



# **Submission on the City of Calgary's 2010 Budget Adjustment**

**Principled Decision-Making, Prudent Fiscal  
Management, Equitable Taxation and  
Taxpayer Accountability**

**November 19, 2009**



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## Executive Summary

The Calgary Chamber of Commerce represents over 2,300 Calgary-based businesses. On critical and emerging issues in public policy, the Chamber acts as the leading forum for debate, and advocates public policy solutions that improve the business climate on behalf of its members. The Calgary Chamber puts forth this submission on behalf of its members, the small, medium and large enterprises that are directly impacted by the budgeting, financial management and expenditure decisions of the City of Calgary.

### **1 A PRINCIPLED BUDGETARY FRAMEWORK FOR SETTING MUNICIPAL PRIORITIES**

#### **1.1 Differentiating Core and Discretionary Municipal Priorities**

It is recommended that the City of Calgary commission a Core Priority Study that differentiates core priorities from discretionary priorities, and that Council adopt a two-stage budget approval process that:

- Establishes and protects the core priorities early, and
- Enables the discretionary priorities to be considered first for service cuts or elimination.

#### **1.2 Conducting a City-Wide Services Review**

It is recommended that the City of Calgary develop and implement a city-wide services review that identifies opportunities for cost savings beginning with internal service delivery and fiscal management within and across all business units.

### **2 PRUDENT EXPENDITURE MANAGEMENT**

#### **2.1 Set a Target to Limit Annual Spending Increases**

It is recommended that the City of Calgary limit annual spending increases to within a “smart spending bandwidth” delimited by population growth plus inflation and real GDP growth plus inflation. For 2010, the lower level is set at 2 per cent, which will require a 1.6 per cent reduction from budget or approximately \$38 million.

#### **2.2 Introduce competition into the delivery of goods and services**

It is recommended that the City of Calgary introduce greater competition into delivery of goods and services by identifying the actual costs of delivering specific services and then opening up these areas to competitive bids. Solid waste management, trash collection, pools, recreation centres and golf courses are potential areas for consideration.



### **3 EFFICIENT, EQUITABLE AND ACCOUNTABLE TAXATION**

#### **3.1 Municipal Tax Equity**

It is recommended that the City of Calgary reduce the ratio of business and non-residential to residential tax revenues from 57.5 to 50 per cent by 2015.

#### **3.2 Municipal Administrative and Compliance Costs**

It is recommended that the City of Calgary harmonize the business and non-residential property tax provided the non-residential-to-residential total tax ratio does not increase.

#### **3.3 Municipal Accountability**

It is recommended that the City of Calgary more effectively communicate with the public and the business community regarding the competitiveness of non-residential and business taxes, so that citizens and businesses have a more complete understanding of the true costs of providing the bundle of municipal services.

### **4 GREATER TRANSPARENCY AND ACCOUNTABILITY**

#### **4.1 From a Three-Year Binding Budget to a Three-Year Annual Rolling Budget**

It is recommended that the City of Calgary change from a three-year binding budget to a three-year rolling budget introduced annually, to better respond to unanticipated growth and service delivery pressures, and allow for greater public input and accountability.

It is recommended that the City of Calgary adopt 'greater transparency and citizen engagement' as a 2009 – 2011 City Council Priority, to encourage public input and participation in the municipal decision-making process.

#### **4.2 Strengthening the Role of the City Auditor**

It is recommended that the City of Calgary strengthen the role, independence and autonomy of the City Auditor by:

- Requiring a two-thirds majority vote for Council to suspend or terminate the Auditor;
- Enabling the Auditor to establish the audit plan without Council approval, but that Council may amend the plan with a two-thirds majority;
- Setting the Auditor's budget to be a fixed proportion of total municipal expenditures, ensuring the Auditor continues to have sufficient resources, independent of Council decisions; and
- Enable the Auditor to report to Council directly, rather than only to the Audit Committee, in order to raise the profile of the Auditor reports.



## 1 INTRODUCTION

The Calgary Chamber of Commerce represents over 2,300 Calgary based businesses. On critical and emerging issues in public policy, the Chamber acts as the leading forum for debate, and advocates public policy solutions that improve the business climate on behalf of its members.

Much has changed since City Council approved the 2009 – 2011 budget late last year. Calgary's unemployment rate has doubled from an annual rate of 3.4 per cent in 2008 to near 7 per cent with close to 18,000 jobs lost since September 2008. The unemployment rate is expected to reach 8 per cent before improvement. Real GDP growth has plummeted from 0.4 per cent in 2008 to an estimated -2.5 per cent in 2009. And the immediate future continues to look challenging. Employment growth is forecast to grow a modest 0.7 to 1.0 per cent and real GDP at between 0.8 and 1.2 per cent in 2010.<sup>1</sup> Calgarians, both businesses and residents, are clearly struggling. City Council must do all that it can to reduce the financial burden while maintaining core services.

The Calgary Chamber makes this submission on behalf of its members – the small, medium and large enterprises that are working to survive in this difficult environment and who are directly impacted by the governance, financial management and expenditure decisions of the City of Calgary.

The Chamber conducts annual pre-budget surveys to canvas its membership on the priorities of government. When asked what the City Council's top five priorities should be for 2010, members provided the following priority responses.

- Fiscal management (spending and priority setting) by City Council
- Transparency and accountability of City Council decision-making processes
- Crime / safety / policing
- Reduce or not increase the business tax burden
- Reduce or not increase the property tax burden

When asked how the City of Calgary could best manage spending in the coming fiscal period, members provided the following list of ideas in order of priority.

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<sup>1</sup> Legge, Adam. 2009. *2010 Calgary Economic Outlook – October 6, 2009*. Calgary Economic Development. Available online: [www.calgaryeconomicdevelopment.com](http://www.calgaryeconomicdevelopment.com)



1. Conduct expenditure reviews and program evaluations to ensure value for money.
2. Change from a three-year budget to a three-year rolling budget introduced annually.
3. Contract out services to the private sector.
4. Identify core priorities and institute a spending freeze in non-core areas.
5. Create a new provincial office of Municipal Auditor General to conduct value for money audits and share best practices across municipalities.

This ranking suggests that Chamber members prefer that the City focus its efforts on developing and maintaining responsible fiscal management and accountability practices as key priorities for the 2010 budget. These priorities form the basis of the Chamber's budget submission, which is structured around four main themes: [1] developing a principled budgeting framework; [2] prudent expenditure management; and [3] greater transparency and accountability; and [4] efficient, equitable and accountable taxation.



## 2 A PRINCIPLED BUDGETARY FRAMEWORK FOR SETTING MUNICIPAL PRIORITIES

In a 2010 pre-budget survey, Chamber members ranked fiscal management (spending and priority setting) by City Council as their top municipal priority. The Chamber recognizes that prudent fiscal management and principled, transparent decision-making are critical elements of a well-functioning and efficient local governance system. The 2009-11 municipal budget deliberations, which introduced a 5.3 per cent residential property tax increase for 2009, helped bring these issues to the fore of public debate.

A critical outcome of these deliberations was the recognition by Council and the public that there is a need for improved management and tracking of Council decisions in terms of their cumulative budgetary impacts. Indeed, as was identified in a notice of motion approved by Council on December 15, 2008:

“there is, however, no process currently in place to track and inform Council members of the cumulative impact throughout the year of the policy and program matters that they have debated and which have potential future-year budget impacts.”<sup>2</sup>

Despite this shocking and substantive absence of fiscal oversight in an organization with a \$2.5 billion dollar annual budget, the Chamber recognizes and applauds Council’s subsequent efforts to address this critical challenge through the adoption of two notices of motion. The first, introduced by Alderman Fox-Mellway in December 2008, called for the addition of a schedule that tracks Council decisions with “actual or potential future year budget impacts” into the regular accountability reporting process.<sup>3</sup> The second, introduced by Alderman McIver, called for the inclusion of “the cost or savings to taxes and user fees in reports that are prepared for committee and Council” beginning in June 2009.<sup>4</sup>

The Chamber also recognizes and strongly supports the City’s decision to restructure the Office of the Chief Financial Officer to emphasize the importance of fiscal management, as well as Council’s leadership in referring a number of decision items to the budget process over the past year, including:

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<sup>2</sup> City of Calgary. 2008. Confirmed Minutes, Regular Meeting of Council, December 15, 2008. Notice of Motion 2008-53. Presented by Alderman Fox-Mellway.

<sup>3</sup> City of Calgary. 2008. Confirmed Minutes, Regular Meeting of Council, December 15, 2008. Notice of Motion 2008-53. Presented by Alderman Fox-Mellway.

<sup>4</sup> City of Calgary. 2009. Confirmed Minutes, Regular Meeting of Council, January 12, 2009. Notice of Motion 2009-04. Presented by Alderman McIver.



- \$600,000 a year to keep Race City in its current location;
- \$4.5 million required by the city clerk's office to handle additional responsibilities necessitated by the provincial government's changes to the assessment review process;
- \$1.3 million to fund recommendations made in the transit safety audit; and
- \$750,000 to expand a graffiti cleanup program.<sup>5</sup>

The Chamber is calling for Council to expand its prudent fiscal management efforts, by adopting a principle based budgetary approach to all aspects of municipal priority setting and service delivery. This proposed approach calls for two key components: [1] differentiating between core and discretionary services in setting budgetary and Council priorities; and [2] conducting a city-wide services review to evaluate core and discretionary services.

### **2.1.1 Differentiating Core and Discretionary Municipal Priorities**

Over the past 20 years, the City of Calgary has been inundated with the increased demands of a growing population and expanded service delivery expectations. As a result, the City has become increasingly challenged to prioritize spending decisions – particularly during tough economic times. Indeed, the 2010 budget is forecasting a property tax increase of 5 per cent - at a time when GDP is negative and unemployment has doubled over the past year.

With so many competing interests for limited taxpayer dollars, it is more important than ever for Council to establish a defensible framework to prioritize its spending decisions. Therefore, the Chamber proposes that Council adopt an approach to municipal spending that differentiates between core, discretionary and non-core priorities.

Core priorities are priorities that are mandated and critical to the successful functioning of the municipality. Discretionary priorities are those that are core but have a discretionary component in determining service levels, and non-core priorities are those that are beyond the scope of municipal services, which may also be provided by other public, non-profit or private sector organizations.<sup>6</sup>

In 2004, TkMC consultants prepared a report for the City of Regina defining a core services continuum. The continuum was developed in consultation with Council, city staff and randomly selected members of the public through a series of focus groups.<sup>7</sup>

<sup>5</sup> Calgary Herald. 2009. "Calgary's Property Tax Hike Pegged at 5%." November 9.

<sup>6</sup> TkMC. 2004. Final Report: Core Services Review. Choices for Redefining Excellence. P 21.

<sup>7</sup> City of Regina. 2008. Core Continuum. <http://www.regina.ca/Page282.aspx>



Core priorities were defined as:

- Legislatively mandated activities;
- Public safety and security;
- Crime prevention;
- Urban infrastructure services (e.g. planning, building, maintaining roads bridges and other transportation infrastructure) ; and
- Land and environmental stewardship.

Core priorities with a discretionary service element include:

- Services for the disadvantaged;
- Leisure opportunities;
- Cultural support activities;and
- User pay services.

Non-core priorities were defined as beyond the scope of municipal purview and without justification.

In the case of Regina, the city recognized that the core priorities identified were services that have been provided by the municipality since its inception. However, the discretionary priorities became civic priorities more recently, and were the focus of the vision for the city that was adopted by Council – a vision that assumed the existence of core services and concentrated on quality of life improvements.<sup>8</sup>

In a similar vein, Calgary City Council's 2009-11 priorities contain a number of priorities that are both core and discretionary in nature.<sup>9</sup> Examples of core priorities include the “focus on safe, reliable infrastructure” as well as “effective and efficient services.” The more discretionary Council priorities include the “focus on community well-being” and a “healthy and sufficient workforce.”

The Chamber is calling for Calgary City Council to commission a **Core Priority Study** that will differentiate those priorities and services that are critical to the functioning of the city from those that are more discretionary in nature. It is imperative that this initiative be independent of the City, but involve in-depth consultation with city staff and the public to legitimize the findings and facilitate their successful implementation.

This core priority study will then provide a basis on which Council can prioritize its budgeting and decision-making processes.

<sup>8</sup> City of Regina. 2006. Continuous Improvement and Innovation Response to the Core Services Review. P. 8.

<sup>9</sup> City of Calgary. 2008. 2009 – 2011 Council Priorities.

In particular, the Chamber recommends that Council approach the budget process in two stages. The first stage should involve setting and budgeting for the core priorities that are fundamental and essential to the city's successful operation. The budget allocations for these priorities should be established early and regarded as a last resort in the event of budget cuts.

The second stage of the process should involve setting and budgeting for the discretionary priorities. These are the priorities that focus on the "quality of life" elements of the city and, in times of budgetary constraints, should be the first candidates selected for reduced service levels or elimination.

### **Recommendation**

**It is recommended that the City of Calgary commission a Core Priority Study that differentiates core priorities from discretionary priorities, and that Council adopt a two-stage budget approval process that:**

- **Establishes and protects the core priorities early, and**
- **Enables the discretionary priorities to be considered first for service cuts or elimination.**

## **2.1.2 Conducting a City-Wide Services Review**

The Chamber commends the City of Calgary on its efforts to eliminate the 2010 budgetary shortfall of \$50 million, and reduce the projected residential property tax increase from 6.1 to 4.8 per cent. However, in 2010, the City is still expected to increase spending by more than the rate of real GDP and population growth for the fourth consecutive year. These annual expenditure increases are unsustainable relative to the City's population and economic base, and it is imperative that the City undertake every effort to manage expenditures and achieve program efficiencies.

In 2009 the City of Vancouver was confronted with similar economic challenges, including a 2010 budgetary shortfall of \$60 million, in the absence of tax increases. In February 2009, Vancouver Council approved a motion for a "comprehensive review of the businesses in all City departments and boards" and the review would include:<sup>10</sup>

<sup>10</sup> City of Vancouver. 2009. Vancouver Services Review News Release.

<http://vancouver.ca/ctyclerk/NewsReleases2009/NRVancouverServicesReview.htm>



- An examination of savings or shared service improvement opportunities in the City's provision of internal services, including IT, human resources, legal services, accounts payable, purchasing, time entry, payroll, security, building maintenance, yards and other services;
- An examination of City reserves and the five City funds to identify and report possible changes of process and structure to produce efficiencies, opportunities or cost reductions;
- An examination of City activities to identify those not mandated by legislation, no longer a priority, of questionable efficacy, or otherwise a candidate for reduction or elimination; and
- Any other change in business practices that could produce efficiencies or cost reductions.

It is anticipated that the project would create a core continuum of services, recommend feasible opportunities for improvement and savings; validate existing successful programs and processes; achieve a sustainable financial position over the coming three years; embed a continuous improvement approach to change management and business planning; and integrate with the corporate business planning and 2010 budgeting process.

As of September 2009, the review had already identified \$10 million in savings for 2010 with minimal impacts on citizens and no tax increases.<sup>11</sup> These savings were to be realized through the implementation of shared services in areas of finance, IT, supply chain and facilities management; process improvements in payroll and absence management; and consolidation of services.<sup>12</sup>

### **Recommendation**

**It is recommended that the City of Calgary develop and implement a city-wide services review that identifies opportunities for cost savings beginning with internal service delivery and fiscal management within and across all business units.**

<sup>11</sup> City of Vancouver. 2009. budget Update and Shared Services Review. September 29, 2009.

<http://vancouver.ca/pdf/mediaupdate-Sept29009.pdf>

<sup>12</sup> City of Vancouver. 2009. Vancouver Services Review News Release.

<http://vancouver.ca/ctyclerk/NewsReleases2009/NRVancouverServicesReview.htm>



### **3 PRUDENT EXPENDITURE MANAGEMENT**

It is critical that the City of Calgary adopt prudent expenditure management strategies during these challenging economic times.

#### **3.1 Set a Target to Limit Annual Spending Increases**

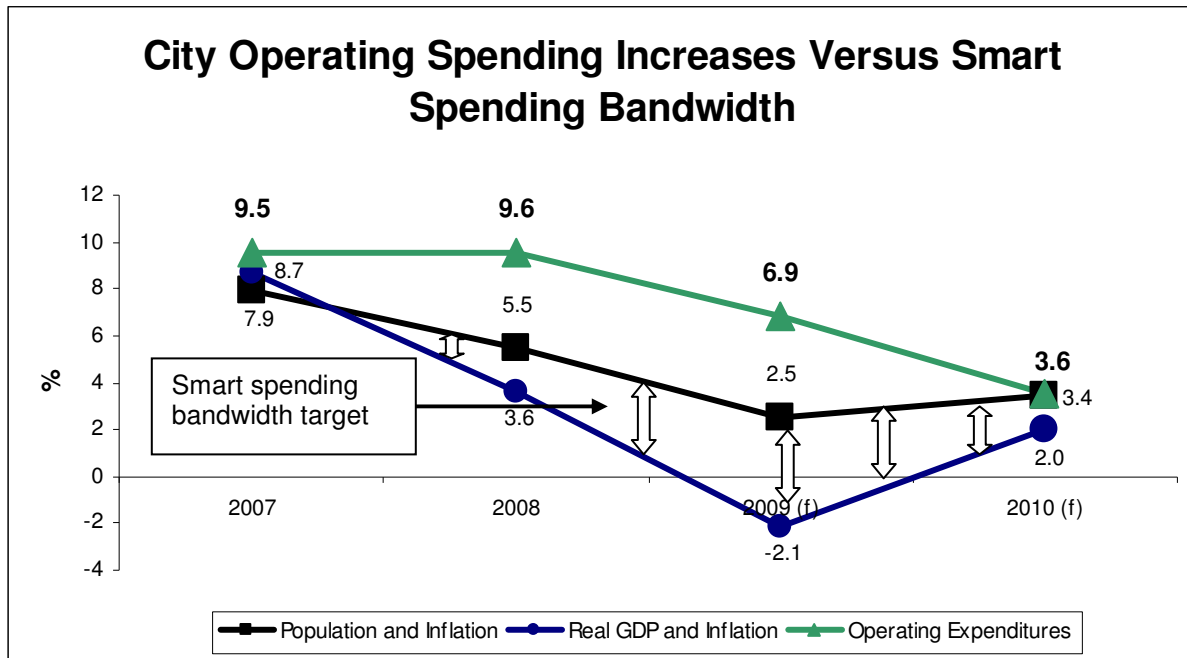
Chamber members continue to rate “link annual spending increases to population and economic growth” as a key priority for how the City could more effectively manage spending.

While the Calgary Chamber of Commerce recognizes the importance of maintaining current service levels, the message from Calgary business is clear, government needs to control spending. The Chamber, therefore, encourages government to adopt a more sustainable and prudent approach to program expenditures. In previous pre-budget submissions, the Chamber recommended that government limit program spending increases in line with inflation and population growth.

However, maintaining spending in line with population and inflation growth alone does not necessarily allow government to respond to pressures associated with economic growth, as economic expansion can occur in the absence of population growth and often impose significant strains on public services and infrastructure. Therefore, the Chamber recommends City Council limit annual spending increases to a “smart spending bandwidth” delimited by population growth plus inflation and real GDP growth in the economy plus inflation.

This target incorporates key growth factors into the municipal budget process and, when considered in combination with development levies and increased revenues collected from new tax-paying households, should provide sufficient revenues to support the increased needs and demands of the City.

**Figure1**



Source: City of Calgary 2009 - 2011 Budget, 2009 & 2010 Calgary Economic Development Outlook

As shown in Figure 1, meeting the bandwidth target is challenging as in 2007 and 2008 the City was unable to achieve it. Based on projections in the municipal budget, the City will not meet the target in 2010 unless the operational spending increase is brought from 3.6 per cent to 3.4 per cent, a reduction of 0.2 per cent or approximately \$4 million. However, as noted in the 2010 budget adjustment figures, the City is projected to spend \$19 million (or nearly 1 per cent) more than was budgeted. Spending at the lower end of the bandwidth target provides a cushion for the City to respond to unanticipated expenditures. To meet this objective, the operation spending increase would need to be reduced from 3.6 per cent to 2 per cent, a reduction of 1.6 per cent or \$37.7 million.

#### Recommendation

**It is recommended that the City of Calgary limit annual spending increases to within a “smart spending bandwidth” delimited by population growth plus inflation and real GDP growth plus inflation. For 2010, the lower level is set at 2 per cent, which will require a 1.6 per cent reduction from budget, approximately \$38million.**



### 3.2 Introduce Competition into the Delivery of Goods and Services

Municipal governments often act as monopoly providers of goods and services. With a lack of competition, there is little incentive for efficiency and productivity resulting in higher costs.<sup>13</sup> The main reason for municipalities to consider alternative delivery of services is the opportunity to better manage costs while maintaining or increasing service quality levels. Contracting out of local services provides a number of potential benefits, including<sup>14</sup>:

- Reduced costs;
- Improved / expanded services;
- Avoidance of start-up / sunk costs;
- Increased flexibility;
- Greater response to consumer demand; and
- Improved control.

Studies in Canada, the U.S. and Europe indicate that introducing competition to municipal services can result in savings of 15 – 30 per cent. The savings are not usually from lower wages of non-union employees, rather from increased employee productivity, technology, innovation and better use of capital assets and experienced management.<sup>15</sup>

Competition does not preclude public sector entities (departments, managers, employee groups, or some combination of these) from competing on contracts. Experience in other cities indicates that government departments play an important role and win in the competitive contract process.

For example, between 1979 and 1994, Phoenix awarded 56 contracts across 13 municipal services. Private companies won about three-fifths of the contracts, with the rest residing with public sector entities. With solid waste management, Phoenix initially contracted out zones, in which over half were won by private providers. Ten years later the City's public works department had won back all of these contracts. Managed competition not only allows the private sector to participate, it also encourages public sector entities to look for cost savings and innovate. The experience in Phoenix indicated that the most successful public sector bids often

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<sup>13</sup> Parsons, Graham. 1994. *Public Services: New Approaches and Directions*. Canada West Foundation.

<sup>14</sup> Business Council of British Columbia. 2007. *Financing Municipal Government Services – New fiscal tools and strategies. Policy Perspective* – November 2007. Available online: <http://www.bcbc.com/Documents/ppv14n4.pdf>

<sup>15</sup> Vander Ploeg, Casey with Brunnen, Ben. 2004. *No Time to Be Timid: Addressing Infrastructure Deficits in the Western Big Six*. Canada West Foundation.



involved joint employee-management participation, where new relationships were created and new thinking was applied.<sup>16</sup>

The City of Indianapolis with nearly 800,000 residents, is generally regarded as a leader in introducing competition into goods and service delivery to citizens. In the 1990s, working with consultants, the City began the process of uncovering the actual costs of delivering specific services (i.e. “activity-based cost accounting”) and then opened up these services to competitive bids. A total of 85 municipal services were tendered, including solid waste management, trash collection, pools and recreation centres, golf courses and the municipal airport, resulting in a 25 per cent cost savings to the overall operating budget.<sup>17</sup>

In developing a go forward strategy on competitive bidding, many years of experience in other jurisdictions, show that at least five rules should be followed if contracting out goods and services is to function properly<sup>18 19</sup>:

- The goods or services should be precisely defined.
- Selection must be by a truly competitive process.
- Private-contractor performance must be regularly evaluated.
- The public sector must be able to replace inept private contractors.
- Government must be concerned about the end results, not the means by which the goods or services are provided.

City Council has recognized the potential for more competitive delivery of goods and service. Council’s 2009 – 2011 Priority 7.2 aims to “Implement service delivery efficiencies through the application of business process improvements and alternative delivery mechanisms.” This has been a long-standing recommendation from the Chamber in past pre-budget submissions.

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<sup>16</sup> Business Council of British Columbia. *Financing Municipal Government Services – New fiscal tools and strategies. Policy Perspective*. November 2007. Available online: <http://www.bcbc.com/Documents/ppv14n4.pdf>

<sup>17</sup> Harry Walker Agency. 2002. ([www.harrywalker.com/speakers\\_template\\_printer.cfm](http://www.harrywalker.com/speakers_template_printer.cfm)).

<sup>18</sup> Guess, George & Farnham, Paul. 2000. *Cases in Public Policy Analysis*. Georgetown University Press.

<sup>19</sup> OECD. 2007. *Best Practice Guidelines for Contracting Out Government Services*. PUMA Policy Brief – February 2007. Available online: <http://www.oecd.org/dataoecd/19/40/1901785.pdf>



### Recommendation

**It is recommended that the City of Calgary introduce greater competition into delivery of goods and services by identifying the actual costs of delivering specific services and then opening up these areas to competitive bids. Solid waste management, trash collection, pools, recreation centres and golf courses are potential areas for consideration.**

#### Text Box:

#### Curbside Recycling – Right Idea But Problematic Tendering Process

In August 2006, the City of Calgary posted a Request for Proposal (RFP) for the opportunity to provide curbside recycling services city-wide.<sup>20</sup> The City's Finance & Supply Department led the RFP design process, with heavy involvement from the City's own Waste & Recycling Services Department. A "Fairness Advisor", Knowles Consultancy Services Inc. of Mississauga, was hired only after the RFP was distributed publicly.<sup>21</sup>

The City's Waste & Recycling Services Department eventually won the contract in July 2007. With five private recyclers in Calgary, not one section of the city will be handled by the private sector.

Calgary's experience is unusual. A major Kelleher Environmental Report of June 2006, titled *A Comparison of Approaches to Collect and Process Recyclables and Organics In Selected Canadian Cities*, indicated that no other Canadian city of comparable size has 100 per cent public sector delivery of its recycling service program.

In a Feb. 28, 2008 presentation to the Standing Policy Committee on Utilities and Environment the Chamber recommended that the City of Calgary redo the RFP, drafted and administered entirely by an independent consultant.

<sup>20</sup> Smith, Danielle. 2008. *Secretive process for Calgary recycling tender stinks*. *Calgary Herald*. February 12, 2008.

<sup>21</sup> Henry, Marc. 2009. Letter to CFIB. May 5, 2009. Available online: <http://docs.google.com/gview?a=v&q=cache:XrgBZ1woB7gJ:www.cfib.ca/legis/alberta/pdf/ab5756.pdf+city+of+calgary+recycling+RFP&hl=en&gl=ca&sig=AFQjCNHicujbTt-h0Cu7zSva8gOq3kEU1A>



## 4 EFFICIENT, EQUITABLE AND ACCOUNTABLE TAXATION

It is critical that the City's tax system create the best possible business and investment climate to encourage economic growth and wealth creation.. Four key generally accepted criteria exist in the tax policy literature for evaluating alternative forms of taxation. These include:<sup>22</sup>

- Equity - do beneficiaries incur the costs and are all tax-payers treated equally?
- Efficiency - are economic distortions created as a result of the tax?
- Administrative and compliance costs - are these unnecessarily high? and
- Accountability - are the revenue sources and their use sufficiently responsive and accountable to taxpayer demand?

The City currently imposes residential property taxes, non-residential property taxes and business taxes as their primary sources of tax revenue. A number of changes should be incorporated into City of Calgary tax policies to improve the equity, administration and accountability of municipal taxation from a business perspective.

### 4.1 Municipal Tax Equity

Equity in taxation relates to how fairly a tax is distributed among taxpayers, and is generally evaluated in terms of two principles: benefits received and ability to pay. The benefits principle is the notion that the tax burden should be distributed in relation to the benefits received from public expenditures. From a business taxation perspective, the benefits principle requires that businesses pay for the costs of the services and amenities they consume.

In the City of Calgary, the percentage of municipal property tax revenue generated through non-residential and business taxes consistently exceeds that generated through residential property taxes. This ratio was 59.8 per cent in 2005, decreased to 57.7 per cent in 2009, and is forecast to drop to 57.1 per cent by 2011.

This inequity is problematic when evaluated in terms of the benefits principle. This is because businesses consume a far smaller proportion of municipal services relative to residents. In some instances businesses are excluded from accessing the municipal services.

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<sup>22</sup> Bird, Richard. Vaillancourt François. Slack, Enid. 2006. Perspectives on Fiscal Federalism World Bank Publications. Ch. 10. p196

Rosen H.S., Dahlby B., Smith R.S. and Boothe P. (2003). Public Finance in Canada. Second Canadian Edition. Toronto: McGraw-Hill Ryerson. p45



To illustrate, businesses pay taxes that fund residential solid waste removal and recycling services; however, if businesses want to access these services themselves, they must pay directly. Businesses also fund recreation facilities, parks, cultural events, and social support services, but do not utilize any of these services themselves.

The Chamber urges the City to reduce the ratio of property tax revenue paid from non-residential and business tax sources to residential tax sources to 50/50 by 2015. This ratio, which the City of Edmonton maintained in both 2007 and 2008, would result in a more equitable and representative property taxation system from a tax policy perspective.

#### **Recommendation**

**It is recommended that the City of Calgary reduce the ratio of business and non-residential to residential tax revenues from 57.5 per cent to 50 per cent by 2015.**

## **4.2 Municipal Administrative and Compliance Costs**

The administrative cost of the tax burden should also be considered in the design and operation of the tax system to reduce inefficiencies. It is important that the tax not be administratively burdensome by avoiding unnecessary collection, reporting and compliance costs for both business and the City.

Calgary is one of the last remaining municipalities that collect both a business tax and a non-residential property tax. This system is unnecessarily duplicative and complex from a business and tax collection perspective. On May 14, 2008 Council voted down a proposal to harmonize the business tax and the non-residential property tax. The proposal met with some resistance from the business community because of concern that the harmonized tax would result in a higher tax burden on business over the long-term.

The Chamber now asks the City to reopen the debate on the harmonization of these two taxes to lessen the administrative burden on business and to lower the proportion of total tax revenue generated from non-residential sources because businesses use far less services than residents.

In a pre-budget survey, 80 per cent of members supported the consolidation of the business tax and the non-residential property tax, provided that the overall tax burden on business does not increase.



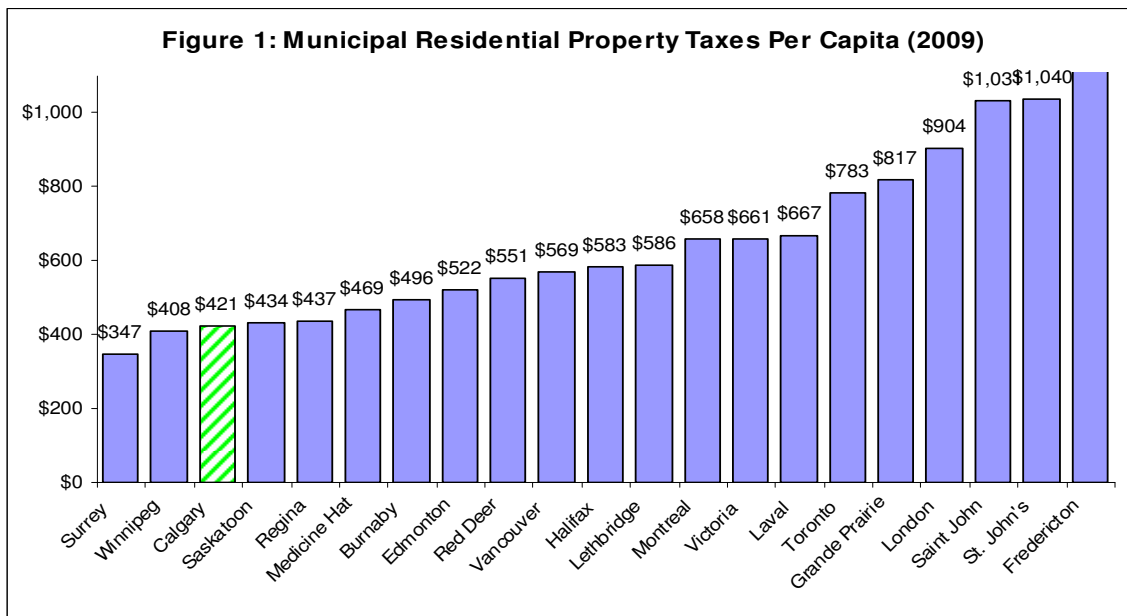
### Recommendation

**It is recommended that the City of Calgary harmonize the business and non-residential property tax, provided the non-residential-to-residential total tax ratio does not increase.**

## 4.3 Municipal Accountability

Accountability is perhaps the most critical of these tax policy criteria listed. It is important that governments establish tax collection and reporting policies that are accountable and responsive to taxpayer demand, by sufficiently engaging and reporting to taxpayers regarding the collection and expenditure of the revenues.

The City of Calgary focuses significant resources on its accountability and reporting efforts geared towards residents. The City's document entitled *Proposed Adjustments to Business Plans and Budgets for 2010 and 2011* provides detailed information regarding increases in the residential municipal tax rate, and the financial impacts this will have for households.<sup>23</sup> Additionally, the City's new Tax Talk website focuses exclusively on residential impacts. The City of Calgary is also proud to communicate that its residential property taxes per capita are third lowest in the country (Figure 1).

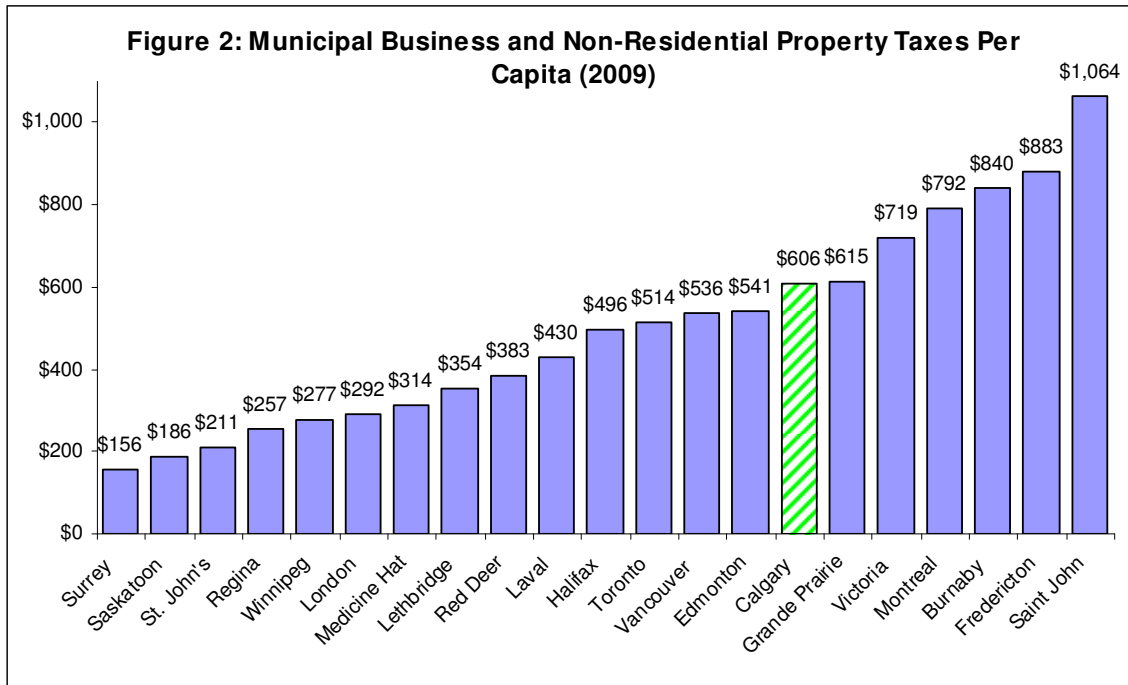


Source: Derived from City of Edmonton. 2010. 2009 Residential Property Taxes and Utility Charges Survey.

<sup>23</sup> City of Calgary. 2009. Proposed Adjustments to Business Plans and Budgets for 2010 and 2011. p5



However, very little information regarding the competitiveness of Calgary's other major tax revenues (i.e. the business and non-residential taxes) is publicly communicated by the City. Comparing municipal business and non-residential property taxes per person across 21 municipalities across Canada, Calgary ranks as the seventh most expensive municipality in 2008 (Figure 2). For cities with populations over 100,000, Calgary ranked second highest only to Montreal.

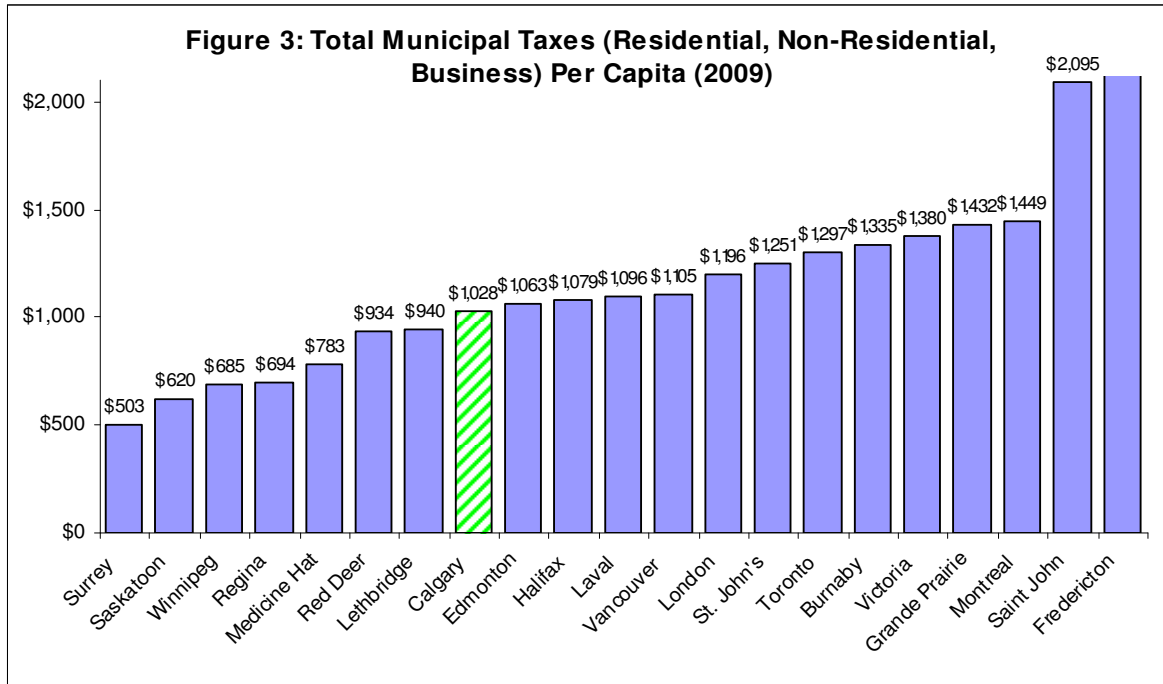


Source: Derived from City of Edmonton. 2010. 2009 Residential Property Taxes and Utility Charges Survey.

This lack of communication is particularly disturbing because, unlike residents, businesses do not have a formal avenue to hold City officials to account for the expenditure of their tax revenues.

More importantly, the uncompetitive nature of Calgary's business and non-residential tax climate increases the tax burden on all Calgarians. This is because taxes paid by businesses are largely passed on to residents in the form of higher prices for goods and services, and lower wages paid to employees.

Focusing on Calgarians' total municipal tax burden, our city ranks near the middle of the pack when comparing municipal property (residential and non-residential) and business taxes per person across 21 Canadian cities (Figure 3). This result is in stark contrast to Calgary's residential property tax ranking previously discussed.



Source: Derived from City of Edmonton. 2010. 2009 Residential Property Taxes and Utility Charges Survey.

What is more interesting is that Calgary’s per capita tax burden has actually increased relative to other Canadian cities. In 2008 Calgary ranked seventh based on total municipal taxes per capita. In 2009 we rank 8th.

Based on this analysis, it is clear that a significant taxpayer accountability deficit exists at the City of Calgary – one that threatens to undermine the City’s obligation to accurately report and account to citizens regarding the total taxes they pay in exchange for the suite of services offered by the City.

**Recommendation**

**It is recommended that the City of Calgary more effectively communicate with the public and the business community regarding the competitiveness of non-residential and business taxes, so that citizens and businesses alike have a more complete understanding of the true costs of providing the bundle of municipal services.**



## 5 GREATER TRANSPARENCY AND ACCOUNTABILITY

In the Chamber's 2010 pre-budget submission survey, members rated "conduct expenditure reviews and program evaluations to ensure value for money" as their highest priority for how the City could more effectively manage spending. In response, the Chamber advocates a stronger emphasis on the municipal auditing function and a more transparent budgeting process that encourages greater public input.

### 5.1 From a Three-Year Binding Budget to a Three-Year Annual Rolling Budget

The City of Calgary operates on a three-year budget cycle, whereby City Council approves three years of operating budgets at one time, rather than approving the operating budget on an annual basis. As a result, the City undertakes full budget reviews only once every three years, and engages in budgetary adjustments for the two years in between. The 2009 - 2011 period was the second three-year budget cycle undertaken by the City.

#### Benefits

According to the City, some of the benefits of a three-year budget include a more predictable financial framework that facilitates municipal business planning; providing citizens with greater certainty regarding service delivery and tax levels; and reducing the amount of time spent on preparation review of city budgets.<sup>24</sup> This approach, however, also creates a number of challenges.

#### Challenge #1 - Inability to Respond to Changing Economic Conditions

Budgeting for three-year periods limits the City's ability to respond to significant economic, social and service delivery challenges that arise over the interim period. This challenge was particularly evident during the 2006 - 2007 period, in which the City experienced record annual population growth (3.7 per cent), record employment growth (7.4 per cent), and record income growth (4.5 per cent).<sup>25</sup> The three-year budget limited the City's ability to respond to the ensuing constraints on its infrastructure and the increased demand for municipal services as a result of this growth. This was again evident during the economic downturn that began in late 2008 and has continued into 2009. Calgary's unemployment rate has doubled from 3.4 to near 7 per cent, real GDP growth has plummeted from 0.4 per cent in 2008 to

<sup>24</sup> City of Calgary. 2005. Staff Report C2005-94

<sup>25</sup> Calgary Chamber of Commerce. 2008. *Municipal Land Development Policies and Regulations and the Impact on Calgary Housing Affordability*. P. 1.

an estimated -2.5 per cent in 2009, and the immediate future continues to look challenging<sup>26</sup> - while the City plans to increase taxes for the foreseeable future.

Incorporating greater flexibility into the municipal budget process would have enabled the City to respond better to these economic growth and decline challenges.

While there is merit in developing multi-year business plans and performance measures as forward guidance, a three-year locked-in budget runs contrary to the practices undertaken by senior levels of government, all other municipalities across Canada, and the vast majority of private sector organizations. Indeed, both the provincial and federal governments develop multi-year rolling budgets and business plans on an annual basis, whereby a new budget is produced every year, and expected revenues and service delivery needs are forecasted for subsequent years to enable business units to anticipate and plan for service levels in future years.

Similar to the three-year budget, the multi-year rolling budget approach provides budgetary, business planning and service delivery certainty and predictability; however, unlike the three-year binding budget, the rolling budget allows governments to incorporate flexibility into the budgeting process, enabling decision-makers to respond to changing infrastructure and service demands in a timely manner.

## **Challenge #2 - Lack of Civic Engagement & Accountability**

The City's three-year budget cycle limits the ability of citizens to provide input into the budget and hold government to account. Intentionally designed to "lag by one year Council's term of office"<sup>27</sup> this practice seeks to ensure new City Council members are able to gain a basic understanding of the budgetary process during their first year in office.

This approach, however, effectively commits newly elected Councils to the third year of the previous Council's three-year budget, a full third of their mandate, limiting the ability of the new Council to fulfill commitments and campaign promises made to the electorate during their election campaign. This leads to increased voter apathy and cynicism, and decreased civic engagement.

To ensure that Councilors become familiarized with the intricacies of the municipal budgeting process at the onset, the City could require that new Councilors attend mandatory budget training seminars shortly after their election to office. This approach, currently offered informally by the City and municipal associations across

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<sup>26</sup> Legge, Adam. 2009. *2010 Calgary Economic Outlook – October 6, 2009*. Calgary Economic Development. Available online: [www.calgaryeconomicdevelopment.com](http://www.calgaryeconomicdevelopment.com)

<sup>27</sup> City of Calgary. 2005. *Background Information 2006 – 2008 Budget*. p. 5.

the province, would provide assurances that Councilors are equipped to serve and respond to the needs of their constituents during their first year in office.

City Council should embrace and encourage public engagement as positive elements of our political process. The current process discourages engagement and accountability and must be changed.

### **Recommendations**

**It is recommended that the City of Calgary change from a three-year binding budget to a three-year rolling budget introduced annually, to better respond to unanticipated growth and service delivery pressures, and allow for greater public input and accountability.**

**It is recommended that the City of Calgary adopt ‘greater transparency and citizen engagement’ as a 2009 – 2011 City Council Priority, to encourage public input and participation in the municipal decision-making process.**

## **5.2 Strengthening the Role of the City Auditor**

Prudent fiscal management and transparent and accountable governance are integral to a well-functioning, legitimate and responsive local government system. To this end, sufficient safeguards must be in place to ensure municipalities govern in a manner accountable to taxpayers, and that returns the greatest value per tax dollar. Part 8 of the *Municipal Government Act* requires that municipalities submit to the province annual financial statements and a financial information return, along with an Auditor’s report on each. The Auditor’s report provides an opinion on whether the statements are fairly presented and comply with appropriate accounting principles, also known as an ‘attest audit’.

Attest audits, however, are only one component of what is known as ‘comprehensive auditing’. Comprehensive auditing consists of three components: attest, compliance and value for money audits, and is the approach taken by both the Federal and Provincial Offices of the Auditor General. Compliance audits report matters of misuse or mismanagement of public funds, or expenditures not authorized by government. Value for money audits report cases where “public funds have not been spent with due regard to economy and efficiency and where there are no satisfactory



procedures in place to enable those who administer programs to measure and report on the effectiveness of these activities.”<sup>28</sup>

Compliance and value for money audits are critical functions of government that assure trust and integrity in the system. The *Municipal Government Act* provides Alberta municipalities with among the greatest level of autonomy and authority of all local governments in Canada and, as a result, these municipalities should be held to expenditure and accountability standards similar to those of senior levels of government. However, many Alberta municipalities lack the institutional and fiscal capacity to directly undertake comprehensive auditing practices.

Under the *Municipal Government Act* Alberta municipalities may establish a City Auditor’s Office. The City of Calgary created an Office of Municipal Auditor in 2004. According to the City of Calgary’s Auditor bylaw “the City Auditor shall be subject to the supervision of and accountable to Council and report to Council through Audit Committee”.<sup>29</sup> While the Chamber applauds the City’s efforts to move towards a more robust auditing framework, the City needs to strengthen the independence of the City Auditor’s office.

The City Auditor’s July 2007 report to the City’s Audit Committee entitled *Review of City Auditor Reporting Relationships* outlines some of the best practices pursued by other jurisdictions and many of the recommendations should be considered as part of a strengthened auditing framework.

### **Independence of the City Auditor**

The independence of the City Auditor is currently hindered by the process through which the person holding the office can be removed. Currently, City Council can suspend or revoke the appointment of the Auditor with a simple majority vote. To improve the independence of the audit framework while preserving City Council’s authority to remove an incompetent Auditor, a super majority of two-thirds of Council should be required to revoke or suspend the appointment of the Auditor.

Section 8 of the City Auditor Bylaw holds that, “The City Auditor shall prepare an annual audit plan for approval by Audit Committee and an annual budget to be submitted through Audit Committee for Council approval.”<sup>30</sup> While Council needs to be informed on the activities of the Auditor to promote a constructive working relationship, making the annual audit plan subject to the approval of the Audit

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<sup>28</sup> A Guide Book for the Heads of Agencies: Operations, Structures and Responsibilities in the Federal Government. 1999. Annex E. [http://www.pco-bcp.gc.ca/index.asp?doc=guide2/annex-e\\_e.htm&lang=eng&page=information&sub=publications](http://www.pco-bcp.gc.ca/index.asp?doc=guide2/annex-e_e.htm&lang=eng&page=information&sub=publications)

<sup>29</sup> <sup>29</sup> City of Calgary Bylaw 30M2004. Available online: [http://www.calgary.ca/docgallery/bu/city\\_auditors/30m2004.pdf](http://www.calgary.ca/docgallery/bu/city_auditors/30m2004.pdf)



Committee severely limits the independence of the Auditor. The Auditor should be in control of his / her work plan and submit it to the Committee for informational purposes only, with an opportunity for Council to amend the plan with a super majority of two-thirds.

Annual budget approval also poses a threat to the independence of the Auditor as it leaves room to diminish funding of the Auditor's office in a relatively discreet manner. Making the Auditor's budget proportional to the size of the City's budget assures an appropriate allocation of resources that will increase the reliability and quality of Audits as the Auditor would not have to campaign for funding each budget cycle.

From a reporting perspective bylaw 30M2004 stipulates that the City Auditor "shall report to Council through the Auditing Committee".<sup>31</sup> This reporting structure effectively limits the Auditor's ability to raise awareness of critical issues identified in the Audit reports. A more appropriate approach would to enable the Auditor to reserve the right to report directly to Council, in order to enable the Auditor to elevate the profile of the Audit report as necessary.

The strongest guarantee of independence for the City Auditor would come in the form of legislation at the provincial level mandating the office and providing all of the features listed above as an auditing framework. Quebec has already instituted a legislated position of Chief Auditor for all municipalities with a population greater than 100,000.

### **Recommendations**

**It is recommended that the City of Calgary strengthen the role, independence and autonomy of the City Auditor by:**

- **Requiring a two-thirds majority vote for Council to suspend or terminate the Auditor;**
- **Enabling the Auditor to establish the audit plan without Council approval, but that Council may amend the plan with a two-thirds majority;**
- **Setting the Auditor's budget to be a fixed proportion of total municipal expenditures, ensuring the Auditor continues to have sufficient resources, independent of Council decisions; and**
- **Enable the Auditor to report to Council directly, rather than only to the Audit Committee, to raise the profile of the Auditor reports.**

<sup>31</sup> City of Calgary Bylaw 30M2004. Available online:  
[http://www.calgary.ca/docgallery/bu/city\\_auditors/30m2004.pdf](http://www.calgary.ca/docgallery/bu/city_auditors/30m2004.pdf)