Cities Shortchanged

Cutbacks and "downloading" force cities into a tight spot.

photo by: JEAN BOULAY

by Mark Lowey

Round the clock, the big rigs with names like "Red Dog," "Diesel Dad" and "MooJuice Hauler" rumble through Edmonton on the Yellowhead Highway. The goods they carry—everything from frozen peas to live cattle to sleek new BMWs—drive the economy. Each truckload helps fill the coffers of both the Alberta and the federal government treasuries.

So how much do the province and Ottawa contribute each year to the vital, national Yellowhead hub through Edmonton? Not one loonie toward annual maintenance or repairs or new construction, says Edmonton Mayor Bill Smith. "Taxpayers from Edmonton are maintaining this road," he says. "This is a typical example of what should be turned over to the province."

Smith's frustration is echoed by a growing chorus of municipal leaders in Alberta. They are demanding that the two levels of senior government share not only the benefits of economic growth in cities, but also more of the costs of that growth.

Calgary city council had to scramble last fall to approve $3.3-million in emergency funding for the local police force for the G-8 summit, scheduled for June 2002 in Kananaskis Village. Only after the municipal government acted did Ottawa finally confirm that a federal contribution would be forthcoming. Meanwhile, then-Mayor Al Duerr (who retired from civic politics last October) was still smarting over the city's tab for hosting the World Petroleum Congress in June 2000. Calgary had to shell out about $3-million for extra policing costs, including 1,500 officers—many hired from across the country. The province gave the city a one-time-only grant of $1-million to help out, Duerr acknowledges. But Ottawa's contribution to policing was zero.

"They [federal and provincial politicians] say, 'Let's have something in your community,'" Duerr says. "Well, it's nice to have it here, and it's good for business. But it doesn't generate a penny more" in municipal taxes to help run the city and pay for infrastructure. Duerr also notes that, in the last decade, the Alberta government has eliminated a municipal policing grant to Calgary that would have been worth $26-million in today's dollars.

Leaders of Alberta's smaller cities are also feeling shortchanged. In Lethbridge, then-Mayor David Carpenter (who also retired from civic politics in October) was understandably proud of the new cogeneration plant at the city's sewage treatment facility. The plant, which uses the otherwise waste gases from sewage treatment to generate usable energy, cost the city about $5.7-million. And how much did the Alberta and federal governments kick in for this innovative, environmentally sound project? You guessed it—zilch. Before the early 1990s, the province shared the cost 50/50 for municipal utility projects such as water and sewage treatment. "Now that's gone to zero," Carpenter says.

Alberta enjoys a worldwide reputation for its endless skies, wide-open prairie and postcard-perfect Rockies. But the new reality of the West is that its cities, not its countryside, dominate the economic and social landscape.

"This is actually a highly urbanized part of the country, and it has the most rapid rates of urban growth in the country," says Roger Gibbins, a political scientist at the University of Calgary and president and chief executive of the Canada West Foundation. "This is, in many respects, the urban heartland of the country."

The growth of Alberta's major cities unquestionably has generated significant economic benefits for both the province and Ottawa. From 1990 to 2000, the Alberta government's income tax revenue increased by 32 per cent, while Ottawa's take rose 17 per cent, according to a Canada West Foundation study of the finances of Western Canadian cities. In contrast, as Duerr points out, Calgary's tax revenue in real dollars "has actually shrunk by 4.4 per cent. We're going in the other direction."

Urban residents are feeling the pinch as financially squeezed local governments have little choice but to raise utility rates and user fees for services. Calgary, for example, produces $37-billion in goods and services annually, and added 125,000 new jobs between 1996 and 2000, according to a report released last fall by Promoting Calgary Inc., the city's economic development arm. Yet, the report noted that the city suffers from rising homeowner costs, longer commuting times, growing income disparity, and health and stress issues.

How much did Alberta kick in for Lethbridge's co-generation plant? Zilch. Before the early 1990s, the province shared the cost 50/50 for municipal utility projects such as water and sewage treatment. "Now that's gone to zero," says David Carpenter, former Mayor of Lethbridge.

Gibbins, who has lived in Calgary for 30 years, says the city's struggle to deal with rapid growth, without sufficient help from senior governments, is beginning to jeopardize what has become an excellent urban lifestyle. "The canary in the mine shaft tends to be the transportation system. It tends to be Macleod Trail, Deerfoot and the Crowchild.... It is a warning that we're beginning to creak and strain."

"The risk," Gibbins says, "is that the quality of life we assume is high [in Canadian cities] will deteriorate, and we'll find ourselves outflanked by our competitors in the U.S. We'll find that the Pittsburghs and the Boises and the Denvers and the Seattles are beginning to offer a quality of life that competes very effectively with the Canadian quality of life."

Duerr, who worked as an urban planner before running for office, agrees with that assessment. "We still have better cities," he says. "But we're on a downward trend with this cycle, even in Alberta, where there's lots of wealth."

During the past decade, a chasm has opened up between the wealth the senior governments share with cities, and the municipalities' growing burden of responsibilities, the Canada West Foundation study shows. Calgary's population has grown by a phenomenal 24 per cent, from just over 690,000 residents in 1990 to 877,000 by 2001. Twenty-eight per cent of all Albertans now live in the Foothills City. Yet, in the same period, the city's per capita operating grants from senior governments dropped by 67 per cent, the study found.

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Smith says provincial capital grants to Edmonton fell from $84-million in 1992 to $22-million in 1995. They recently bounced back up to about $70-million. "That helps," he says, although it is still $14-million less than a decade ago, when Edmonton had 50,000 fewer people than it does now.

ARION PREDIKA

How much do the province and Ottawa contribute each year to the Yellowhead in Edmonton? Not one loonie. In Calgary, $12-million in funding for transportation infrastructure was cut.

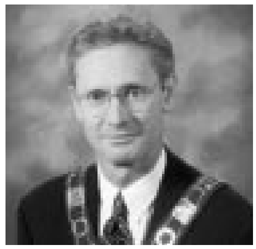
Lethbridge, in the early 1990s, received a total of about $8-million in various unconditional transfer payments from the province. Those contributions have now been rolled together and total about $4-million—half of what they were a decade ago. "Four million dollars less is a real bunch of pressure on your operating budget," says Carpenter, who was Lethbridge's mayor for 15 years.

Canada West Foundation researchers scrutinized the financial reports of six major western Canada cities for the last 11 years. Along with Edmonton and Calgary, they looked at Vancouver, Saskatoon, Regina and Winnipeg, focusing on four key economic indicators: municipal deficits versus surpluses; debt levels; changes in revenue streams; and expenditures on programs and capital infrastructure.

"Operating support from senior governments has been cut drastically," says Casey Vander Ploeg, senior policy analyst at Canada West and co-author of the study, *Dollars and Sense*. Moreover, the increase in tax revenues collected by cities, even in good economic times, doesn't come anywhere close to the revenues reaped by senior governments. The data gathered by Canada West is backed up by the Federation of Canadian Municipalities, which says only 4.5 cents of every Canadian tax dollar goes to municipal governments, while 95.5 cents winds up at the federal and provincial levels.

"There's no doubt about it, from a political point of view, that cities and municipal governments are definitely on the bottom of the [fiscal] food chain," Vander Ploeg says. In response to declining government transfer payments, "neither Edmonton nor Calgary over the 10 years has drastically increased program spending. They've kept a lid on it." Both cities, along with Lethbridge, have also had to significantly cut their capital spending. They've put any budget surpluses into reserve funds or paid down debt, only to have to borrow more money from internal reserve funds to pay for new capital projects demanded by urban growth.

Alberta's two biggest cities are clearly running out of room to manoeuvre. The Canada West study found that, in the last two years, Calgary has had the smallest budget surpluses compared to any previous year—and the smallest surpluses of any Western Canadian city when measured in per capita terms. Fiscally prudent city councils in both Calgary and Edmonton have managed to reduce their cities' tax-supported debt since 1990. But when self-sustaining debt (debt assumed by the cities' utilities operations and supported by user fees) is calculated in, the total debt loads for both cities are still where they were a decade ago. Edmonton is facing a $27-million shortfall in its long-term financial plan, which could rise to $103-million by 2011. "Our major challenge in the next few years," Smith says, "is to close the gap between revenues and expenditures and to try to maintain the service levels for a growing population."


COURTESY OF THE CITY OF CALGARY

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To make matters worse, senior governments have reduced "no-strings-attached" operating grants to municipalities. In 1990, unconditional grants represented 51 per cent of all operating grants Calgary received. That had fallen to 20 per cent by 2000. "The cities are finding that they don't have access to a set of revenues that increase proportionately to the type of costs…incurred because of the economic growth," Vander Ploeg says.

Alberta's cities, in effect, are being forced to shortchange their present in order to pay for their future. Ironically, they are chronically underfunded in a time when Edmonton will lead the country this year in economic growth, with Calgary coming a close second, according to the Conference Board of Canada. Smith notes that, since he became Edmonton's mayor nine years ago, "we've trimmed our budget alone by about $9-million a year." User fees in Calgary now comprise about 33 per cent of the city's revenues, compared with only 28 per cent in 1990, Duerr says. In Lethbridge, city council had to hike water utility rates twice to pay for replacing the city's century-old cast-iron water mains before they break.

At the root of the cities' plight is what Duerr calls the "anachronistic" nature of the relationship between senior governments and municipalities. Local governments aren't even mentioned in Canada's Constitution Act, he says. "We're 'creatures' of the province. That probably made sense back in 1867, when you had maybe 20 per cent of the people living in a municipality." But with 80 per cent of Canadians now living in cities, "we still have a structure that is very paternalistic, very top-down." At the same time, local governments are the ones on the front line. Says Lethbridge's Carpenter: "If something's going wrong in the community, people are on the phone to me. We are not necessarily in a position to deal with it, although we are expected to."

Housing is one area where the gap shows. Provincial governments share constitutional responsibility for housing. Yet the lack of affordable housing in cities like Calgary, Edmonton, Fort McMurray and Grande Prairie is hampering the cities' ability to compete for skilled workers and new businesses. "Alberta is no different than the other provinces who've largely walked away from that [issue]," Duerr says. The federal government last year did earmark $753-million to help relieve homelessness, but that money is spread thinly across the entire country. Ottawa and the province also contributed some funding to Calgary's recently built Drop-In Centre and the Salvation Army's Centre of Hope. Most of the money, however, came from generous Calgarians through fundraising in the community.

In the U.S. and Europe, municipal governments have access to "a treasure chest of fiscal tools" and national and supranational grants. But in Canada, says the Federation of Canadian Municipalities, municipal governments "are heavily reliant on locally generated revenues, have fewer levers to attract investment, and scant access to federal and provincial funds."

Alberta cities are permitted to generate their revenue only through residential and business property tax, revenue-in-lieu, business tax and local improvement levies. Municipalities are constitutionally denied access to revenue streams collected by senior governments, such as sales tax, hotel and entertainment taxes, income tax and wealth surtax. Calgary, for example, has to generate about 50 per cent of its revenue through the property tax. In Phoenix, that proportion is only 14 per cent. Edmonton's Smith argues that the province should amend the Municipal Government Act to give Edmonton and Calgary more rights to collect a wider range of revenues.

DANA WILSON

During the World Petroleum Congress in June 2000, Calgary had to shell out about $3-million for extra policing costs, including 1,500 officers—many hired from across the country.

In responding to cutbacks in government transfer payments and the pressures of urban growth, Alberta cities have had to employ some innovative strategies. Edmonton, in the early 1990s, ran a massive operation with a budget approaching $1-billion a year. It included separate water, sewer and electric utilities, a telephone company and the municipal airport. In 1995, the city sold Edmonton Telephones and two years later converted its water and electric utilities into EPCOR. Then the airport closed. In just two years, the city lopped nearly $900-million from its annual operating budget, Vander Ploeg says. Edmonton invested the money from the sale of Ed Tel into an endowment fund. The fund has grown from providing about $45-million in cash to the city's budget in 1994 to kicking in $75-million last year to pay for capital projects. "The Ed Tel Endowment Fund has arguably helped to 'save' Edmonton," says Vander Ploeg.

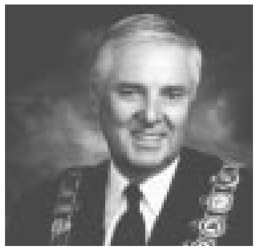
Lethbridge has taken what it calls the "pay-as-you-go" route, which has included reducing the payback times on capital project loans, regularly increasing the municipal budget by $100,000 a year, implementing multi-year budgets and borrowing internally from accumulated city surpluses rather than paying bank interest. "We made our number one priority the maintenance of existing facilities, as opposed to building new ones," says Carpenter. The strategy has paid off. Lethbridge is on track to pay off its entire tax-supported debt by 2007.

But, at the same time, the Alberta government locks Lethbridge and other smaller Alberta cities into a 75/25 cost-sharing formula for municipal transportation projects. Local governments wanting to leverage the greatest possible amount of provincial funding are forced to spend the lion's share of their capital budgets on roads and other transportation items, leaving little money for other priorities such as water and sewer utilities, parks, downtown renewal and policing, Carpenter says. "The 75/25 formula has taken away the ability for the community to set its own priorities."

To its credit, last year the Alberta government did take the first step in Canada toward a fairer cost-sharing structure, by transferring a portion of the provincial fuel tax collected at the pump. Pushed by Calgary and Edmonton, the province agreed to turn over five cents out of the nine-cent-per-litre tax for road fuel delivered within the city limits. Each city must use this revenue only for transportation projects. Calgary was expected to receive about $85-million in fiscal 2001-02 from this arrangement, says Alberta Transportation spokesman Trent Bancarz. Edmonton's share was to total about $65-million. But then last fall, the province—finding its revenues squeezed by falling oil prices—arbitrarily cut its contribution to the cities to 4.25 cents a litre from five cents. That forced both Calgary and Edmonton to re-evaluate their entire long-term infrastructure investment plans. For Calgary, the cut subtracted about $12-million a year in funding for everything from the construction of new interchanges to the purchase of additional LRT cars.

Beginning in 2000, the province took responsibility for annual maintenance and new construction on key trade highways through the cities, such as Deerfoot Trail and Stoney Trail in Calgary and Anthony Henday Drive in Edmonton. However, the Alberta government has steadfastly refused to take over the Yellowhead through Edmonton or the TransCanada through Calgary, arguing that these routes are part of a national highway network that Ottawa should look after. Edmonton and Calgary—backed by the Alberta government—are now pressing the federal government to share with cities some of the fuel tax it collects. Ottawa collects nearly $5-billion annually in gasoline taxes, but returns only 4 per cent of that to the cities and the provinces for transportation. In contrast, in the U.S., more than 80 per cent of the federal take from fuel taxes goes back to the cities for roads, subways and bridges. The U.S. federal government is spending US$218-billion over six years on public transit, commuter rail and highways. Compared with that investment, "our [federal] government spends nothing," Duerr complains. Ottawa has provided sporadic funding for urban infrastructure through a cost-sharing program started in 1993 and renewed in 1997 and 2000. The newest version will contribute $2.65-billion across the country over six years, with the provinces and municipalities matching the federal funds. But this contribution pales beside the $17-billion that infrastructure experts estimate will be required for capital improvements to Canadian highways and bridges, not to mention the $27-billion needed for new municipal water treatment facilities. "Cities need a source of predictable and steady revenues that are related somehow to the growth that's going on in the city," says Canada West's Vander Ploeg.

Alberta Transportation, along with Edmonton and Calgary, sent a formal proposal about a year and a half ago to Prime Minister Jean Chrétien, calling on Ottawa to at least contribute to both cities' public transit systems. Apart from the Prime Minister's Office replying "'Thank-you very much for your suggestion,' we haven't heard too much else," Bancarz says.



COURTESY OF THE CITY OF EDMONTON

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Last year, Chrétien formed a caucus task force on urban issues. I spent a week making telephone calls to obtain the federal perspective, either from the Prime Minister's Office or from the head of the urban task force, but no one was available for comment. However, Intergovernmental Affairs Minister Stéphane Dion clearly spelled out the federal position at the annual meeting of the Federation of Canadian Municipalities held last May in Banff. "You know full well that the Constitution clearly establishes that municipal affairs fall under provincial jurisdiction, and that the provinces are determined to keep it that way," Dion told delegates.

Canada West Foundation head Gibbins bluntly calls that "a bogus argument." The Constitution also assigns responsibility for hospitals to provincial jurisdiction, he notes. "That hasn't prevented the federal government from being very active in terms of policy," In fact, through the Canada Health Act, Ottawa is the major source of funds for health services in the provinces. The absence of a federal urban policy "has really just been a lack of imagination and political will," Gibbins says.

Duerr and Carpenter, both aged 50 when they retired from civic politics, say they intend, working in the private sector, to keep pressing senior governments to improve the lot of their respective cities. "We've got to deal with some of these downloading issues, the homeless situations, the food banks," Carpenter says. Duerr, who was Calgary's mayor for 12 years, predicts that redressing the fiscal balance between senior and local governments will be the major urban issue across Canada for the foreseeable future. "At some point we're either going to deal with it or the economy of this country is going to grind to a halt," Duerr warns. "And that's the bottom line."

Mark Lowey is a professional journalist and publisher of *EnviroLine*, a business publication for the environmental industry. He has lived in Calgary for 26 years.