" refers to taking a more meandering path towards bringing expenditure obligations in line with revenue capabilities. It is the antithesis of a coherent strategic plan of developing a path to follow to accomplish budgetary objectives.

The analysis focuses on the operating and capital budgets of Winnipeg, Regina, Calgary and Edmonton for the fiscal year 1994. Both the revenue and expenditures sides of their budgets are be examined. A brief description of the budget process in each city is provided. However, issues related to the budgetary process are beyond the scope of this paper. Nor will the paper attempt to identify services and programs appropriate to the local government milieu. The budgetary analysis will be supported by a literature review and interviews with various players inside and outside civic finance.

The objectives of this study are threefold. First, in response to the growing body of literature that cites the growing fiscal challenge facing urban governments in Canada and around the world, this study will examine the difficulty urban governments on the Canadian Prairies are encountering balancing the revenues they are able to raise with the expenditures they are mandated to provide. Second, it will demonstrate that in response to this fiscal challenge these local governments are resorting to "budgeting by groping

[7] Behn, Robert D., "Management By Groping Along," *Journal of Policy Analysis and Management* 7, no. 4, 1988, p. 643

along" which consists of incremental, ad hoc tinkering to the revenue and expenditure side rather than strategic planning. Third, the study will illustrate that to an extent, the cities are prevented from developing a more long-term fiscal strategy by constraints imposed by senior governments, especially provincial governments. Senior government policies are limiting the fiscal flexibility local governments have to address the budgetary issues they are facing.

The intent of Chapter I is to provide an introduction to the objectives and organization of the study.

Chapter II provides a context for the analysis that follows. It begins with a discussion of the main factors that have contributed to the fiscal stress experienced by urban Prairie governments. A brief description of each of the four Prairie cities, including demographic and economic factors affecting their budgets and decision-making is provided and their budget processes outlined.

Chapter III examines the revenue side of the budgetary equation. Following a brief description of the historical and legal basis of local government revenue structure in Canada, the revenue sources currently at the disposal of urban Prairie governments, and the issues that surround them, are outlined. This chapter compares and contrasts the revenues available to the four Prairie cities and analyzes their reliance on each.

Although local governments are restricted to the revenue raising mechanisms mandated by the province, there are a number of alternative revenue sources that exist in other jurisdictions and that may be appropriate for local governments in Canada. These alternatives are outlined in Chapter IV. Each option is analyzed against a set of criteria to determine their appropriateness in the urban Prairie context.

Chapter V turns to the expenditure side. It begins with a review of the factors affecting budgetary decisions in Canada. An analysis of the expenditure decisions of the four Prairie governments follows and conclusions are drawn about their various approaches. Capital budgeting is address separately, with the various funding mechanisms outlined and commentary provided about the four Prairie cities.

Chapter VI concludes the analysis by identifying the budgetary trends evident in the decision-making of urban Prairie governments and provides commentary on the approaches of the four cities. A broad set of recommendations are advanced for improving the fiscal environment in which local governments operate. These recommendations are not limited to local government but rather recognize the central role provincial, and to a lesser extent national governments will play in the future of local government in Canada.

Most of the research for this thesis was completed during the years 1993 and 1994 while the author was a full-time student. This thesis is an expansion of an earlier published (1994) work by the author and Peter Diamant entitled *Budgeting and the Prairie City: A*

Commentary. The text in the main chapters reflects the earlier origins of the study. A decision was made to leave the original analysis intact and to provide a brief up-date on developments in the four Prairie cities in an Epilogue.

The Epilogue looks at the Prairie cities four years later, in 1998, to provide a follow up to the original work. This section begins with an overview of the massive changes to local government witnessed in Ontario in 1997. It follows with a brief analysis of the 1998 budgets of each of the cities and some of the significant decisions the four cities have made to deal with budgeting in an era of fiscal restraint.

Understanding the Need For Retrenchment

Virtually since their inception over one hundred years ago, local governments have enjoyed growth and prosperity. Now, discussions about budgetary matters are peppered with words like “retrenchment,” “rightsizing,” and “restraint.” What happened in the late 1980s and 1990s to change local governments' fiscal heyday? Analysts have attributed the change of fortunes to a number of factors that range from the national economy to the mindset of public servants. No one factor is entirely responsible for the current malaise facing local governments, rather a combination of issues has resulted in the current era of fiscal restraint.

THE ECONOMY

Cross-national analysis has demonstrated a relatively strong correlation between the general economic climate in a country and the fiscal well-being of local governments.[1] Until the mid to late 1990s, Canada's economy endured a prolonged state of lethargy. The country is slowly emerging from a long, deep recessionary period punctuated by stagnant economic growth, high unemployment and a weak Canadian dollar.

[1]Mouritzen and Ylonen, "Money, Politics or Structure? In *"Managing Cities in Austerity: Urban Fiscal Stress in Ten Western Counties,* Poul Erik Mouritzen (ed.) (London: Sage Publications, 1992), p. 214

The state of the economy was aggravated by the massive deficit and debt load the federal and provincial governments were carrying. Credit ratings were downgraded affecting borrowing, and international confidence about Canada's economy wavered. As Mouritzen and Ylonen discovered in their study of ten western countries, [i]n periods of slow or no economic growth, the policies of the central governments generally tend to reinforce rather than alleviate the effects that changes in the private sector economy have on the overall financial situation of localities.[2] This held true for city governments on the Canadian Prairies. The Regina Budget stated that "The most serious factors which will impact the City will continue to be the generally poor economic performance of the provincial economy and the province's financial position."[3] An aggressive effort was made by the federal government and many provinces to reduce deficit and debt levels and strengthen the economy and while the negative impacts of these policies on local governments were immediate, the benefits of a strengthened economy are slower in being realized.

SENIOR GOVERNMENT POLICIES

The federal and provincial governments' responses to the national economy and the debt issue had significant impacts on urban governments. The federal government's inability to reduce high unemployment rates put stress on local tax bases and increased the need for social services. Poor economic conditions signal an increased need for the social services and financial assistance that local governments are mandated to provide.

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[2] *Ibid.*, p. 216

Generally, social assistance costs skyrocket as an increasing number of people exhaust their unemployment insurance benefits and turn to locally provided social assistance. Demand for aid from local government retraining programs, food banks and shelters mounts. As federal and provincial grants to service community organizations dry up, renewed pressure is brought to bear on civic politicians.

Federal and provincial charging policies can have very direct impacts on local expenditures by increasing costs and limiting the tax base they can access. The imposition of the Goods and Services Tax impacted local governments as purchasers of goods and services. While local governments enjoy GST exemptions, the possibility that these exemptions may end poses a substantial financial threat to urban governments. Increases to Canada Pension Plan, Unemployment Insurance and Workers' Compensation premiums affected local governments as employers. The City of Regina's *1994 Budget Summary* indicated that "[t]he financial problems of the federal and provincial governments will continue to increase the risk of decreased revenues and new taxes and charges that will affect civic operations."[4]

Fiscal stress at the senior level often means reductions in grants to lower levels. As is outlined in Chapter III, senior government grants play a central role in local government financing.

> Changes in grants are highly correlated with changes in the national economy as measured by changes in the gross domestic product... This is probably a reflection of the fact that grants are

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[3]City of Regina, *1994 Budget Summary*, March 1994, Vol. 1, p. 1-16
[4] City of Regina, *1994 Budget Summary*, p. 1-16

> more 'controllable' than many other items in the national budget, and therefore are an easy target of national government retrenchment efforts.[5]

In the Canadian context, the federal government plays a limited role in directly financing local governments compared to the provinces. However, fiscal stress has reduced federal transfers to the provinces which has in many cases contributed to reduced provincial transfers to local governments. As shall be shown in Chapter III, transfers from the province have represented a significant portion of local government revenues. The reduction in provincial grants represented the most direct and profound impact to local governments' financial well-being. Local governments were in the unfortunate position of being at the bottom of the pile in the domino effect. Their financial situation, which was much less serious than that faced by provincial and federal governments, provided some of the justification for the cuts. Hobson has noted that the reduction of provincial grants "has seriously compromised the ability of local governments to maintain service levels."[6] Reductions in general operating grants and cost-shared programs means either more revenues have to be collected locally or service decisions must be made.

EXPANDING SERVICE RESPONSIBILITIES

A related cause of fiscal strain for city governments on the Prairies is the increasing service responsibilities they have assumed since the end of the Second World War. Local governments in general, and cities in particular, have witnessed their obligations for

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[5]Mouritzen and Ylonen, "Money, Politics or Structure?," p. 214
[6]Hobson, A.R., *Efficiency and the Local Public Sector*, (Kingston: Government and Competitiveness School of Policy Studies, n.d.) 93-21, p. 7

providing public goods and services increase through a natural growth of services resulting from urbanization, industrialization, technology and senior government dictum. Urban responsibilities have expanded to include public health, transit, parks, recreation, and housing, to name a few. The reputation local governments have for their excellence in service delivery has encouraged provinces to decentralize additional programs and services to the local level and also let cities expand their jurisdiction as they see fit.

Paul Hobson and France St. Hilaire have identified two distinct views of local government.

> The first sees a fairly limited role for local governments as an administrative arm of the provincial government, charged with delivering provincially designated services with relatively little autonomy. The second view stresses the advantages to be derived from local governments, in terms of efficiency and effectiveness, by granting them significant autonomy in providing "local" services funded primarily from local revenues. In practice, both views are reflected in the existing models of local government in Canada, but the balance between the two is clearly shifting."[7]

In the case of urban governments on the Prairies, the latter view is undoubtedly the one shared by provincial governments in Manitoba, Saskatchewan and Alberta.

A major cause of the expanding nature of urban government operations is transfers of responsibilities from the province, either directly or indirectly. As budgets at the senior levels tighten, decisions are being made to reduce or eliminate funding for certain programs and services. Senior governments can make a decision to transfer responsibility

[7]Hobson, Paul R. and France St.-Hilaire, Introduction to *Urban Governance and Finance: A Question of Who Does What*, Paul R. Hobson and France St.-Hilaire (eds.) (Montreal: Institute for Research on Public Policy, 1997) p. vi

to local governments or they can simply leave a service gap cities feel compelled to fill.[8] Theoretically, "the extent to which powers and responsibilities are decentralized to the local government level should be based solely on promoting the efficiency with which areas of local responsibility are administered."[9] Unfortunately the reality is that decentralization "is occurring in a piecemeal and generally unilateral way without sufficient discussion of appropriate roles and responsibilities between the levels of government."[10]

Ironically, in many instances in Canada, local governments were formed specifically for the purposes of off-loading. Where provincial governments encouraged or imposed local governments, "such action was not taken because of any apparent belief in the values of local democracy - rather it was motivated by a desire on the part of provincial administrators to shift at least some of the growing financial burden to the local level."[11] An editorial in the New Brunswick Courier in 1843 about the bill to create municipal government stated that if the bill was passed, it would "cut loose that many-headed monster, Direct Taxation and its Myrmidon, the Tax Gatherer, into the happy home of every poor man throughout the land."[12]

Despite the financial implications for local governments, decentralization is not without its merits. Many benefits can accrue to the local community where decentralization is based on the principle of *subsidiarity;* that decision-making should be

[8]Union of British Columbia Municipalities, "Options for Financing the Public Costs of Development," A Discussion Paper for the 88th Annual Convention, September 17-20, 1991. p. 15
[9]Hobson, *Efficiency*, p. 33
[10]City of Regina, *1994 Budget Summary*, p. 1-19
[11]Tindal and Tindal, *Local Government*, p.32

carried out at a level as close to the individual citizens as possible.[13] Subsidiarity does "not imply a matter of whether a lower-level organization can carry out a particular function, but whether, in some sense, it can do so better than the higher level organization."[14]

Paul Hobson defined six benefits[15] that accrue when responsibilities for programs and services are decentralized. First, programs and services are more responsive to local needs and preferences. Second, there is increased accountability by decision-makers. Third, there is increased interest and participation in local government. Fourth, there is a greater opportunity for experimenting with policy options and promoting choice and diversity. Fifth, decentralization leads to greater financial responsibility. It "requires that governments making decisions on expenditure programs also be responsible for taxing those who benefit from the programs."[16] Finally, Hobson identifies greater efficiency in service delivery and lower public spending through competition among local jurisdictions for providing tax and service packages as another benefit of decentralization. While these benefits might be seen to flow logically from the theoretical model, there is no guarantee that they will materialize.

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[12] *Ibid.*, p. 31
[13] Barnett, Richard R., "Subsidiarity, Enabling Government and Local Governance" In *Urban Governance and Finance: A Question of Who Does What*, Paul R. Hobson and France St.-Hilaire (eds.) (Montreal: Institute for Research on Public Policy, 1997), p. 59
[14] *Ibid.*, p. 62
[15] Hobson, Paul A.R., "Efficiency, Equity and Accountability Issues in Local Taxation" In *Urban Governance and Finance: A Question of Who Does What*, Paul R. Hobson and France St.-Hilaire (eds.) (Montreal: Institute for Research on Public Policy, 1997) p. 113
[16] *Ibid.*, p. 113

Revenue Limitations

The additional responsibilities local governments have assumed have not been accompanied by a corresponding expansion of their revenue base. Local governments receive their revenue raising authority from the provinces. The provinces have been reluctant to provide them with new sources of revenue with which to fund their burgeoning service responsibilities. Local governments have had to make due with the fiscal resources at their disposal, which is becoming increasingly difficult to do. As a result, local governments are advocating for provinces to expand the revenue sources at their disposal.

Local Debt Loads

Local debt loads are also contributing to the strain on city budgets. While local governments are legally required to balance their operating budgets, the provinces do approve long-term borrowing to finance the costs of infrastructure development and maintenance. As city debt loads have increased, so have the costs of financing debts. Cities on the urban Prairies are finding that an increasing proportion of operating budgets are being spent servicing the debt. This in turn is reducing financing flexibility for the operating budget. An expanded discussion on debt servicing will be conducted in Chapter V.

Local Players and Decision Makers

While beyond the scope of this study, the role of the various players in the budgetary process must be recognized. Some of the responsibility for the widening fiscal gap must fall to locally elected representatives, public managers and others who influence budgetary decision making process, including interest and lobby groups. The political ideologies of the mayor and council, their personalities and motivations impact the direction of the city's financial future. Cities "respond in various ways to the social, economic and environmental conditions of the times as well as to the personal style of the political and administrative leadership."[17] However, recent studies on the impact of mayors on local government decision-making indicated that

> [L]eaders face so many constraints arising from the organization's internal and external environment that their abilities to influence organizational and fiscal outcomes are quite limited....[and] mayors must function as powerbrokers among the many interest groups that seek to influence local government decision-making and that they frequently become the captives of these interest groups rather than acting as autonomous leaders. [18]

One factor identified in the literature as having particular importance is the reluctance of local officials to address the growing fiscal gap. Pammer states that "the most significant adjustments have to be made in the expectations of participants in the budget process,"[19] and that "[o]ur emphasis on growth has been so great that even when resource scarcity seems inevitable it is very difficult to get elected officials, public managers, and citizens to confront retrenchment situations as anything more than a

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[17] *Ibid.*, p. 9

[18] Begadon, Stephen and Carol Agocs, "Limits to Power: A Study of the Influence of Mayors and CAOs on Municipal Budgets in Ontario, 1977-1990," *Canadian Public Administration* 38, no. 1 (Spring) p. 31

[19] Pammer, William J., *Managing Fiscal Strain in Major American Cities: Understanding Retrenchment in the Public Sector*, (New York: Greenwood Press, 1990) p. xvi

temporary slowdown."[20] While this may have been true in the 1980s, the 1990s has witnessed a new mindset on the part of national, provincial and local politicians that is based on constraint rather than growth.

Another issue internal to the budget process is that "the incentives are very strong for many key actors to adopt a short-term outlook despite the fact that they are dealing with issues and decisions with significant long-term impacts on the communities they serve."[21] Pammer has advanced the theory that varying levels of fiscal stress and management decisions create a vicious cycle. He argues that "while inaccurate estimates may be a result of a conscious political decision to distort deficits in order to delay politically sensitive cutback decisions, this strategy can harm a municipality's financial condition"[22] which leads to more poor political decisions which further delays corrective action.

A study by Begadon and Agocs of municipal governments in Ontario indicated that "municipal budget allocations were influenced more strongly by characteristics of the municipality and its external environment than by either mayors or CAOs [chief administrative officers]."[23] However, the fact remains that all of the various actors from elected representatives to civil servants to interest groups combine to form a unique

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[20] *Ibid.*, p. xiv
[21] Riley, Susan L and Peter W. Colby, *Practical Government Budgeting: A Workbook for Public Managers*, (Albany: State University of New York Press, 1991), p. 137
[22] Pammer, *Fiscal Strain*, p. 9
[23] Begadon and Agocs, "Limits to Power," p. 38

political culture in which financial decisions have been made and the fiscal problem has been born.

COMMENTARY

The current fiscal challenges facing city governments on the Prairies have developed over time as a result of a multitude of factors, many of which are beyond the control of local officials. The challenge for local officials in Winnipeg, Regina, Calgary and Edmonton is to develop solutions that best correspond with the political culture of their city, their financial goals and their service delivery priorities.

The Urban Prairie Context

The four Prairie cities, Winnipeg, Regina, Calgary and Edmonton were chosen for their commonalities in government organization, population, economic base, and demographics. While budgetary comparisons are difficult due to reporting differences between jurisdictions, the similarities of the cities assist in financial comparisons.

Each city has a unicity style of local government organization meaning that the operations of the city are controlled by one group of councillors and a single mayor. Other large centres such as Vancouver have maintained a system of multiple local councils and mayors operating within the different areas of the city with regional governments to serve a coordinating function where continuity is required between the separate entities.

All four cities are metropolitan entities with highly integrated economies. They are regional centres for industry, education, transportation and all are affected by the vagaries of agriculture. The economic well-being of each city is tied to provincial economic growth. The growth of the gross domestic product for each of the three provinces in 1994 is expected to be in the two to three per cent range.

The four cities also share common demographics and climactic challenges. The composition of their populations are consistent and they face similar socio-economic challenges. They also share a common bond of climate and the effects the long Prairie winters can have on their budgets. Each faces six months of winter which means expenditures for snow removal and the sanding and salting of streets.

WINNIPEG

Winnipeg is Manitoba's provincial capital and home to over half the province's diverse population. According to 1991 Census data, 652,354 reside in the City of Winnipeg, which represents over half of Manitoba's total population. One-third of the province's First Nations people now live in Winnipeg. Of the four cities studied, Winnipeg has the second lowest rate of population growth since 1986 at 4.3 per cent. Winnipeg has the highest percentage of population over the age of 65 at 12.4 per cent. Approximately four per cent of Winnipeg families are headed by a lone or single parent. This is consistent with Regina and Edmonton. In 1994, Winnipeg had the highest unemployment rate of the four cities at 9.2 per cent.

The City of Winnipeg Act provides the legislative basis and framework for the operation of the City. Until 1998, the administrative organization of the City of Winnipeg was based on the commissioner system. The chief commissioner and the four commissioners reported to the standing committees and the executive policy committee. The mayor and deputy mayor sat as *ex officio* members of the board of commissioners.

The budget process begins in late spring when the Budget Bureau prepares a forecast of the costs of maintaining service levels and the current cost trends. The Council, composed of a mayor elected at large and fifteen councillors elected by wards, reviews the financial situation. The executive policy committee, made up of the Mayor and five appointees, prepares the budget strategy. The Budget Bureau provides departments with the budget guidelines established by the executive policy committee. The draft budget is reviewed and amended as necessary by the executive policy committee and is presented as the preliminary estimates. The preliminary estimates are then shared with the community and standing committees for their input. Proposals made by committees and public presentations are considered by the executive policy committee and its final recommendations are formulated. The estimates are presented to Council for consideration. Council approves the estimates and any amendments it has made.

REGINA

Regina is the capital city of Saskatchewan and the province's largest urban centre. Of the four Prairie cities, Regina is the smallest city, being home to 191,692 people. Regina also has the lowest population growth at 2.8 per cent. Migration of First Nations people has increased the percentage of urban aboriginals to four per cent of the total population. Regina had the lowest unemployment rate of the four cities, at 7.2 per cent.

The City of Regina operates under *The Urban Municipality Act*, 1984, with a city manager administrative format. Timing of the budget process in Regina is somewhat more flexible than in Winnipeg. It begins in the preceding fiscal year, with recommendations regarding existing programs and services developed by the administration. Council, consisting of a mayor elected at large and ten councillors elected by wards, and the administration meet informally in the spring to discuss broad budgetary issues The executive committee, chaired by the deputy mayor and composed of all councillors, meets in early summer and presents a report to Council. Preliminary budgets are prepared in the fall and are referred to committees late in the year. Once public submission and committee deliberations are completed, their recommendations are forwarded to Council. The budget is reviewed and approved in early spring.

CALGARY

Calgary is one of the fastest growing urban centres in Canada both in terms of population and area. Between 1982 and 1993, Calgary's population increased by 17 per cent while city boundaries grew by 38 per cent. There are 754,033 people who reside within the City. Of the four Prairie cities, Calgary has the smallest proportion of elderly (seven per cent.)[24], single-parent families (three per cent), and aboriginal peoples. Despite its growth rate it enjoys the lowest unemployment rate of the Prairie cities. These factors suggests that it will be required to provide fewer social services and will have a larger and more affluent revenue base from which to raise money. However, its rate of growth means that Calgary's infrastructure requirements will be significant.

The City of Calgary operates under the *Alberta Municipal Government Act*, 1994. The administrative organization adopted is the board of commissioners system with one chief commissioner and three commissioners. Calgary's budget process begins with recommendations by administration to Council which includes a mayor, elected at large and fourteen councillors elected by wards. Council considers and makes amendments as necessary and the budget documents are distributed to standing committees, the chairs of which are elected annually. In 1994, Council initiated one day of public hearings for citizen presentations. The interim budget is approved in January with final approval in April.

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[24] It is of interest to note that the age of the city is proportionate to the percentage of elderly.

EDMONTON

Edmonton is the capital city of Alberta, the province's largest city and the largest city of this study. The 1991 Census data identified its population at 839,924. Since 1986, the city has experienced a high growth rate with its population increasing by 8.5 per cent. This, coupled with high rates of income and low unemployment, means that Edmonton's population is generally affluent. Its percentage of First Nations people, single parent families, and seniors are consistent with Regina and Winnipeg.

The City of Edmonton also operates under the *Alberta Municipal Government Act*, 1994. A city manager system of administrative organization has been implemented in Edmonton. The budget process begins in February of the previous year when Council, made up of a mayor elected at large and twelve councillors elected by wards, gives direction to the administration for budget preparation. Public input is obtained through a focus group approach. In early fall a draft budget is prepared by administration and submitted to Council. After any amendments are made by Council, the recommended budget is presented to the subcommittees for their consideration. Recommendations are made to Council for approval by the end of December.

COMMENTARY

While the four Prairie cities have developed independently, their commonalities are striking. While their similarities in demographics and economic base suggest common budget issues, their differences in growth rates, local political culture and environment signals the need for each city to adopt an approach to fiscal restraint that best reflects these unique characteristics.

The challenges facing the cities are best encapsulated by George Cuff in his review of the City of Winnipeg's operations:

> Local government today is very much an evolving, dynamic organism. Its days of a steady, even keel course have been over for some time - and do not appear (sic) in the foreseeable future. Ours is a changing society requiring the leaders of today to keep pace with the continually evolving legislative framework and the intense public scrutiny. Thus, the City needs to be open (sic), and indeed welcome, dynamic changes in form, structure, substance and delivery modes.[25]

One area that local governments would relish dynamic change and evolution is to the revenue side of the budgetary equation. Chapter III explores the revenue raising mechanisms available to local governments and how they are being used in the urban Prairie context It shows that while there has been a degree of arrested evolution in local governments own-source revenues, the changes that have occurred have not, in any meaningful way, provided local governments with the fiscal flexibility they require to meet the demands of the twenty-first century.

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[25]City of Winnipeg, *City of Winnipeg Organizational Review and Performance Assessment A Corporate Review*, Final Report. By George Cuff and Associates (City of Winnipeg, October 1997) p. 11

Local governments must raise revenues to finance their operation and the services and programs they provide. The amount of revenues a local government can generate from a revenue source or set of revenue sources is its fiscal capacity.[1] The fiscal capacity of a local government, is affected by four main factors. Two of the four factors have their basis in the statutory requirements of the Constitution Act and provincial legislation. The third factor relates to responsibilities for program and service provision. The four factor is what Naomi Caiden refers to as the "political capacity to tax."[2]

The revenues of local governments are constrained by statute in two ways. The *British North America Act, 1867*, and later the *Constitution Act, 1982*, restricted the revenue raising capacity of local governments to those financial instruments mandated by the province. Each province has enacted legislation outlining the powers and authorities available to municipalities for generating revenue. The tax-based sources that the provinces can transfer to a municipality are limited to the direct taxes they have been allocated under the Constitution.

Provincial legislation dictates that local governments must balance their operating budgets each fiscal year. However, a provincially approved level of debt is allowed to finance capital projects. Local governments must raise, within the confines of the financial

[1]Hobson, "Efficiency, Equity and Accountability," p. 122
[2]Caiden, Naomi, "Patterns of Budgeting," *Perspectives on Budgeting*, Allan Schick (ed.) (Washington: American Society for Public Administration, 1987), p. 16

instruments they are provided by the province, enough revenue to finance all program and service delivery costs for the year.

The revenues that are required are driven by the costs of providing the goods and services local governments are mandated to supply. Urban governments' authority for program delivery has expanded exponentially due to transfers of authority from the provinces and a gradual evolution of the role of urban governments as service providers. Where originally municipalities were restricted to providing only services to property, now they are providing what are considered services to people including health and social programming.

Lastly, like their senior government counterparts, urban governments' ability to raise revenues is affected by the willingness of ratepayers to bear increased financial burdens, or the "political capacity to tax." Perceptions of scarcity and availability of revenue within a geopolitical entity are subjective. Local officials attempt to make economic and political calculations to determine their voters' threshold for increased taxes and fees. As was noted in the City of Regina's operating budget document for 1994, "[t]he dilemma is to find an acceptable balance between the level of services provided (expenditures), and the ability of the community to pay for those services through taxes.[3]

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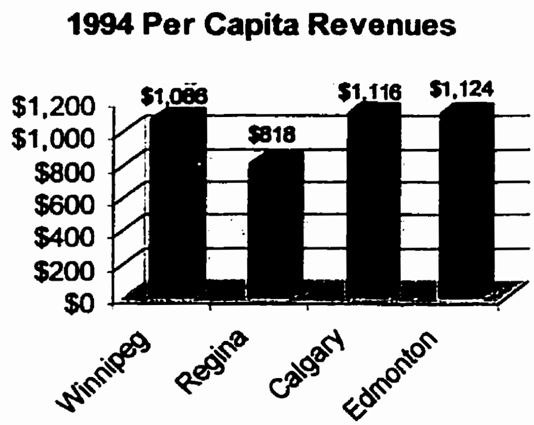
[3] City of Regina, *1994 Budget Summary*, p. 2-7

Total budgeted revenues in 1994 declined relative to the previous fiscal year for all four Prairie cities. The declines are slight, being one per cent for Winnipeg, 1.3 per cent for Calgary and less than one per cent for Edmonton and Regina.

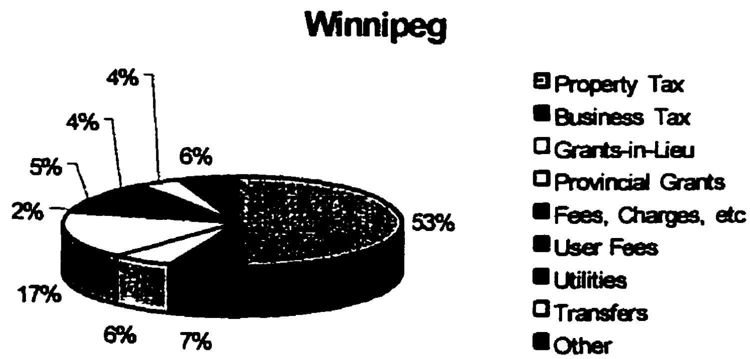
Figure I



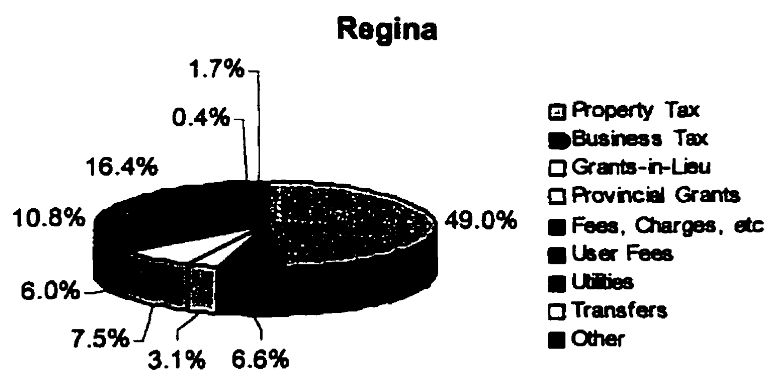
Revenue sources for local governments have not been static. Over the years, a number of tax sources utilized by local governments such as income tax and local sales taxes have disappeared or have been reclaimed by the province or the federal governments. New revenue sources have been added such as user fees, development charges, improvement levies and revenue sharing.

The revenues sources currently available to local governments in Canada can be divided into two broad categories: tax-based sources and non-tax based sources. Tax-based sources include property tax and excise taxes. Government grants, revenues from utilities, user fees and monies accruing from licenses, permits and fines are non-tax sources of revenue local governments collect. Each source has its own merits and shortcomings in the urban Prairie context. With few exceptions, the revenue sources available to the four Prairie cities are consistent. However, in many cases, the degree to which the cities rely of the various sources differs.

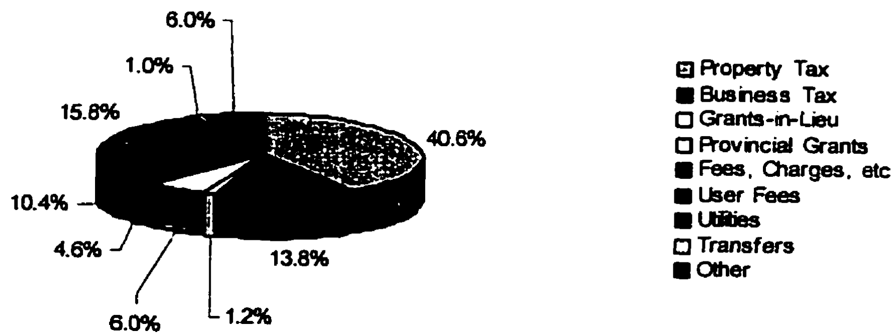
Figures II-V



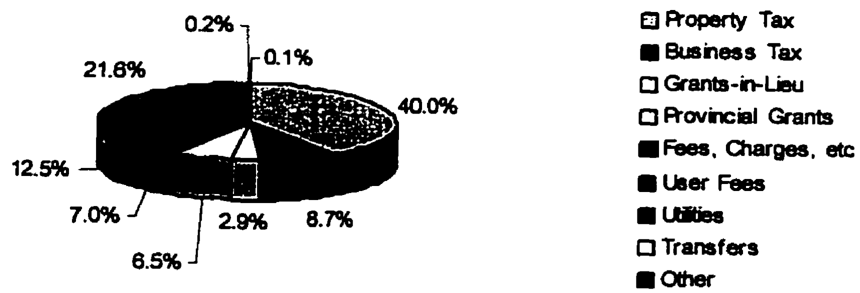
Note: Winnipeg's tax sharing revenues is included in provincial grants.



Calgary



Edmonton



Tax Based Sources of Revenue

The tax base that urban governments can access is restricted to direct taxes authorized by the provincial government through statute. "Taxation at the local level is commonly viewed as a form of benefit tax or user charge for services provided at the local level... taxation services the role of eliciting the information that is required to ensure that efficient provision of services by the public sector, taking into account the distinct preferences of local residents.[4] Thus, local government taxes are often considered benefits taxes because public goods and services are being financed by those who are benefiting from their use. The tax base urban governments can access is property based, and also includes minor excise taxes such as amusement and recreation taxes.

Property Taxation

Property taxation is the mainstay of local government finance in Canada and all countries that are or were part of the Commonwealth. It is also the oldest form of taxation in Canada.[5] Property taxation is comprised of four components: taxes on real property, which may include land, buildings and permanent fixtures; special assessments including improvement levies and development charges; business taxes; and, grants-in-lieu of taxes provided by federal and provincial governments.

[4]Hobson, "Efficiency, Equity and Accountability," p. 113-114
[5]Kitchen, Harry M., *Property Taxation in Canada,*(Toronto: Canadian Tax Foundation, 1992) p. 1

REAL PROPERTY TAXATION

Taxes on real property generate the greatest proportion of local government revenues. They are used to fund current operating expenditures and current and future capital projects. Tax on real property is levied annually by local governments based on a formula that includes the tax base of the municipality and a politically determined tax rate. The structure of the tax based and tax rates are determined by provincial statute and represent the greatest variation among the provinces and territories of any major tax.[6]

The tax base of a municipality refers to the value of its assessed real property. The definition of real property is enshrined in provincial statutes and varies between provinces. In Manitoba and Alberta, real property is considered land and buildings, machinery and affixed equipment. Saskatchewan's definition substitutes "equipment contributing to the use of the land or buildings"[7] for machinery and affixed equipment. Thus, property tax "provides a means to allocate the net costs of local government among all taxpayers on the basis of wealth as measured by the assessed value of property owned."[8]

The tax rate is determined by dividing total revenues required by the total taxable assessed value of the real property. The result is multiplied by one thousand to determine the mill rate.

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[6] *Ibid.*, p. 46
[7] *Ibid.*, p. 20
[8] Treff, Karin and David B. Perry, *Finances of the Nation 1997*,(Toronto: Canadian Tax Foundation, 1997) pp. 6:1-2

> There are no guidelines to assist in determining the 'optimum' mill rate for a municipality. There are measures which may assist with the decision on mill rates and tax levels such as per capita taxes, taxes in relation to income levels, tax levels in relation to the Consumer Price Index, and tax levels in relation to other communities.[9]

The mill rate is levied on all taxable property. The number of mill rates each of the four Prairie cities can levy is determined by provincial statute. While Winnipeg can levy mill rates on eight different provincially defined classes of property, it has chosen to impose differential rates on only three classes of property: residential up to four dwellings; other residential property; and commercial and industrial property. Regina levies one uniform mill rate on all taxable assessments. Calgary and Edmonton can levy different rates, however, if differential rates are used the residential rate must be the lowest but cannot be less than 75 per cent of the highest tax rate. Where differential rates are levied, residential rates are the lowest and commercial and industrial rates are the highest.[10]

Manitoba, Saskatchewan and Alberta also levy a property tax for education. In Manitoba, the province-wide tax is applied at a lower rate for residential and farm property than for non-residential property. In Saskatchewan, school divisions generate revenues from residential and non-residential property taxes. Alberta has a province-wide commercial and industrial property tax and locally generated revenue from residential and non-residential property tax. Of note, in provincial comparisons there is a greater reliance on property tax where local governments are responsible for a large portion of the school tax.[11]

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[9]City of Regina, *1994 Budget Summary*, p. 2-7
[10]Kitchen,, *Property Taxation*, p. 36
[11]*Ibid.*, p. 17

Property tax has many advantages as a revenue source for urban governments. Given the base it draws from, property tax generates a considerable amount of revenue for civic coffers. It is a predictable source of revenue that doesn't fluctuate wildly with changes in the economy. Property tax is also simple and inexpensive to administer and evasion is difficult. It has been called a "suitable base from which to finance the provision of pure public goods and underwrite the fixed costs of public sector infrastructure."[12] However, reliance on property tax has become one of the most hotly debated issues in local government finance.

Property taxes have been the subject of widespread criticism and ongoing efforts of reform. Property tax has been

> Labeled as *unfair* because it is unrelated to ability to pay, *unrealistic* because it is unrelated to benefits, and *unsuitable* because it supports services unrelated to property. Its effects on housing, land use, and urban development have been castigated; the determination of its base has always been controversial because value, unlike income or sales tax, is a matter of opinion, not definition; and its political unpopularity has long been acknowledged by all."[13]

Real property tax was established as the basis for local government revenues at a time when property was equated with wealth and the limited municipal services provided were considered services to property.[14] These "hard" services included road construction and maintenance, provision of sewage facilities and water. However, urbanization and a growing demand for public services broadened the spectrum of services local governments

[12]Hobson, "Efficiency, Equity and Accountability," p. 129
[13]Richard M. Bird and N. Enid Slack, *Urban Public Finance in Canada*. (Toronto: Butterworth and Co. Ltd.) 1983, p. 60

provide. Increasingly, real property tax revenues are financing "soft" services such as recreational facilities and cultural programming that are not directly related to property ownership. As a result, the appropriateness of property tax for funding municipal services is being called into question.

Furthermore, property tax is a slow growth tax. Its base does not change in proportion to changes in the general level of economic activity. While this can be a boon to local governments during times of economic slowdown, it can also limit the balance sheet when the economy is booming. Since the assessment base does not change frequently,[15] increasing revenues often requires rate hikes. However, increasing the frequency of reassessment will alleviate this to an extent.

Property tax is a highly visible tax meaning that it is often the most politically charged fiscal instrument. This fact coupled with the relative accessibility of local government in comparison to their federal and provincial counterparts, encourages protests and tax revolts. While Canada has not experienced a property tax revolt as tumultuous as California's Proposition 13, more often than not even slight property tax increases result in outcries from angry ratepayers.

Property tax is also criticized because the tax burden is exported to those holding land but not residing in the municipality and enjoying the services provided. In an attempt

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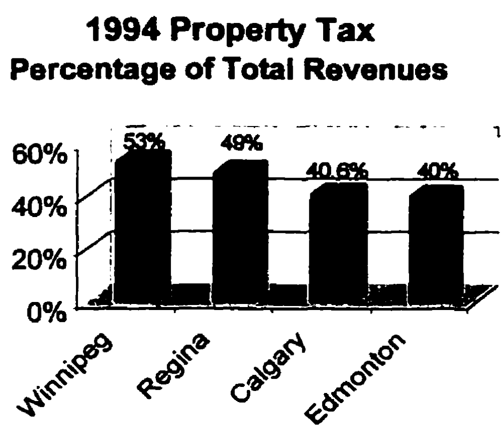
[14]Province of Manitoba, *Manitoba Royal Commission on Local Government and Finance*. (Winnipeg: Queen's Printer, 1964) p. 91

[15]Alberta implemented annual market value assessments in 1998.

to address the regressiveness of the tax and the service linkage problems, some provincial governments have instituted property tax credits. Of the three Prairie provinces, only Manitoba provides property tax relief for all homeowners. In Alberta property tax credits are provided for senior citizens and Saskatchewan residents receive no property tax relief.

Although property tax is the foundation of revenue gathering across Canada,[16] inter-provincial revenue comparisons are difficult because of differences in the definition of taxes and how revenues are reported. The analysis that follows compares the revenues identified in the cities' operating budgets as accruing from property taxes.

Figure VI



Of the four Prairie cities, Winnipeg relies most heavily on property tax to fund the services the City provides. Referred to as the 'Realty Tax,' over 53 per cent of all revenues collected by the City derive from property taxes. From a cursory glance at Regina's budget it would appear that the city receives over 55 per cent of its revenues from property tax. This figure is deceiving as it includes monies accruing from the business tax. Comparatively, Calgary and Edmonton's property taxes comprise 41 per cent and 40.1 per cent of total revenues respectively.

In two of the four Prairie cities, property taxes increased for the 1994 fiscal year. Regina and Winnipeg increased their mill rates while Calgary and Edmonton were able to maintain mill rates at 1993 levels.

In Winnipeg, despite Mayor Thompson's commitment to freeze tax levels, the mill rate rose 3.3 per cent, which is not only the highest of the five prairie cities, but represents the greatest increase of all major Canadian cities (see Table 1). This can be attributed, at least in part, to a revenue shortfall of $12.8 million due to a number of reasons including a projected assessment reduction, lower land sales revenues, lower interest earning and lower contributions by utilities. A zero per cent mill rate increase would have resulted in a revenue shortfall of $48.7 million. A one per cent property tax increase would net $3.6 million.

The City of Regina is committed to keeping mill rate increases below the rate of inflation, the assumption being that the level of inflation is an approximate measure of the taxpayers' ability to pay. This logic is suspect as it assumes a greater linkage between the

[16] In Prince Edward Island and New Brunswick there is a provincial-wide property tax at the provincial level.

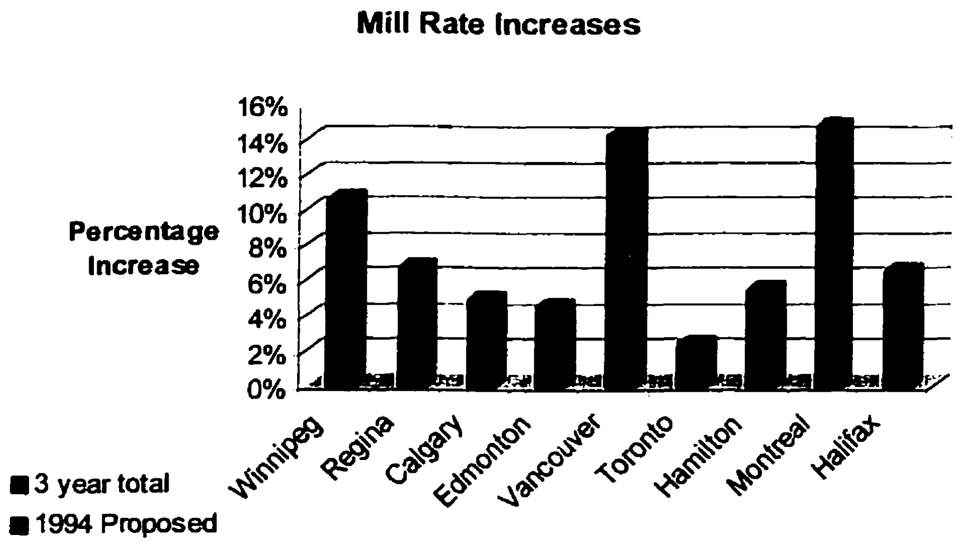
level of inflation and wage increases than exists. Over the past decade, Regina's mill rate has increased 21.6 per cent while inflation has risen at a rate of 40.5 per cent. For the 1994 tax year, the mill rate in Regina rose by 1.45 per cent.

Edmonton has committed to a zero per cent mill rate through to 1997. In order to stay in line with mill rate increases throughout Alberta, the City of Calgary used $10.668 million from its Mill Rate Stabilization Reserves to shore up the revenue side.

An examination of the three-year aggregate increase of property taxes for the four Prairie cities shows Winnipeg with the greatest increase of 7.3 per cent, followed by Regina at 5.3 per cent, Calgary at 4.9 per cent; and Edmonton at 4.5 per cent.[17] The City of Winnipeg's 1994 Current Estimates Short Form acknowledges that "[p]er capita expenditures in Winnipeg are relatively low and yet property taxes are relatively high"[18] and that "our City over-relies on property tax."[19] Revenues accruing through property tax in the four Prairie cities have risen naturally through assessment growth from land development and construction and through increases in assessed value due to inflation.

[17] City of Calgary, *1994 Budget: Operating and Capital Budget Finalization*, Volume 5, 1994, page 42
[18] City of Winnipeg, 1994 Current Estimates Short Form, February 25th 1994, p. XVII
[19] *Ibid.*, p. XVIII

Figure VII[20]



Reliance on property tax in Canada has been on a roller coaster ride since the 1930s. Statistics show that the portion of property tax-funded revenues in Canada has declined significantly since the 1930s when property tax accounted for 80 per cent [21] of total local government revenues. By 1982, only 31 per cent of total revenues accrued from property taxes.[22] This trend has now reversed, and between 1982 and 1994 the portion of total revenues financed by property tax has risen almost seven full percentage points to 37.9 per cent.[23]

This trend is mirrored in the United States where local governments have a similar financial structure and have suffered from economic dislocation. Between 1978 and 1989

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[20]City of Regina, *1994 Budget Summary*, p. 1-13
[21]Tindal and Tindal, *Local Government*, p. 78
[22]*Ibid.*, p. 78
[23]Treff and Perry, *Finance*, p. 6:1

the property tax levy for the country as a whole increased by 114 per cent.[24] The greatest increases in the use of property tax were in those cities that had experienced the greatest loss of federal funding.

Of concern for city treasuries is the potential impact that declining property values coupled with the perceived inability of taxpayers to bear the burden of tax increases will have on property tax revenues. Since the potential impact of declining property values will be greater on cities that rely heavily on property tax revenues, this is of great concern to the four Prairie cities. Analyst Andrew Reschovsky contends that the current decline in market values is a rare phenomenon that is not automatically associated with economic downturns, and that a weak real estate market will only affect the property tax base if the assessed value of property is reduced to reflect the declining market values. Although reassessments take place, the changes are revenue neutral: total revenue collected remains constant but the burden is redistributed to reflect changes in market values. Reassessments limit the potential effects of declining property values. Reschovsky asserts that: "although a shrinking tax base will complicate the fiscal problems faced by city governments, its impact on the structural fiscal problems of cities will be relatively minor."[25]

Despite its flaws, property tax will continue to be a major source revenue for local governments for the foreseeable future. Reliance on property tax within the four Prairie cities is growing: revenues from property tax contribute to a greater portion of total

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[24]Schwartz, Thomas R, "Rethinking Urban Finance in America," *Urban Finance Under Siege*, Thomas R. Schwartz and Frank J. Bonello (eds.) (Armonk, New York: M.E, Sharpe Inc., 1993), p. 15

revenues than they have previously. As a result, Tindal and Tindal state that "the property tax can and should continue to play its role as the mainstay of municipal finance."[26]

GRANTS-IN-LIEU OF TAXES

Section 125 of the *Constitution Act, 1982*, states that "no lands or property belonging to Canada or any province shall be liable to taxation "to ensure that the legislative powers of the creation of one level of government would not interfere with control of property of another level of government." This can have a tremendous impact on the tax base for local governments that have a preponderance of federal and provincial buildings and Crown lands within their jurisdiction. To address this situation, the federal government and most provincial governments pay local governments grants-in-lieu of taxes on Crown lands and buildings. This may or may not include the education portion of property taxation.

The *Municipal Grants Act* enables Public Works and Government Services Canada to make payments in lieu of taxes for federally owned property. The federal legislation provides for three basic grants: annual grants in lieu of real property taxes for general and school purposes; transitional grants where taxable property is acquired by the federal government and withdrawn from the tax roll; and, grants in lieu of special assessments for local improvements. The federal government reserves the right to

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[25]Reschovsky, Andrew, "Are City Fiscal Crises on the Horizon?," *Urban Finance Under Siege*, Thomas R. Schwartz and Frank J. Bonello (eds.) (Armonk, New York: M.E. Sharpe Inc., 1993), p. 210

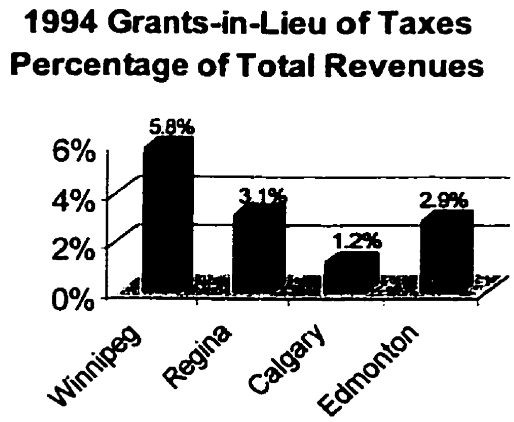
[26]Tindal and Tindal, *Local Government*, p. 167

determine the property value regardless of the assessment made by provincial assessors. However, in 1994, these contributions were frozen resulting in reductions in revenues for local governments.

Manitoba and Alberta provide unconditional grants-in-lieu of taxes for certain provincially-owned real property. The Province of Manitoba pays grants-in-lieu of taxes on most land and buildings owned by the province and on unpatented Crown lands on which there have been improvements. In Alberta, the provincial government pays grants-in-lieu of municipal and business taxes on all provincially-owned property including the legislative buildings. Saskatchewan does not pay grants-in-lieu but does pay local improvement taxes on government-owned property.[27] The final report of the Local Government Finance Commission in Saskatchewan recommended that the province pay full grants-in-lieu of taxes equal to what would be received if the property was privately owned. Crown corporations in that province pay either full or partial grants-in-lieu.

The amount of grants-in-lieu that the four cities receive diverges widely. Winnipeg received over $39.6 million from federal and provincial governments for grants-in-lieu of taxes which represents 10 per cent of total property tax revenue. Regina received $3.56 million in grants-in-lieu accounting for four per cent of total property tax revenues. Calgary received $9.8 million, only two per cent of its total property tax revenues. This comparatively small number can be partially explained because Calgary is the only one of the four Prairie cities that is not a provincial capital meaning there will be fewer provincial and federal buildings. Of Edmonton's total property tax revenues, six per cent or $20.5 million, accrued from provincial and federal and provincial grants-in-lieu.

Figure VIII



Business Tax

Canadian municipalities have the option of levying business taxes. Business taxes are levied on the basis of assessed gross annual rental value or license fees in lieu of taxes. Although the business tax is not a benefits tax because the revenues accruing are used to pursue broad civic goals, businesses benefit from many local government initiatives including the promotion of tourism and economic development. This argument does not hold favour with economist Harry Kitchen who has indicated that there is "no sound economic rationale for business taxes."[28] He argues that the additional revenue is used to finance services that primarily benefit the residential sector.[29] There is a perception by the public that since money is being made on the business property there is an increased ability

[27]Beginning in 1998, the Province of Saskatchewan is phasing in grants-in-lieu of property taxes. This is discussed more extensively in the Epilogue.
[28]Kitchen, *Property Taxation*, p. 68

to pay taxes. While this may or may not be true, the business tax can be passed forward to tenants and customers and, because it is deductible, backward to governments.

In addition to the issue of whether the business tax is appropriate, there are other shortcomings of business taxes. They are inflexible slow-growth taxes and therefore do not automatically change to correspond with fluctuations in the economy. As a result, during recessions when many businesses face shrinking revenues, their taxes remain the same or may increase. Conversely, during economic booms, their capacity to pay taxes increases, but tax levels may not correspond. The recent recession and growing numbers of bankruptcies led many jurisdictions to freeze or reduce their business taxes. In 1972, business tax revenues accounted for 4.9 per cent of total municipal revenues, but in 1991-92, this figure had declined to 0.8 per cent.[30] Another disadvantage to business tax is that because it is not uniform across the country, or even within a province, it has redistributive effects, impacting where businesses choose to locate.[31]

All four cities in this study levied business taxes in 1994. All four cities kept their business taxes at 1993 levels in hopes that low and stable business taxes would at least reduce the number of business failures and at best promote economic development and diversification. Of note, in Winnipeg there is a ceiling on business taxes of 15 per cent of assessed rental value.

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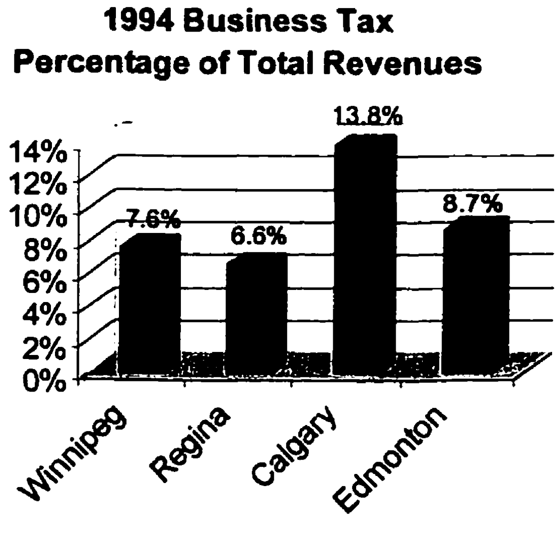
[29]Ibid. p. 68

[30]Manitoba. Department of Rural Development. *Statistical Information* 1992 and 1972.

[31] Kitchen, *Property Taxation*, p. 68

The extent to which the four cities rely upon businesses to finance local government activities varies greatly. At opposite ends of the spectrum, are Calgary and Regina. Calgary realizes a full 14 per cent of its total revenues from area businesses while Regina collects only 6.6 per cent of its revenues from this source. The remaining two Prairie cities fall in the middle. Winnipeg collects only 7.6 per cent of its revenues from commercial and industrial enterprises and 8.7 per cent of Edmonton's revenues accrue from business tax. This variance may be attributed, at least in part, to the business climate in the three provinces. However, with Alberta's traditionally strong philosophical connection with business, the extent to which its two major metropolitan centres rely upon business to finance their operations is surprising.

Figure IX



Special Assessments

There are two, relatively new special assessments that many provinces allow their local governments to levy that relate to property: development charges and local improvement levies, also referred to as infrastructure levies. Until recently, improvements to infrastructure were paid through property tax. Development charges are used to finance new growth while local improvement charges often fund improvements to existing infrastructure abutting a property. The revenues from these charges are usually allocated to the capital budget.

Local improvement levies are paid by owners of property adjacent to the development usually based on frontage. They are considered a benefits tax because residents benefit directly from the construction of a sidewalk or street repairs and these improvements may also increase the value of the property. Thus these measures are more acceptable politically than increases in property taxes because of the direct linkage to benefits.

Conversely, development charges are levied on land developers to finance infrastructure that directly or indirectly supports new developments or redevelopments. These measures are also referred to as lot or unit levies, impact fees, impost fees, exactions, linkage payments and community benefit assessments Developers are charged on a per lot or per square foot basis for the capital costs of the infrastructure. Generally these fees are levied for hard services such as water, sewer and roads. While the fees are technically levied against developers, research on development charges is minimal and no conclusive determination has been made as to who actually bears the burden of the charges: the new home buyer, all home buyers, developers or the pre-development landowner.[32] The growing use of development charges signals an increasing reliance on the private sector to fund infrastructure development. The Greater Vancouver Regional District levies development costs for replacement housing where developers have demolished affordable housing. Cities like Vancouver are also including the costs of some of the soft services that will have to be provided, including recreational facilities and day care centres, in development charges.

Special assessments are not without their issues. Special assessments are equitable when the value of benefits can be determined and costs apportioned fairly. However, benefits are not always easy to identify and measure. Further, the issue of generational equity must be considered. If benefits accrue to future owners, current owners should not have to bear the entire cost of the development. In this case, it would be more appropriate to fund development costs, at least in part, from long-term borrowing.[33] However, if the value of the property increases as a result of the project, it can be argued that the new tenants do reimburse the previous owners to an extent through the purchase price. For the charge to be efficient, it also must include the full cost of providing the service.[34] Analyst Enid Slack identifies the problem thus:

> In theory, the apportionment of capital costs to benefiting property owners should reflect the additional benefits received by each property, where the benefits are measured by the increase in property value...In reality, however, it is difficult to isolate the impact of one capital expenditure from other influences on property values. For this reason, proxy

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[32]Enid Slack and Richard M. Bird, "Financing Urban Growth Through Development Charges" *Canadian Tax Journal*, 39:5, 1991

[33]Tassonyi, Almos, "Financing Infrastructure in Canada's City Regions," In *Urban Governance and Finance: A Question of Who Does What*, Paul R. Hobson and France St.-Hilaire (eds.) (Montreal: Institute for Research on Public Policy, 1997) p. 81

[34] *Ibid,*. p. 83

measures are often used such as assessed value, zone assessment within the benefiting area, front footage and lot size. [35]

Development charges are also criticized for influencing growth. The increased housing costs resulting from development fees may reduce housing purchases which can impeded growth. However, a graduated levy formula promotes efficiency by influencing developers decisions. For example, if core area residential housing is required, the charge is lower than for suburban development.

The revenue accruing from special assessments is relatively small, usually covering only capital and not operating costs. It is also very difficult to identify because it may be included under departmental operating budgets or in capital budgets. Winnipeg collected almost $5 million from its Local Improvement Tax and additional revenues accrued from a Water Frontage Levy, a Sewer Frontage Levy and other lesser revenues for a total of over $22.7 million. Regina has a pavement and gravel alley levy which contributed over $2.3 million. Comparatively, Calgary collected over $7 million from local improvement levies. Of Edmonton's total capital funding, 4.5 per cent is obtained through developer financing and 3.6 per cent from local improvement levies.

Excise Taxes

Municipalities may levy other minor taxes such as amusement taxes and recreation taxes which usually have low generating abilities. The revenues are often applied to

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[35]Slack, Enid, *Financing Infrastructure: Evaluation of Existing Research and Information Gaps*, (n.p.:

specific departments and are difficult to identify within the various departmental budgets. These taxes are not considered equitable because they are not based on income. However, they are reflective of benefits derived from service use.

Non-Tax Sources

Given the limited availability of sources of taxation revenue, local officials are increasingly looking to non-tax sources to fill the fiscal gap. Statistics Canada defines non-tax revenue as licenses and permits, sales and services, fines and penalties, grants-in-lieu of taxes and return on investments. Not only are there an almost endless array of fees and charges local governments can levy, provinces see these options as less threatening to their own tax bases because of their restricted revenue raising capacity and are therefore more willing to approve their use.

Grants

The federal and provincial levels of government provide varying degrees of financial support to assist local governments with their program and service delivery commitments. Assistance from senior levels of government is usually provided in the form of grants. These transfers of funds between the levels of government that may be conditional or unconditional. Traditionally, grants have been the largest, and therefore

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Canada Mortgage and Housing Corporation, August 1996, p. 11

most important source of non-tax income. However, for some Prairie cities this is quickly changing.

It will be shown that as a result of fiscal pressure at the provincial and national levels, for most urban governments in this study this revenue stream is slowing to a trickle. Cuts to grants are often made without warning which seriously impacts service delivery and makes long-term planning difficult. The unpredictability of grants is not their only shortcoming. Grants also discourage financial and political accountability because it is unclear to voters if "inadequate service provision is due to poor public policy management at the local level or an unfair formula for distributing the tax revenue at the senior level."[36] On this basis Hobson postulates that "measures aimed at reducing, if not eliminating, provincial-municipal equalization grants would appear justifiable in the context of appropriately redesigned municipal revenue structures."[37] However, in the absence of political will to redesign local government finance, government grants will remain a necessary, albeit from recent trends declining, component of balancing urban revenues with expenditures.

UNCONDITIONAL GRANTS

Unconditional grants can be added to general revenues and provide local officials with the autonomy to finance the services they identify as priorities. One of the more enduring unconditional grants are those provided in-lieu of property taxes, as has been discussed earlier. Two Prairie provinces also provide unconditional grants to their local governments through a revenue sharing program that gives the local level indirect access to income tax revenues.

Manitoba and Saskatchewan have enacted legislation to establish provincial-municipal revenue sharing from certain provincial tax sources. This transfer of revenue amounts to an unconditional grant. Under Manitoba's *Provincial-Municipal Tax Sharing Act, 1976,* local governments receive 2.2 points of personal income tax and one point of corporate tax on a per capita basis annually. Since 1990, this source of revenue has grown by less than one per cent for the City of Winnipeg. It must be noted that this reduction in revenues is a result of the recession rather than due to a lack of provincial generosity.

Saskatchewan began its Revenue Sharing Grant Program in 1978. The program was intended to transfer revenues from personal income tax, corporate income tax and provincial sales tax on a per capita basis. The grant has three components: a basic grant to assist small communities; a per capita grant for urban governments; and a foundation or equalization grant to smooth out regional inequities.[38] For the first year the transfer was equal to the amount of certain conditional grants that were being eliminated. While in the first years the grants were tied to these tax bases, the escalator formula was not used after 1982.[39] Transfers from revenue-sharing in Regina declined by four per cent in 1993 and a

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[36]Barnett, "Subsidiarity," p. 73
[37]Hobson, "Efficiency, Equity and Accountability," p. 130
[38]City of Regina, 1998 *Budget Summary*, Preliminary Budget, March 1998, p. 7-4
[39]*Ibid.*, p. 7-4

further eight per cent in 1994. Between 1987 and 1994, grants to the City of Regina have declined by 65 per cent, representing over $10 million.

The existence of legislated revenue-sharing agreements usually makes provincial assistance more secure. Since income taxes are growth taxes, the revenue generated by revenue sharing is dependent upon economic performance. The impact of the economic downturn preceding 1994 is evidenced in the impact on transfers to Regina and Winnipeg. However, with the recent upturn in the Canadian economy this is expected to improve because income tax grows more quickly than property tax. It is expected that revenue-sharing will be instrumental in assisting local governments meet expenditure growth.

Conditional Grants

Conditional grants are earmarked by the source to fund specific programs or services such as transit systems, police services, libraries, and infrastructure. The appropriateness of conditional grants as a funding mechanism has been the subject of ongoing debate. Since conditional grants limit discretionary spending, local governments tend to view them as a vehicle by which the senior levels of government can impose their political agendas thereby infringing on local autonomy. Local governments have referred to conditional grants as "hollow receptacles into which the values of federal and provincial governments are poured."[40] It is difficult to determine the extent to which conditional financial assistance distorts the priorities of local governments.

Conditional grants have also been criticized because they must be renewed annually and most can be discontinued unilaterally without notice. It is not unknown for a municipality to implement a costly delivery system to support a program tied to conditional grant only to be left with a financial albatross when the province decides unilaterally to discontinue funding.[41]

However, conditional grants are a necessary component of fiscal and quality assurance. Some responsibilities such as education, have significance beyond the local levels and minimum provincial standards are required.[42] This has led some to argue that these types of services would be more appropriately financed solely by the senior levels of government that provide them.

When comparing transfers from senior levels of government there are few historical examples of the federal government taking a central role in financing municipal services. During the Depression years federal involvement increased when local governments were unable to meet the overwhelming demand for social assistance. More recently, the federal government's Canada Mortgage and Housing Corporation (CMHC)

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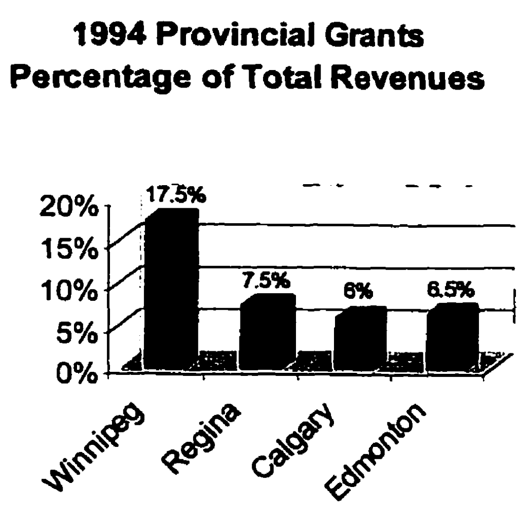
[40]Canadian Association of Municipalities, *Municipal Submission to the First National Tri-Level Conference*, 1972, p. 20
[41]Tindal and Tindal, *Local Government*, p. 216
[42] *Ibid.*, p. 79

and the Infrastructure Works program instituted in 1993-94,[43] represent the most significant forays by the federal government into areas traditionally the responsibility of municipalities. Prior to the Infrastructure Works Program, the federal government provided special purpose grants to municipalities usually earmarked for infrastructure projects. Not surprisingly, prior to the Infrastructure Works Program each of the four cities received less than one per cent of their total revenue from federal sources.[44]

Federal grants to the urban Prairie governments were not substantial in 1994. Winnipeg, Calgary and Edmonton all received less than 0.01 of one per cent of their total revenues from the federal government. The $45,000 in federal grants provided to Regina was 0.03 per cent of their total revenues.

Figure X



[43]Infrastructure agreements with the various provinces had not been completed when city budgets were finalized and are therefore not reflected in this analysis.
[44]Grants-in-lieu of taxes are not included in these figures.

Most transfers to municipal governments are from provincial governments. The level of provincial support for local governments diverge widely. Over 17 per cent of the City of Winnipeg's revenues accrue through conditional and unconditional grants including revenue-sharing, money from video lottery terminals and social assistance payments. The revenues Winnipeg received in 1994 represented an increase of six per cent over the previous year. The Province also increased its contribution to cost-shared programs by almost seven per cent. Winnipeg was the only city in this study to enjoy an increase in provincial grants. Despite these increases, the City budget document lamented that "over the past decade, the Province has shifted its traditional support away from City Programs and toward social services."[45] Conversely, only 7.5 per cent of Regina's budget is funded by the Province. This figure represents a decline in provincial government support of eight per cent over 1993.

The Case of Alberta: The Affects of Fiscal Retrenchment by the Province

The oil industry has made Alberta one of the more affluent provinces in Canada. As a result, local governments in that province enjoyed a number of grants and special transfers from the provincial government. *The Alberta Property Tax Reduction Act, 1980,* consolidated assistance programs to municipalities; transfers were also made through the Alberta Partnership Transfer Program and the Alberta Municipal Partnership in Local

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[45]City of Winnipeg, *1994 Short Form*, p. XXI

Employment Program. Various grants were also provided for library and heritage purposes.

However, the election of Ralph Klein's Conservative government was a watershed for provincial involvement in local government finance in Alberta. In *A Better Way: A Plan for Securing Alberta's Future*, the provincial government outlined its intention to reduce the role of Municipal Affairs from "the direct provision of service towards a new focus on service facilitation."[46] The Municipal Assistance Grant was consolidated with conditional operating grants for parks, transit policing and family and community support systems in the Unconditional Grants Program. It was to be reduced from its 1994 level of $169 million, to $88 million by 1996/97. The Alberta Planning Fund was to be phased out and all association and institutional grants plus the Ethno-cultural Grant were to be discontinued. Seniors housing and emergency alert programs were to be discontinued as were other housing grants and programs.

The City of Calgary's preliminary budget speculated a reduction of $7.5 million in provincial assistance, a 12 per cent drop from the previous year. However, by the time the budget was approved, the City had lost over $11 million in provincial monies. The provincial government announced that Calgary's share of the major municipal operating grants would drop from $50 million in 1993 to $16 million by 1997. The City of Edmonton's preliminary budget document set provincial government funding at seven per cent of its total budget. This, however, only took into account a projected loss of provincial government revenues of $3.9 million. By the time the City's budget was approved, the province had eliminated $11.8 million, which was nominally offset by an additional $200 thousand in small grants.

Declining provincial grants is not a phenomenon unique to the Prairies. Slow economic growth and rising debt have affected all provincial governments. "Significant deterioration in provincial government revenues has occurred as federal transfer payments, income tax collections and sales tax revenues are all lower than expected."[47] The reduction of provincial grants "has seriously compromised the capacity of local governments to maintain service levels and put further strains on the property tax base. In their study of local governments in ten countries, Mouritzen and Ylonen found that larger urban centres are more severely affected by fiscal crisis due to the combination of grant reductions and changes in the local tax base.[48] The result is that "large cities in a country experiencing prolonged periods of slow or no growth in the national economy in combination with large national budget deficits are most likely to be brought into a situation where current services cannot be maintained without increasing local taxes,"[49] or other revenue sources such as user fees.

Reductions to government grants has also called into question the nature of the fundamental relationship between provincial and local governments.

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[46]Alberta Department of Municipal Affairs, *A Better Way: A Plan for Securing Alberta's Future*, February 24, 1994, p. 3
[47]City of Regina, *1993 Budget Summary and Budget Background*, Vol. 1, p. 1-21
[48]Mouritzen and Ylonen, "Money, Politics or Structure?" p. 214
[49]*Ibid.*, p. 215

> Should local governments be viewed as autonomous bodies, albeit creatures of the provinces? Or, should local governments be viewed as consorts to the provinces, administrative structures whose sole purpose is to facilitate efficient delivery of services that are constitutionally assigned to the provinces?[50]

An examination of the fiscal position of local governments in other countries indicates that reductions in government grants is a common reaction among countries experiencing fiscal stress. While the vast majority of countries are tightening their purse strings, the United States, United Kingdom and Italy experienced the greatest fiscal cutbacks.[51] The situation in the United States has lead one analyst to state that the American system of "fiscal federalism has moved away from making conscious attempts to "level-up" those governmental units that are most lacking in fiscal crisis. We are in an era of fend-for-yourself federalism."[52]

Table I 1984 Government Grants - An International Comparison[53]

Country	Government Support
Netherlands	81%
Italy	66%
Sweden, France, West Germany	less than 30%
Britain, Canada, Norway	40%
USA and Denmark	33%

[50]Hobson, *Local Public Sector*, p. 7

[51] Walzer, Norman, Warren Jones and Haakon Magnusson , "Fiscal Changes and Policy Responses: A Comparison of Ten Countries," *Managing Cities in Austerity: Urban Fiscal Stress in Ten Western Countries*, Poul Erik Mouritzen (ed.) (London: Sage Publications, 1992) p. 122

[52]Schwartz, Thomas R., "Rethinking Urban Finance in America," *Urban Finance Under Siege*, Thomas R. Schwartz and Frank J. Bonello (eds.) (Armonk, New York: M.E, Sharpe Inc., 1993), p. 18

User Fees

One of the more flexible and underutilized[54] sources of revenue local governments have at their disposal is the user fee. User fees are direct charges to those who avail themselves of certain programs and services. They can be imposed on a variety of services including water, sewage facilities, recreational facilities, library services and waste disposal. This revenue raising mechanism is growing in significance in most jurisdictions across Canada because it "promote[s] economic efficiency by providing information to consumers and officials, and enabling them to make more efficient use of resources."[55].

Ensuring equity in rate setting is perhaps the greatest analytical and conceptual challenge urban government's face with respect to user fees. Pricing is difficult because a number of factors have to be weighted including: whether the rate will be used to control access to the service; how acceptable the fee will be politically; the incidental and administration costs; the nature and extent of benefits the user receives; users' ability to pay; demand; opportunity costs; replacement costs; inflation, and; future costs. Many of these factors are subjective which injects a significant amount of error into any calculation. Often the fee structure implemented fails to meet the criteria for efficient pricing.[56] Price determination is also aggravated by externalities. If fees are set without knowledge of fees

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[53]Goldsmith, Michael, "The Structure of Local Government," *Managing Cities in Austerity: Urban Fiscal Stress in Ten Western Countries*, Poul Erik Mouritzen (ed.) (London: Sage Publications, 1992) p. 14
[54]Hobson, "Efficiency, Equity and Accountability," p. 115
[55]Bird and Slack, *Urban Public Finance*, p. 80
[56]Hobson, "Efficiency, Equity and Accountability," p. 115

and charges in other, surrounding jurisdictions, the possibility of exacerbating regional disparities exists.

In general, user fees are equitable because users are paying for the services they receive. Unless cross-subsidization occurs, non-users should not have to bear the burden of service provision costs. While fees and charges are not sensitive to the user's ability to pay, a variety of charging scenarios can be adopted to reduce the financial burden to certain users including differential pricing (peak and non-peak hours), and reduced rates for certain users (seniors, youth, students).

Charging avoids excessive and unwanted service provision and over-consumption of a subsidized or free good or service. When services are paid for through property taxes, the service appears to have a price of zero. If there is no associated price, demand is greater often to the extent of misallocation of financial resources.[57] Pricing provides a demand signal necessary for decisions regarding resource allocation and service levels. Therefore, user fees can be designed to encourage certain types of behaviour. For example, refuse collection fees can be set to reduce garbage output and encourage recycling. The importance of proper pricing is evident in this example because if fees are set too high, illegal dumping of refuse may occur.

In the Canadian context, the idea of charging full costs for services previously provided free or at minimum costs represents a significant obstacle to widespread adoption of the user pay philosophy. Slack indicates that this idea also discourages the private sector from taking over a service from the public sector that is not being priced.[58] User fees are most acceptable to rate payers when a number of factors are met. The existence of strong linkages between fees charged and benefits received increases the acceptability of the fee. This is also the case if the ratepayer determines usage. In addition, the benefits received from the good or service should be quantifiable and attributable to the user.

The four Prairie cities use a wide variety of user fees, but comparatively, the revenue accruing is minimal. Both Winnipeg and Regina increased many of their user fees in 1994. Calgary and Edmonton maintained existing user fees at 1993 levels but both cities imposed a number of new chargeable services.

For the 1994 fiscal year, the City of Regina increased most fees by 2.5 per cent, with the exception of transit fees. Leisure and recreation programs which increased by one per cent and indoor arena fees which increased by 14 per cent but were phased in over three years. The City also installed parking meters in loading zones which was projected to raise an additional $100,000 annually.

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[57]Slack, Enid N., Presentation to the Conference on Local Government Funding, September 27, 1984, Regina, Saskatchewan, p. 4

[58] Slack, Enid N., *Financing Infrastructure: Evaluation of Existing Research and Information Gaps.* (n.p.: Canada Mortgage and Housing Corporation, August 1996) p. 22

Regina's revenue strategy[59] established principles for cost recovery and the setting of user fees. It classifies services into three categories. *Private Services* are specialized service to certain users, such as charter buses and landscaping, that are operated on a full cost recovery basis. *Public Services* are services delivered to the public at large such as police protection, that are financed from General Revenues. *Merit Services* are provided to the general public but only used by a portion of the population, such as recreation facilities and transit services. Merit services are operated with a cost recovery target of 75 per cent.

For the City of Calgary, total revenue expected to accrue from user fees declined by $5 million (5.3 per cent). Revenue projections for transit and land fill were down dramatically: $2 million and $4 million respectively. The Calgary budget document stated that: "user fee levels are being held constant or below the rate of inflation because of a reluctance to raise them in the existing economic climate."[60] However, the relative importance of user fees increased with new fees levied for some road services, ambulance services, social services, environmental development services.[61] Of note, only 20 per cent of Calgarians have water meters. In plebiscites, Calgarians have consistently rejected water meters on the grounds that "the City's flat fee based on land assessment is a form of user fee, with properties with higher assessments using more water than properties with lower assessments; metering out could reduce water consumption and delay the

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[59] City of Regina, *1994 Budget Summary*, p. 1-6
[60] City of Calgary, *1994 Budget Summary*, p.1-1
[61] Kitchen, Harry and Enid Slack, *Trends in Municipal Finance: Final Report*, (Ottawa: Canada Mortgage and Housing Corporation, June 1993) p. 60

construction of a new water treatment plant; and the installation of meters city-wide would be too expensive."[62]

Conversely, the City of Edmonton projected an additional $4.4 million from user fees. Edmonton also implemented new fees to raise revenues. A $12 annual library fee for adults was introduced to fund service delivery enhancements including upgrading print and electronic collections, Sunday openings, after hours drop boxes and plans for a new branch. Fees for firewood, sports field use and parking were also imposed. Peak and non-peak fees for transit service were also instituted.

The four prairie cities differ in their reliance on user fees as a source of revenue. In aggregate, the percentage of the budget financed by user fees was highest for Edmonton at 12.5 per cent. Regina and Calgary accrued 10.8 per cent and 10.4 per cent respectively from user fees. Winnipeg's minimal reliance on user fees vis-à-vis its Prairie counterparts is startling at only 5.2 per cent.

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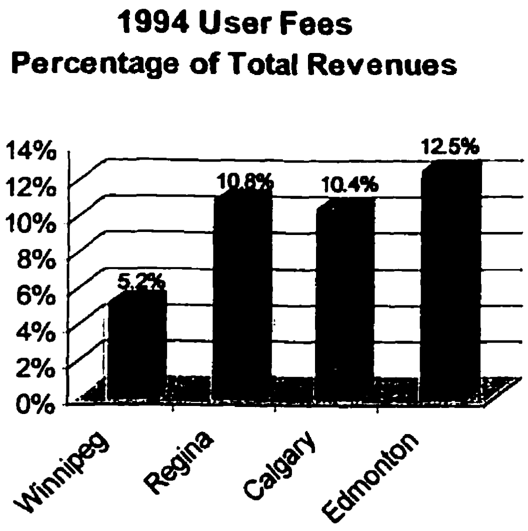
[62]Masson, *Alberta's Local Governments*, p. 338

Figure XI

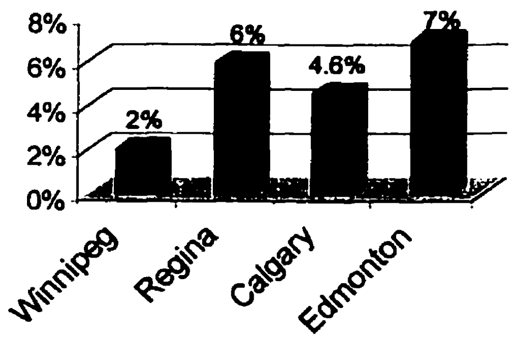


Licenses, Permits, Fines and Charges

A variety of licenses, permits, fines, etc., can be levied through a by-law by municipalities, however the amount collected is often negligible and difficult to identify within various departmental budgets. Winnipeg's revenues for fees, permits, fines and penalties was $14 million, representing two percent of total revenue. Regina received $8.8 million from this source, or six per cent of its total revenue. A full $38 million of Calgary's budget (4.6 per cent) accrued from fines, penalties, licenses or permits. Edmonton funded the greatest percentage of its operating budget from permits and licenses. Seven per cent, amount to over $50 million was funded though this mechanism.

Figure XII

1994 Licences, Fees, Permits and Charges
Percentage of Total Revenues



Utilities

A city's ability to obtain revenues from public and private utilities is mandated by the province through legislation and regulation. Even when the provincial government owns the utility, the rates are controlled by the provincial Public Utilities Board. Usually a portion of the money collected from utility bills is kept in reserves to fund capital costs. This arrangement has had positive impacts on the infrastructure that supports these utilities.

> The quality of the infrastructure appears to be less in need of rehabilitation for those services, such as water and in some cities, sewers, that are funded from user fees. Roads are funded by property taxes and as such, have suffered greater quality deterioration over the past decade. It appears to be politically easier to raise funds for capital projects financed from user fees than from property taxes.[63]

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[63] Kitchen and Slack, *Trends*, p. 64

The City of Winnipeg operates Winnipeg Hydro which is self-supporting from the rates it charges its customers. The City's general operating budget benefits from an electricity tax of 2.5 per cent for residential customers and 5 per cent for commercial users as well as a lump sum transfer.[64] The City levies a Water Frontage Levy of $1.10 per frontage foot in 1993, which is included on property tax bills. It also receives revenues from a transfer to the general operating fund from the water utility. The City coffers are also enhanced by a Sewer Frontage Levy and through transfers from the utility to the general operating fund. A revenue transfer is made from the solid waste disposal system and the City levies a tax against natural gas sold for heating purposes.

In Regina, the electrical distribution system pays a 10 per cent municipal surcharge and a five per cent franchise fee. The gas distribution system contributes a five per cent franchise fee on gas sales. Citizens of Regina pay a storm drainage infrastructure levy ($5.00 in 1993) and a consumption charge on their water bills. The sewer and water utilities transfer 7.5 per cent of the previous year's billed revenues to the City of Regina through the Utility Surplus Transfer. A five per cent administration fee is also charged on sewer and water utilities and one per cent on the transit utilities. Saskatchewan's Local Government Finance Commission recommended that electricity and natural gas grants be discontinued and replaced by a provincial sales tax on natural gas and electricity sales.

Alberta has enabling legislation for municipalities to enter into agreements with

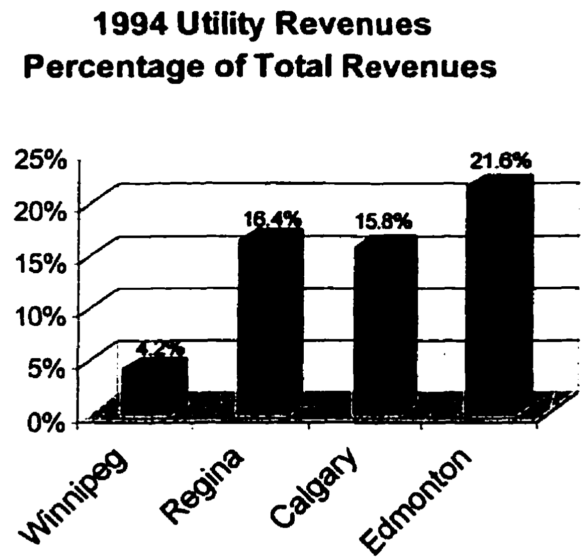
[64]For 1994, the transfer made by Winnipeg Hydro to general operating revenues was greater than their total profits. As a result, the corporation will have to borrow to make the transfer.

major public utilities to receive a percentage of gross revenues from the utility in lieu of taxing right of ways, land, equipment, etc. In Calgary, gas is subject to an 11.11 per cent Municipal Franchise Tax. Calgary charges 10 per cent of gross revenues for natural gas, electricity, water and sewer, and three per cent for cable television (plus property and business tax). The rate of return for public utilities to general revenues is 10 per cent.

Utilities in Edmonton contribute to general revenues under guidelines set out in the City's Utility Fiscal Policy. A 15 per cent rate of return on opening equity has been established of which 60 per cent is allocated to general revenues. The city also charges a maximum eight per cent franchise tax on public utilities. Applicable utilities include: Edmonton Telephones Corporation and Edmonton Power. Sewer bills in Edmonton are subject to an eight per cent franchise tax.

The greatest discrepancy between the cities' revenues is in the area of utilities. While Edmonton receives 22 per cent of its total revenue from utilities, and Regina and Calgary each receive 17 per cent, Winnipeg receives only eight per cent. Winnipeg must make up the difference from other sources, hence the reliance on property tax. With user charges being increasingly attractive as a means to meet revenue shortfalls, it is expected that the Province of Manitoba will come under a considerable amount of pressure from the City to expand the contribution made by utilities.

Figure XIII



<u>COMMENTARY</u>

The decline in total revenues over the previous year despite the predicted growth in each province's economy suggests that local officials perceive a lessening in their fiscal and/or political capacity to raise revenues. It also signals that more stringent efforts on the expenditure side will be required to balance the books to comply with their statutory requirement of balanced budgets. Revenue generation cannot be ignored in formulating fiscal strategies for the four cities under study, but perceived limits on the availability of new revenue sources has lead city officials to concentrate on the expenditure side of the ledger to cope with fiscal restraint.

Revenues are slowly adjusting to the changing fiscal and political climate. To a great extent, changes in the revenue stream are the result of senior government policies to which the four urban governments must adapt. Grant reductions are having a domino effect on other revenue sources. As grants decline, pressure is brought to bear on other revenue streams to ensure a consistent flow of total revenues. All four cities are following the national trend to increase reliance on user fees as a funding source. In Regina and Winnipeg, most of the pressure for shoring up the revenue side has fallen to the traditional base of urban revenues - property taxes. Large revenue windfalls can be generated from modest increases to mill rates. While property tax is the quickest fiscal fix, it is also politically unpopular. A 1985 study by the Institute of Urban Studies in Winnipeg found that

> An overwhelming majority of citizens favour a policy of increasing property taxes only when necessary to maintain existing services. A minority favoured increasing taxes and services ; and a small segment of the sample wanted to keep property taxes the same and cut services.[65]

This is in no small measure responsible for what appears to be an emerging trend toward zero per cent mill rate increases implemented in Calgary and Edmonton. This may foreshadow a restructuring of local government finance. However, without the emergence of another large source revenue stream, reliance on property tax will be slow to change.

While the mix of revenues the four cities draw from is fairly consistent, there are some discrepancies, especially where Winnipeg is concerned. The City of Winnipeg receives a much larger percentage of revenues from provincial transfers, but receives one half to two-thirds less revenue from its utilities. Half of the money it receives from utilities is from transfers which come from reserves which could be used to improve utilities infrastructure. The potential to increase revenues form utilities is large and would assist the City reduce its reliance on property taxes. Increasing revenues from utilities will be contingent on the political will of the province. Further, Winnipeg has been slow to embrace user fees as a source of revenue despite the fact that literature and the experience of other jurisdiction encourages taking this direction. While the revenues from user fees is not large, it represents a virtually untapped resource in Winnipeg. Winnipeg's revenues accruing from licenses, fees and permits is also well below the other three cities. This may signal the need for fee structure and schedules to be re-evaluated.

Debate is raging about the appropriateness of revenue sources in relation to the wider range of services urban governments now provide. Own-source revenues remain limited by and large to benefits taxes. While benefits taxes may be appropriate for hard services, this is not the case for soft services. "Where local governments are responsible for a greater array of social services, either intergovernmental grants come into play or alternative sources of finance become necessary."[66] The trend of declining intergovernmental grants is fueling the ground swell of support for alternative sources of revenue, especially growth taxes

There are a number of alternative revenue sources that are currently financing local goods and services in other jurisdictions in the world. Property tax is the mainstay of local government revenues only in countries that are or were part of the Commonwealth. Other countries in the world rely on a much different revenue structure to fund local government activities. Chapter VI identifies the various other sources that are used throughout the

[65] Chekki, Dan A., *Citizens' Attitudes*, p. 28

world and evaluates their appropriateness in the Canadian urban Prairie context. The assumption is that rather than restructure the entire revenue base, these alternatives would be considered for use may be used in conjunction with the existing revenue structure in Canada.

It must be remembered that ratepayers have a limited threshold for additional taxes and fees levied by the three levels of government. Determining the optimum level for new taxes and fees is as much a political calculation as it is an economic one.

[66] McMillan, "Taxation and Expenditure Patterns," p. 43

CHAPTER IV - ALTERNATIVE SOURCES OF REVENUE

To address growing pressure on budgets, and in response to political pressure from voters to reduce reliance on property tax, local officials are searching for new ways to raise revenue. Civic officials and academics alike are advocating expansion of revenue sources. Since World War II, population growth and increasing demands for services have prompted municipalities to request expanded jurisdiction for levying taxes to keep pace with their growing responsibilities. In North America this trend began in the United States where the "most common reaction [to revenue shortfalls] is to make a concerted effort to find new own sources of funds or increase existing sources."[1] In 1986, the City of Winnipeg Act Review recommended that the province expand revenue sources available to the City including broader forms of taxation.[2] Hobson contends that on the revenue side the fiscal gap can only be closed by revenue from other sources.[3]

A number of new revenue sources for local governments have been identified, many of which are currently used by other jurisdictions around the world. These options include both tax-based and non-tax based sources of revenue. Central to a discussion of new revenue sources must be an analysis of their appropriateness in the Canadian urban Prairie context. It is not enough to limit a review of new revenue sources to their potential contribution to help balance expenditure responsibilities and revenue raising capability. Rather, the impacts on ratepayers, the local government and the province must

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[1]Pammer, *Fiscal Strain*, p. 75
[2] Manitoba Department of Urban Affairs, *City of Winnipeg Act Review*, (Winnipeg: n.p., 1986) p.10
[3]Hobson, *Efficiency*, p. 23

be given full consideration. The evaluation is based on criteria that include: equity to ratepayers, which embraces the concepts of ability to pay and user pay; the level of accountability of local officials for the revenue source which includes the visibility of the tax and the ability of ratepayers to understand it; the ease and cost of administration; the predictability of anticipated revenues; the efficiency of the measures, what impacts they have on the use of goods and services; the implications for local government autonomy; and a very subjective analysis of the probability of provincial government approval.

Evaluative Criteria

Canadian economist Harry Kitchen states:

> A good local tax ought to be one that is easy to administer; one that makes local officials accountable for their expenditure decisions; one that is not primarily designed to handle redistributional concerns; and one that contributes to the overall efficiency of the tax system.[4]

Although these remarks were made in regards to taxation, they are applicable to other revenue sources as well.

EQUITY

Ensuring that a new revenue source would be equitable to ratepayers is central to determining its appropriateness. Saskatchewan's Local Government Finance Commission[5]

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[4]Kitchen, Harry M., *Alternative Methods of Taxation and Assessment*, a Report Prepared for the Task Force on Reassessment in Metropolitan Toronto, August 1989, p. 22

[5]Saskatchewan Local Government Finance Commission, *Interim Report of the Local Government Finance Commission*, January 1985, p.11

identified two main philosophies related to equity that underlie the financing of public services. First, that equity occurs when people pay for public services in proportion to the benefits they receive. Where appropriate, people who benefit from the goods and services supplied by local governments should pay for them directly. Social assistance is a notable exception. Linking benefits with revenues collected is important to ensuring that over-provision of public services is avoided and it also lends legitimacy to the fee or tax. However, it must be understood that some services such as education provide indirect benefits to the community as a whole.

The second philosophy is that equity occurs when people pay for public services in relation to their ability to pay. Income is generally considered the most acceptable base for determining equity in the distribution of the tax burden. Two types of equity are identified: horizontal and vertical. Horizontal equity refers to the uniform treatment of people of similar means, while vertical equity refers to different treatment of people of different means. Options that either impact like income earners in different ways, or impact people of differing incomes in the same way are inequitable.

There is an ongoing debate as to whether equity should be included in the evaluation of local government revenue mechanisms. Ability to pay raises the question of the role of local governments in income redistribution. "Expenditure and taxation decisions of provincial and local governments will, in general, have redistributive consequences even when they are based solely on efficiency criteria."[6] Some analysts

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[6]Hobson, *Efficiency and the Local Public Sector*, p. 24

argue that ability to pay should not necessarily be a consideration for local governments, but rather the domain of senior levels of government.[7] However, as Kitchen points out

> The prime objective of local officials should be an achievement of an efficient (non-distorting) tax or charge leaving the broader question of the distribution of income to a more senior level of government better equipped to deal with equity issues... Once local governments decide to tap revenue sources that bear no relationship between the tax price and the benefits received, however, local governments should be concerned with the distributional effects of their new levies."[8]

ACCOUNTABILITY

"Accountability is the cornerstone of accepted budget concepts,"[9] and therefore is an important criterion for determining the suitability of revenue raising mechanisms. Accountability embraces the idea of subsidiarity, that decision-making should be carried out at a level as close to the individual citizens as possible.[10] Hobson states that "through local taxation, local governments are held accountable to those who they are elected to serve."[11] Central to the concept of accountability is the visibility of the tax or charge. The more visible a tax or charge is the more accountable the elected representatives are for it, its impacts and any subsequent increases. Taxes and charges hidden from the public, like the former Manufacturers' Sales Tax, limit the accountability elected representatives have for their use. Accountability is achieved when the "level and mix of government spending and the distribution of its costs are decided in an atmosphere of full disclosure by the

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[7]Enid Slack, Presentation, p. 8
[8]Kitchen, *Local Government Finance*, p. 401
[9]Caiden, "Patterns of Budgeting," p. 16
[10]Barnett, "Subsidiarity," p. 59
[11]Hobson, "Efficiency, Equity and Accountability" p. 114

elected representatives of the residents of a jurisdiction."[12] Pure accountability would require that the level of government providing a service be totally responsible for raising the revenues. In Canada, this perfect alignment of revenues and expenditures is not possible given the interdependencies of all three levels of government for providing service and revenues. Also, the pure model of accountability presumes a level of fiscal knowledge on the part of citizens which does not exist. Most citizens cannot differentiate between the various expenditure responsibilities of the three levels of government nor do they know the size and composition of those budget including revenue sources. Intersecting and overlapping jurisdictions may account for some of this fiscal ignorance, but most citizens do not take the time to inform themselves about budgetary matters, except how decisions affect them personally. Therefore, substantial improvements to the level of accountability cannot be expected by aligning revenues and responsibilities more closely.

ADMINISTRATION

Evaluation of new revenue sources must include analysis of factors internal to revenue collection including generating potential, administrative costs, convenience and predictability. The yield from any proposed source should exceed administration costs and the political costs of imposing it. While the former is quantifiable, the latter is highly subjective. There should also exist a degree of convenience in its administration. Generally, the more cumbersome the administration required, the more expensive the collection process. The federal Goods and Services Tax is an excellent example of

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[12] Rafuse, Robert W., "Financing Local Government," *Local Government Finance*, (Chicago: Government

cumbersome, expensive administration. Consideration must also be given to whether the tax or fee is more efficiently administered at the local or provincial level. However, it also must be recognized that "[a]dministratively speaking, it is easier to increase an existing source than to authorize and establish a new revenue source."[13]

PREDICTABILITY

Ideally, the yield from any new or revised measure should have a degree of predictability to facilitate financial planning and expenditure management. Although in some instance the overall yield can be approximated, until collection systems are defined and distribution methods determined, revenue projections would be of limited use.

EFFICIENCY/NEUTRALITY

Revenue sources must also be analyzed based on their efficiency.[14] Efficiency, also referred to as neutrality, addresses the impacts on the utilization of goods and services. A revenue raising measure is considered efficient if its use does not alter certain types of economic behaviour. If it influences people's decisions about the use of a good or service or its production, or they attempt to avoid paying, it is not efficient but is distortionary.

Finance Officers Association, 1991), p. 14

[13] Leithe, Joni L and James C. Joseph, "Financing Alternatives" In *Financing Growth Who Benefits? Who Pays? How Much?* Susan G. Robinson (ed.) (n.p.: Government Finance Research Centre of the Government Finance Officers Association, March 1990) p. 94

[14] Kitchen, Harry M., "Pricing of Local Government Services," *Urban Governance and Finance: A Question of Who Does What*, Paul R. Hobson and France St.-Hilaire (eds.) (Montreal: Institute for Research on Public Policy, 1997) p. 139

However, some measures, such as refuse collection fees are specifically designed to influence ratepayer behaviour.

AUTONOMY

Despite the interdependency of the three levels of government for service provision and revenue collection, local governments enjoy a level of autonomy in their operations. To the degree that it is possible, the tax system should recognize local governments as responsible and accountable institutions. Therefore, it is necessary to identify between those alternatives that increase the provincial presence in local government finance and those that encourage local self-determination and self-sufficiency. This is not to say that any and all types of distorting influences arising from provincial involvement are unwarranted and undesirable. In many cases the benefits of provincial involvement may outweigh any infringements on local autonomy. However, it is important to identify instances where and the degree to which provincial involvement may be warranted to provide a complete understanding of the implications for local government autonomy.

When evaluating alternative revenue sources, it will be extremely rare that an option will fulfill more than two of the criteria. Kitchen states, a tax or charge "that is designed to be equitable is likely to be inefficient or it may be necessary to make a certain tax [or charge] less equitable or less efficient in order to facilitate its administration."[15] As has been discussed, the interdependencies of the three levels of government dictate that

[15] Kitchen, *Local Government Finance*, p. 402

pure accountability and total autonomy are utopian ideals. Taxpayers forego some degree of accountability and local officials relinquish a degree of autonomy for provincial financial support that enables urban governments to deliver more effective programs. There are also trade-offs between ensuring responsiveness to changes in the economic and political climate and the predictability of taxation policies. There are no perfect solutions. However, some options are better suited to urban Prairie governments.

Tax-Based Sources of Revenue

Under the Constitution, the federal government has unlimited taxing ability while the provinces can levy any form of direct taxation. Municipalities receive their revenue raising authority from the province through enabling legislation. Therefore, on the assumption that the federal government will not delegate any of its taxing powers to municipalities, the review of potential source of taxation alternatives will be limited to applicable direct taxes under provincial authority. It must be noted that providing local governments with new revenue raising authority puts pressure on the province's tax base[16] thereby reducing its short-term and long-term revenue generating potential. This is of particular significance in times of financial dislocation for the province.

[16] *Ibid.*, p. 45

Municipal Sales Tax

One option for increasing local government revenues is to provide municipalities with access to the broad based provincial sales tax. A municipal sales tax could be implemented either through a municipally-levied tax or by combining it with the existing Provincial Sales Tax. Currently, goods purchased in Manitoba are subject to a seven per cent Provincial Sales Tax, in Alberta there is no provincial sales tax and in Saskatchewan the rate is eight per cent. The federal government's initiative to harmonize the Goods and Services Tax with the provincial sales tax has met with limited success. Three Atlantic provinces have adopted the harmonized system in exchange for some financial concessions.

Municipal sales tax has an historical basis in Canada and is currently in use in other countries. The first Canadian municipal sales tax was levied in Montreal in 1935 with approval by the Province of Quebec. By 1964, three hundred and fifty-three of the over seventeen hundred municipalities in Quebec had imposed a sales tax of between one and two per cent. However, the Province took over the retail sales tax in 1964 and established a uniform, province- wide tax.[17] In the United States, almost seven thousand local governments have adopted a sales tax. Local governments in Austria, Belgium, France, Italy, Portugal, Spain and Turkey all rely on local sales tax revenues.[18] Local governments in France and Germany have value added taxes similar to Canada's Goods and Services Tax.

The revenue generated by a municipal sales tax would depend on the rate, the number and type of taxable goods and the uniformity of the tax's application. Net returns for urban governments would depend on the cost of province-wide implementation and distribution systems. If the revenues were considered a straight tax from source the city would receive the revenues it generated within its boundaries. Large urban centres would benefit proportionally more than rural based municipalities as retail sales dollars gravitate to larger urban centres. However, if an equalization formula based on population or local expenditure levels was used to distribute these revenues, rural and poorer municipalities could enjoy a greater proportion of the benefits with less accruing to urban centres.

While the revenues generated by a sales tax are attractive, an evaluation of this mechanism identifies its many shortcomings. Sales tax would be more regressive than a local income tax.[19] There is no vertical equity because it is not reflective of ability to pay and, unless there are exemptions and rebates, it has a greater impact on lower income earners. It does not satisfy the requirement of benefit linkage; at the time a good is purchased, the tax paid is not directly related to any benefit received. Since it is assumed that the revenues would accrue to general revenues, no long-term benefit linkages can be established.

While the sales tax rate is inelastic because it does not automatically adjust to changes in the economy, revenues fluctuate with economic growth and the decline in consumer spending resulting from the new tax. Studies show that in Canada, a one per

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[17] Kitchen, *Property Taxation*, p. 139
[18] *Ibid.*, p. 140

cent increase in sales tax results in a reduction in per capita retail sales ranging from 1.69 per cent to 10.97 per cent.[20]

The visibility of the tax would depend on whether it was combined with the provincial sales tax or appeared as a separate tax on sales receipts, like the Goods and Services Tax. While identifying the municipal sales tax separately would increase the accountability of local officials for the tax, it would cause similar technical problems as occurred with the Goods and Services Tax when new cash registers had to be purchased or existing machines reprogrammed.

There are a number of additional problems that would be inherent in a municipally-levied and administered sales tax. Reporting requirements would increase paperwork for both local governments and businesses. Rate differentials among local governments intraprovincially and interprovincially could magnify regional disparities and would heighten the inequities and unfairness inherent in sales taxes. A standardized rate for a single province would promote both equity and efficiency. However, reaching an interprovincial agreement on the base and rate for a sales tax applying throughout the three Prairie provinces would be a formidable political challenge. A municipally-levied and collected sales tax would limit municipalities to the revenue generated within their boundaries and would not necessarily reflect total local incomes spent on retail goods. The revenue potential would vary in direct proportion to the size of the urban complement of the municipality.

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[19]*Ibid.*, p. 140

There are distinct advantages to a provincially collected and administered municipal sales tax. Administration costs would be virtually eliminated at the local level. The tax would be uniform throughout the province which would not promote regional disparities and would enhance inter-municipal equity. A provincially administered dedicated sales tax could be remitted as a direct tax from source or through an equalization formula which could reduce regional disparities through the redistribution of income.

Provincial involvement does not come without a price for both levels of government. Municipalities would lose some autonomy and the provincial government would bear the political pressure of implementing and collecting the tax while reaping none of the financial benefits. Provincial governments may charge urban governments an administration fee for the additional efforts required.

For administrative efficiency and to reduce regional disparities and tax evasion, the best scenario for the implementation of a municipal sales tax would be a uniform tax combined with the provincial tax. The loss of local autonomy would probably be worth the revenue generated.[21] Urban governments would benefit most from a direct transfer from source. Exemptions on certain goods, such as children's clothing, medications, shelter and food should be adopted to address some of the equity problems, and reduce the burden on lower income families. This would addresses, to an extent, the problem of regressiveness.

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[20] *Ibid.*, p. 409
[21] *Ibid.*, p. 408

To increase fairness, provincial provisions to exempt non-residents should be adopted regardless of the increase to administrative workloads.

Municipal Personal Income Tax

A municipal personal income tax imposed on a graduated scale is an another revenue option for consideration that has an historical basis in Canada. Municipal income tax existed in Canada before the federal government imposed their own income tax in 1917. The Wartime Tax Rental Agreement (1941) between the federal government and the provinces effectively ended the right of local governments to levy income tax.

Currently, income tax is the most important source of local government financing in Austria, Switzerland, West Germany, Belgium, Denmark, Finland, Italy, Japan, Luxembourg, Norway, Portugal, Sweden and Turkey.[22] Many American states give their local governments the option of levying the tax. Municipalities in the United States, with the exception of those in Maryland, administer the tax locally and most have opted for a flat tax rate rather than a graduated one.[23] Provincial payroll taxes exist in Manitoba, Newfoundland, Quebec and Ontario, however, these taxes are levied against the employer, not the employee.

A municipal income tax has many positive features. It would be equitable because it is a progressive tax with contributions related to ability to pay. The equity and

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[22]*Ibid.*, p. 16

progressiveness of a local income tax would depend to a large measure on the tax base, namely the exemptions, deductions and how income is defined. If, in order to streamline the system and reduce administration costs, no exemptions or deductions were allowed, some ratepayers would be disproportionately affected and equity would be compromised. Equity and efficiency implications would differ as long as tax rates and the tax bases differ. Tying the municipal tax to the provincial tax would mean that the equality and efficiency of the municipal tax would mirror that of the provincial tax.[24] Vertical equity of the municipal tax structure would improve and, if the municipal income tax was used as a substitute for property tax, horizontal equity would also improve.[25]

A municipal income tax would enhance the fairness of the municipal tax structure because the burden of paying for services would be distributed on a broader basis: property owners would bear proportionately less of the tax burden. However, it is essential to remember that those who do not pay property taxes directly pay them indirectly. For example tenants often have the costs of property tax factored into their rents.

Although the elasticity of the tax makes it responsive to economic fluctuations and ability to pay, it also makes the yield unpredictable. Further, if the tax was collected in an annual lump sum rather than by deductions from pay cheques, many people may find this measure difficult to afford.

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[23] *Ibid*, p. 136
[24] *Ibid.*, p. 403

There are two options for administering the tax: municipalities could levy and collect the tax independently, or it could be added to the provincial income tax. Administration would depend on what income was being taxed. If the income tax was only on earned income, deductions could be made at source through a payroll tax. However, if the definition of income included non-earned monies, a more specialized collection system would be required.[26] The most efficient option would be to combine the municipal tax with the provincial tax. Although this implies that provincial governments would define the tax base, local governments may be able to apply different rates to the individual and corporate tax bases. A self-administered tax would be highly visible thereby increasing the accountability of the local government for the existence of the tax, its rate and base. However, administration costs would be higher and evasions would be easier, and therefore more frequent. In addition, municipally set rates may reinforce regional disparities and reduce the inter-municipal equity and fairness of the tax structure. Locally levied rates could be distortionary in that they may influence an individual's decision to relocate.

The option of a provincially administered tax is not without issues. Since provincial and federal income taxes are harmonized in most cases, implementing this alternative would require federal-provincial negotiations as well as provincial-municipal negotiations. A provincially administered tax could be remitted as a straight tax back to

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[25]Ontario Ministry of Municipal Affairs, *New Sources of Revenue for Municipalities* (Draft Paper), 1990, p. 16
[26]Kitchen, *Property Taxation*, p. 138

source or through an equalization formula. For urban governments, a straight transfer to source would be the most lucrative solution.

The total yield from a locally levied income tax would be significant and would depend upon the tax base and the rates applied. Based on 1992 income tax figures almost $11 million could be collected in Manitoba on one tax point.

The stumbling block for implementing a local income tax is senior government approval. As Kitchen points out, a local income tax "would put additional pressure on federal and provincial tax bases...and the inefficiencies and inequities of these sources would be exacerbated."[27] McMillan also indicates that a provincially sanctioned local income tax is unlikely because it would "erode provincial power considerably, on both the expenditure and tax fronts."[28]

If the municipal income tax was adopted it should be combined with the provincial tax for the purposes of equity, administrative efficiency and to ensure progressiveness. This would require the provincial government to grant tax room up to a certain level, either a percentage of taxable income or a percentage of provincial tax payable, to avoid double taxation of the same income. The rates should be set locally for increased local autonomy and accountability to the ratepayers. Otherwise, the province would be relinquishing some of its revenue base and bearing the full political responsibility as well.

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[27] *Ibid.*, p. 45

Hotel Occupancy Tax

Many jurisdictions in Canada and the United States impose a per room per night occupancy tax on hotel and motel rooms to increase revenues.[29] Under the *Provincial Municipal Tax Sharing Act, 1976*, Manitoba municipalities have the right to levy hotel and motel occupancy taxes however, none have done so. The hotel occupancy tax could be imposed locally by the municipality or provincially with revenues remitted through an equalization formula or as a straight transfer from source.

The justification for this measure is that it is a non-resident payment for utilization of infrastructure and other community services. Although it is assumed that this cost would be borne by out-of-province vacationers and business travelers, that may not be the case. A case in point is Manitoba, where a large proportion of hotel guests are Manitobans.[30] Therefore, a portion of the additional tax burden would be borne by out-of-province businesses and residents, the rest would be paid by Manitobans from outside of Winnipeg.

The City of Winnipeg Act Review states that "such minor tax sources as taxes on hotel rooms, liquor and land transfers would be of some help to the City".[31] Similarly, the Interim Report of the Saskatchewan Local Government Finance Commission supported

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[28] McMillan, "Taxation and Expenditure Patterns," p. 45

[29] Currently hotel and motel rooms are subject to the 7 per cent provincial sales tax and the 7 per cent federal Goods and Services Tax.

[30] Conversation with John Reed, Executive Director of the Manitoba Hotel Association, February 17, 1994.

enabling legislation with local autonomy for rate determination and usage.[32] However, when the 1994 budget was being finalized nine years later, legislation still had not been enacted.

The hotel occupancy tax is attractive to larger urban centres. However, the administration of this tax and the legal fees often entailed in securing monies owed often exceed revenues collected.[33] While the possibility of a negative impact on the tourism and convention industry[34] has been raised, it is doubtful that a rate structure would be implemented that would have such impacts.

Motive Fuel Tax

With provincial agreement, local governments could levy a motor fuel tax. The tax could either be collected at the local level or added to the provincial tax and remitted to municipalities. "Motor fuel consumption is generally viewed as a practical indicator of the vehicle owner's use of road service, and therefore an appropriate mechanism for levying a fee/tax."[35]

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[31] Manitoba Department of Urban Affairs, *Act Review*, p. 16

[32] Saskatchewan Local Government Finance Commission, *Alternative Sources of Revenue*, p.7

[33] Conversation with Jerome Mauws, Executive Director of the Union of Manitoba Municipalities, February 23, 1994

[34] Conversation with John Reed, Executive Director of the Manitoba Hotel Association, February 17, 1994.

[35] Joint Centre for Urban Mobility, *A Guide to Alternative Financing Mechanisms for Urban Highways*, (Washington: US Department of Transportation, 1984), p. 9

In 1994, British Columbia levied a $0.04/litre tax on motive fuel by regional districts to finance transit costs. Individual municipalities within the districts do not have this power. The City of Winnipeg requested a share of Manitoba's gas tax revenues but was refused, no explanation for the refusal was provided.[36] The City of Regina advocated that the province provide it with a share of fuel tax revenues to offset the costs of road construction and maintenance.[37] However, this request has been rebuffed by the province.

While it could argued that a gas tax is progressive if one equates car ownership with wealth, this link is tenuous. To some extent the gas tax would distribute the tax burden to those living outside of the city with commuters bearing a disproportionate amount of the burden. This would also be the case for certain businesses such as taxi and courier companies. The tax could be justified based on the additional stress these users place on the road infrastructures. If municipalities could independently levy rates, economic efficiency would be negatively affected and evasion would occur.

If a motive fuel tax were adopted, it should be applied uniformly across the province to reduce distortionary impacts and evasion. Dedicating the revenues to transportation-related costs, such as transit and road construction, repair and snow clearing could be politically beneficial but would reduce financial flexibility overall.

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[36]City of Winnipeg, *Organizational Review and Performance Assessment: A Corporate Review,* Final Report Produced by George B. Cuff and Associates Ltd., October 1997, p. 137
[37]City of Regina, *1994 Budget Summary,* Vol. 1, p. 4-18

Poll Tax

Critics of the role property tax plays in financing local government operations often point to the poll tax as a viable alternative. The poll tax is a flat rate tax applied to all adults living within the local government's jurisdiction. Since it is not restricted to property owners, the poll tax expands the tax base to ensure that all adults contribute directly to financing local services.

Local governments in both Newfoundland[38] and Saskatchewan have enabling legislation for a poll tax. No municipalities in Saskatchewan have levied the tax. The *Municipalities Act* in Newfoundland allows for a poll tax of not less than $25 on adults residing or employed within a municipality. The poll tax is levied on people with an income in excess of the income tax exemption. People liable for real property tax are exempt, however in the case of two income families, local councils can collect the poll tax on a fifty-fifty basis with each spouse paying half. The poll tax applies to people who have lived or worked in the municipality for at least three months. Non-residents, including companies are liable. The average poll tax is $100, however, a rate ceiling has been established equal to the minimum real property tax collected, which in 1994 was as high as $400. Only 20 of Newfoundland's 289 local governments do not levy a poll tax.[39] In addition, the *Local School Tax Act* authorizes school tax authorities to collect a tax of not

[38]Newfoundland is the only province in Canada that does not have a uniform system of property tax. 211 of the 289 local governments have property tax.
[39]Conversation with John Moore, Director of Local Government, Department of Municipal and Provincial Affairs, Newfoundland, February 17, 1994.

less than $5 per adult on all residents, non-residents and companies owning real property valued at at least $1,000. Adults attending an educational institution are exempt.

Based on the evaluation criteria, the poll tax does not appear to be a viable option for local government. The yield will depend upon the rate imposed and the number of eligible ratepayers in the municipality. Poll tax usually has low revenue generating potential[40] and it is regressive because it does not adhere to the principle of vertical equity. Administration is difficult due to evasion. For ease of administration, the property taxpayer could be made liable for adults residing on his property. However, this may be construed as an indirect tax and thereby *ultra vires*. While local governments would maintain their autonomy, as witnessed by the British experience poll taxes can be a very politically unpopular means of generating revenue.

If the poll tax is implemented safeguards should be implemented to reduce double taxing and to reduce the financial burden on low income families.

Municipal Tax-Sharing

No to be confused with provincial-municipal tax-sharing, municipal tax-sharing occurs between municipalities. It is a relatively new way of raising revenues that Winnipeg may consider given the success it has had in Saskatchewan and Alberta. Those provincial governments encouraged municipalities to form property tax sharing

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[40]Kitchen, *Local Government Finance*, p. 250

agreements to apportion property tax revenue from large commercial and industrial ventures. The proceeds of property tax on large industrial and commercial enterprises accrue not only to the municipality in which the establishment is located, but also to surrounding municipalities. Tax-sharing expands the tax base of adjacent municipalities to finance the infrastructure needed to support the venture, such as roads.

The first municipal tax-sharing agreements were concluded in Saskatchewan. Saskatchewan's *Municipal Tax Sharing Act, 1969* established principles for sharing property taxes accruing from potash mines. The Municipal Potash Tax Sharing Administration Board administers the arrangements. Municipalities within a 20 mile radius of the mine are eligible for tax sharing. The 20 mile radius was identified as the area that would be affected by the mine in terms of infrastructure requirements such as road construction and maintenance. Urban municipalities within the area of influence are assigned points based on population and location within the area of influence. The number of points is inversely proportional to population. Urban centres with a population of 5,000 or more receive no tax-sharing benefits. The closer an urban centre or a rural municipality is to the site the more points it receives. The mill rate levied on the mine is an average of the mill rates levied by the municipalities within the area of influence for the preceding year. The mill rate is a weighted average based on the number of square miles the municipality has within the area of influence. This formula encourages municipalities to levy higher mill rates because the higher the mill rate the greater the tax share received.

Tax-sharing serves an equalization function, allowing economic benefits from commercial and industrial ventures to be more widely distributed. It also lessens competition within provinces for economic development thus promoting a more rational approach to planning. It represents an equitable way of approaching infrastructure requirements related to large commercial developments by municipalities not benefiting from it's property taxes. This mechanism would be far more attractive to rural municipalities surrounding the City of Winnipeg than to the City itself. If this measure was instituted the City may find itself in a net loss position.

Non-Tax Sources

The reluctance of provincial governments to reduce their own tax base for the benefit of local governments means that non-tax sources often present a more viable alternative for urban governments to pursue. There is a myriad of charges, fees and fines that local governments can levy. These measures usually illicit little opposition from provincial governments due to the minor implications they have for the provincial tax base.

Two user fees in particular have received a great deal of attention in recent years: waste management fees and toll roads. Both exemplify the benefits and drawbacks of user fees as alternative revenue sources.

Waste Management Fees

The burgeoning costs of waste management, coupled with more stringent environmental regulations, have encouraged local governments to implement fees to finance this service. Using a price mechanism serves two purposes: first, the cost of waste disposal are financed directly; second, output is reduced and recycling efforts are encouraged thus reducing stress on existing landfill sites. However, fees are set too high illegal dumping could result.

If implemented as a chargeable service on a utility or tax bill, waste management fees are very visible, resulting in a high degree of accountability. A number of collection mechanisms have been implemented that offer different degrees of convenience and predictability. Although they do not reflect ability to pay, there is a direct correlation between fees paid and service received. Britain has a yellow bag program whereby waste products must be disposed of in special yellow bags purchased from the government at a cost that reflects not only collection and disposal fees, but also the future costs of establishing another waste disposal site or otherwise dealing with landfill. In Quebec, every municipality charges an annual flat rate for each residential and commercial property. A tendering process is initiated for garbage collection and the lowest bid is divided by the number of commercial and residential dwellings. The City of Victoria levies an annual waste disposal fee which is put on a monthly bill along with water and sewer services. Saanich, BC levies a flat rate of $100 per residence and commercial location. The rate is levied for a maximum of two garbage cans per week. Every garbage can or bag exceeding this limit is subject to a $1.50 charge. In 1994, none of the four Prairie cities had imposed waste management fees.

Given the financial and environmental advantages of tipping fees, urban governments should seriously consider this measure. A method of charging and collection that reflects not only the costs of the service but also factors in future costs of new landfills would not only address current costs but would also create a reserve with which to finance new landfill site development.

Toll Roads

Given the escalating costs of road construction and maintenance, local governments are searching for new ways to fund these massive capital costs. Toll roads already exist in Canada, including on the Coquahalla Highway in British Columbia. Tolls also must be paid in order to cross the newly opened Confederation Bridge linking Prince Edward Island with the mainland. Tolls are collected on bridges between Halifax and Dartmouth and development options for the Lions Gate Bridge in Vancouver and the Charleswood Bridge in Winnipeg included the use of tolls. Spain, France, Italy and Japan have long collected tolls to finance the building of new roadways.[41] By the end of 1996, $3 billion worth of electronic charging systems had been installed worldwide for collecting tolls.[42]

The main advantage of toll roads is that there is a direct linkage with benefits.

> The use to which revenues are put is crucial in convincing voters that road pricing makes sense. The success of Norway's city charging schemes shows that it is possible to persuade voters of the merits [of toll roads] if they approve of the way revenues are spent.[43]

Tolls are not sensitive to the ability to pay and have a disproportionate impact on commuters. The four Prairie cities have a sufficient population density to support toll roads on busy thoroughfares however, care must be taken in price setting to take into account the impact on secondary routes if tolls are prohibitive.

Vehicle and Drivers' License Surcharges

Another means of raising revenues for local governments is through a provincially imposed surcharge on drivers' licenses and vehicle registrations. This option is already in effect in Quebec where metropolitan centres with 50 per cent or more of its workforce outside of city limits levy a $30 surcharge on drivers' licenses. The money is channeled to Public Transit of Quebec and redistributed according to public transit needs. Similar surcharges are being used successfully in Britain, Denmark, and the United States. Motorists in New Zealand pay directly for roads through vehicle license fees.[44]

The City of Regina's *1994 Budget Summary* suggested a $20 surcharge on drivers' licenses which would net the City $4 million and a $10 surcharge on vehicle registrations

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41 ________, "Living With the Car," *The Economist* 345, No. 8046, December 6, 1997, p. 21
42 *Ibid.*, p. 21
43 *Ibid.*, p. 23
44 *Ibid.*, p. 22

which reap $1.65 million.[45] The intention was to earmark these revenues for roadway construction and maintenance. As of 1998, no progress had been made with the provincial government on this proposition.

Given the tenuous connection with ability to pay, a surcharge on a drivers' license would be inequitable. The registration surcharge is somewhat responsive to the ability to pay for non-commercial vehicles based on the assumption that the more cars a person has to license, the more personal wealth they have.

Proceeds could be remitted to urban governments on a payment from source basis or through an equalization formula. Vehicle and drivers license surcharges would expand the tax base from the property tax owner to those who benefit from local services, such as roads. However it excludes non-drivers who also utilize roads through other means.

To be implemented, provincial administration would be required which impacts local autonomy and may affect the amount collected depending on provincial administrative fees. Administration costs would either be borne by the province or passed on to municipalities as a chargeable service either through a flat rate or as a percentage of total revenue. Since statistics are maintained for the number and type of registrations and licenses per municipality, revenues could be remitted as a payment from source or through an equalization formula.

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[45] City of Regina, *1994 Budget Summary*, p. 4-18

Research would have to be undertaken to determine the potential impact this measure might have on businesses with fleet vehicles, as well as fleet vehicles for all three levels of government. This particular source of revenue would be predictable and not seriously affected by economic fluctuations. In 1994 there were approximately 380,000 non-commercial vehicles registered in the City of Winnipeg.[46] A surcharge of $5 per registration would yield $1.9 million. If the drivers' license and/or vehicle registration surcharge was adopted the charge levied should not be prohibitive.

Investment Pooling

Urban governments all have some investment income. Generally, return on investment for municipalities reflects the limited money available for investment. Since higher yields are possible with larger investments, pooling these allocations produces greater returns.

In Canada, British Columbia is at the forefront of this revenue source, having established a sophisticated system of municipal investment pooling[47] whereby any municipality in the province can enter or leave the pool on 24 hours notice. The $1,000 minimum investment is not prohibitive and their yield is between 75 and 80 basis points higher than the banks'. A management fee of 5 basis points is charged and the profit,

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[46]Manitoba Department of Highways and Transport, *Manitoba Motor Vehicle Registration by Place of Residence - Validation Year 1992*, p. 1

[47]The Municipal Finance Authority was originally established as a pool for long-term capital borrowing. However, since reducing interest payments on debt is revenue saving as opposed to revenue generating, it is beyond the scope of this paper and therefore will not be addressed.

$250,000 in 1993, was returned to member municipalities in the form of a dividend. The Board is comprised of representatives from the 29 regions of the province and is responsible to its member governments; there is no provincial involvement or authority. British Columbia helped Ontario set up a similar system.

The Manitoba Association of Urban Municipalities and the Union of Manitoba and Municipalities are in the initial stages of exploring its applicability to Manitoba.[48] One item of concern is that financial institutions in small communities have threatened to close their branches if the municipality removes its investments. Although similar statements were made when the Municipal Finance Authority was established in British Columbia, no banks, credit unions or trust companies have closed since its inception.[49]

Investments provide an important cushion against economic fluctuations and unexpected expenses. However, before this option is pursued, local officials should consider the fact that while yield would be expected to increase, predictability would depend on the instrument chosen. Second, they would be divesting investment decision-making to a central authority which would reduce autonomy and accountability at the local level.

[48]Conversations with Rochelle Zimburg, Executive Director of the Manitoba Association of Urban Municipalities and Jerome Mauws, Executive Director of Union of Manitoba Municipalities.
[49]Conversation with James R. Craven, Executive Director of the Municipal Finance Authority of British Columbia

COMMENTARY

While there are numerous revenue raising options that urban governments could pursue, implementing any one of them is dependent upon the political will of the provinces and their political costs. Implementing new revenue raising schemes is also dependent on the political will of the city to impose additional taxes and charges on their citizens. However, both Winnipeg and Regina have requested that their provinces supply them with additional revenue raising mechanisms which indicates their willingness to impose additional charges. The options with the potential for producing the greatest amounts of revenue would have the most significant impact on the provincial tax base. Further, alternative sources would have limited impact if the province reduced grants or other funding by a corresponding amount or transferred additional responsibilities.

Ideally, identifying alternative revenue sources should be part of a larger process to identify more clearly the role local governments will play in the future of service delivery. If they are to continue to play a role in providing "soft" services, more appropriate, non-benefit based taxes sources must be allocated to provide a fairer tax system for Prairie ratepayers.

To date, provinces have been unwilling to expand the revenue raising powers of local governments and have instead focused on shoring up shortfalls with grants. It is understandable that with the trend toward a tightening of provincial belts that urban governments are anxious to have own-source options they can draw from in times when the fiscal gap widens.

With local governments increasingly reticent about raising additional revenues from existing sources and with no alternative revenue sources on the horizon, they have only one other option to balance their budgets: reducing expenditures. Reducing expenditures presents a number of issues to local officials: How do local governments balance ever-increasing expectations by citizens with expenditure reductions? Are expenditure reductions possible without reducing programs and services? If programs and services are reduced or eliminated what trade-offs occur between programs and services? Hard services and soft services? Chapter V reviews the expenditure side of the four Prairie cities' budgets to determine what decisions are being made and how cities are responding to these issues.

CHAPTER V - EXPENDITURES

There is only one taxpayer. Within any given economy, there is a finite number of dollars a local government can realistically expect to raise and, by extension, a limited number of services and programs they can provide. "There is a growing consensus that there simply are not enough resources in the world economy that are available to governments to allow them to solve the problems and provide the services at the same levels that have been previously demanded by individuals."[1] With limitations on new and existing revenues, municipal officials are discovering that adhering to the legal requirement of a balanced operating budget, requires tough decisions on the expenditure side. They are realizing that the more services they provide, the more expenditure decisions that have to be made. The more expenditure decisions that have to be made, the more trade-offs that will occur between programs and service areas.

Factors Affecting Expenditures

There are a number of variables that urban officials must factor into the expenditure equation. Many of the factors affecting expenditures at the macro level were addressed in Chapter II when the causes of fiscal stress were outlined. They are worth mentioning again briefly. The national economy and policies of senior governments exact a price on local government budgets both directly and indirectly. The legislated requirement to balance local governments and constraints on debt financing mean that the fiscal capacity to raise revenues has a greater impact at the local level than on senior governments.

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[1]Irwin B. Bornstein, "Multiplying the Impact of Government: Market-based Pricing and Some Examples from California," *Government Finance Review*, Vol. 10 No. 1, January 1994, p. 21

In addition to these factors there are three important ingredients at the local level that must be added to the mix for the demand side of local governments' fiscal pie. Demographic factors affect demand for and the scope of local government goods and services. Local political considerations including the political culture of the city and the philosophical underpinnings of those involved in the budgetary process also affect the expenditure side. Finally, the number and types of services a city is mandated by the province to provide also affect its bottom line. All of these factors are used by local officials to arrive at a subjective determination of "fiscal need."

Demographics

The composition of an urban centre, including its mix of young and old, men and women, employed and unemployed, not only makes it a unique entity, but is also crucial to understanding the policy and budgetary challenges its government faces. These socio-economic factors influence programming, service delivery and ultimately expenditure decisions.

A number of socio-economic factors have implications for local government budgets. Over the last twenty-five years in Canada two significant demographic patterns have emerged that affect local governments across this country: the aging of the Canadian population and the increasing incidence of single parent households.[2] The significance of these two trends is that it is usually these two groups that require more support services and assistance than other segments of society. More often than not the provider and financier, at least in part, is the local government. Of the four Prairie cities, Winnipeg had

[2]Canada Mortgage and Housing Corporation - Research Division, *Urban Impacts of Socio Demographic Change in Canada*, for the Urban Affairs Group, Organization for Economic Cooperation and Development, Spring 1989, p. 2

the largest proportion of senior citizens, some 12.5 per cent of its total population. Calgary had the fewest senior citizens; only seven per cent of its population is made up of those over 65 years of age. The other two cities fall in between. The percentage of single-parent families was consistent across the Prairies at four per cent except in Calgary where single-parent households made up three per cent of total population.

In addition to the impact of the aging population and one-parent families, farm and small business bankruptcies, the closing of branch plants and a trend towards corporate and industrial downsizing have put more people out of work adding to the financial burdens of all levels of government. The migration from rural areas that started one hundred years ago continues to put additional stresses on social and health services and infrastructure.

Political Factors

There are also a number of political factors influencing expenditure decision-making. Expenditures are driven by the perceptions of civic officials about their fiscal situation and their citizens' preferences. As elected representatives, civic politicians are ever-mindful of the demands of their constituents and are often caught trying to balance increased demands for service with vehement opposition to tax and fee increases. Elected officials "have to make hard and often subjective decisions about which groups of individuals in the municipality are to bear the costs of government and which are to be the recipients of its largesse."[3]

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[3]Jack Masson, *Alberta's Local Governments*, p. 323

In recent years with "cutback management" becoming the rallying cry of provincial and federal governments, local officials have been the recipients of, if not public goodwill, then grudging acceptance of the need to control public spending. In the last half of the 1990s, Canadians re-elected a national government that has reduced the federal deficit through consolidation, service cuts, lay-offs and a fee for service mentality. As well, extremely fiscally conservative governments in Ontario and Alberta that have taken expenditure management even further have been elected. While many of the fiscal management decisions made to balance budgets at senior levels have met with vociferous opposition, the electorate continues to demonstrate its approval, however resignedly, of governments committed to getting their fiscal house in order. While this translates into some political breathing room for local officials, the fact remains that cuts to local services and delayed street repairs are more visible than cuts at senior levels and therefore more easily becoming lightening rods for public and media scrutiny.

Paul Appleby offers the following pearls of wisdom to civic officials:

> Everyone will be better satisfied when no one is fully satisfied - when the final judgment is a general judgment that defers to all judgments, yields to none.[4]

Civic Management

Characteristics and management styles of city officials are also critical to the decision-making process. However, these factors are difficult to quantify and evaluate.[5] In their study of the influence of mayors and chief administrative officers on municipal

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[4]Appleby, Paul, "The Role of the Budget Division," *Perspectives on Budgeting*, Allan Schick (ed.) (Washington: American Society for Public Administration, 1987) p. 119

[5]Walzer, Norman, Warren Jones Cecelia Bokenstrand, and Haakon Magnusson, "Choosing Fiscal Austerity Strategies," *Managing Cities in Austerity: Urban Fiscal Stress in Ten Western Countries*, Poul Erik Mouritzen (ed.) (London: Sage Publications, 1992), p. 140

budgets in Ontario, Begadon and Agocs' revealed that while chief administrative officers had slightly more influence than mayors on the budgetary process, external forces including political and economic conditions, demographics, and the policies of other levels of government exerted far greater influence.[6] Public choice theorists would argue that bureaucrats exert pressure for growth or at least the status quo in public spending. However, at the other end of this fiscal tug-of-war is the widening gap between revenues and expenditures that must be brought under control and growing public discontent with the increasing financial burden they must bear.

Service and Program Responsibilities

As has been outlined, local governments provide programs and services mandated by the provinces. The current stable of program and services has evolved over the last century to include hard and soft services. When comparing the programs and services provided by urban cities a number of differences in the type and scope of program delivery are evident in the areas of health and social services and transportation.

HEALTH AND SOCIAL SERVICES

Responsibility for the provision of social services varies widely between the three Prairie provinces. In Alberta, the province assumes almost total responsibility for delivering social services with municipalities providing a portion of the funding. Municipal liability for social welfare programs is dependent upon the types of services provided. Those that fall within the family and support services program are eligible for 80 per cent provincial funding. The remainder are municipally funded. In Winnipeg, the City is

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[6]Begadon and Agocs, "Limits to Power," p. 31

responsible for providing social assistance to those not covered under provincial assistance. The Province covers sole support parents, people who are unemployable for at least 90 days due to physical or mental infirmaries, people taking academic or vocational training and children whose parents cannot contribute financially. The Province of Manitoba reimburses municipalities for 80 per cent of the gross assistance payments. Unification is underway in Winnipeg and some categories of recipients will receive less money based on provincial rates than under the previous city rates. In Saskatchewan, the province is responsible for social assistance payments but municipalities contribute one per cent of total costs based on a per capita formula.

A similar variance exists for health care services. In Alberta the provincial government is responsible for all health costs. In Manitoba and Saskatchewan, municipalities do have financial and service provision responsibility for some health services. The inner core of Winnipeg is served by the City's health department which works closely with the Province. These services are financed primarily by the Province through grants. Ambulance service is provided by the City but funded through the Province. The City is also responsible for covering over-expenditures by hospitals within its jurisdiction. In Saskatchewan, community-based health programs are delivered by the provincial Department of Health. Municipalities contribute fifty cents per capita to health programs. In 1991, 97.3 per cent of the costs of health programs were funded by the province. The Saskatchewan Department of Health is financially responsible for ambulance services.

TRANSPORTATION

Transportation services is another area where the responsibility of urban governments diverge. The Saskatchewan government does not provide any funding for road construction, maintenance or for public transit. In Alberta, cities are eligible for provincial grants up to 75 per cent of the approved costs for planning and constructing their major arterial roadway networks. A highway maintenance grant is provided to each city to assist in the maintenance of an agreed to highway system.

Comparatively, Winnipeg receives more support than its counterparts in the other prairie provinces for transportation funding. The City of Winnipeg has full responsibility for all roads in its arterial street system while the Province looks after all primary provincial trunk highways and secondary provincial roads. At one time the City of Winnipeg received an unconditional current programs grant for maintenance but this program was rolled into the block grant. The Department of Urban Affairs provides a grant equal to 50 per cent of the City's audited contribution toward the transit system's operating deficit. The Province also provides conditional grants for street repair and the purchase and refurbishing of transit buses.

The Four Prairie Cities

Fiscal austerity is a relatively new challenge for local governments. In addressing this challenge they can refer to the growing body of work in this area and turn to the recent experience of other jurisdictions in coping with this cross-national issue. However, despite their similarities, each of the four cities is a unique entity; each must formulate its response within its own particular economic, social, statutory and political context. To an extent local government officials must resort to "budgeting by groping along." "Groping" being an alternative or supplement to fiscal planning which local governments are finding more difficult to do in uncertain economic times.

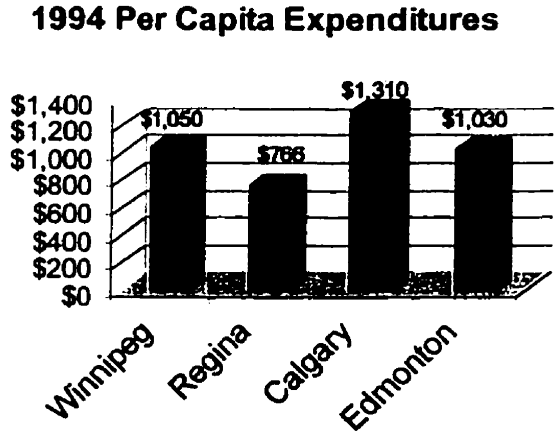
Although aggregate comparisons and generalizations about expenditures can be made, the task of comparing specific expenditures between jurisdictions is complicated.[7] Each jurisdiction has its own accounting system and the reporting differences, how expenses are classified and within which part of the budget they are listed, makes specific comparisons almost impossible. While most program expenses are found within the departmental budget, some costs may be subsumed in capital and administrative budgets. Dissecting the various lines of each budget then becomes an arduous task rife with potential for error.

It must be remembered that budget cuts do not necessarily lead to service reductions. Rather, they may lead to increased efficiency in program delivery without affecting the level of service provided. Analysis of the implications of budget cuts on service delivery, except in the most general sense, are beyond the scope of this paper.

As can be seen by the table below, total per capita expenditures vary widely among the four cities. Comparing these figures demonstrates that the maxim that "the larger the city, the more services provided, the greater the per capita spending," does not always apply. While Winnipeg, Regina and Calgary adhere to this principle, Edmonton, which has a larger population than Calgary but lower per capita spending, is the exception. As has been outlined, spending levels are dictated by a host of factors among them political and socio-economic factors, service delivery responsibilities. These must be considered when making aggregate comparisons.

[7]Kitchen and Slack, *Trends*, p. iv

Figure XIV



How have the four Prairie cities approached the expenditure side of their budget equations? To what extent have they addressed the fiscal gap using cuts to program and services and staffing? An examination of the operating and capital budgets of the four cities reveals their expenditure-side approach.

WINNIPEG

For the 1994 fiscal year, the City of Winnipeg was faced with a number of spending issues, not least among which was a projected shortfall of $35.9 million. Among the expenditure issues Council had to grapple with were: the $5 million agreement with the Winnipeg Jets to cover operating losses; business enhancement commitments of $3.4 million including Winnipeg 2000, the Convention Centre, the Grey Cup and Winter Cities, and; increased debt and finance charges of $5.8 million. The City also faced payment of assessment appeals refunds of approximately $23 million. The budget document stated that:

> In spite of heavy draws against reserves and continued reductions to program expenditures to offset inflation and corporate costs, the City incurred operating deficits

> in both 1992 and 1993. Clearly, the assessment refund issue is the major financial challenge facing the City.[8]

To meet these financial challenges, an across-the-board departmental spending reduction of 2.5 per cent of the 1993 budgeted levels, was implemented. This amounted to a total reduction of $13.1 million. Total departmental expenditures declined by 1.6 per cent (almost $7 million). The most drastic change was a reduction to water and waste budgets of 51.1 per cent as a result of the elimination of the waste minimization service. Social service expenditures were reduced by 10.2 per cent. This was largely attributable to increases in transfers from federal and provincial governments. Parks and recreation, libraries and museums were reduced between 1.1 per cent and 5.6 per cent. Other areas suffering modest reductions of no more than 4 per cent were general government, assessment, streets and transportation and civic buildings.

Despite the across-the-board cuts, some of Winnipeg's budget lines were increased. Small increases were made in the budgets for land development, planning and operations as well as emergency services and health. All items in the non-departmental budget increased except for the deficit brought forward. The most notable increases were for the Transit System subsidy (8.8 per cent) and contributions to capital and utilities (8.0 per cent).

Staffing costs were a target of Winnipeg's expenditure reduction measures. Under the New Directions Initiative, three approaches were identified for the 1994 fiscal year: minimum salary reductions of $2 million; consideration of an early retirement option; and, the development of a strategic plan to reduce administrative positions. The net impact was to be a reduction of net salary costs of over $6 million through reorganization and

[8]City of Winnipeg, *1994 Short Form*, p. ix

reductions in temporary positions, administrative staff and senior management positions. Reductions were to be minimal for emergency services and front line personnel.

Gross expenses for employee benefits increased by 6.44 per cent, despite 600 fewer employees on the civic payroll in 1994. Some of the savings accruing from the early retirement policy implemented for 1993/94, were curtailed due to a provision in labour contracts allowing employees to take a partial cash payment for accumulated sick days and increases to Unemployment Insurance, Canada Pension Plan and Workers Compensation premiums. Staff reductions occurred through attrition. Reducing the staffing complement will have long-term financial benefits for the City in terms of accumulated savings.

REGINA

While Regina has also been dealing with financial stress for some time, the 1994 budget suggests that City officials adopted a more aggressive approach than Winnipeg to eliminating the fiscal gap. In 1993, the budget document for the City of Regina identified maintaining service levels as the highest priority. However, by 1994, the budget referred to reducing expenditures and establishing basic service levels as the City's primary objective. This could be the result of a "fiscal awakening," a worsening fiscal situation, or both.

Rather than adopting an incremental approach to budget reduction, the City of Regina made use of restructuring to reduce expenditures. Consolidation led to the elimination of the Budget Bureau, the Department of Purchasing and the Urban Development Department. The City consolidated programs related to planning and development, eliminating 3 positions. Fire Department Services were restructured with one pumper truck retired for a savings of over $500,000. A restructuring of the police service reduced their staff complement. To limit costs of waste management services, the City reduced hours of operation of landfills and rationalized the hazardous household waste collection program. Regina also privatized a golf course. Seven management and supervisory positions were cut in Community Services resulting in 5 layoffs and positions were eliminated in Arts and Culture. Seventy-nine employees (as of September 15, 1993) opted for the early retirement program.

EDMONTON

The focus of Edmonton's 1994 operating budget was to improve efficiencies to reduce gross expenditures by eight per cent. A commitment was made to maintain service levels for police, fire and emergency medical services. An across-the-board cut of two per cent was instituted, with departments directed to reduce administrative costs through productivity and cost-savings. Alternative service delivery options were considered and programs and services were downsized or eliminated based on public priorities.

Service rationalization initiatives included: reducing the number of fire response divisions from four to three; reducing garbage and blue box collection in the winter to every two weeks; and, eliminating multi-family collections and the transportation and treatment of household hazardous wastes. Transit hours were reduced by three per cent to offset decreased ridership and fare revenues. The Disabled Adult Transit System was reduced by almost seventeen thousand rides despite the fact that demand has grown by an average of fifteen per cent over the preceding five years. The Census Office was eliminated with the information to be purchased from Statistics Canada for $50,000.

The City of Edmonton made a commitment to reduce the public service through attrition. Benefit costs rose five per cent in 1994 and as a result 1994 benefit costs are

24.4 per cent of wages as compared to 22.9 per cent in 1993. "This increase in the benefit ratio has been a trend over the past few years and is due to the consistently higher increases in benefit premium rates relative to increases in wages and salaries."[9] The target for 1994 was to eliminate 112.7 Full Time Equivalencies.

CALGARY

The objective of the City of Calgary's 1994 budget was to reduce net expenditures to 90 per cent of 1993 in 1994 adjusted dollars. After adjustments, expenditures for the 1994 budget were down $10.8 million (1.3 per cent) which is 98.7 per cent of 1993 budget. As will be shown later, failure to meet this target was the result of substantial changes to provincial transfers.

Calgary has been keeping a close line on its expenditures for almost a decade. This represents a considerable challenge given the city's growth rate and corresponding infrastructure requirements. Between 1982 and 1993, Calgary's population increased by 17 per cent while the city boundaries grew by 38 per cent. During that same time the ratio of civic employees dropped by 18 per cent.[10] Operating expenditures for mill rate supported operations have only increased an average of 2.6 per cent per year since 1986 while the Consumer Price Index has increased 3.4 per cent per year. Similarly, staff years (excluding the police service) have only increased 0.4 per cent per year since 1986.

Staff reductions are an important part of the City of Calgary's approach to fiscal austerity. 1994 was second year of a Council mandated wage and salary freeze. Staff years

[9]City of Edmonton, *Approved 1994 Operating and Capital Budgets*, p.19
[10]City of Calgary, *1994 Budget Summary*, p. 3

were reduced by 225.8; 100 were terminated or redeployed and 125 retired under the Voluntary Retirement Program implemented in the last quarter of 1993.

The only expenditures to increase were: employee benefits (8 per cent), insurance and security (0.6 per cent), utilities (4.3 per cent), Pay-As-You-Go capital financing (2.3 per cent) and internal recoveries (5.8 per cent).

COMMENTARY

An analysis of their 1994 operating and capital budgets indicates that all four have resorted to spending reductions to address the fiscal gap. It also reveals the variety of measures taken to constrain their bottom lines.

Of the four cities studied, Calgary and Winnipeg adopted the most incremental approach. Rather than making program decisions, across-the-board cuts were imposed and staff reductions were based on attrition and staff level targets. Politically, the incremental approach is "less threatening to bureaucrats, special interest groups."[11] The notable exception in Winnipeg was the reduction in funding to water and waste services which reduced that budget line by slightly more than half. Edmonton adopted a more pro-active approach. Although the city imposed an across-the-board spending cut, it was to be made by improving efficiencies. Edmonton also identified services to be rationalized and those, including health care services, that would be spared the fiscal scalpel.

Regina's was the most aggressive approach, and arguably the most progressive, with jobs being eliminated and services rationalized. This suggests that program priorities

[11] Krause and Price, "Financial Restraint" p.5

were determined and a more directed approach to service delivery was taken. These forays by Edmonton and Regina into service rationalization contradict a Canadian study in 1985 by Krause and Price which revealed that "municipalities do not make rational program choices with large shifts in expenditure."[12] This may suggest that the financial situation for urban Prairie cities has deteriorated, and that some local officials are realizing that a more thoughtful approach to service delivery is the key to solving the fiscal gap.

Human resources were a target for all four cities. Eliminating staff positions reduces expenditures for salaries and benefits. Interestingly, employee benefits represented one of the most significant expenditure increases for all four cities. All cities relied, to a varying degree, on early retirement programs and attrition to decrease the number of civic employees. These were the only approaches used by Winnipeg and Edmonton to rationalize staffing levels. This supports Krause and Price's earlier finding that reducing the labour force through attrition has been a focus of cost-cutting measures.[13] Regina took a more proactive approach, restructuring and terminating positions and staff as required. Calgary also implemented staff terminations and continued its wage and salary freeze.

Where service reductions were acknowledged, hard services bore the brunt of the cuts. The operating budgets of Edmonton, Regina and Winnipeg all acknowledged service reductions for "hard" services, those related to property. Winnipeg was the least aggressive at cutting services, discontinuing only the waste minimization service. Edmonton wielded a much larger knife, cutting into more hard services and also cutting some "soft" services, to people, as well. The only soft service cut noted in the Regina operating budget was the privatization of a golf course.

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[12] *Ibid.*, p.5
[13] *Ibid.*, p.12

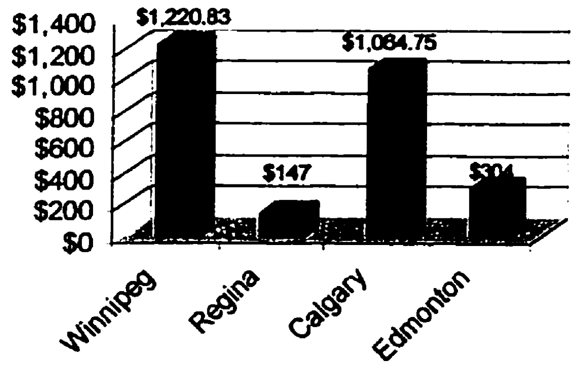
There were few lines in operating budgets that enjoyed increases in 1994. Increases were made for "hard" services, including transportation, utilities and capital, and for soft services, such as health and community services. Interestingly, the City of Winnipeg operating budget document stated that: "[n]et property tax-supported social assistance payments have been a driving force in City spending over the past number of years,"[14] and "[t]he City has significantly reduced its program (departmental) expenditures in relative terms in order to compensate for increasing corporate and social costs as well as falling revenues."[15]

Of growing concern on the expenditure side is the amount of revenue that is being allocated annually to debt servicing costs. While local governments are required to balance their operating budgets, provincial governments allow them to carry a sanctioned amount of debt. Winnipeg and Calgary have relied more heavily on debt financing than Regina and Edmonton. As a result, Winnipeg's debt charges are 18.6 per cent of its expenditures and Calgary's are 17.8 per cent compared to 3.5 per cent and 6.4 per cent for Regina and Edmonton respectively. Spending on debt servicing costs reduces the money that can be spent to support current programs, services and capital projects.

[14]City of Winnipeg, *1994 Short Form*, p. xxi
[15]*Ibid.*, p. ix

Figure XV

1994 Per Capita Supported Debt



The cities have been conservative in their approaches to restraining the expenditure side of their budget equation. Little innovation is noted and the norm appears to be reliance on traditional means of cost containment such as wage and salary freezes, staff reductions through attrition and across-the-board cuts. There were no examples of alternative service delivery models such as public-private partnerships, increased reliance on volunteers or privatization being developed or even considered. Attempts to streamline departments were half-hearted at best and were not indicative of a broad vision for civic organization and service provision. No mention was made of efforts to increase efficiency or productivity. Changes to the budget process did not seem to factor into the cost containment equation for any of the city governments. The new era of local government financing begs for new and innovative approaches to service delivery and program provision. The current fiscal situation the cities face clearly indicates that traditional responses are no longer sufficient.

Capital Expenditures

Financing the maintenance and development of infrastructure is outlined in a separate capital budget document. All four cities also have a five year capital plan for financial and project management reasons. Capital expenditures differ from general operating expenditures in that they fund assets that will be used over the long term. Capital budgets include expenditures for maintaining, upgrading constructing or acquiring public facilities and other infrastructure. These documents also provide an accounting of finance sources that support capital expenditures. While capital expenditures are often thought of as roads, water mains, buildings and sewers, they also include transit buses, fire trucks, and computer hardware and software. "Infrastructure can be thought of in terms of its physical form (such as a road or water treatment plant) but also in terms of the service it provides (movement of people and provision of clean water.)[16]

Capital requirements depend on the growth rate of the city, the age of the infrastructure and the status of existing infrastructure. If growth is minimal fewer expenditures are required for providing infrastructure services to new developments. If the city has adhered to a schedule of regular maintenance and upgrading, costs are reduced and expenditure planning is facilitated. Calgary's high growth rate means that considerable infrastructure development is required in new growth areas in addition to maintaining the existing services. The other three cities have experienced more modest growth rates and have identified their capital priorities as maintaining and upgrading existing services.

[16]Slack, Enid, *Financing Infrastructure: Evaluation of Existing Research and Information Gaps*, (n.p.: Canada Mortgage and Housing Corporation, August 1996) p. 1

Infrastructure projects are costly, and are often a target of fiscal restraint policies. "City officials prefer to cut back in areas that are least noticed or felt, and where political conflict is likely to be minimal. Capital improvements, since they are relatively invisible, are prime targets for cutbacks."[17] Delaying upgrades to roads and sewers are often not as noticeable to voters as reductions to the hours of operation of the local community complex or the closure of a community health facility. The concept of budgetary trade-offs is supported by the comparative analysis of capital expenditures in ten countries by Walzer et al. Their study found that in countries where capital expenditures declined, that cuts were made to preserve current operations.[18] US cities traded employment (11.7 per cent decline) for capital expenditure (7.4 per cent increase);[19] Britain traded capital expenditure (28.9 per cent decline) for employment (0.9 per cent decline).[20]

While it may be more politically expedient to defer infrastructure spending in favour of more visible "soft" services or keeping property tax increases to a minimum, these decisions have significant long-term implications for infrastructure. If new development and repairs are put on hold to delay additional debt, often the result is badly maintained infrastructure and a burgeoning list of long overdue, high ticket projects. Enid Slack presents a slightly different view, she contends that "if the project yields benefits to a community that exceed its costs, then foregoing or postponing the project will involve a 'community welfare loss.'"[21] Eventually all infrastructure has to be replaced and not adhering to a long-term plan of infrastructure development and renewal will worsen the existing problem.

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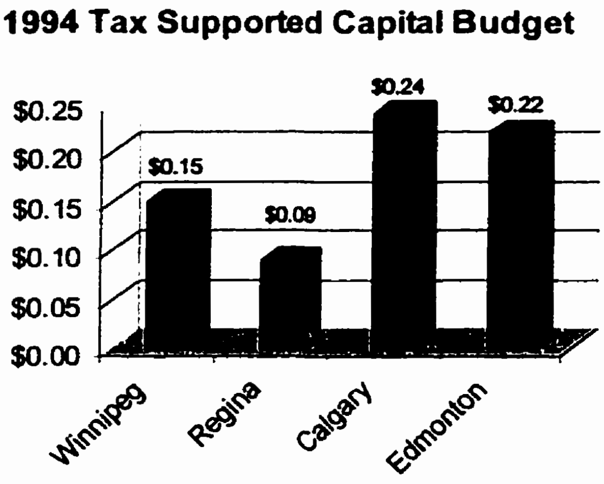
[17] Pammer, *Fiscal Strain*, p. 34
[18] Walzer, Norman, Warren Jones and Haakon Magnusson, "Fiscal Changes and Policy Responses: A Comparison of Ten Countries," *Managing Cities in Austerity: Urban Fiscal Stress in Ten Western Countries*, Poul Erik Mouritzen (ed.) (London: Sage Publications, 1992), p. 129
[19] *Ibid.*, p. 130
[20] *Ibid.*, p. 130
[21] Slack, *Financing Infrastructure*, p.48

Figure XVI



Financing

In 1993, governments in Canada spent almost $10 billion on infrastructure.[22]

There are five primary funding sources for capital projects: senior government grants, contributions from the general operating budget, withdrawals from internal reserves or trust funds, and contributions from other outside sources. Upgrades to water and sewer utilities are financed by user fees collected by these utilities as well as from development charges and infrastructure levies.

There are three basic approaches to funding capital projects. The first, Buy Now, Pay Later uses debt financing with repayments amortized over a number of years, payable from operating budgets. The second, Pay-As-You-Go, finances capital projects from the current year's operating budget. The final approach, Pay Now, Buy Later, requires dollars

[22] *Ibid.*, p. 1

to be allocated to reserve funds to finance future capital projects. Combinations of these sources form the financing models for the capital budgets of the four Prairie cities.

RESERVES: PAY NOW, BUY LATER

All of the cities have established a number of reserve funds which are earmarked for specific capital projects. Money in the funds may originate from property taxes, user fees, government grants, infrastructure levies, and accrued interest. Examples of reserve funds include: the Parks Reserve in Edmonton, Equipment Maintenance Reserve in Regina, and the Future Tax Levies Reserve in Winnipeg. In Edmonton, reserves financed almost 18 per cent of total capital expenditures.

DEBT FINANCING: BUY NOW, PAY LATER

Local governments are legally required to balance their operating budgets, but provinces do allow long-term borrowing to finance the costs of infrastructure development and maintenance. Local governments are restricted by provincial statute to the amount of debt they can incur, the type of debentures they can issue, the length of the term, and the use of the borrowed funds. Traditionally, local governments have relied on debt financing to fund capital projects. The magnitude of many capital projects, some with seven and eight figure price tags that take years to complete, dictates that debt financing is often the most viable alternative.

Enid Slack has identified four distinct benefits to borrowing.[23] First, there is an immediate benefit from the capital improvement that is not always possible if the project

[23] *Ibid.*, p.48

has to rely on current revenues. Second, the cost is spread over future beneficiaries. Third, if per capita incomes are rising, the cost to the individual taxpayer will be less burdensome. And finally, wide fluctuations in expenditure are avoided. However, borrowing is not without its costs which include, interest charges, limiting flexibility in operating budgets from debt financing costs and impacts on credit rating. Slack indicates that:

> [A] significant concern at the local level is that debts have to be services from future revenues. While the costs are spread over time, a significant portion of local budgets becomes a fixed obligation and debt charges can significantly constrain local fiscal flexibility. This constraint needs to be weighed against the potential of the capital project to generate additional tax and user fees revenues to defray some of the costs.[24]

The four Prairie cities have relied heavily upon debt financing. Years of accumulated debt coupled with the high interest rates of the 1980's have turned capital budgets into an albatross around the neck of local officials. *(Refer to Figure XVII)* Increasingly, annual revenues are being allocated to pay for debt financing which places strain on operating budgets. Decisions have had to be made about allocating scarce tax dollars, with capital budgets often getting the short end of the revenue stick.

CURRENT FINANCING: PAY-AS-YOU-GO

Pay-as-you-go financing funds capital projects out of current revenues as opposed to borrowing through bond issues. Capital expenditures are limited to what the tax base can afford. Debt financing costs are foregone and, by limiting fixed debt costs, future borrowing terms are improved and there is far greater fiscal flexibility during economic downturns. To be used, "there should be a clear link between the beneficiaries and the

[24] *Ibid.*, p.50

services being financed, a sufficient annual revenue flow and expenditures that can be made evenly over a specific period of time."[25]

Pay-as-you-go is not without its limitations. "[I]t is extremely difficult to achieve a discipline whereby an elected body will annually tax for and set aside for capital purposes million of dollars in cash at a time when politically it may have trouble justifying the tax levels required."[26] There is also a tendency to dip into reserves for other purposes. Pay-As-You-Go can also be deleterious in the long term if projects, especially maintenance and replacement, are continually postponed due to lack of revenue and political will.[27] Further, pay-as-you-go restricts payment of capital projects to current residents and therefore does not address the issue of intergenerational equity: future property owners receive the benefits pay none of the costs directly. "[R]estricting the financing of capital spending to current sources increases the tax burden unnecessarily and unfairly."[28]

Regina, Calgary and Edmonton adopted the "pay-as-you-go" method of finance to address their excessive levels of debt. Calgary has reduced its 1985 accumulated debt of $1 billion to $803 million in 1994. Similarly, Regina abandoned the use of debt financing, except for large infrequent projects, and now relies upon "a combination of loans from reserves and contributions from the general operating budget as the primary sources for unconditional capital funding."[29] Through the use of pay-as-you-go, the City of Regina has reduced its borrowing from $46.6 million between 1978 and 1983 to $8.2 million between 1984 and 1988. It is anticipated that Regina's entire debt will be retired by 2004. Edmonton allocates pay-as-you-go financing for capital projects that have no other source

[25]Tassonyi, "Financing Infrastructure" p. 183
[26]Bernard Smith, "The Pay-As-You-Go Concept of Municipal Financing," *Government Finance Review* Vol. 6 No. 3, June 1990 p. 16
[27]Tassonyi, "Financing Infrastructure" p. 183
[28]*Ibid.*, p. 183
[29]City of Regina, *1994 Budget Summary*, p. 4-18

of funding or that require cost-sharing by the City. Forty per cent of capital financing for Edmonton is from the Operating Budget. Pay-as-you-go reserve funds such as the Pavement Investment Strategy contribute 20 per cent of capital revenues. Of the City of Edmonton's total expenditures, 12 per cent are dedicated to capital project financing which accounts for 65 per cent of total capital financing.[30]

While pay-as-you-go has been an important instrument in reducing accumulated debt and will continue to play an integral role in capital financing,

> [P]rudent financial management practice calls for a combination of sources and methods to fund a jurisdictions capital requirements. Heavy or exclusive reliance on one source or method can pose political problems, jeopardize a local government's fiscal health, and limit ability to respond to changing economic and demographic conditions.[31]

Determining the correct mix depends on the type and magnitude of the project, the financial status of the municipality and the political considerations of accumulating additional debt or raising taxes and fees. Debt financing should not be considered a last resort because often it is the best option.[32]

GOVERNMENT GRANTS

Traditionally, federal government contributions to local government infrastructure programs have been minimal and in a state of decline. This trend was reversed by the federal government's Infrastructure Works Program aimed at getting Canadians back to work by funding capital projects identified as priorities by local governments. This tri-partite agreement was based on equal cost-sharing by all three levels of government.[33]

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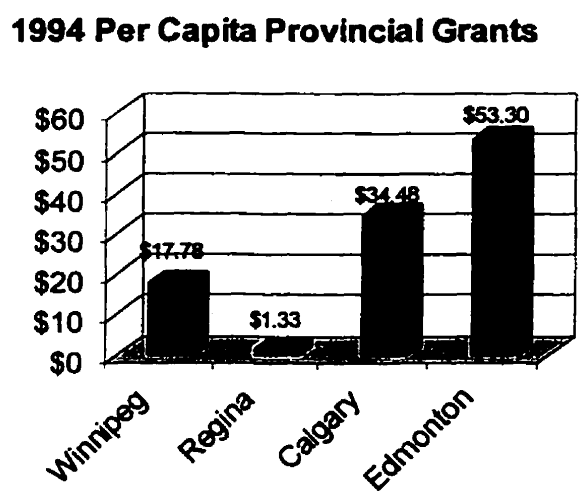
[30] *City of Edmonton, 1994 Budget Highlights*, pp. 24 and 33
[31] Leithe, and Joseph "Financing Alternatives," p. 92
[32] *Ibid.*, p. 98
[33] The fairness of the funding split was brought into question because the federal and provincial governments would recover their contributions more quickly through income taxes and sales taxes generated by the program.

Funding was distributed on a per capita basis. The program was not in place for inclusion in the 1994 budgets of the four Prairie cities.

Grants from provincial governments to fund capital projects have been a fundamental component of capital budget financing. Government grants made up 44 per cent of Calgary's capital budget in 1992. The 1994 preliminary budget projected that figure would fall to only 24 per cent. Nineteen per cent of Edmonton's capital budget revenue originated from government grants. In Regina, the Community Builds Program, initiated in 1991-92 budget, amalgamated capital projects into an unconditional capital assistance fund including: the urban assistance program, the municipal capital program, the cultural-recreational facilities grant program and the municipal water assistance program. In 1993, the province suspended the Community Builds Capital Grants Program which constituted a loss of over $2 million and ended the province's financial involvement in capital projects.

Figure XVII[34]



[34]City of Regina, *1994 Budget Summary*, p. 4-11

COMMENTARY

Comparisons between capital budgets, except in the aggregate, are difficult because of reporting differences. Some maintenance projects may be included within the capital budget while others are subsumed within departmental or program budgets. For example, in the City of Winnipeg, the operating budget includes capital maintenance expenditures under the departments of Streets and Transportation, Civic Buildings, Parks and Recreation, and Water and Waste.

Generally, the four Prairie cities are becoming very conservative in their approach to capital projects. Calgary, Regina and Edmonton appear to have long-term strategies for reducing their reliance on debt financing and the amount of their current operating budget that is earmarked for debt financing. Ironically, Winnipeg has the highest per capita supported debt yet is the least progressive in its approach to financing its capital budget. While some may argue that the City's current financial situation does not allow for increased transfers to a Pay-As-You-Go reserve fund, others would say that the City cannot afford not to. Limited capital debt will provide more flexibility to deal with the gap between revenues and expenditures in the operating budget. Their conservative approach seems to have precluded innovative alternatives to funding infrastructure such as public-private partnerships.

Insufficient information is available to comment on whether the four Prairie cities are limiting capital projects in order to address capital debt or to funnel more dollars to operating budgets.

Just as groping was evident on the revenue side, it has also proven to be the approach of choice for local officials on the expenditure side. While the four Prairie cities have tinkered with both sides of the budget equation, for the most part the onus for balancing their budgets has fallen to the expenditure side. This is not the only trend in local government budgeting that can be identified. Despite the fact that each of the four cities evolved separately, operate independently from one another, have their own specific budgetary issues to cope with and economic environment to work within, there are many similarities in the way they approached budgeting. Identifying these trends is important to better understanding local budgeting in an era of fiscal restraint. These trends are outlined in the following chapter along with recommendations for improving the financial position of local governments on the Prairies.

VI - CONCLUSIONS

Following thirty years of post-war prosperity and expansion and a slowdown in the 1970s and 1980s, governments began facing the daunting task of addressing their mounting deficits and debts. Generations of Canadians who have come to rely on governments for an ever-widening array of programs and services have witnessed a contraction, a rationalization of government largesse. Words like "growth" and "expansion" were replaced by "retrenchment," "downsizing," "rightsizing" and "rationalization." Local government was no exception.

There are two indisputable truths about local government in the urban Prairie context. First, that the scope of their service responsibilities has expanded exponentially. Second, that local governments perceive they are increasingly unable to fund these services through existing financial mechanisms. Far from being an aberration, fiscal restraint appears to have settled in for an extended stay in city treasuries across the Prairies. Fiscal restraint is not simply a local financial issue. It is also a political issue, a social-economic issue: a public policy issue. The implications of local government fiscal restraint and the authority and responsibility for addressing fiscal restraint go far beyond city limits. However, for the most part, local governments are coping with their fiscal challenges independently and often their efforts are hindered rather than helped by provincial government policies.

One of the greatest fiscal issues local governments face is the reduction in financial assistance from senior governments. As provincial and federal governments have struggled to gain control of their deficits and debts very few aspects of Canadian society have been immune to the impacts of these cuts. It was more than presumptuous for local governments to believe that they would not share in the financial pain especially considering they are in a much sounder financial position than senior governments.

Regardless of whether these cuts should or should not have been made, the cuts resulted in reduced revenues that had to be replaced. The ability of local governments to replace these revenues was limited by two factors. First, local officials perceived that the fiscal capacity of their own-source revenues had been reached. There was a belief that very little additional money could be obtained from local ratepayers without exacting a heavy political toll. Second, no alternative revenue mechanisms have been forthcoming from provincial governments so their options for raising revenues was restricted. Local governments have fewer options than their senior counterparts for replacing lost sources of revenue. Added to this is the fact that local governments provide crucial grassroots programs and services and, while citizens' expectations of senior government are in decline, they still expect local officials to do more with less.[1] It is within this environment that local governments are struggling with the gap between revenues and expenditures.

[1] Masson, *Alberta's Local Governments*, p. 323

Trends

Each of the four Prairie cities has adopted its own approach to closing its fiscal gap in its jurisdiction. Their choices are based on a constantly changing set of circumstances that include socio-economic and political considerations. Although their decisions represent responses to their own unique situations, a number of trends can be identified.

REVENUES

The four cities took a restrained approach to the revenue side of their budgets. Generally, adjustments to property tax and user fees were the only measures used to shore up this side of their budgetary equation. Winnipeg and Regina both increased property taxes and user fees. Calgary and Edmonton chose instead to impose a number of new chargeable services. Calgary also opted to draw down its surplus to avoid increasing taxes. Winnipeg was the only recipient of provincial largesse. To what extent this can be attributed to a strategy is open to interpretation. Despite these measures, total revenues for all cities declined over the previous year, largely due to reductions in provincial transfers. Therefore, the revenue strategy appears to have been one of damage control rather than to extract windfalls from ratepayers to close the fiscal gap.

It can be surmised that the conservative approach to revenue collection can be attributed to a perception by civic representatives in the Prairie cities that their voters had a lower tolerance for increased taxes and charges than for cuts to services. As a result, the cities chose to focus most of their fiscal attention on the expenditure side. Civic officials appear to have adopted the view that their political capacity to tax, if not their fiscal capacity, has been reached.

EXPENDITURES

With a conservative approach to revenues that reduced the size of the civic purse, the expenditure side was a natural target. The four Prairie cities used three main strategies to draw down costs on the expenditure side. They took action to reduce demands for services, implemented cost cutting measures and reduced or eliminated services.

Increasing existing user fees and developing new user fees where services and programs had been provided *gratis* is a common approach to reducing demand for services. Reducing demand provides the rationale to reduce programs. For example, if increasing transit fees reduces ridership, the reduced usage provides the rationale for eliminating routes and cutting hours of operation. Winnipeg and Regina chose to increase user fees while Edmonton and Calgary left existing user fees static but added new chargeable services. As has been noted previously, rationalizing services in this way can have efficiency gains if the proper fee structure is implemented.

All four cities imposed cost-cutting measures to differing degrees to control expenditures. Cutting strategies represent the more drastic measures to cope with fiscal austerity, because they involve lowering the activity levels of programs and, in some instances, terminating various services.[2] Edmonton, Calgary and Winnipeg implemented across-the-board-cuts. In addition to across-the-board and staff cuts, some specific programs and services were singled out for reduction or elimination. Edmonton employed the most aggressive approach to rationalizing services in 1994, followed by Regina. The area hardest hit by cuts was staffing. Reducing staff is the usual precursor to cutting services. Although there were staff cuts in all civic organizations, Winnipeg employed the most drastic staff cuts. Most staff cuts for all four cities were made through attrition.

Fiscal austerity provides elected representatives and public servants with the opportunity to evaluate the direction their city government, their departments and their programs are taking. It often provides the political motivation to pursue new options for service delivery options and the impetus to consider streamlining alternatives. However, in the case of the four Prairie cities there were few attempts to look beyond traditional government responses to fiscal austerity. While Edmonton and Regina took more progressive and proactive approaches to their budgetary dilemmas, in the aggregate, the Prairie cities did not rise to the occasion. The 1994 budgets of the urban Prairies provided limited examples of less traditional methods of cost containment. The only example of increased reliance on the private sector for program delivery, which is a growing trend in Canada,[3] was the privatization of a golf course by the City of Regina. Regina also was the only city to undertake a restructuring of some of its operations that included consolidations to reduce staffing and program delivery costs. Of note, Edmonton was the

[2]Pammer, *Fiscal Strain*, p. 33

only city to implement productivity improvements to encourage efficiencies as a cost cutting mechanism.

There are vast amounts of literature outlining various productivity improvements and alternative service delivery measures that cities could have turned to to reduce financial pressure. Cities may use a number of programs designed to help them "do more with less in order to avoid deep cuts that are likely to trigger the antagonism of clientele groups inside and outside the bureaucracy."[4] New, time saving technologies can be introduced, work skills can be upgraded and efforts made to better motivate employees. However, results from productivity improvement initiatives do not occur immediately and unless there is strong commitment to the objectives of the measure, there is a tendency to lose interest in the exercise. The cities could have adopted resource and expenditure control measures such as zero-based-budgeting[5] and management by objective. There are also a number of service delivery options such as public-private partnerships, public-public partnerships public provision of private services, expanded use of volunteerism, contracting out or public corporations which have been proven effective. Unfortunately, on the urban Prairies in 1994 there was a dearth of ingenuity, innovation and motivation at a time when it was most needed.

The fiscal challenges of 1994 resulted in responses that were incremental rather than implying a vision for service delivery and the financing of service delivery in this new

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[3]Slack, *Financing Infrastructure*, p. 5
[4]Pammer, *Managing Fiscal*, p. 25

era of fiscal restraint. Across-the-board cuts and staff reductions through attrition are not indicative of a clear vision of service delivery priorities. The programs that were eliminated were either marginal or impacted a small group of users. With few exceptions, reductions did not give one a clear sense that broad program priorities had been established, that other service delivery options had been considered or that there was an over-arching vision of the cities' role in the provision of public goods and services.

Fiscal problems can neither be solved overnight, nor usually in one budget year. The focus on the expenditure side for fiscal answers and the incremental that was subsequently adopted suggests that the expenditure side is going to be a target in budgets to come. In order to be most effective however, incrementalism will have to be abandoned and local officials will have to embrace a broader view of their financial situation and role in service provision. Long term problems such as debt load, increasing costs for providing goods and rising citizens' expectations require long term solutions.

RECOMMENDATIONS AND COMMENTARY

Local government in Canada serves an important role in supporting democratic principles and encouraging involvement in the democratic process. It can be argued that with the growing costs and sophistication of political campaigns at the provincial and federal levels, local government represents a more realistic goal for the politically inclined.

[5] Since 1994, Mayor Thompson in Winnipeg has proposed adoption of zero-based budgeting and Commissioner Carroll wrote a report. As of April 1998, it still had not been implemented.

Participation at the local level is encouraged through Resident Advisory Groups, school boards, regional health boards and other community-based organizations. Comparatively, Canadians have greater access to their local government and local elected representatives. There are more options for a citizen to become involved in a real way in city government than at any other level. For too long, local governments have been seen as the poor cousin to their senior government counterparts. ***It is time to recognize the important role municipal governments play by giving local governments constitutional recognition within the Constitution Act (1982).***[6]

In a country with three levels of government with interrelated service responsibilities, to be done effectively, ***rationalization must be accomplished through a coordinated approach***. This is not the case currently in Canada. The realignment of government programs and services has been done in an ad hoc, piecemeal way that has resulted in duplication, service gaps and inexpensive and inefficient delivery of a patchwork of programs and services. A review of the roles and responsibilities of all levels of government based on the principle of subsidiarity needs to be undertaken in a tri-partite forum. Defining a clear role for local government within the Canadian political context would be a natural outgrowth of the credibility constitutional recognition brings. It is incumbent upon senior governments to make this a priority. What needs to be addressed is: Who should do what? And how do they finance it?

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[6] Tindal and Tindal, *Local Government*, pp.336-337

If a nationwide vision for local government and the services it provides and the financing mechanisms it not achievable, then ***it is incumbent upon each province to identify its vision for the role of local government in the continuum of goods and services provision that exists in Canada.*** This entails a critical assessment of what services are best provided at the local levels and which require a broader application to ensure equity and reduce regional disparities. This assessment should be based on the concept of subsidiarity: whether local government can carry out a particular function better than a senior level of government."[7] Services whose delivery is most appropriately divided between the two levels of government must also be defined with a clear delineation of each government's responsibilities for service provision, financial contributions and accountability. There needs to be a clear statement of who does what, with what.

If local governments are expected to finance soft services, the provinces should provide them with access to growth taxes and not restrict them to benefits taxes. With the expansion of local government responsibilities into the provision of soft services the property tax base is not only inadequate, it is inappropriate. Property tax is no longer an accurate measure of wealth and they do not have direct linkages to soft services such as social and health services and job retraining, ***Local governments should be given access to financial instruments that are more broadly based and reflect ability to pay. These sources should be enshrined in legislation*** giving local governments greater assurance that they have access to a reliable source of long-term funding. In this way, long-range

[7]Barnett, "Subsidiarity," p. 62

plans for service provision and program development can be more effectively and efficiently undertaken.

If local governments continue to be responsible for social and health services, provinces should impose minimum standards to reduce regional inequities.

Funding for education should be removed from property tax and funded by the province based on ability to pay.

As has been outlined in Chapter III, there are a number of alternative revenue sources that are particularly well-suited to the urban Prairie context. A local income tax is an attractive option for local governments because with the proper exemptions in place it is progressive and equitable and could be easily administered if tied to the provincial tax. Local governments need to have access to a growth tax. ***A locally levied income tax combined with the federal and provincial income taxes should be implemented.*** Because income tax is a growth tax, this alternative would be particularly appealing in Alberta.

A hotel occupancy tax should be implemented to help fund infrastructure and services used by non-residents. Given that the four urban centres are economic, transportation and education hubs they attract large contingents of visitors for conventions, sporting and other events. The fee levied should not be onerous and should be consistent with similar fees in like cities. Collection of this fee would be from source which would entail additional administrative costs. Analysis of the potential revenues and administrative costs should be undertaken prior to implementing this measure.

Given the responsibility urban governments have for roadways, a motive fuel tax should be levied that is tied to the provincial tax. While it is not suggested that revenues accruing be earmarked to fund roadway infrastructure or other capital projects, ratepayers could draw clear linkages between the tax they are paying and the infrastructure services the city is providing. While commuters would bear a disproportionate amount of the tax burden, it could be justified as their contribution for the services the use and benefits they receive that are provided by the city. Although transportation-based businesses such as taxi companies and couriers would bear a disproportionate amount of the financial burden, it would reflect their use of city roadways and would be deducible for income taxes.

Waste collection and disposal services should be made self-financing through the imposition of user fees. The fees should be structured to account for current costs of waste collection and disposal and to finance the costs of new landfill sites. In assessing the fee, care should be taken to ensure that the rate does not encourage illegal dumping. This fee would have the added benefit of encouraging recycling. Precedents for these fees exist in many jurisdictions across Canada which makes them politically more palatable.

Investment pooling should be pursued with other local governments within the province to increase returns.

The province of Manitoba should increase the revenues the City of Winnipeg receives from utilities to bring the City's percentage of total revenues accruing from utilities more in line with its counterparts in Alberta and Saskatchewan.

The alternative sources of revenue recommended were seen to be most appropriate in the urban Prairie context. A number of alternative sources of revenue outlined were not been recommended for a variety of reasons. Some of the alternatives that would be politically difficult to impose such as: the poll tax, which has a history of controversy; a municipal sales tax, based on the ongoing furor over the Good and Services Tax and harmonization; and a payroll tax, the provincial version of which is still a thorny issue in Manitoba. The surcharges on drivers' licenses and vehicle registrations was passed over in favour of the motive fuel tax. The motive fuel tax was seen as a more appropriate measure of road usage and, depending on the rate applied could provide a larger source of revenue. One charge on automobile owners was viewed as sufficient. Toll roads were seen as too easy to avoid and contributing to disruptions in traffic flow patterns.

All four cities should undertake a comprehensive review of their departmental structure and programs with a view to identifying program and service priorities, streamlining operations and consolidating programs.

Before further cuts are implemented, the four urban Prairie cities should consider pursuing other cost constraint measures and alternate methods of service delivery. ***A program review should be initiated to identify any programs or services that are not***

critical to the public good and can be delivered privately. As Osborne and Gaebler point out in *Reinventing Government*:

> It makes sense to put delivery of many public services in private hands, if by doing so a government can get more effectiveness, efficiency or accountability...When governments contract with private business, both liberals and conservatives often talk as if they are shifting a fundamental public responsibility to the private sector. This is nonsense: they are shifting the delivery of those services, not the responsibility for those services.[8]

Further, investigation should be done of other alternatives for service delivery. Thought should be given to ***forming partnerships with private enterprise and or non-profit groups for service delivery***. While the city sets standards for quality and maintains responsibility for services, other private and non-profit groups may be willing and able to deliver the services in an efficient and effective community-based way.

Consideration should be given to ***implementing performance measurement to ensure quality programs and service and to eliminate waste and inefficiency***. "Because they don't measure results, bureaucratic governments rarely achieve them."[9] With tightening revenues, it is crucial that every dollar is spent wisely. Implementing performance measurement that rewards managers for high standards of performance will not only improve efficiency in program delivery it will also improve organizational culture.

The impact of service delivery reductions was beyond the scope of this study. However, the impact on service delivery is an important facet of local government decision-making. Service delivery reduction and elimination cannot be made in isolation or without an evaluation of the consequences. ***Additional study needs to be done on the impacts of service delivery reductions*** to determine: to what extent service reductions are occurring; the type of services being reduced and their user populations (are service reductions targeted to specific groups) the degree to which reductions in services are justified (is reducing hours at local pools reducing costs with little impact on usage); the impact on ratepayers; if the financial benefits are worth the reduction in service.

When one looks at the development and evolution of local government, its is little wonder they are now facing their current problems or are adopting the solutions they have chosen. Their very existence has been incremental. They were formed in an incremental way, imposed where the fledgling national and provincial governments dictated that service provision was required. Their scope of responsibilities was developed incrementally, through a natural outgrowth of responsibilities and uncoordinated transfers of authority by the provinces. Their revenue raising mechanisms were provided at the pleasure of the province with little consideration as to what was reasonable or appropriate to fund the type and scope of programs and services they provided. Incrementalism in local government is no longer workable.

The City of Regina's 1998 Budget Summary states that "[w]hile the budget process tends to be dominated by financial issues and the need to balance revenues and expenditures, the process is more importantly an effort to balance service policies with

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[8]Osborne, David and Ted Gaebler, *Reinventing Government* (Reading, Massachusetts: Addison-Wesley Publishing Company, Inc., 1992) p. 47.
[9]*Ibid.*, p. 139

financial goals or principles."[10] While this statement may be true in theory, it neglects a fundamental component of decision-making in local governments: The budget process is about weighing the political costs of decision making. In 1994, budgeting in the urban Prairie cities was about finding a balance between demand for services and fiscal capacity. It was also about balancing the political implications of increased taxes and charges with those of cuts to expenditures. It was about the ability of civic officials to accurately interpret the mood of the electorate. It was about doing political cost benefit analysis where economic cost-benefit analysis was lacking.

Experience can be a costly teacher. Budget decisions not only have impacts for the current budget year, but also have implications for years to come. Whether it is adding a new program or delaying water main replacement, these decisions have long-term consequences. Given the limited time frame of this study it is not possible to determine the extent to which their various approaches were successful. However, when making budgetary decisions it is crucial that civic officials are aware of the full range of options at their disposal.

The relative success of local government in dealing with this new reality cannot be determined based on their fiscal decisions for one budget year. This study represents a snapshot of local government decision-making for one set of budget documents. It is hoped that it will provide some insight for those making decisions to address fiscal strain,

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[10] City of Regina, *Budget Summary*, 1998 Preliminary Budget, Vol. 1, March 1998, p. 1-14

both elected and non-elected, and those who exercise their democratic right to choose the government they deserve.

The last word most appropriately belongs to local governments themselves in this statement prepared for the Federation of Canadian Municipalities as referenced in The City of Regina's *1998 Budget Summary:*

> There is no one model, rationale or set of criteria for municipal financing which would capture the unanimous consent of decision makers within the federal system or, for that matter, within any order of government or single government. Municipal financing and the allocation of resources in a community, are the product of the decisions of elected officials working in a democratic process where judgements are made about priorities and the appropriate use of resources to achieve them. This is the essence of politics. No magic formula can substitute for either the democratic process or political judgement, despite whatever dissatisfaction or frustration may exist about the apparent lack of logic, consistency, permanency or justice in the way in which municipal financing works anywhere in Canada.[11]

[11] *Ibid.*, p. 1-14

1997 was a watershed year for local government in Canada. It was in that year that Ontario's Conservative government embarked on the most radical redesign of local government finance and responsibilities the country had seen. The Ontario Government set about to reconfigure how the provincial and municipal governments spend over $12.8 billion and how they provide services to millions of Ontarians. Central to the changes was removing education financing from property tax which reduced property taxes by $5.4 billion annually. The province would replace this funding with per-pupil grants. To offset the extra money the province would pay for education, it was to transfer responsibility for $6.4 billion worth of programs to municipalities. General welfare was to be shared equally by the province and local governments. Previously the province paid 90 per cent of the costs. Municipalities were to be responsible for half of the costs of looking after the elderly, the disabled and child care. The Province of Ontario would no longer be responsible for public transit including airports and ferry services and many roadways have been transferred to the local level. Local officials will also be responsible for total funding for public and social housing, a $1 billion program. Municipalities relying on Ontario Provincial Police Service would have to pay for the service and 25 per cent of the $9 billion water and sewage plants will be turned over to municipalities. The entire provincial support for libraries, some $20 million, was canceled.

As a result of public pressure and the proposal of an alternative that the government found acceptable, this very aggressive approach was diluted somewhat. In the end the province assumed only half of the total cost of education in return to maintaining a greater fiscal presence in social program funding. Social assistance spending was 80/20 cost shared and municipalities responsibility for funding social housing was reduced.

The intervening years, 1994 to 1998, have been less dramatic for urban governments on the Prairies. However, the most pronounced proof of the incremental nature of the cities responses to the fiscal gap in 1994 is evident in their 1997 and 1998 budget documents. Four years later, the four Prairie Cities are still coping with the fiscal gap but their approaches appear to be more coordinated with a clearer definition of goals and vision for their city over the coming years. They have a more solid understanding of their financial future, their service delivery priorities and responsibilities and how they are going to integrate these two factors. This degree of clarity, vision and forward planning was markedly absent in 1994.

WINNIPEG

Four years later, the City of Winnipeg still faces significant financial issues and continues to struggle to regain control of its finances. Since 1994, the City's financial condition has been downgraded by two of the three credit rating agencies, due in part to the heavy reliance on property tax and the costs of assessment appeals.[1] A recognition that "[e]xpenditures have exceeded the City's ability to sustain the current policy

[1]City of Winnipeg, *Organizational Review*, p. 139

direction"[2] has led to a number of initiatives to develop a long-term comprehensive plan to define a vision for the City's financial future. These initiatives include: a directive by City Council to corporate finance/administration to develop more up to date and acceptable policies; the *Financial Management Plan*; the Executive Policy Committee's strategic paper *Reshaping Our Civic Government*; and the commissioning of George Cuff to review civic organization and corporate performance. These documents have assisted the City identify the challenges it faces and to set financial goals and service priorities. While the City has acknowledged the scope of its fiscal problem, its progress in combating it has been slow.

The City of Winnipeg has taken significant steps to remove the "groping" from its approach to its significant fiscal gap. It has instituted a multi-year current year operating budget, and a two year budget cycle was implemented in 1997. To assist in controlling expenditures, the City adopted the Controllership Model "to allow each department to independently follow the corporate direction for cost reduction and improved efficiency."[3] City Council has commissioned the Winnipeg Taxation Fairness Committee to make recommendations for the implementation of a fair system of taxation. The Board of Commissioners system has been replaced with a city manager arrangement.

The City has resorted to a number of strategies to increase revenues to support operating expenses. Property tax has increased by almost four per cent in the last two years while business taxes have been frozen. While a stated goal of *Plan Winnipeg....*

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[2]*Ibid.*, p. 140

Toward 2010 and the *Financial Management Plan* was to reduce reliance on property tax by five per cent between 1995 and 2004, the City's reliance on property tax increased between 1994 and 1997. Unlike the other three cities, the value of Winnipeg's assessment roll has been flat or declining. Rate increases have been necessary to generate any additional revenue and, in some cases, to maintain existing levels.[4] Reliance on other revenue sources has remained static. Revenues will be bolstered by increases to user fees for transit, ambulance services and parks and recreation fees. Transfers from Winnipeg Hydro to general revenues increased. In addition, ratepayers paid more for water and sewer services (11.1 per cent and 10.6 per cent respectively). The sale of City-owned land will also add over $3 million to the coffers. The City's revenue strategy includes new revenue sources including gasoline tax, motor vehicle registration and increases to some existing revenues controlled by legislation such as natural gas and hydro tax, and the statutory property tax exemption. However, to date the Province has rebuffed all requests.[5]

The City of Winnipeg[6] has relied most heavily on the expenditure side to close the fiscal gap. The City has identified police, ambulance, social services and snow removal as its spending priorities.[7] Since 1996, the City has reduce its amount of tax-supported budget by more than $8 million. Staff was reduced by 428 in 1997 for an anticipated savings of $6.5 million in that year and $5.5 million in 1998. Departmental expenditures

[3] *Ibid.*, p. 138
[4] *Ibid.*, p. 139
[5] *Ibid.*, p. 140
[6] City of Winnipeg's 1998 budget was unavailable at the time of writing.
[7] City of Winnipeg, *Financial Management Plan*, adopted July 1995, p. 5

were reduced by a total of $2 million in both 1997 and 1998 and changes to fleet management were expected to save $1.5 million. Despite social services being identified as a funding priority, its budget was reduced by $2.8 million and a study was to be undertaken regarding the rationalization of emergency response. Budget increases were identified for the City's assessment process ($1.8 million), garbage disposal ($1.6 million), Pan Am Games ($1.8 million), snow removal ($5.3 million) and for public libraries.

The level of debt remains the millstone around the City of Winnipeg's neck. To reduce debt, the City is aggressively reducing its capital projects[8] which, as was discussed previously has long and short term implications for the status of the City's infrastructure. In 1995, the City adopted pay-as-you-go financing for capital projects. A debt strategy has been established to eliminate the financing of any new tax-supported programs by external debt by 2004. The debt is expected to be retired by 2017. A more business-oriented, innovative approach is evident in the public-private partnership formed to build the Charleswood bridge.

REGINA

A review of the City of Regina's budget documents for 1998 gives a strong impression that their fiscal situation is well in hand. Total revenue and expenditures are stable and service provision appears unaffected. It can be surmised that the restructuring

[8]City of Winnipeg, *Organizational Review*, p. 140

and cost cutting initiatives of years previous have had their intended effect and fiscal management is on a more even keel.

The most significant change on the revenue side will be to the mix of revenue sources rather than total income generated. Since 1994, the percentage of total revenues accruing from taxation has increased from 54 per cent to 60 per cent. Rather than being a function of increased mill rates, the increase represents a substantial shift in the mix of tax-related revenues. In 1997, the mill rate calculation was changed. It now has three components: a municipal mill rate; a school mill rate; and, a library mill rate. The business tax mill rate was also changed to include a separate mill rate for the business improvement district. As a part of the restructuring of taxation revenue, the City of Regina will begin a three year phase-out of the business tax. In this first year the tax will decline by 20 per cent, representing a loss of $1.3 million. This new policy will be offset somewhat by the Province of Saskatchewan's decision to phase in grants-in-lieu of taxes. This new revenue stream is expected to provide over $966,000. Regina has continued to meet its objective of keeping mill rate increases below the rate of inflation.

There are a number of notable changes to the non-tax revenue accruing to the City. Since 1994, the most significant revenue change the City has had to adjust to was a 50 per cent reduction in the Revenue Sharing Grant from the Province, which left a shortfall of over $5 million. The decrease reflects changes to the way the grant was calculated which has a greater impact on cities than other municipalities.[9] Total revenues

[9] City of Regina, *Budget Summary*, Preliminary Budget 1998, Volume 1, March 1998, p. 7-5

from the grant were to remain static for 1998. Another change of note is an increase in transfers from SaskEnergy by more than $700,000 due to a new negotiated agreement with the utility. The structure of a number of fees is also being changed.

The fiscal equilibrium is most evident on the expenditure side of Regina's budget equation. Total expenditures are increasing very slightly (1.2 per cent) with no service or staffing cuts on the horizon. Grants to service agencies, often the first to be cut, remained unchanged. A modest increase (2.16 per cent) was made to the policing line of the budget. Debt charges have decreased consistently due to pay-as-you-go. The debt is expected to be retired by 2003. New debt financing has been restricted to self-financing utilities. The City of Regina had been allocating the savings in debt charges to the capital budget, however, in 1998 those savings were channeled to the operating budget to maintain service levels. The capital program declined by less than $1 million.

EDMONTON

The City of Edmonton undertook a major reorganization initiative in the fall of 1996, called City '97, to reduce government spending while limiting the impact on service provision. The goal of City '97 was to extract $50 million in annual tax levy savings. The need to streamline civic operations became more critical as the City approached 1998 when provincial legislation required it to adopt an annual market value assessment of its tax base. This change was expected to cost the City up to $40 million annually in lost revenues and $28 million in assessment appeals. The decline was due to net decreases in commercial property values in Edmonton since 1991.[10] As a result, City Council voted to hike taxes six per cent in 1997 and five per cent in 1998. Also in 1997, it raised the commercial property tax mill rate by 34 per cent. However, a $15 million rebate was created to shield business owners from the full effect of the tax hike until 1999.[11] As a result of the actions taken, the percentage of total revenues accruing from taxation has remained static.

Maintaining service levels was a stated priority for the City of Edmonton in its City '97 initiative. Adherence to this commitment was evident in the City of Edmonton's Approved 1998 Budget with slight increases to tax-supported operations (1.6 per cent) and operating expenditures (1.6 per cent) in the 1998 budget. Despite these increases total expenditures declined by 2.4 per cent due to a reduction in capital expenditures of 15.6 per cent.[12] Service levels are to remain unchanged with some increases to front line provision including: 11 police positions for child and family related services; two additional ambulance units; five positions were restored for spousal abuse, elder abuse and family poverty intervention programs; funding for out-of-school care subsidies was increased; $1 million was added to the snow and ice control program as part of a multi-year plan to increase base funding; increases to transit programs; increases for library materials and grants to arts, recreational and social service organizations.[13] In Edmonton,

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[10]City of Edmonton, *The Solution to Edmonton's Property Assessment Issue*, Web site http://www.gov.edmonton.ab.ca/Factsht.htm, p1

[11]———, "A Choice of Tax Revolts," *Western Report*, (Vol. 12, No. 9) March 24, 1997, p. 17

[12]City of Edmonton, *1998 Budget Preparing for Tomorrow, Today*, Web site http://www.gov.edmonton.ab.ca/summary98.html, p. 1

[13]City of Edmonton, *Budget Highlights*, Web site http://www.gov.edmonton.ab.ca/summary98/challenge.html, pp. 2-3

spending on soft services is increasing at the expense of spending on areas of traditional civic responsibility - infrastructure. Edmonton continues to maintain its aggressive debt elimination target of 2004.

A more business focused approach has also been adopted since 1994. The City of Edmonton's incorporated Edmonton Power in January 1996, and the Public Works Water branch in May 1996. Although alternative service delivery options were not within the scope of City 97,[14] the City also entered into partnerships with community groups to build two new leisure centres and a twin ice arena for 1998.

CALGARY

A review of the City of Calgary's 1998 Operating Budget Summary confirms that Calgary's ongoing fiscal challenge remains its higher than anticipated growth rate and the resulting demand for services and infrastructure. It has continued to focus its efforts on the expenditure side while limiting revenue increases. In the last four years the only changes to the revenue stream are an increased reliance on property tax by a modest two per cent and a reduction in provincial grants by a further three per cent.[15] The increase in property and business taxes represents the only increase to municipal taxes in five years. It was required due to urban growth, inflation, capital requirements, technology and a two per cent increases in wages and salaries, the first since 1992. Revenues from non-tax

[14]City of Edmonton, *City '97 Executive Summary*, Web site http://www.gov.edmonton.ab.ca/manager/city97/city97exec.html, p. 1
[15]City of Calgary, *Financing the Operating Budget*, City of Calgary Web Site /4298bp13.htm, p. 1

sources will increase by 2.2 per cent. The only fee increases will be a two per cent increase in water rates and an increase of $1 per year for a library card. A transfer of $10.8 million from the Mill Rate Stabilization Fund will be required to deliver a balanced budget.

More than any of the other cities, Calgary continues to aggressively pursue expenditure reduction measures. From 1993 to 1998, the city decreased per capita costs of service delivery by 6.4 per cent (from $1164 to $1089).[16] The base operating budget decreased by $56 million and 613 staff years or seven per cent between 1993 and 1998,[17] despite an increase in population of 11.7 per cent and cumulative inflation of 10.7 per cent over the same period. The total budget increase over five years has been only five per cent.[18] In 1998, the net operating budget for tax-supported operations will increase 3.2 per cent. Eight percent of the growth/level of service requirements identified by departments could not be met within the 1998 budget. Modest staff increases were enjoyed in Police Services, Calgary Transit and the Planning and Building Department.

The City of Calgary has not only been mindful of the bottom line but has taken measure to ensure quality service delivery. It has implemented performance measurement to "monitor the output, efficiency, and effectiveness of civic services from a customer perspective."[19] The corporate performance measures assess civic services while

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[16]City of Calgary, *City Releases Proposed 1998 Budget*, news release, November 4, 1997, City of Calgary Web site: http://www.gov.calgary.ab.ca/42/42plan&budg&reprt/4298bn01.htm
[17]City of Calgary, Board of Commissioners Budget Message, November 4, 1997, City of Calgary Web site: http://www.gov.calgary.ab.ca/42/42plan&budg&reprt/4298bmsg.htm
[18] *Ibid.*
[19]City of Calgary, *Operating Budget Summary*, Volume 1, November 1997, p. 22

community measures monitor the overall condition of the community including: quality of life, public safety, urban form; the environment; and disadvantaged Calgarians.

The capital budget is indicative of the City of Calgary's determination to reduce its long-term debt obligations. No long-term debt is required to finance the $961.2 million capital budget for 1998. Through its commitment to pay-as-you-go financing, Calgary has reduced its tax supported debt by $286 million since 1994 to $517 million. All capital projects for 1998 will be funded from the operating budget (pay-as-you-go) and other sources. Over $542 million of capital projects could not be supported financially in the 1998-2002 capital budget. "With a Council-directed moratorium on new borrowing for tax supported projects and the limited pay-as-you-go funding provided from the operating budget, it has not been possible to fund $349 million in capital projects needed for growth areas over the next five years."[20] However, the ongoing debate about the appropriateness of pay-as-you-go financing for projects whose benefits will be enjoyed by many generations of ratepayers is not being ignored. The City's Board of Commissioners has indicated that:

> While a low debt level is desirable, the use of debt may be appropriate for long-lived projects that will benefit many new Calgarians in the future and, therefore, the present taxpayer should not bear the full burden of the cost. The advantages and disadvantages of the current debt policy will be carefully weighed as the City explores options for providing the growing infrastructure needed."[21]

[20] City of Calgary Board of Commissioners, 4, 1997, p. 1
[21] City of Calgary Board of Commissioners, 1998 Budget Message, p. 1

COMMENTARY

Interestingly, a brief review of the financial situations of the four cities four years later indicated that Regina and Edmonton, the two cities that took the most aggressive approach to their fiscal challenges and adopted a more stringent program of cost cutting, are in the best financial shape. Winnipeg, which was the least aggressive in 1994, is still in tenuous economic shape.

The budgetary focus for Calgary, Edmonton and Winnipeg remains firmly rooted on the demand side. In the absence of new revenue sources, it can be expected that until the two sides of their budget equations reach equilibrium this will be the case.

Recent trends are causing analysts to postulate that the days of growing responsibilities for urban government are over. Melville McMillan writes that:

> The regionalization of health care and provincialization of schooling in Canada may...effectively reduce the scope of local government, which may be left to deal with a more limited range of "municipal" functions and services. If this trend continues, local governments across Canada could become smaller and the range of local responsibilities more homogeneous.[22]

This is supported by Paul Hobson who indicates that "with education and welfare being centralized at the provincial level, local governments' responsibilities are increasingly focused on the more traditional municipal services."[23]

Conversely, Katharine Graham and Susan Phillips espouse a greater role for local governments in social service provision. They indicate that "acknowledging the legitimate

[22]McMillan, Melville, "Taxation and Expenditure Patterns," p.47

local interest in human service delivery, while retaining responsibility for income distribution at the provincial level, would contribute to recognition of the diversity of circumstance and need across communities and affirm a vital role for local governments in the social domain."[24]

The Chinese proverb "may you live in interesting times" is particularly relevant to urban Prairie governments, and local governments across Canada. Whether the Harris government's radical approach is a portent of things to come for the rest of the country remains to be seen. If nothing else, it is a recognition of the need to clearly define the future role of local government in Canada. Whether one agrees with the action taken or not, it certainly serves as a wake up call to the rest of Canada which has adopted a laissez-faire approach to local government. It's about time.

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[23]Hobson, "Efficiency, Equity and Accountability," p. 130

[24] Graham, Katherine A and Susan D. Phillips, *Who Does What in Ontario: The Process of Provincial-Municipal Disentanglement*, (n.p.: n.p., February 1998) p. 39

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May 1, 1998

To Whom It May Concern:

I am pleased to authorize use, in whole or in part, of *Budgeting in the Prairie City: A Commentary*, which I researched and wrote with Shelly Cory, to Ms. Cory for the purposes of her Masters thesis and subsequent publication.

Yours truly,

Peter Diamant
Research Association
Institute of Urban Studies

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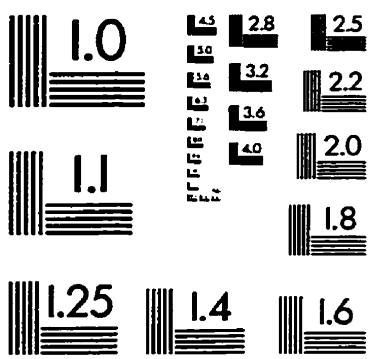

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