Evaluating Potential Municipal Finance Options

Introduction

Discussions are currently underway with the Government of Alberta on broadening the financial framework of municipalities. These discussions include an exploration of opportunities to share provincial revenues as well as options for greater municipal taxation authority. The argument for revenue sharing is based on the premise that municipalities should retain a greater share of the wealth they generate for the province. Indeed, Calgary's fiscal imbalance with the province has averaged $1.1 billion annually from 1994to 2001. A number of possible ideas to increase municipal taxation have been discussed over time. In particular, excise taxes, that is fuel, alcohol, tobacco, hotel and parking taxes, vehicle registration fees, property transfer fees, sales taxes and income taxes could be opened up to The City. However, given the low probability of the Province simply opening up all taxation powers to The City, it is important to focus discussions on those options that are best suited to Calgary. This analysis considers some of the issues related to various possibilities. In particular, each option is described in terms of the economic principles underlying each source, an estimate of the initial revenue generating capacity, on-going revenue generating capacity and some administrative issues.

On-going or future revenue generating capacity is an important but often overlooked consideration. While the focus is typically on the revenue taxes can generate when they are initially levied, over time population growth and inflation can erode the purchasing power per capita of the revenue. Tax revenues that do not keep pace with population growth and/or inflation will periodically need to be reset to avoid this erosion, indicating that greater flexibility is needed in setting these tax rates.

While this analysis incorporates some discussion of administrative issues, no attempt was made to estimate the actual costs of administration. It is likely that for most of the options considered, some form of piggy-backing on the current provincial or federal systems would be necessary for the tax to be viable. With respect to the province granting additional municipal taxation authority, this would require legislative changes, either through adding new provisions to the Municipal Government Act (MGA) or by amending specific acts, such as the Fuel Tax Act and Hotel Tax Act. The least cumbersome legislative structure would be for the details of the collection and remittance of the specific tax to be in the respective provincial acts and the process for setting the amount of the municipal portion in the MGA.

The City is continually attempting to broaden its revenue base within its jurisdiction. In particular, there has been an increased reliance on user fees as a funding tool. On-going reviews of The City's taxation and user fees policies are necessary to ensure effective and responsible administration of The City's financing activities. Expanding and diversifying the tax base can help The City to reach a sustainable level of financing into the future while reducing the reliance on a single tax source. Furthermore, this can increase the reliability of the tax revenues if it is more difficult for the Province to adjust the municipal share of these taxes than grants. The goal of expanding The City's share of, and access to, new and additional tax revenues should not be to increase the burden on the taxpayer, but rather to better align the taxation authority with the responsibilities of the local government and to ensure that revenues reflect these responsibilities over time with minimal adjustments required.

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