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## Edmonton Chamber of Commerce 2009 Municipal Budget Position

### **Background**

Although the City of Edmonton continues to remain prosperous and continues to attract large volumes of new residents, there are also unique challenges that face the City today. It is therefore imperative that the City of Edmonton maintain an appropriate fiscal balance that will ensure sustainable growth and development while pursuing a long-term vision for the future of this great northern city.

The Edmonton Chamber of Commerce recognizes the need for and will continue to support a new fiscal framework for funding municipalities. A report just released by the Canada West Foundation entitled *Problematic Property Tax: Why the Property Tax Fails to Measure Up and What to Do About It*, not only justifies the need to reform the entire system of funding municipal services and infrastructure, but also points to other alternatives supported by the Edmonton Chamber of Commerce. "Property tax reform and more diverse revenue sources should be seen as part of a much larger package of alternatives that also includes focusing on core responsibilities and priorities, expanding user pay wherever possible, pursuing better pricing models, exploring new modes of program and service delivery, and adopting more creative and innovative infrastructure financing and funding."

### **Controlling spending**

Traditionally, inflation and population growth is used as a benchmark level for what constitutes a reasonable annual increase in municipal operating spending. However, in recent years the increase in government operating spending has consistently exceeded inflation and population growth in most municipalities across the province. It has been noted that just four per cent of Alberta residents live in a municipality that was able to keep spending growth below inflation and population growth between 2000 and 2006.

The Edmonton Chamber of Commerce acknowledges there may be particular circumstances that warrant spending increases greater than inflation and population growth such as priority infrastructure needs. The challenge is that when spending growth consistently exceeds inflation and population growth, property taxes and user fees will inevitably increase at rates higher than inflation. This in turn increases the financial burden on families and business owners already struggling to pay rents and mortgages, and keep up with rising service and labour costs. Edmonton is also unique in that it has to remain competitive with neighboring municipalities that can piggyback on the premium services available throughout the region and yet offer a lower tax environment to businesses and residents.

With this in mind, the Edmonton Chamber of Commerce is concerned with the potential proposed tax increase. The original budget proposed for 2009 called for a 13.1 per cent tax levy increase; possibly even higher if City Council approves further spending requests. However, the current rate of inflation is estimated at 4.3 per cent for Edmonton, which given present economic forecasts will likely decline in 2009.

The Chamber does acknowledge recently proposed budget adjustments that would keep next year's tax increase in line with the expected rate of inflation – about 3.75 per cent. Every \$7.75 million taken out of planned spending represents a 1 per cent reduction to the overall tax levy and programs that are not vital must be reevaluated with this in mind. Even a proposed 10.5 per cent tax hike is 2.4 times higher than the inflation rate, which could place the City of Edmonton among the worst municipalities in the province in terms of fiscal positioning.

### **Non-residential Taxes significantly higher than residential**

While tax increases affect all taxpayers, the impact on small business is more severe due to the existing municipal tax structure, where tax rates on commercial properties are significantly higher than those on residential properties. Research using Government of Alberta, Municipal Affairs' statistics indicates that a large tax gap exists among residential and commercial properties, where business owners pay more property tax relative to owners of equally priced residential property. For many years now, these differences in Edmonton have been significantly higher and small business owners are consequently found at a competitive disadvantage.

### **Zero-Based Budgeting with Meaningful Performance Targets for all Departments**

As the voice of business for Edmonton and a firm believer in efficient business models, the Edmonton Chamber of Commerce supports prudent fiscal planning as demonstrated with zero-based budgeting. The introduction of a periodic zero-based budgeting review process, along with a series of meaningful performance measures designed to ensure that public money is being spent efficiently, would ensure greater accountability among municipal governments and provide better value to tax payers.

On July 23, 2008, City Council approved the 2009 Budget Process. This process outlined six service areas that would prepare budgets using the zero-based approach for consideration by each Standing Committee. They are as follows:

Community Services Committee:

1. Bylaw Services
2. Fire Investigations

Executive Committee:

1. Corporate Security
2. Tax Billing and Collection

Transportation and Public Works Committee:

1. Street Cleaning
2. Turf Maintenance

The zero-based budget approach was adapted for this pilot project, so that rather than starting from zero these six selected services could provide details explaining the costs of maintaining their current levels of service. Each service selected a zero-based budget format best suited to represent their detailed costing information and as a result the presentations vary. The Edmonton Chamber of Commerce encourages that upon a thorough review of the results of the zero-based budget pilot projects, the City of Edmonton adopt this process for all city departments and services.

### **Focus on Core Services**

The Edmonton Chamber of Commerce also supports a system of government where provincial and local responsibilities are clearly defined. The presence of clearly defined roles for both levels of government eliminates waste and improves accountability. Municipal leaders need to examine existing budgets and find ways to gradually eliminate spending on all items that fall outside their jurisdiction. Further, the provincial government must make sure that it is providing all Alberta residents with the services that it is responsible for, ensuring that municipalities are not left to fill in any gaps in the provision of public services.

### **Ensure a Greater Connection Exists Between Services Provided and Taxes Paid**

To the greatest extent possible, the Edmonton Chamber of Commerce acknowledges that municipalities should rely on the use of user fees for the provision of municipal services. When both the service provided and the end users are clearly identified, a user pay approach is the most efficient means of provision. When these services are funded out of general revenues, the connection between supply and demand is lost, and the resulting outcome will be one of inefficiency.

Given the current environment in which businesses subsidize services for residents, resulting in an over-provision of public goods at the municipal level. This over-taxation of business is extremely problematic. It leads to a lack of accountability with respect to a municipality's overall budget and encourages spending on items that may not otherwise be deemed a priority if residents were forced to pay the full cost.

Further, the Edmonton Chamber of Commerce recognizes that municipalities should work on contracting out the provision of municipal services wherever possible. By making all tender processes more open and competitive, local governments will be able to draw from an expanded choice of providers, improving the quality and value of services provided to residents of the community.

### **The Edmonton Chamber of Commerce recommends that the City of Edmonton:**

1. Continue to work with other orders of government in the pursuit of a new fiscal framework for funding municipalities including a mechanism for allocating municipal costs and revenues among the Edmonton Capital region municipalities.
2. Control spending growth and limit increases to the rate of inflation and population growth.
3. Ensure that the mill-rate differential for non-residential properties does not increase and consider measures that can be taken to equalize mill-rate differentials between property classifications as non-residential property owners continually pay a greater portion of the tax burden.
4. Expand zero-based budgeting with meaningful performance targets for all City of Edmonton departments.
5. Focus on providing core services (for example, fire, police, and snow removal) and maintaining primary infrastructure (for example, roads, sidewalks, and sewers).
6. Ensure a greater connection exists between services provided and taxes paid by implementing user-pay mechanisms where applicable and contracting-out those services that can be performed more effectively and efficiently by the private sector.