Big Spenders?

An Expenditure Profile of Western Canada's Big Six

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WESTERN CITIES PROJECT

This research report is part of the Canada West Foundation's ***Western Cities Project,*** a multi-year research and public consultation initiative focused on identifying the policy challenges facing western Canada's largest cities, and best practices in resolving such policy challenges. Through the Canada West Foundation's emphasis on citizen engagement, the ***Western Cities Project*** promotes public awareness of the growing importance of cities to the economic, social, and cultural lives of western Canadians. The project, which began in 2000, includes the following research components:

- **Urban Water Management**
- **Urban Infrastructure**
- **Urban Finance**
- **Urban Regions**
- **Urban Growth and Affordable Housing**
- **Municipalities in Federalism**
- **Urban Arts and Culture**
- **Urban Aboriginal People**

To learn more about the ***Western Cities Project,*** please visit the Canada West Foundation web site (www.cwf.ca).

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Executive Summary

Few studies have been undertaken to explore, in detail, the issue of where and how much western Canada's big cities spend. To balance the discussion and inform the ongoing conversation in Canada about the fiscal health of cities, ***Big Spenders?*** *explores answers to four basic questions:*

- ***What does the expenditure side of western Canada's big city budgets look like? On what specific services do big cities spend their tax dollars, and what portion of their fiscal resources go toward funding those services?***

  The expenditure profile of western Canada's six big cities demonstrates three facts. First, almost 75% of what the cities spend is captured in four specific municipal service areas (protection, capital, transportation, and parks, recreation, culture, and community services). Of these four functions, two of them – protection and capital – can represent almost half of the entire budget for some cities. Second, virtually every dollar collected by the large western cities is spent to support programs, services, and infrastructure. Unlike federal and many provincial budgets, very few tax dollars are dedicated to pay the costs of interest on debt. City taxpayers appear to receive fair value on their tax dollar if only because so little of it is dedicated to paying for past spending. Finally, overhead costs (general government spending) appear to be quite reasonable at only one-tenth of total spending when averaged across the six cities.

- ***To what degree has total spending by the six big western cities increased or decreased since 1990? What about spending on programs, capital, and interest on municipal debt?***

  Spending in nominal terms for all six large western cities has grown, but the increase has not been sufficient to compensate for inflation and population growth. Only the City of Vancouver has seen a small increase in real per capita total spending since 1990. While program and capital spending has also increased in real per capita terms for the City of Calgary, that spending has been entirely offset with savings in interest, leading to a net reduction in total real per capita spending. All other cities have seen a reduction in real per capita spending on programs, capital, and interest, leading to lower total spending in 2002 compared to 1990.

- ***In which municipal government service areas (e.g., police, fire, transit, etc.) has spending increased the most? In which areas has spending increased the least?***

  Spending in per capita and inflation-adjusted amounts for the large western Canadian cities has not risen appreciably since 1990, yet there has still been a significant increase in the nominal amounts that cities are spending. The drivers of municipal expenditures seem to be rather clear cut. First, capital spending has grown at a slightly faster rate than program spending, and self-supported programs and utilities have grown at a faster rate than tax-supported programs. With regards to specific operating or program functions, police services and utilities have shown the highest growth rates. When policing is combined with other protective services (e.g., fire and EMS), protective services have been either the fastest or second fastest growing expenditure in all cities except Calgary and Regina.

  With respect to what services have contributed the most to the overall increase in nominal spending, the focus needs to remain on tax-supported programs since they account for almost two-thirds of the total spending increase averaged across the cities. In the tax-supported program category, protective services again emerges as the single largest function driving increased expenditures. Protection comprises anywhere from 30% to over 60% of the growth in all tax-supported expenditures for the six cities. Finally, in the last half of the 1990s and the early 2000s, most cities have seen per capita spending on wages and salaries increase at a faster rate than total program spending. This is perhaps not surprising when one understands the role played by services like policing, which are very labour intensive services.

- ***What are some of the longer-term policy implications of current trends in big city spending patterns, and what does this say about the fiscal health of western Canada's large cities?***

  The findings in this study carry a number of implications. First, the fiscal stresses facing big cities point more in the direction of a revenue problem than a spending problem. Second, western Canadians strongly support maintaining municipal services and do not believe that cities are over-spending. Third, savings in interest costs have helped keep cities afloat. As municipal debt was paid down in the 1990s, cities re-directed savings on the interest to prop up program and capital spending. Fourth, what health and education are to the provinces, protection is to the cities. On the provincial scene, health and education are the top spending and policy priorities, and they are growing at a rate much faster than all other areas of provincial program spending. Much the same can also be said of policing, fire, and EMS services at the city level. Finally, sluggish program and capital spending implies the threat of a declining level of municipal services. Efforts to ensure the fiscal sustainability of our cities need to be redoubled, for without it, we could well fall behind in maintaining and building the West's urban places.

INTRODUCTION

In October 2001, the Canada West Foundation published a ground-breaking research study entitled *Dollars and Sense: Big City Finances in the West.* This study was designed to assess the fiscal health of western Canada's six large cities (Vancouver, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg) over the 1990-2000 period. The study focused primarily on four basic financial indicators – the consolidated or total budget balance (including operating and capital expenditures), the historical growth pattern of total revenues as well as total spending, and the historical trend in tax and self-supported debt levels. Since the publishing of *Dollars and Sense,* concern over the fiscal health of Canada's large cities has continued to crawl its way up the national policy agenda.

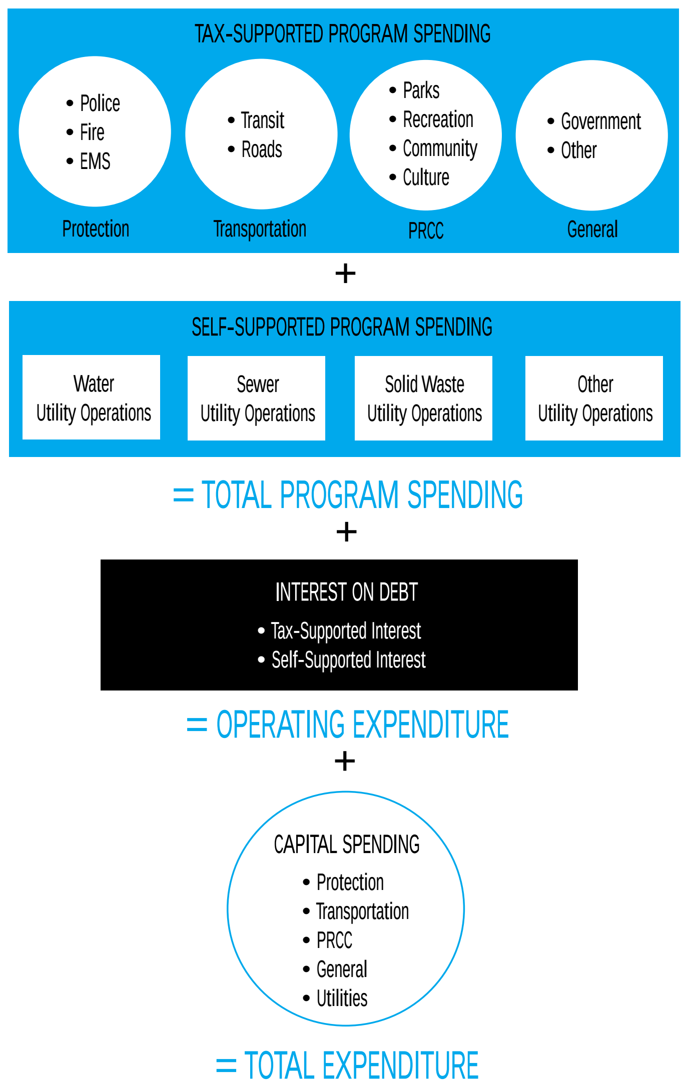
However, much of the current conversation over the fiscal state of Canada's cities appears to be rather one-sided, revolving around the merits of providing cities with additional tax tools, tax-sharing, or other revenue-generating levers to address what many argue is a chronic deficiency in municipal operating budgets and the presence of large infrastructure deficits or capital funding shortfalls. Few studies have been undertaken to explore, in detail, the issue of where and how much western Canada's cities spend. To balance the discussion and inform the ongoing conversation in Canada about the fiscal health of cities, *Big Spenders?* will seek answers to four basic questions:

- *What does the expenditure side of western Canada's big city budgets look like? On what specific services do big cities spend their tax dollars, and what portion of their fiscal resources go toward funding those services?*
- *To what degree has total spending by the six big western cities increased or decreased since 1990? What about spending on programs, capital, and interest on municipal debt?*
- *In which municipal government service areas (e.g., police, fire, transit, etc.) has spending increased the most? In which areas has spending increased the least?*
- *What are some of the longer-term policy implications of current trends in big city spending patterns, and what does this say about the fiscal health of western Canada's large cities?*

METHODOLOGY

To answer these questions, researchers constructed an expenditure database for the Cities of Vancouver, Edmonton, Calgary, Saskatoon, Regina, and Winnipeg over a 13 year period from 1990-2002. To develop the database, the financial statements and supporting schedules in 80 annual reports issued by the six cities were explored in-depth. The database focuses on spending across traditional municipal functions *(Figure 1).* Expenditures were broken out on an annual basis by *tax-supported programs* (functions supported in whole or in part by the tax base) and *self-supported programs* (utility operations). Adding the two yields *total program spending.* Adding interest to this amount yields *operating costs.* Adding in the spending on capital yields an amount for *total expenditures.*

FIGURE 1: The Municipal Spending Equation



SOURCE: Developed by Canada West Foundation, 2004.

In developing these expenditure categories, some adjustments were made to increase comparability between the cities. For example, some municipal environmental expenditures (e.g., solid waste removal) are recorded as a tax-supported expenditure in some cities and a self-supported utility expenditure in other cities. In this case, the solid waste function was treated as a utility expense for all cities. Aside from making these types of adjustments, bond rating reports from the Dominion Bond Rating Service (DBRS) were also reviewed to help increase data comparability over time and between the six cities. These reports also served as an independent source of verification of our data.

To track longitudinal trends in public spending, it is necessary to control for both population growth and inflation. As such, the CWF expenditure database includes both *nominal* (or current) spending amounts and *real* (or constant) per capita amounts. To convert into per capita amounts, researchers used the population estimates as provided by each city in their annual reports. To control for inflation and translate nominal amounts into real amounts, researchers used the consumer price index (CPI) for each individual city as published by Statistics Canada.

CHALLENGES: Building the Data

Building a comparable set of municipal expenditure trend data is no small assignment. While federal and provincial financial documents tend to be quite consistent, the same cannot be said about city financial reports:

- *Cities account for their expenditures differently:* Some cities record the full value of all capital expenditures, while others expense only an amount for depreciation. Some cities have traditionally treated the repayment of principal on debt as an expenditure, while others have not. Some cities used to include transfers to operating and capital reserves as an expenditure, while others did not. Some cities net certain revenues against specific expenditures, and report only the "net" expenditure. Some cities also choose to expend monies on certain programs through a tax subsidy, which amounts to foregone revenue as opposed to a specific expenditure line item. Some cities lump together all interest payments on debt into one amount on their consolidated statements, while others draw a distinction between interest paid by their self-financing utilities and report only interest paid on debt supported by the tax base. Others do not highlight any interest at all, but attach it to specific expenditure functions, or combine it with principal repayments into one "debt servicing" amount.

- *Changes in accounting standards:* Throughout the 1990s, many cities were constantly changing the methods used to build their financial statements, often without restating the information for prior years. The largest shift here is the recent move by most cities to accept the accounting methods as suggested by the Public Sector Accounting Board (PSAB) of the Canadian Institute of Chartered Accountants (CICA). These standards required significant changes in the treatment of interfund transfers, capital expenditures, depreciation, and the repayment of debt principal.

- *Changes in municipal operations and consolidation practices:* Throughout the 1990-2002 period, many large western cities divested themselves of utility operations (e.g., sale of Edmonton Telephones, Winnipeg Hydro) or converted them into subsidiary corporations (e.g., creation of Edmonton's EPCOR, Calgary's ENMAX). Both changes resulted in hundreds of millions of dollars disappearing from the municipal budget. Similarly, many cities did not include the public libraries on their financial statements in the early 1990s. Consolidating these operations later adds millions of dollars in expenditures to a city's budget.

- *No two cities deliver an identical set of services:* One city's outlay may be higher than another not because it is being run inefficiently or overspending, but because it is simply responsible for delivering a different set of services, or even provincial programs (e.g., social services, housing) for which compensation is provided through grants. As such, direct comparisons between cities on overall spending levels cannot be easily made.

- *Cities define spending categories differently:* Scanning across the cities, one is immediately struck by the fact that no two cities use the same spending categories – cities are free to define for themselves which items to include in specific expenditure groupings. For example, some cities may define the recapping of a roadway as an operating cost, while others consider it a capital cost. Some cities report their land development activities as a "government service" while others do not. Some cities account for solid waste collection as a utility, while others include it as a tax-supported service. In the CWF database, two categories were forced to become a catch-all for a wide range of services that clearly differ between cities – *PRCC* (parks, recreation, culture, community) and *General* (finance and administration, corporate services, general government, other). Directly comparing spending between cities in these two categories should be avoided as they include a whole host of different services in each of the six cities.

Different accounting and presentation styles, changing accounting practices, inconsistent definitions, significant changes in municipal operations, and differing service levels make it very difficult to arrive at a comparable set of numbers between cities, and worse, even within one city over an extended time period. In other words, the entire exercise is fraught with risk – one cannot simply take the information as presented and start making comparisons or drawing conclusions.

At the same time, the most problematic inconsistencies do have to be managed or no story about the cities can even be told. To do this, research first started with the Consolidated Financial Statements as prepared by each city based upon how the municipal operation existed in 2002. Using historical information presented in the annual reports, efforts turned toward building a consistent baseline of data covering the most recent four or five year period (late 1990s to 2002). As data were secured for earlier years and changes to accounting practices and city operations emerged, adjustments were made to ensure consistency. In some instances, this was not always possible given the information publicly available. In such cases, estimates were developed. A complete discussion of the full range of issues involved can be found in *Dollars and Sense: Big City Finances in the West* (Canada West Foundation 2001). City-specific cautions that speak directly to this study can be found in the Appendix.

Canada West's expenditure dataset resolves many of the major challenges inherent in urban finance research. To be sure, the dataset remains an imperfect effort, in large part due to accessibility challenges. *As such, readers are strongly encouraged to avoid the perils of ranking or comparing cities with these data, and to focus on similar trends that cities exhibit. Where useful and reasonable comparisons can be made, we have done so.* In the final analysis, the data do provide a reasonable basis upon which to conduct an initial assessment of big city expenditures in the West. Significant effort was put forth so that the data reflect the standards as set out by the PSAB. Principal repayment of debt and all transfers to and from reserves were eliminated from expenditures. Amounts for depreciation were also removed from expenditures, and the full value of all capital expenditures were added. The spending data reflect, as closely as possible, the way each city's operation existed in 2002. As a final check, the data were sent to the financial departments of each city for verification and any comments they wished to make.

QUESTION #1:
On What Do Cities Spend?

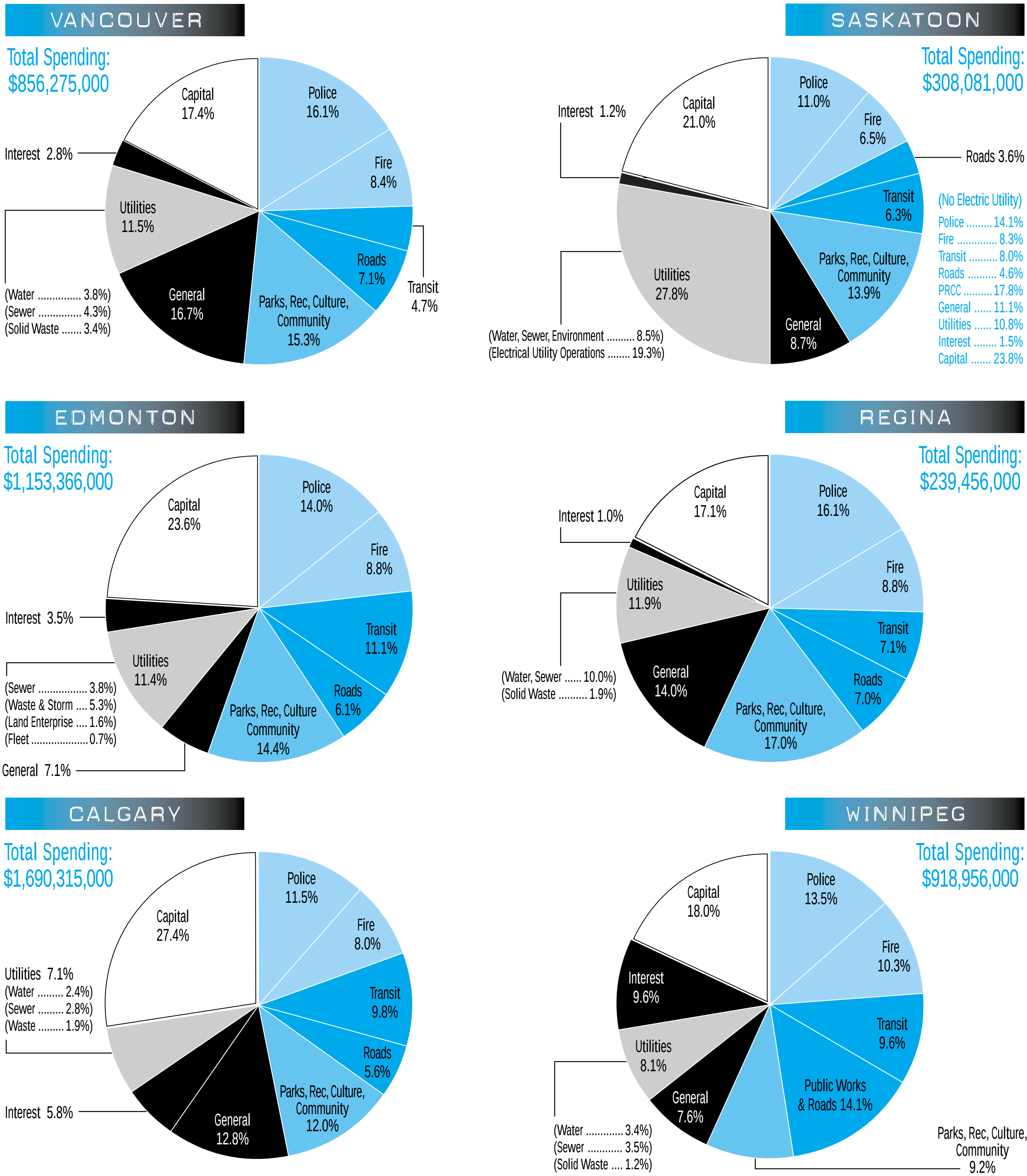
Figure 2 provides an expenditure profile of the 2002 fiscal year for each of the six big western Canadian cities. For the most part, the cities appear to have similar expenditure structures:

- *Protective Services:* On average, police, fire, and emergency medical services (EMS) constitute the single largest expenditure. Across the cities, protection consumed about 22¢ of every spending dollar in 2002. There is little variation from city to city. Regina spent slightly more than the average (24.9% of all spending) while Saskatoon spent the least (17.5%). However, Saskatoon still consolidates its electrical utility with the city operation. If this utility is removed, Saskatoon's expenditures on protection approaches the average (22.4% of all dollars spent) and Calgary emerges as the city that spent the least (19.5%).

- *Capital:* The second biggest expenditure is capital and municipal infrastructure. Across the cities in 2002, capital ate up about 21¢ of every spending dollar. Vancouver, Regina, and Winnipeg spent the least (about 17% of all spending) while Saskatoon represents the average at 21.0% (23.8% excluding the electrical utility.) In 2002, Calgary and Edmonton spent the most (27.4% and 23.6% respectively), likely in response to the provincial fuel tax-sharing agreement with the Province of Alberta.

- *Transportation:* The third largest spending area is transit, roads, traffic control, street lighting, and other transportation-related expenditures. On average, transportation consumed about 15¢ of every spending dollar in 2002. With respect to transit, Edmonton, Calgary, and Winnipeg spent a similar amount in 2002 (about 10% of all spending). Saskatoon and Regina, much smaller cities, spent about 7% of their total expenditures on transit. Vancouver spent the least at just under 5% of total spending (much of the transit service in Vancouver is provided through a regional transportation authority). For most cities, expenditures on roads and road-related operations consume about 7¢ of every expenditure dollar, although Saskatoon was somewhat lower (even with the electrical utility removed). It is difficult to see where Winnipeg fits, since road-related spending is merged with other items (e.g., facilities and park maintenance) into one general public works category that consumed 14.1% of all spending in 2002. This higher amount – which includes more than just roads – is one reason why Winnipeg reports lower levels of spending in the general government and PRCC categories (see below).

FIGURE 2: 2002 Spending Profile



SOURCE: Derived by Canada West from the Annual Reports of the various cities (1990-2002) and DBRS.

■ *Parks, Recreation, Culture, and Community:* The fourth largest spending area is only slightly smaller, on average, than transportation spending, and encompasses a wide range of community services that includes everything from civic parks and golf courses to arenas, pools, and outdoor sports facilities as well as libraries, art galleries, museums, and a panoply of various community and social services. Across the cities, the average spent in 2002 was about 14¢ of every expenditure dollar. In 2002, Vancouver and Regina appear to have spent the most here (about 15% to 17% of all spending), followed by Edmonton and Saskatoon (both at about 14%), and Calgary (12%). Again, Winnipeg's much lower amount (9.2% of all spending) is related to the fact that some of these types of expenditures are in the public works category.

These four categories constitute the largest expenditure areas in our big cities. On average, these four areas consume almost three-quarters of total spending. The remaining three categories are less significant as spending priorities:

■ *Utilities and Environment:* For some cities, commercial utility operations used to represent a significant outlay, but this is no longer the case. On average in 2002, utilities such as water, sewer, and storm drainage, combined with other sanitation and environmental expenditures like solid waste removal, consumed about 13¢ of each expenditure dollar. Vancouver, Edmonton, and Regina spent about 10-12% of their expenditures in this area, while Calgary and Winnipeg spent slightly less (about 8%). Saskatoon is the clear outlier, spending almost 28% of its entire budget on utilities in 2002. Again, this results from the fact that Saskatoon is the only big city in the West that has not sold its electrical operation or converted it into a separate municipal corporation.

■ *General:* This category contains items such as finance and administration, corporate services, general public works, and miscellaneous government expenditures and overhead. On average in 2002, this category consumed about 11¢ of every spending dollar across the six cities, but there are significant variations. In large part, this is due to the fact that each city defines this expenditure differently – spending is directly related to which functions (e.g., land development) are included. As such, comparisons in this category are difficult, and are likely the least meaningful of any of the expenditure data. With that said, Vancouver, Regina, and Calgary show the largest expenditures in this area (16.7%, 14.0%, and 12.8% of total expenditures respectively) while Edmonton, Winnipeg, and Saskatoon have the lowest (7.1%, 7.6%, and 8.7% respectively).

■ *Interest on Debt:* Unlike the federal and most provincial budgets, the costs of interest do not tend to constitute a large spending item for most cities. On average in 2002, the six big cities spent about 4¢ of every expenditure dollar on the costs of interest for both tax-supported and self-supported debt. Saskatoon and Regina carry the lowest debt burden of the big six, and spent only about 1% of their total outlay on interest in 2002. Vancouver spent slightly more at 2.8%, followed by Edmonton at 3.5%. Calgary and Winnipeg are the most indebted cities in the West, and spent 5.8% and 9.6% respectively of their total outlay on interest.

SUMMARY: *The expenditure profile of western Canada's six big cities demonstrates three facts. First, almost 75% of what the cities spend is captured in four specific municipal service areas (protection, capital, transportation, and parks, recreation, culture, and community services). Of these four functions, two of them – protection and capital – can represent almost half of the entire budget for some cities. Second, virtually every dollar collected by the large western cities is spent to support programs, services, and infrastructure. Unlike federal and many provincial budgets, very few tax dollars are dedicated to pay the costs of interest on debt. City taxpayers appear to receive fair value on their tax dollar if only because so little of it is dedicated to paying for past spending. Finally, overhead costs (the general spending category) appear to be quite reasonable at only one-tenth of total spending when averaged across the six cities.*

QUESTION #2:
Is Big City Spending Growing?

1. Nominal Spending

Taken together, the total spending of western Canada's six largest cities has increased by almost $1.6 billion from 1990 to 2002 *(see Figure 3 and the dataset on pages 8-13).* Total spending, in nominal dollars, has risen for each large city in the West. Spending on programs and capital (no interest) has increased by $1.7 billion. It is hard to overlook the presence of Calgary here – almost half of the $1.7 billion increase in program and capital spending has taken place in that city ($803 million). But, spending on programs and capital has also increased in Vancouver ($330 million), Edmonton ($315 million), Winnipeg ($131 million), Saskatoon ($69 million) and Regina ($50 million). Across the six cities, almost three-quarters ($1.3 billion or 74%) of the $1.7 billion increase can be attributed to growth in program expenditures. Spending on capital (municipal infrastructure and equipment) comprises the remainder ($438 million or 26%).

FIGURE 3: Changes in Spending Levels

	ACTUAL NOMINAL $ (000s)					REAL 2002 PER CAPITA $ (Actual $)				
	PROGRAMS	CAPITAL	SUB-TOTAL	INTEREST	TOTAL	PROGRAMS	CAPITAL	SUB-TOTAL	INTEREST	TOTAL
VANCOUVER	+ 272,753	+ 57,179	+ 329,932	+ 1,776	+ 331,708	+ 78.65	+ 10.57	+ 89.22	– 18.09	+ 71.13
EDMONTON	+ 236,300	+ 79,030	+ 315,330	– 23,765	+ 291,565	– 63.34	– 15.28	– 78.62	– 78.73	– 157.35
CALGARY	+ 530,000	+ 272,632	+ 802,632	– 81,485	+ 721,147	+ 80.02	+ 139.69	+ 219.71	– 241.87	– 22.16
SASKATOON	+ 50,897	+ 17,623	+ 68,520	– 2,700	+ 65,820	– 220.35	– 31.98	– 252.33	– 28.08	– 280.41
REGINA	+ 44,756	+ 5,572	+ 50,328	– 5,882	+ 44,446	– 76.45	– 44.14	– 120.59	– 48.60	– 169.19
WINNIPEG	+ 124,538	+ 6,381	+ 130,919	– 2,221	+ 128,698	– 99.97	– 76.76	– 176.73	– 52.93	– 229.66
TOTAL	+ 1,259,244	+ 438,417	+ 1,697,661	– 114,277	+ 1,583,384	– 301.44	– 17.90	– 319.34	– 468.30	– 787.64
AVERAGE	+ 209,874	+ 73,069	+ 282,943	– 19,046	+ 263,897	– 50.24	– 2.98	– 53.22	– 78.05	– 131.27

SOURCE: Derived by Canada West from the Annual Reports of the various cities (1990-2002) and DBRS.

However, there are some interesting deviations from this larger regional pattern. In Calgary, for example, almost 35% of the increase in nominal program and capital spending has come in the form of increased investments on the capital side of the spending equation. Saskatoon and Edmonton reflect the regional figures, with capital comprising 26% and 25% of the increase respectively. The role of capital here is significantly lower in Vancouver and Regina (17% and 11% respectively), while Winnipeg is the clear outlier. Of the $131 million more that Winnipeg is spending on programs and capital in 2002 compared to 1990, only 5% can be attributed to capital.

Higher capital spending increases in Calgary and Edmonton are likely closely related to a decision made by the province in 2000 to share a portion of the provincial fuel tax for infrastructure in the two cities. Other cities in the West have not had this opportunity, and have relied on only marginal increases in capital grants or their own-source revenues to increase capital. Winnipeg, as a clear outlier, is in a very unique position. In the late 1990s, the City followed a deliberate policy to reduce its taxes in an effort to achieve better tax comparability with other cities, it moved to end any new debt-financing of tax-supported capital expenditures, and it also embarked on a structured program to pay down existing municipal debt. The influence of these decisions (which may certainly have been warranted given Winnipeg's traditionally higher rates of taxation and relatively large debt load) has had no small impact on the City's ability to sustain, never mind increase, its level of capital investment.

Another point worthy of note is that the cost of interest on debt across the six cities has fallen by almost $115 million since 1990. Calgary has seen the largest decrease in interest costs at $81 million, which accounts for over 70% of the drop across the six cities as a whole. Only Vancouver has seen an increase in its interest costs, but the amount is quite small at only $1.8 million. (It should be noted that the actual amount paid by the City of Vancouver to service its debt could be higher than this. Vancouver is also responsible for helping cover the costs of debt taken on by the Greater Vancouver Regional District (GVRD), but these interest amounts are not presented in the financial statements, and are excluded from the City's interest figures. The amount also does not capture the interest paid by the City to its own funds for monies that have been borrowed internally.)

At first glance, an increase in total spending of $1.6 billion appears to be a sizeable amount. However, it does not reflect the fact that city populations were steadily increasing over the 1990-2002 period. Over these 13 years, 435,000 additional people have come to call these cities home. Further, the $1.6 billion amount does not reflect the effects of inflation. Since 1990, prices for all goods and services, as measured by the Consumer Price Index (CPI), grew by an average of almost 32% across the cities. To answer the question of whether the West's large cities are really spending more, it is essential to factor in these considerations. The question, then, is whether expenditures in the six cities have increased in *real per capita* terms (spending relative to increases in population and presented in constant or real 2002 dollars).

2. Real Per Capita Spending

Controlling city expenditures for both population growth and higher prices in 2002 compared to 1990 leads to a very different conclusion regarding the question of any increased spending *(Figure 3 and the dataset on pages 8-13).* Between 1990 and 2002, the six cities have seen an average reduction in total spending of about $131.27 (in real 2002 per capita dollars). Across the cities, there has been an average drop in real per capita program spending of $50.24. Real per capita capital spending has been generally flat, showing a small decrease of $2.98. The cost of interest on debt has fallen even further, with an average decrease of $78.05 per capita.

Once again, there are deviations from this broad regional pattern. In other words, two types of cities stand out. The first group includes Edmonton, Saskatoon, Regina, and Winnipeg. In these cities, real per capita spending on programs, capital, and interest have all fallen. The logical result is that total spending in 2002 is lower in real per capita terms than it was in 1990. The second group of cities comprises Vancouver and Calgary. These cities are the only two in the West that are spending more on programs in 2002 than they were in 1990 ($78.65 and $80.02 more in real per capita terms respectively). Further, real per capita capital spending by both Vancouver and Calgary has increased ($10.57 and $139.69 more). But there are differences between Vancouver and Calgary as well. Only in Vancouver has total spending in real per capita terms increased. In Calgary, total spending has actually fallen despite an increase in program and capital expenditures over the period. In Calgary, the savings on interest has been re-directed to support increased program and capital spending, while at the same time, total spending actually fell. At the end of the day, only one large city in western Canada appears to be spending more in real per capita dollars in 2002 than in 1990. All other cities have actually seen total expenditures fall.

One fact that should not be overlooked is the real per capita spending values for each city on an annual basis during the 1990-2002 period. In the dataset *(pages 8-13),* real per capita spending in the three broad areas of programs, capital, and interest have been plotted for each city over the 1990-2002 period. While most cities have seen a reduction in real per capita spending across all three functions, the charts clearly demonstrate that the paths taken by the cities from 1990-2002 have been quite different.

- *Real Per Capita Program Spending:* The historical trend line tracking real per capita spending on programs shows that few cities in the West appear to be alike. While both Vancouver and Calgary have seen program spending rise over the period, expenditures in Vancouver moved in starts and stops. In Calgary, program spending was flat in the early 1990s and then fell significantly, bottoming out in 1997. Since then, program spending has increased at a steady pace. With respect to program spending, only the experiences of Saskatoon and Regina appear similar. Both cities saw a steady decline in real per capita program spending in the early 1990s, which bottomed out in the mid-1990s. Since then, spending has remained generally flat, although in 2002 it fell even further in Saskatoon and rose only sightly in Regina.

- *Real Per Capita Capital Spending:* More congruity appears between the cities with respect to patterns of capital spending. In both Calgary and Edmonton, real per capita capital spending was flat until the mid-1990s. Then spending increased steadily and dramatically up to 2001. Spending in 2002 for both cities then fell. Capital spending in both Regina and Winnipeg came in starts and stops throughout the decade, with both ending up significantly lower in 2002 than in 1990. Vancouver and Saskatoon also appear to share some similarities. While the cities started the decade somewhat differently, both experienced a significant peak in the mid-1990s, after which spending fell. Spending in both cities then continued upward, with Vancouver spending slightly more in 2002 than in 1990, and Saskatoon spending slightly less.

- *Interest on Debt:* As already noted, the interest expenses for all cities, in real per capita terms, is lower in 2002 than in 1990. In Vancouver, Saskatoon, Regina, and Winnipeg, the amounts fell and rose at different points during the period, finally ending up lower in 2002. The experience of Calgary and Edmonton was a little different. Here, the costs of interest fell both gradually and steadily year after year.

SUMMARY: *Spending in nominal terms for all six large western cities has grown, but the increase has not been sufficient to compensate for inflation and population growth. Figure 4 summarizes this point by showing that only the City of Vancouver has seen a small increase in real per capita total spending since 1990. While program and capital spending has also increased in real per capita terms for the City of Calgary, that spending has been entirely offset with savings in interest, leading to a net reduction in total real per capita spending. All other cities have seen a reduction in real per capita spending on programs, capital, and interest, leading to lower total spending in 2002 compared to 1990.*

VANCOUVER

BRITISH COLUMBIA

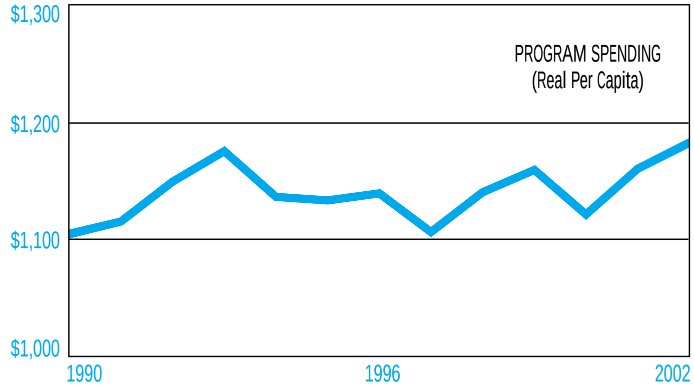
	1990	2002
Programs (Actual 000s)	$ 410,307	$ 683,060
Interest (Actual 000s)	22,065	23,841
Capital (Actual 000s)	92,195	149,374
TOTAL (Actual 000s)	524,567	856,275
Programs (Real Per Capita)	1,103.58	1,182.23
Interest (Real Per Capita)	59.35	41.26
Capital (Real Per Capita)	247.97	258.54
TOTAL (Real Per Capita)	1,410.90	1,482.03

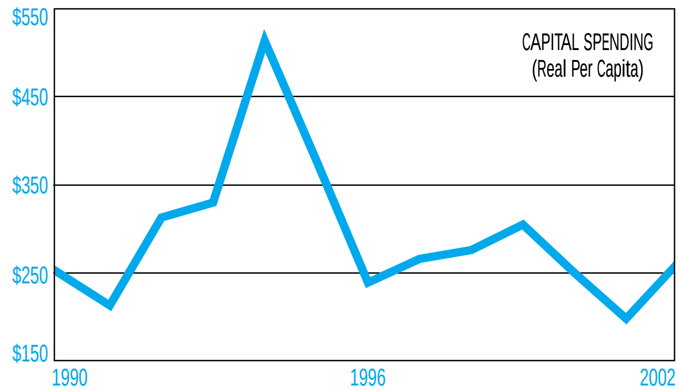
ACTUAL SPENDING BY FUNCTION (1990 and 2002)

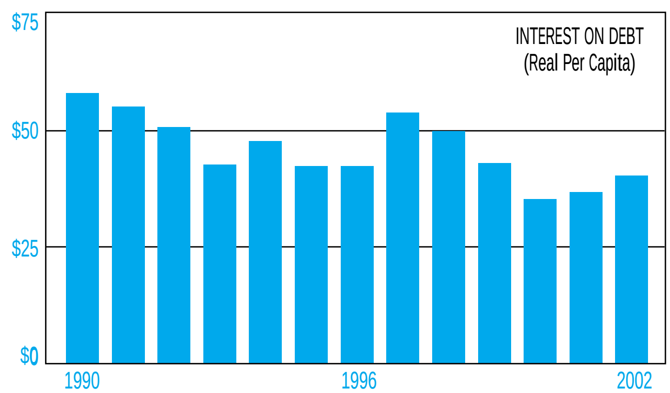
	1990 Actual (000s)	2002 Actual (000s)	% Change Actual
Police Service	$ 80,242	$ 137,447	+ 71.3%
Fire and EMS	47,428	72,194	+ 52.2%
Transit Operations	25,782	40,555	+ 57.3%
Roads & Public Works	36,082	60,927	+ 68.9%
PRCC	84,355	131,160	+ 55.5%
Government & General	91,207	142,607	+ 56.4%
Environment & Utilities	45,211	98,170	+ 117.1%
TOTAL PROGRAMS	410,307	683,060	+ 66.5%
Add: Interest	22,065	23,841	+ 8.0%
TOTAL OPERATING	432,372	706,901	+ 63.5%
Add: Capital	92,195	149,374	+ 62.0%
TOTAL SPENDING	$ 524,567	$ 856,275	+ 63.2%

REAL PER CAPITA SPENDING BY FUNCTION (1990 and 2002)

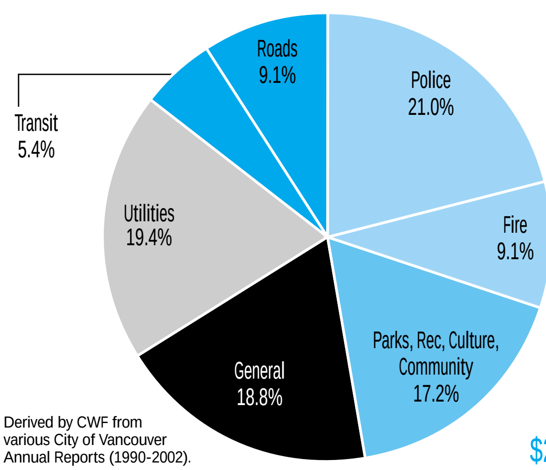
	1990 Real PC	2002 Real PC	% Change Real PC
Police Service	$ 215.82	$ 237.89	+ 10.2%
Fire and EMS	127.56	124.95	– 2.0%
Transit Operations	69.34	70.19	+ 1.2%
Roads and Related	97.05	105.45	+ 8.7%
PRCC	226.88	227.01	+ 0.1%
Government & General	245.33	246.83	+ 0.6%
Environment & Utilities	121.60	169.91	+ 39.7%
TOTAL PROGRAMS	1,103.58	1,182.23	+ 7.1%
Add: Interest	59.35	41.26	– 30.5%
TOTAL OPERATING	1,162.93	1,223.49	+ 5.2%
Add: Capital	247.97	258.54	+ 4.3%
TOTAL SPENDING	$ 1,410.90	$ 1,482.03	+ 5.0%







PROGRAM SPENDING INCREASE (1990-2002)



Nominal Increase: $272,753,000

SOURCE: Derived by CWF from various City of Vancouver Annual Reports (1990-2002).

EDMONTON

ALBERTA

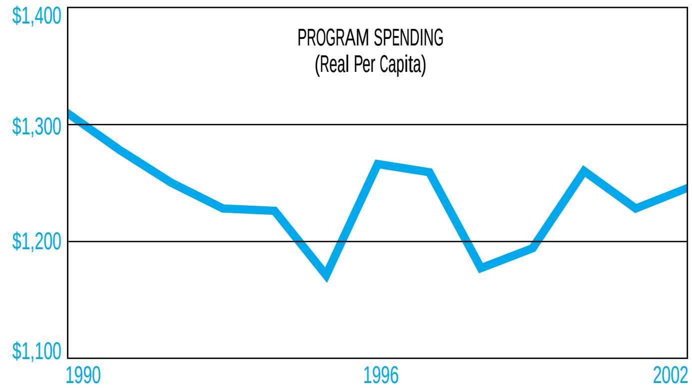
	1990	2002
Programs (Actual 000s)	$ 604,551	$ 840,851
Interest (Actual 000s)	63,686	39,921
Capital (Actual 000s)	193,564	272,594
TOTAL (Actual 000s)	$ 861,801	$ 1,153,366
Programs (Real Per Capita)	$ 1,308.62	$ 1,245.28
Interest (Real Per Capita)	137.85	59.12
Capital (Real Per Capita)	418.99	403.71
TOTAL (Real Per Capita)	$ 1,865.46	$ 1,708.11

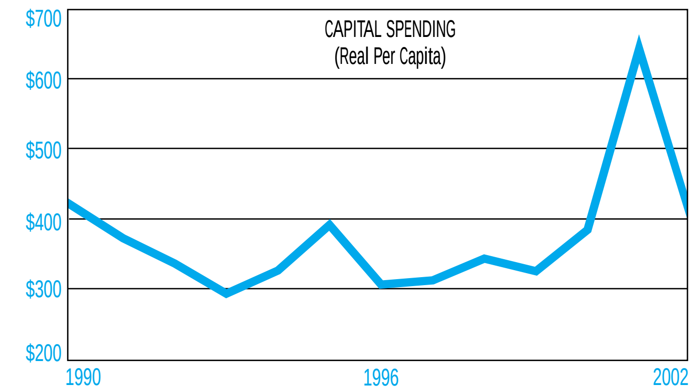
ACTUAL SPENDING BY FUNCTION (1990 and 2002)

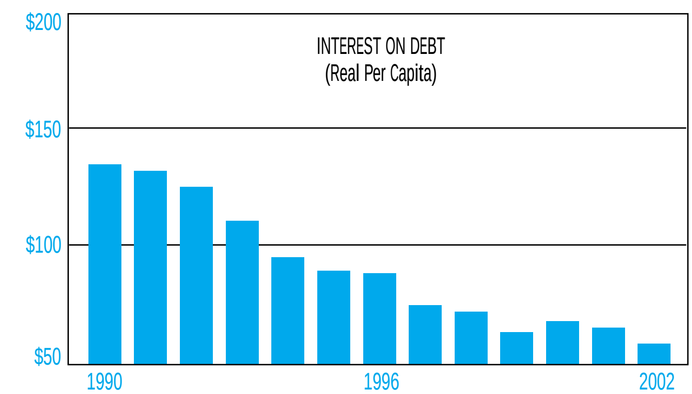
	1990 Actual (000s)	2002 Actual (000s)	% Change Actual
Police Service	$ 97,287	$ 160,806	+ 65.3%
Fire and EMS	70,025	101,777	+ 45.3%
Transit Operations	91,578	128,623	+ 40.5%
Roads and Related	70,421	69,839	– 0.8%
PRCC	133,832	166,478	+ 24.4%
Government & General	69,680	81,795	+ 17.4%
Environment & Utilities	71,728	131,533	+ 83.4%
TOTAL PROGRAMS	604,551	840,851	+ 39.1%
Add: Interest	63,686	39,921	– 37.3%
TOTAL OPERATING	668,237	880,772	+ 31.8%
Add: Capital	193,564	272,594	+ 40.8%
TOTAL SPENDING	$ 861,801	$ 1,153,366	+ 33.8%

REAL PER CAPITA SPENDING BY FUNCTION (1990 and 2002)

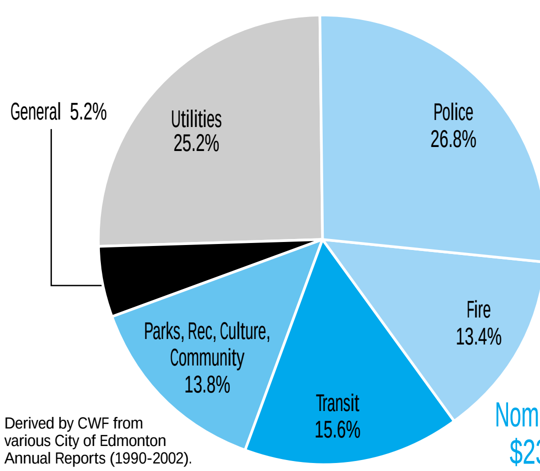
	1990 Real PC	2002 Real PC	% Change Real PC
Police Service	$ 210.59	$ 238.15	+ 13.1%
Fire and EMS	151.58	150.73	– 0.6%
Transit Operations	198.23	190.49	– 3.9%
Roads and Related	152.43	103.43	– 32.1%
PRCC	289.69	246.55	– 14.9%
Government & General	150.84	121.13	– 19.7%
Environment & Utilities	155.26	194.80	+ 25.5%
TOTAL PROGRAMS	1,308.62	1,245.28	– 4.8%
Add: Interest	137.85	59.12	– 57.1%
TOTAL OPERATING	1,446.47	1,304.40	– 9.8%
Add: Capital	418.99	403.71	– 3.6%
TOTAL SPENDING	$ 1,865.46	$ 1,708.11	– 8.4%







PROGRAM SPENDING INCREASE (1990-2002)



Nominal Increase: $236,300,000

SOURCE: Derived by CWF from various City of Edmonton Annual Reports (1990-2002).

CALGARY

ALBERTA

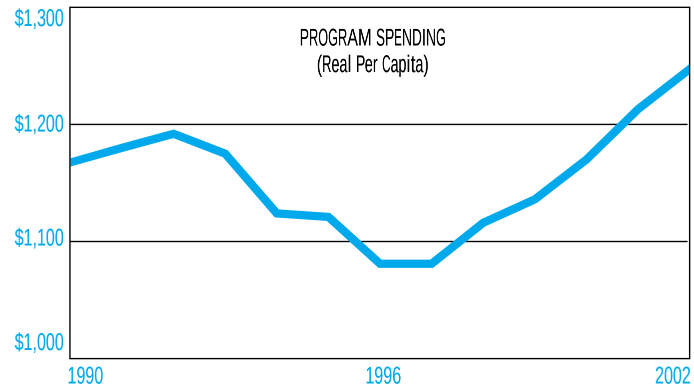
	1990	2002
Programs (Actual 000s)	$ 598,324	$ 1,128,324
Interest (Actual 000s)	179,668	98,183
Capital (Actual 000s)	191,176	463,808
TOTAL (Actual 000s)	$ 969,168	$ 1,690,315
Programs (Real Per Capita)	$ 1,166.77	$ 1,246.79
Interest (Real Per Capita)	350.36	108.49
Capital (Real Per Capita)	372.81	512.50
TOTAL (Real Per Capita)	$ 1,889.94	$ 1,867.78

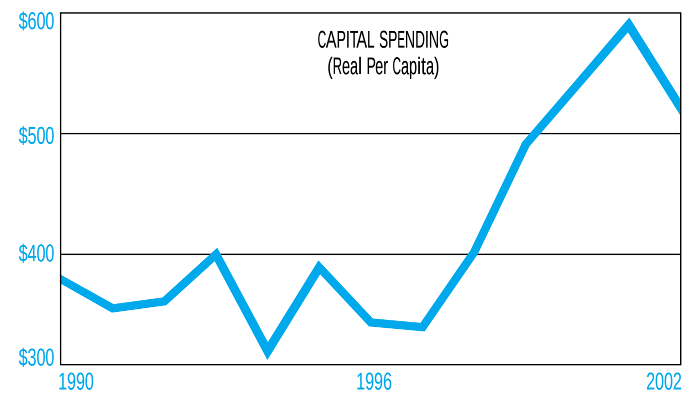
ACTUAL SPENDING BY FUNCTION (1990 and 2002)

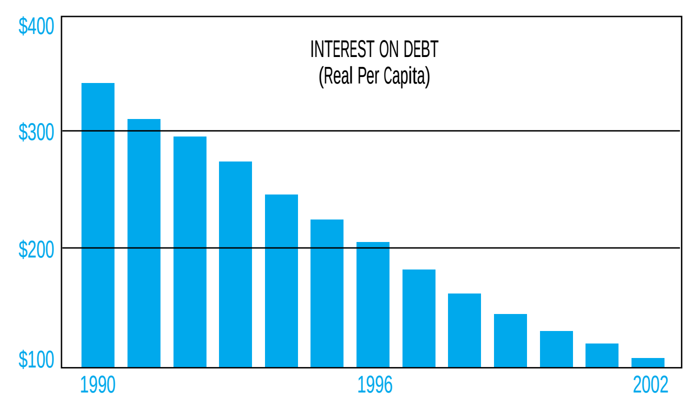
	1990 Actual (000s)	2002 Actual (000s)	% Change Actual
Police Service	$ 107,435	$ 193,761	+ 80.4%
Fire and EMS	77,974	135,401	+ 73.7%
Transit Operations	88,216	165,680	+ 87.8%
Roads and Related	54,607	93,984	+ 72.1%
PRCC	107,724	202,999	+ 88.4%
Government & General	84,732	217,097	+ 156.2%
Environment & Utilities	77,636	119,402	+ 53.8%
TOTAL PROGRAMS	598,324	1,128,324	+ 88.6%
Add: Interest	179,668	98,183	– 45.4%
TOTAL OPERATING	777,992	1,226,507	+ 57.7%
Add: Capital	191,176	463,808	+ 142.6%
TOTAL SPENDING	$ 969,168	$ 1,690,315	+ 74.4%

REAL PER CAPITA SPENDING BY FUNCTION (1990 and 2002)

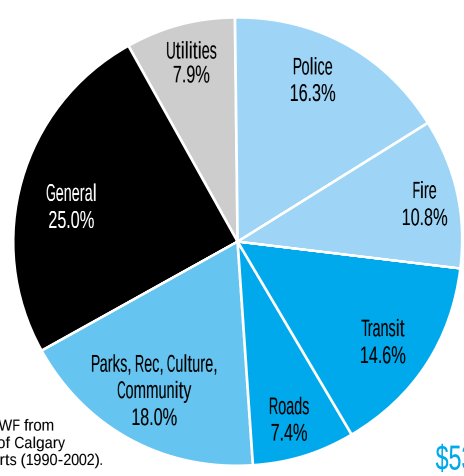
	1990 Real PC	2002 Real PC	% Change Real PC
Police Service	$ 209.51	$ 214.10	+ 2.2%
Fire and EMS	152.05	149.62	– 1.6%
Transit Operations	172.03	183.07	+ 6.4%
Roads and Related	106.49	103.85	– 2.5%
PRCC	210.07	224.31	+ 6.8%
Government & General	165.22	239.90	+ 45.2%
Environment & Utilities	151.40	131.94	– 12.9%
TOTAL PROGRAMS	1,166.77	1,246.79	+ 6.9%
Add: Interest	350.36	108.49	– 69.0%
TOTAL OPERATING	1,517.13	1,355.28	– 10.7%
Add: Capital	372.81	512.50	+ 37.5%
TOTAL SPENDING	$ 1,889.94	$ 1,867.78	– 1.2%







PROGRAM SPENDING INCREASE (1990-2002)



Nominal Increase: $530,000,000

SOURCE: Derived by CWF from various City of Calgary Annual Reports (1990-2002).

SASKATOON

SASKATCHEWAN

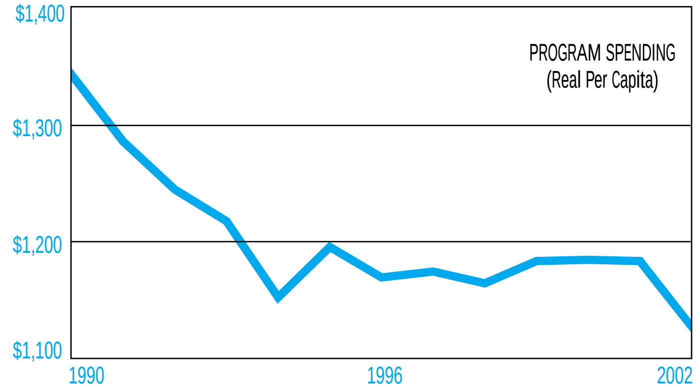
	1990	2002
Programs (Actual 000s)	$ 188,781	$ 239,678
Interest (Actual 000s)	6,353	3,653
Capital (Actual 000s)	47,127	64,750
TOTAL (Actual 000s)	242,261	308,081
Programs (Real Per Capita)	1,342.40	1,122.05
Interest (Real Per Capita)	45.18	17.10
Capital (Real Per Capita)	335.11	303.13
TOTAL (Real Per Capita)	1,722.69	1,442.28

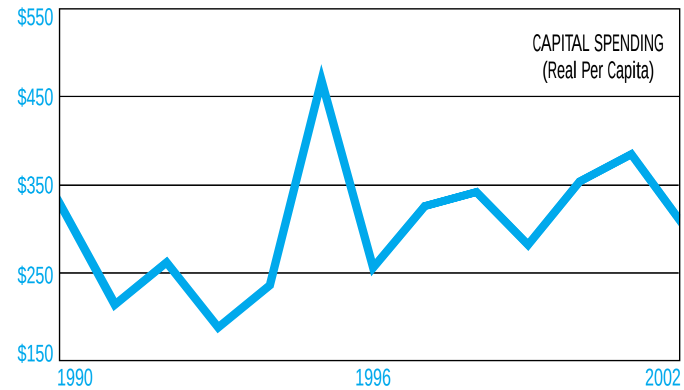
ACTUAL SPENDING BY FUNCTION (1990 and 2002)

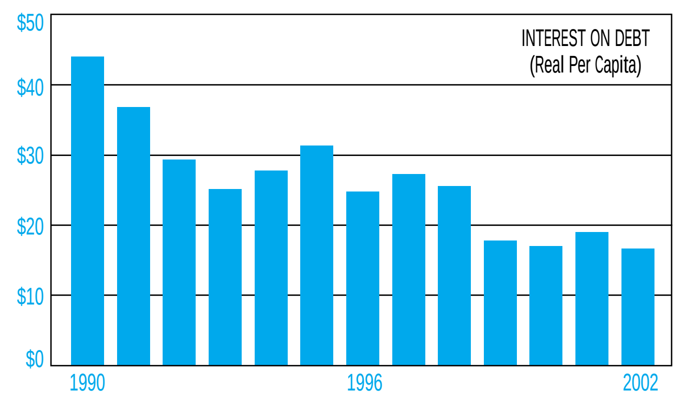
	1990 Actual (000s)	2002 Actual (000s)	% Change Actual
Police Service	$ 25,832	$ 34,032	+ 31.7%
Fire and EMS	14,971	20,094	+ 34.2%
Transit Operations	13,964	19,389	+ 38.8%
Roads and Related	13,416	11,023	– 17.8%
PRCC	31,480	42,898	+ 36.3%
Government & General	24,618	26,692	+ 8.4%
Environment & Utilities	64,500	85,550	+ 32.6%
TOTAL PROGRAMS	188,781	239,678	+ 27.0%
Add: Interest	6,353	3,653	– 42.5%
TOTAL OPERATING	195,134	243,331	+ 24.7%
Add: Capital	47,127	64,750	+ 37.4%
TOTAL SPENDING	$ 242,261	$ 308,081	+ 27.2%

REAL PER CAPITA SPENDING BY FUNCTION (1990 and 2002)

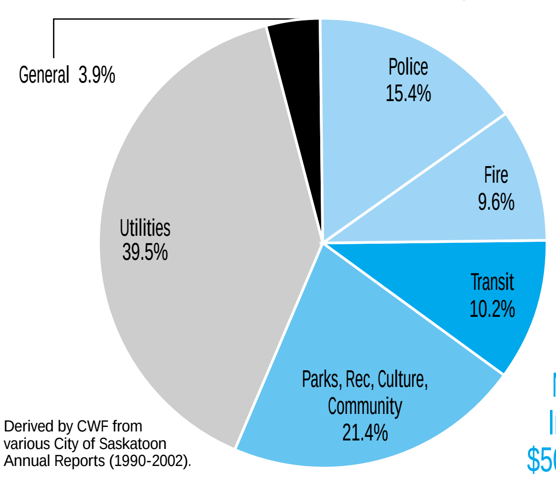
	1990 Real PC	2002 Real PC	% Change Real PC
Police Service	$ 183.69	$ 159.32	– 13.3%
Fire and EMS	106.46	94.07	– 11.6%
Transit Operations	99.30	90.77	– 8.6%
Roads and Related	95.40	51.60	– 45.9%
PRCC	223.85	200.83	– 10.3%
Government & General	175.05	124.96	– 28.6%
Environment & Utilities	458.65	400.50	– 12.7%
TOTAL PROGRAMS	1,342.40	1,122.05	– 16.4%
Add: Interest	45.18	17.10	– 62.2%
TOTAL OPERATING	1,387.58	1,139.15	– 17.9%
Add: Capital	335.11	303.13	– 9.5%
TOTAL SPENDING	$ 1,722.69	$ 1,442.28	– 16.3%







PROGRAM SPENDING INCREASE (1990-2002)

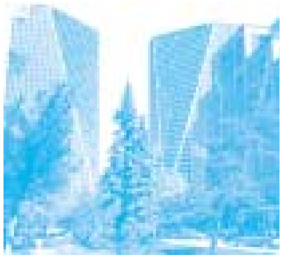


Nominal Increase: $50,897,000

SOURCE: Derived by CWF from various City of Saskatoon Annual Reports (1990-2002).

REGINA

SASKATCHEWAN



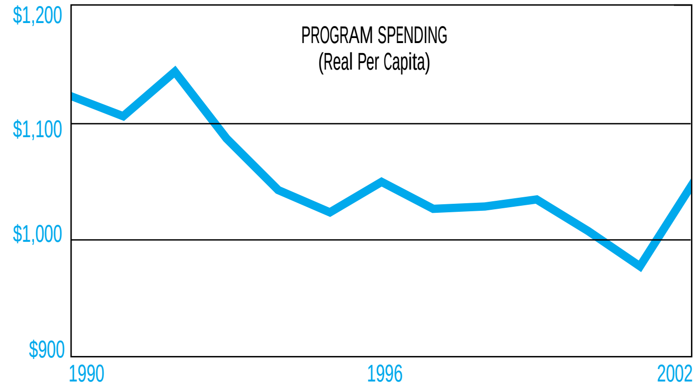
	1990	2002
Programs (Actual 000s)	$ 151,293	$ 196,049
Interest (Actual 000s)	8,266	2,384
Capital (Actual 000s)	35,451	41,023
TOTAL (Actual 000s)	195,010	239,456
Programs (Real Per Capita)	1,122.44	1,045.99
Interest (Real Per Capita)	61.32	12.72
Capital (Real Per Capita)	263.01	218.87
TOTAL (Real Per Capita)	1,446.77	1,277.58

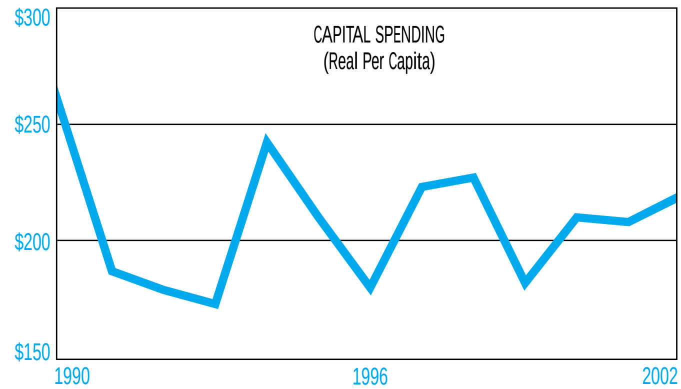
ACTUAL SPENDING BY FUNCTION (1990 and 2002)

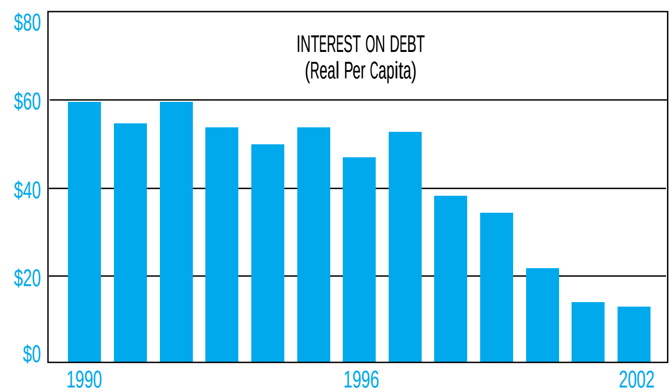
	1990 Actual (000s)	2002 Actual (000s)	% Change Actual
Police Service	$ 28,168	$ 38,646	+ 37.2%
Fire and EMS	16,678	21,118	+ 26.6%
Transit Operations	11,749	16,919	+ 44.0%
Roads and Related	10,432	16,751	+ 60.6%
PRCC	38,836	40,610	+ 4.6%
Government & General	26,980	33,624	+ 24.6%
Environment & Utilities	18,450	28,381	+ 53.8%
TOTAL PROGRAMS	151,293	196,049	+ 29.6%
Add: Interest	8,266	2,384	– 71.2%
TOTAL OPERATING	159,559	198,433	+ 24.4%
Add: Capital	35,451	41,023	+ 15.7%
TOTAL SPENDING	$ 195,010	$ 239,456	+ 22.8%

REAL PER CAPITA SPENDING BY FUNCTION (1990 and 2002)

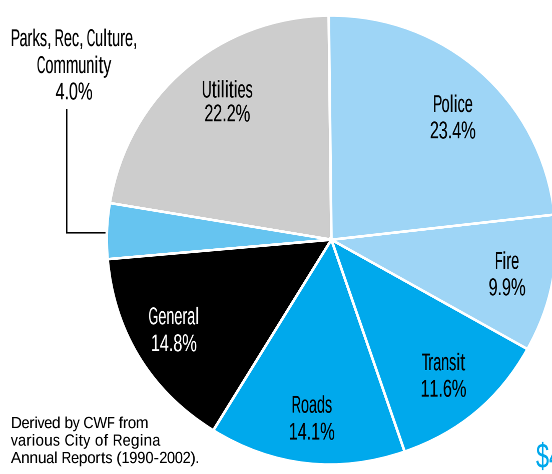
	1990 Real PC	2002 Real PC	% Change Real PC
Police Service	$ 208.98	$ 206.19	– 1.3%
Fire and EMS	123.73	112.67	– 8.9%
Transit Operations	87.17	90.27	+ 3.6%
Roads and Related	77.39	89.37	+ 15.5%
PRCC	288.12	216.67	– 24.8%
Government & General	200.17	179.40	– 10.4%
Environment & Utilities	136.88	151.42	+ 10.6%
TOTAL PROGRAMS	1,122.44	1,045.99	– 6.8%
Add: Interest	61.32	12.72	– 79.3%
TOTAL OPERATING	1,183.76	1,058.71	– 10.6%
Add: Capital	263.01	218.87	– 16.8%
TOTAL SPENDING	$ 1,446.77	$ 1,277.58	– 11.7%







PROGRAM SPENDING INCREASE (1990-2002)

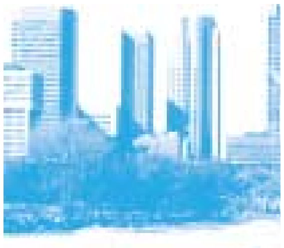


Nominal Increase: $44,756,000

SOURCE: Derived by CWF from various City of Regina Annual Reports (1990-2002).

WINNIPEG

MANITOBA



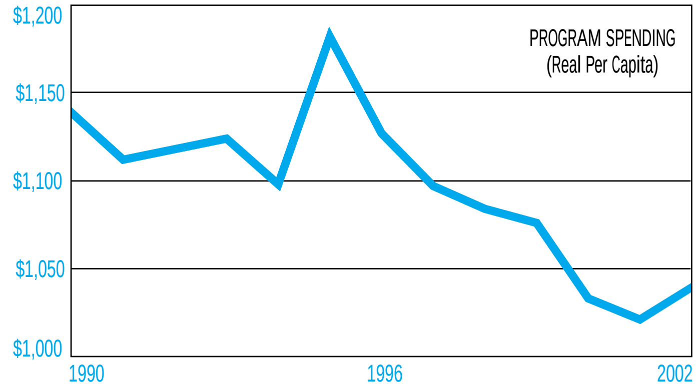
	1990	2002
Programs (Actual 000s)	$ 540,441	$ 664,979
Interest (Actual 000s)	90,724	88,503
Capital (Actual 000s)	159,093	165,474
TOTAL (Actual 000s)	790,258	918,956
Programs (Real Per Capita)	1,139.33	1,039.36
Interest (Real Per Capita)	191.26	138.33
Capital (Real Per Capita)	335.39	258.63
TOTAL (Real Per Capita)	1,665.98	1,436.32

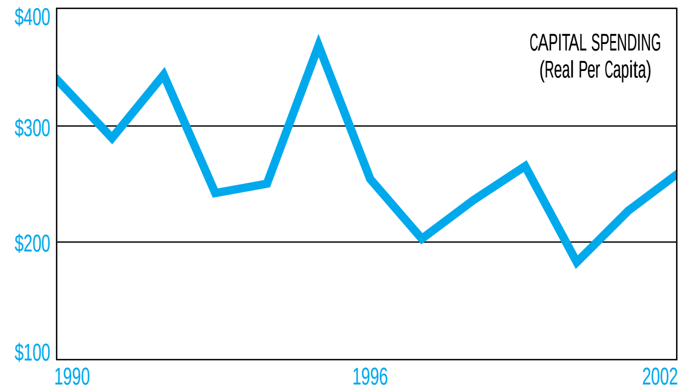
ACTUAL SPENDING BY FUNCTION (1990 and 2002)

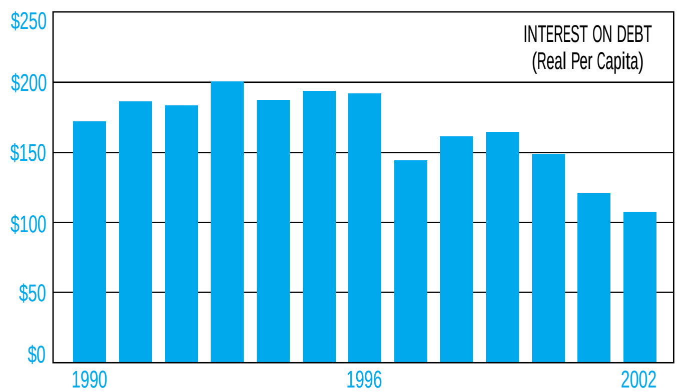
	1990 Actual (000s)	2002 Actual (000s)	% Change Actual
Police Service	$ 77,706	$ 123,892	+ 59.4%
Fire and EMS	64,430	94,981	+ 47.4%
Transit Operations	72,697	88,225	+ 21.4%
Roads & Public Works	109,145	129,550	+ 18.7%
PRCC	77,272	84,339	+ 9.1%
Government & General	81,167	70,124	– 13.6%
Environment & Utilities	58,024	73,868	+ 27.3%
TOTAL PROGRAMS	540,441	664,979	+ 23.0%
Add: Interest	90,724	88,503	– 2.4%
TOTAL OPERATING	631,165	753,482	+ 19.4%
Add: Capital	159,093	165,474	+ 4.0%
TOTAL SPENDING	$ 790,258	$ 918,956	+ 16.3%

REAL PER CAPITA SPENDING BY FUNCTION (1990 and 2002)

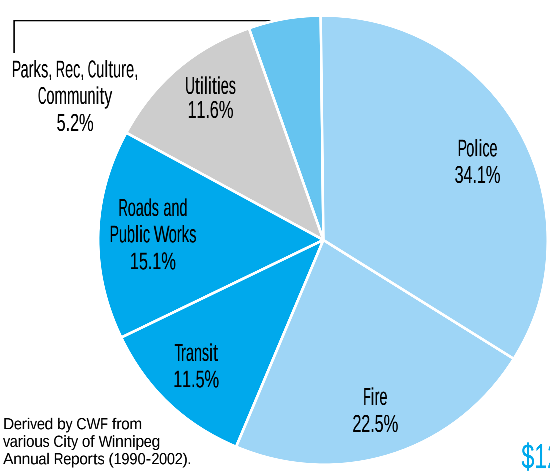
	1990 Real PC	2002 Real PC	% Change Real PC
Police Service	$ 163.82	$ 193.64	+ 18.2%
Fire and EMS	135.83	148.45	+ 9.3%
Transit Operations	153.26	137.89	– 10.0%
Roads and Related	230.09	202.49	– 12.0%
PRCC	162.90	131.82	– 19.1%
Government & General	171.11	109.62	– 35.9%
Environment & Utilities	122.32	115.45	– 5.6%
TOTAL PROGRAMS	1,139.33	1,039.36	– 8.8%
Add: Interest	191.26	138.33	– 27.7%
TOTAL OPERATING	1,330.59	1,177.69	– 11.5%
Add: Capital	335.39	258.63	– 22.9%
TOTAL SPENDING	$ 1,665.98	$ 1,436.32	– 13.8%







PROGRAM SPENDING INCREASE (1990-2002)



Nominal Increase: $124,538,000

SOURCE: Derived by CWF from various City of Winnipeg Annual Reports (1990-2002).

FIGURE 4: % Change in Real Per Capita Spending Levels

	PROGRAMS	CAPITAL	INTEREST	TOTAL
VANCOUVER	+ 7.1%	+ 4.3%	– 30.5%	+ 5.0%
EDMONTON	– 4.8%	– 3.6%	– 57.1%	– 8.4%
CALGARY	+ 6.9%	+ 37.5%	– 69.0%	– 1.2%
SASKATOON	– 16.4%	- 9.5%	– 62.2%	– 16.3%
REGINA	– 6.8%	- 16.8%	– 79.3%	– 11.7%
WINNIPEG	– 8.8%	- 22.9%	– 27.7%	– 13.8%
AVERAGE	– 3.8%	– 1.8%	– 54.3%	– 7.7%

SOURCE: Derived by Canada West from the Annual Reports of the various cities (1990-2002).

QUESTION #3:
What Drives Municipal Expenditures?

Spending in per capita and inflation-adjusted amounts for large western Canadian cities has not risen appreciably from 1990-2002. Yet, there has still been a significant increase in the nominal amounts that cities are spending. Of course, this leads to an interesting question: what aspects of the traditional municipal operation are driving this "growth" in big city spending? There are several ways to uncover the answer to such a question.

1. Growth Rates by Function

Comparing the growth rates of specific municipal services or functions, at both a macro level and a micro level, is the first analysis that can be undertaken. The dataset *(pages 8-13)* can be used to demonstrate the following about the growth rates of specific local government functions:

- *Program and Capital Spending:* Because the cost of interest for all cities except Vancouver has not grown, the initial focus should start with simply comparing the growth rates of program spending versus capital spending. At this macro level, the data reveal that the growth rates of capital spending, taken over the 1990-2002 period and averaged across the six cities, has slightly outpaced the average growth rate of spending on programs. Capital has grown, on average, by 50.4% since 1990 compared to 45.6% for all tax and self-supported program spending.

To be sure, there are exceptions to the broader regional trend. While both Edmonton and Saskatoon did see capital spending grow slightly faster than programs since 1990, program spending grew slightly more than capital spending in Vancouver, Regina, and Winnipeg. Again, the tremendous influence of Calgary is felt across the region. Capital spending in 2002 by the City of Calgary was 143% higher than levels in 1990, while program spending was only 89% higher over the same period.

While all of this is somewhat helpful, it needs to be remembered that capital spending tends to be a rather volatile spending function. Construction and the capital acquisitions made by cities often come in cycles, with spending fluctuating radically year over year due to the timing of projects, the availability of capital funding, and the time it takes for large projects to come on stream and be recognized as expenditures. As such, any analysis should remove the impact of capital and simply focus on program spending, which represents the year over year operating and maintenance expenditures made by city governments on an ongoing basis.

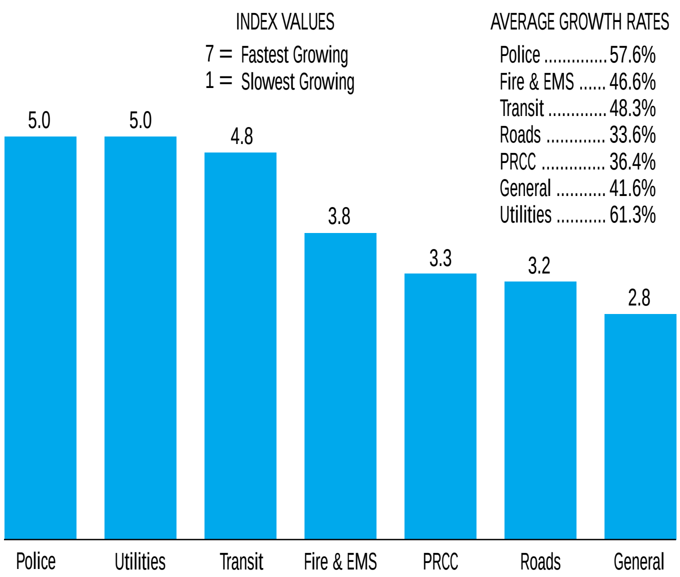
- *Tax and Self-Supported Program Spending:* Cities typically draw a sharp distinction between functions that are paid in whole or in part through taxation (e.g., roads, transit) and utility or other commercial functions that are self-financing or self-supported through user fees (e.g., water, sewer). The data indicate that the level of spending on self-supported functions, averaged across the six cities, has grown by 61% since 1990 compared to about 43% for tax-supported functions. This regional trend holds quite well across the six cities – only in the City of Calgary did the growth in spending on tax-supported programs outpace the growth in self-supported programs.

In all likelihood, there are a number of reasons for this particular growth pattern. One of the most important, however, could simply be the inherent difference between funding services through user pay systems and funding them through the tax base. User fees, for example, directly relate to usage and cover natural increases in service demand. For tax-supported programs to grow at a similar pace, it would require an intentional tax increase, something civic leaders are reluctant to do. Spending on utilities and self-supported operations could have an easier time growing compared to tax-supported programs simply because the latter presents the prospect of across-the-board property tax increases.

A macro level examination of spending on tax-supported programs, self-supported programs, and all forms of capital demonstrates three things. First, self-supported program spending, from 1990-2002, was the fastest growing expenditure in four of the six cities (Vancouver, Edmonton, Regina, and Winnipeg). Second, for those cities where this was not the case (Calgary and Saskatoon), the level of growth in self-supported spending was simply eclipsed by significantly increased capital spending. Thus, in no city has the growth rate of tax-supported spending been higher than either capital or self-supported program expenditure.

■ *Detailed Tax and Self-Supported Program Spending:* The initial findings above can be sharpened even further by taking a micro view and breaking out tax and self-supported program spending into their constituent components such as police, fire and EMS, transit, roadways, parks, recreation, culture, and community (PRCC), general spending, and utilities and environment. Averaging the growth rates of these specific spending functions across the six big western cities, it is clear that utilities and environmental services have had the highest rate of growth from 1990-2002 (average increase of 61% across the six cities). Running a very close second is policing (58%). After these two functions is public transit (48%), followed closely by fire protection and EMS services (47%). The slowest growing municipal spending areas are general expenditures (42%), PRCC (36%), and roadways (34%).

FIGURE 5: Index of Fastest Growing Municipal Expenditures
(Average of Six Cities, Tax & Self-Supported Programs, 1990-2002)



SOURCE: Derived by Canada West from the Annual Reports of the various cities.

Figure 5 presents the results of an index developed to graphically demonstrate the differences in the growth rates of these various services. If a particular service was the fastest growing service in all of the cities, the index value for that service would be seven. Conversely, if a specific service was the slowest growing service in all of the cities, the index value for that service would be one. *Figure 5* presents the averages for the western cities. Clearly, policing and utilities and environmental services emerge as the fastest growing expenditure areas across the six cities.

To summarize in yet another way, spending on protective services can be combined (e.g., police, fire, EMS). Expenditures on the totality of protection services grew by an average of 53% across the six cities since 1990. The combined expenditure on transportation grew by 42% (transit and roadways combined). Protective services are either the fastest or second fastest growing expenditure in each and every big western city except Calgary and Regina. Of course, there is an interesting irony here. While the totality of spending on tax-supported expenditures has grown slower than spending on self-supported utility programs and even capital, it is protection – a tax-supported expenditure – that is one of the fastest growing spending areas for the cities.

2. Growth of Each Function as a Percent of the Overall Increase

A singular focus on growth rates alone does not provide a complete picture of what is driving municipal expenditures. For example, a particular service area can experience rapid rates of growth, but if the service comprises only a relatively small portion of the overall budget, its impact is marginal. As such, it is necessary to also calculate the overall increase in nominal spending, and then uncover which service areas have contributed the most to that increase. As already noted, total nominal spending levels in the six cities have increased by about $1.6 billion from levels in 1990. What service areas are responsible for this increase?

■ *Program and Capital Spending:* A macro examination reveals that the growth rate of capital spending has slightly outpaced that of program spending for most cities. But nonetheless, it is program spending that is still responsible for the great majority of the increase in total spending between 1990 and 2002. Across the six cities, increases in program spending have been responsible, on average, for about 80% of the increase in combined program and capital spending between the two time periods. Capital has been responsible for only about 20%.

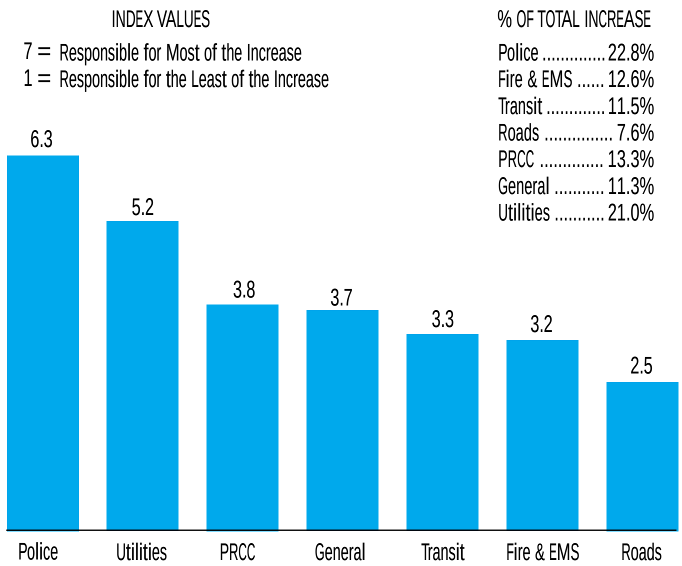
This holds true for each and every city. In Winnipeg, program spending accounted for 95% of the increase in program and capital spending, followed by Regina at 89% and Vancouver at 83%. Programs were slightly less important in Edmonton (75%) and Saskatoon (74%). An aggressive capital program in Calgary means that city is somewhat of an outlier. Only 66% of the increase in combined program and capital spending in Calgary (about $803 million) has gone into programs. Capital is responsible for 34% of the increase.

- *Tax and Self-Supported Program Spending:* When spending is broken out into the three broad areas of tax-supported programs, self-supported programs and utilities, and capital, an interesting picture emerges. While the growth rate of tax-supported program spending is the lowest of any of these three broad areas, tax-supported program expenditures are still the single-largest expenditure category for the cities. Thus, tax-supported program spending comprises over 63% of the overall increase in total spending when averaged across the cities. Self-supported programs are responsible for about 17% of the total increase, on average. Again, capital picks up the remaining 20%. This pattern is very consistent across the cities. Tax-supported expenditures are responsible for the great bulk of the spending increase in every city, with either capital or utilities running second.

- *Detailed Tax and Self-Supported Programs:* Excluding capital spending and turning the focus toward the increased spending for ongoing operations and maintenance broken out by specific service areas reveals some interesting patterns that reinforce some of the earlier findings. First, policing emerges as the single largest contributor to the increase in combined tax and self-supported program spending. On average, increased policing costs are responsible for 23% of the increase, followed by utilities at 21%. All the other service areas tend to run far behind. For example, spending on PRCC services (parks, recreation, culture, and community) has contributed only about 13% to the overall increase, as have fire and EMS. Transit expenditures are responsible, on average, for about 12% of the increase, with general expenditures at 11% and roads at 8%.

Scanning across the individual cities *(see the pie charts in the dataset on pages 8-13),* policing contributed the most to the increase in all program spending in four of the six cities (Vancouver, Edmonton, Regina, and Winnipeg). Policing was third in Calgary and Saskatoon. Utility and environmental spending was second in Vancouver, Edmonton, and Regina, and first in Saskatoon.

FIGURE 6: Index of the Expenditures Contributing the Most
(Average of Six Cities, Tax & Self-Supported Programs, 1990-2002)



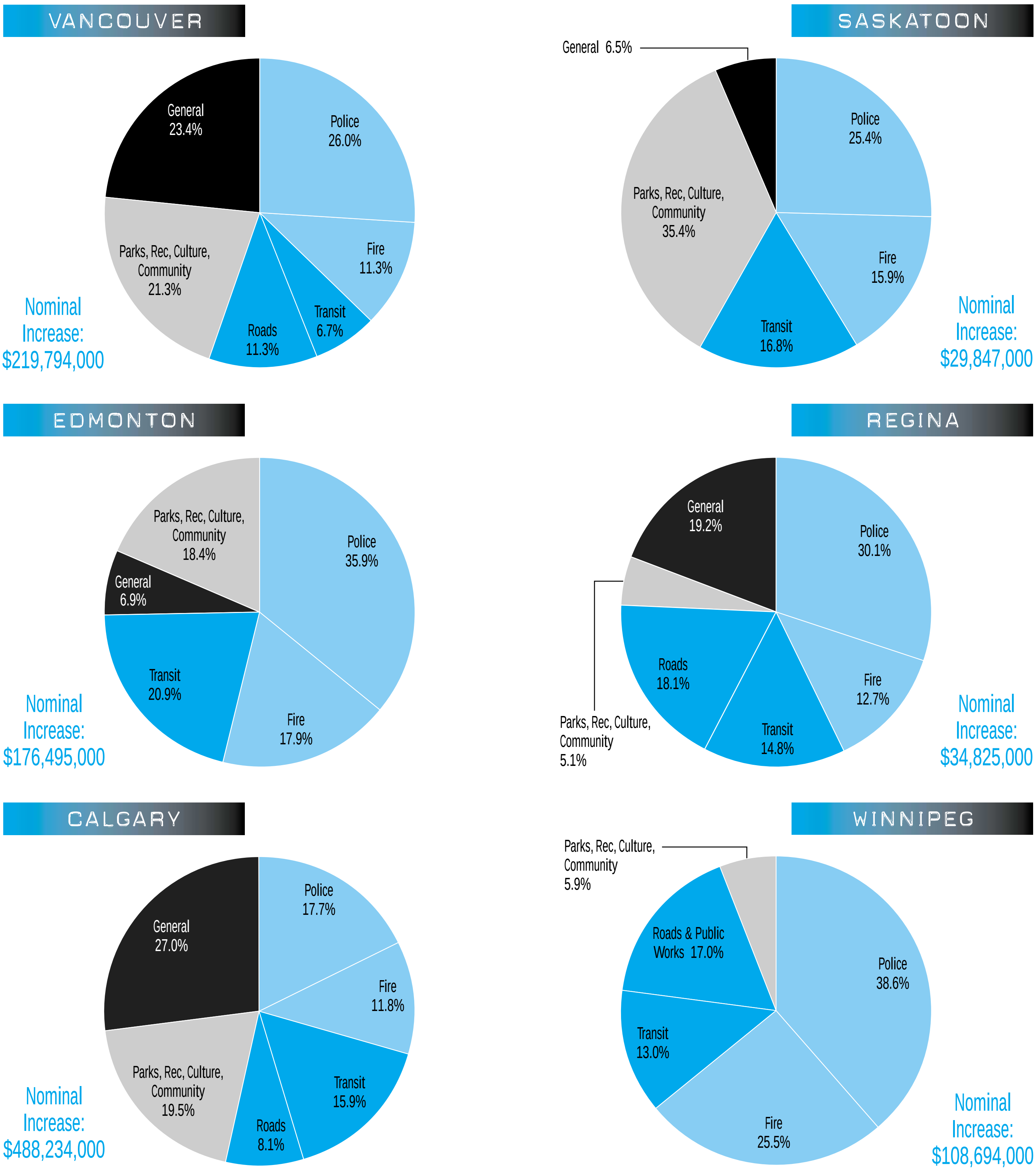
SOURCE: Derived by Canada West from the Annual Reports of the various cities.

Figure 6 presents the results of another index developed to graphically demonstrate the overall pattern. A service with a score of seven means that service is responsible for the single largest increase in overall program spending in each of the six cities. A score of one would mean a service is responsible for the least amount of the total increase in spending in all of the six cities. *Figure 6* shows the averages for the western cities. According to the index, policing clearly emerges as the expenditure category that is responsible for the single largest increase in total program spending across the six cities.

There are two other interesting ways to drive the point home. First, some service areas can be viewed in broader groupings. For example, if policing, fire, and EMS are grouped into one category (protection), it emerges as the single largest contributor to all program spending for each and every city with the sole exception being Saskatoon. (Here, protection is second to utilities, but again, Saskatoon is the only city that still consolidates its electrical utility into the broader city-wide operation). Across the cities, on average, protection is responsible for over one-third of the total increase in all program spending. In second place are the utilities (21%) followed by transportation (both transit and roads) at 19%.

Second, the focus can be sharpened even further by focusing only on the increases in tax-supported program spending – expenditures that rely in whole or in part on the tax base for funding. *Figure 7* clearly shows that protective services account

FIGURE 7: Specific Service Areas and Their Contribution to the Increase in Tax-Supported Program Spending



SOURCE: Derived by Canada West from the Annual Reports of the various cities (1990-2002) and DBRS.

for almost two-thirds of the total increase in all tax-supported program spending in Winnipeg since 1990, and over half for Edmonton. Protection accounts for about 40% of the increase in tax-supported spending for Vancouver, Saskatoon, and Regina. The impact of protective services is the lowest in Calgary, yet it still accounts for over one-quarter of the total increase in all tax-supported program spending in that city.

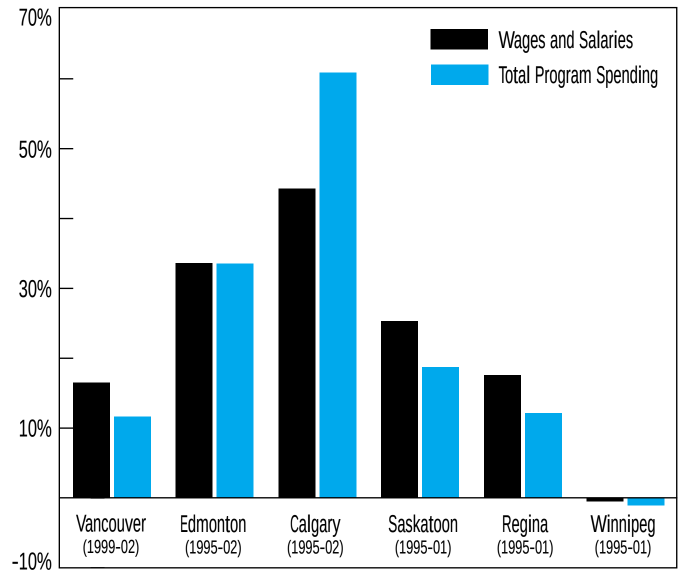
3. Spending by Object

A final way to view the drivers of big city expenditures is to shift the focus from specific service functions and turn toward examining expenditures based on spending "object." Typical "objects" of spending include wages, salaries, and employee benefits, materials, goods, and services, debt financing charges, contracted services, and the like. However, because cities typically group this information in different ways and they have also changed how they present this information, it is difficult to get a comprehensive and long-term handle on spending by object. At the same time, a short-term view of one of the most important categories – wages, salaries, and benefits – is possible for most of the six big cities.

Figure 8 compares the percentage change in nominal terms of two specific expenditures over the last few years – wages, salaries, and employee benefits, and total program spending. Vancouver, Edmonton, Saskatoon and Regina have seen their spending on wages and salaries growing at a faster rate than program spending as a whole, although the spread is very small in Edmonton. Calgary is the only city were growth in total program spending has outstripped growth in wages and salaries. In Winnipeg, the growth in wages and salaries and program spending from 1995-2001 has actually been negative. However, the wages and salaries paid fell less than program spending.

Figure 9 presents the *per capita* spending on wages and salaries and program spending for each of the cities, but tracks the two over time and compares them to growth in the CPI (different years are reviewed for the various cities due to issues of data comparability). Two interesting findings emerge. First, three of the cities (Vancouver, Edmonton, Calgary) have seen their per capita program spending grow faster than the CPI in the last few years. Whereas only Vancouver and Calgary have seen an increase in real per capita program spending since 1990, Edmonton joins the group when considering growth from the mid-1990s onward. In other words, program spending in Edmonton is still lower in 2002 than it was in 1990, but it has been recovering since 1995.

FIGURE 8: % Change in Specific Spending Items
(Various Years)



SOURCE: Derived by Canada West from the Annual Reports of the various cities.

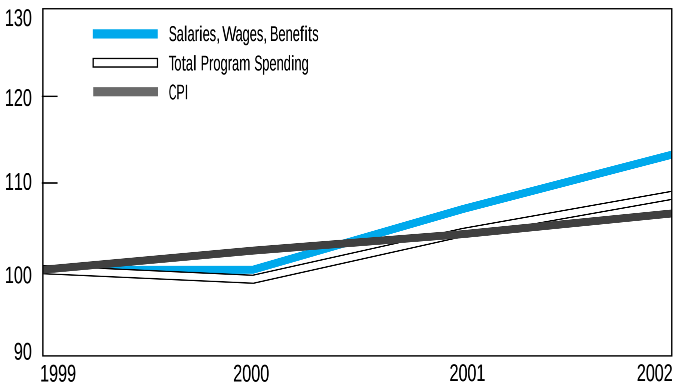
Second, the six big western cities show an interesting mix of similarities and differences with this data. For example, growth in the *per capita* amounts paid in wages and salaries has tended to outstrip the growth in per capita total program spending for all cities except Calgary, reinforcing the *nominal* figures discussed above. But in many respects, this is where the similarities end. In Winnipeg, growth in both per capita wages and salaries have been flat and well below the CPI for all years between 1995 and 2001. This contrasts starkly with Edmonton where both per capita salaries paid and per capita program spending have surpassed growth in the CPI from 1995-2002.

In the end, each city has tended to arrive at a different resting point with regards to per capita amounts paid in wages, per capita program spending, and the CPI. In Vancouver, growth in per capita program spending has ended up in 2002 slightly higher than the CPI, while salaries have ended up even higher. In Saskatoon, growth in per capita program spending merged with the CPI while salaries have exceeded it. In Regina, growth in per capita wages and salaries merged with the CPI while per capita program spending finished underneath it.

Calgary is the clear outlier since per capita program spending has outstripped both per capita spending on salaries, wages, and benefits and the CPI since 1997. Interestingly, the per capita wages and salaries paid have been lower than the CPI for every year except 2002, when the two converged. All of this likely reflects the fact that the city was in a "wage freeze" from 1993 to 1997.

FIGURE 9: Relationship of Wages, Salaries, and Benefits Paid to Total Program Spending and CPI Increases

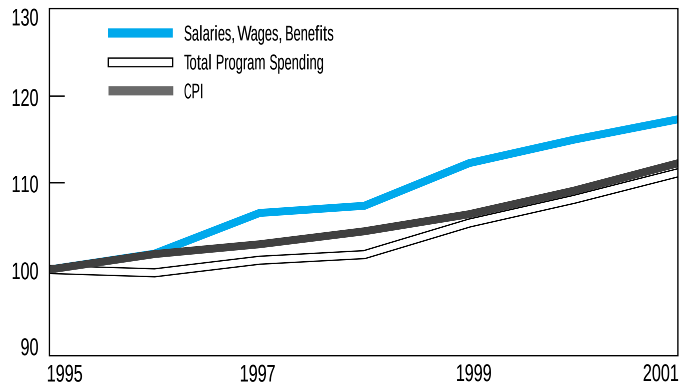
VANCOUVER



Salaries as a % of Programs:
1999: 69.9%
2002: 72.9%

2002 Index Values:
Wages: 113.3
Programs: 108.6
CPI: 106.5

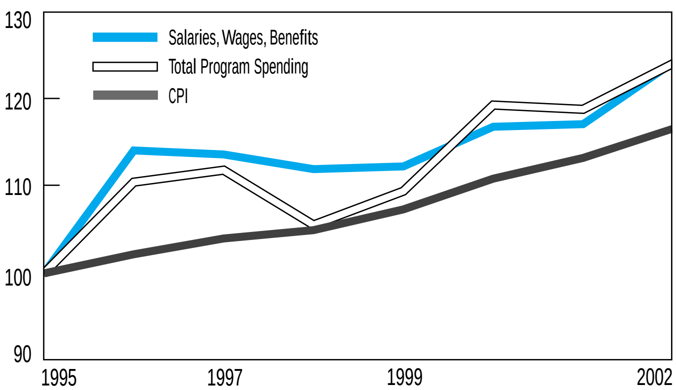
SASKATOON



Salaries as a % of Programs:
1995: 37.7%
2001: 39.8%

2001 Index Values:
Wages: 117.4
Programs: 111.2
CPI: 112.3

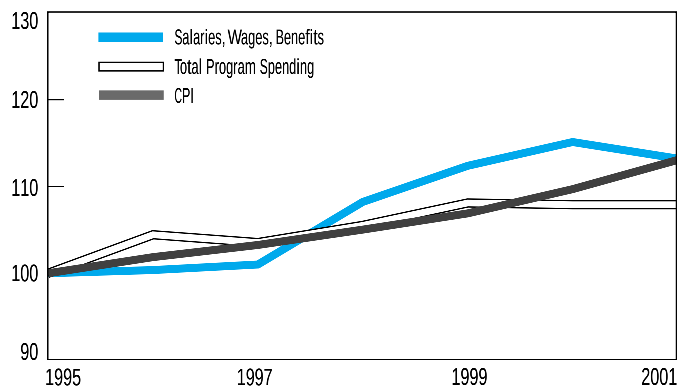
EDMONTON



Salaries as a % of Programs:
1995: 64.6%
2002: 64.7%

2002 Index Values:
Wages: 124.2
Programs: 124.1
CPI: 116.7

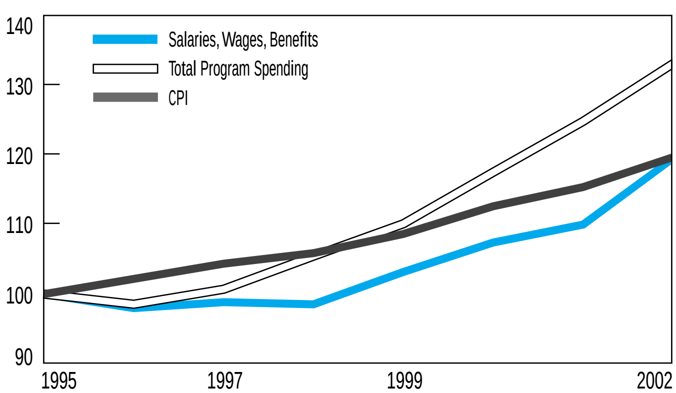
REGINA



Salaries as a % of Programs:
1995: 56.9%
2001: 59.6%

2001 Index Values:
Wages: 113.2
Programs: 107.9
CPI: 113.0

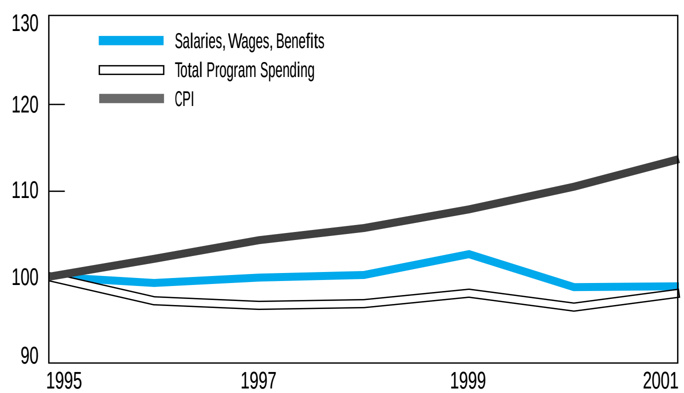
CALGARY



Salaries as a % of Programs:
1995: 84.9%
2002: 76.1%

2002 Index Values:
Wages: 119.5
Programs: 133.1
CPI: 119.7

WINNIPEG



Salaries as a % of Programs:
1995: 67.7%
2001: 68.0%

2001 Index Values:
Wages: 98.9
Programs: 98.1
CPI: 113.6

SOURCE: Derived by Canada West from the Annual Reports of the various cities (1990-2002) and DBRS.

SUMMARY: *The drivers of municipal expenditures seem to be rather clear cut. First, capital spending has grown at a slightly faster rate than program spending, and self-supported programs and utilities have grown at a faster rate than tax-supported programs. With regards to specific operating or program functions, police services and utilities have shown the highest growth rates. When policing is combined with other protective services (e.g., fire and EMS), protective services have been either the fastest or second fastest growing expenditure in all cities except Calgary and Regina. With respect to what services have contributed the most to the overall increase in nominal spending, the focus needs to remain on tax-supported programs since they account for almost two-thirds of the total spending increase averaged across the cities. In the tax-supported program category, protective services again emerges as the single largest function driving increased expenditures. Protection comprises anywhere from 30% to over 60% of the growth in all tax-supported expenditures for the six cities. Finally, in the last half of the 1990s and the early 2000s, most cities have seen per capita spending on wages and salaries increase at a faster rate than total program spending. This is perhaps not surprising when one understands the role played by services like policing, which are very labour intensive services.*

QUESTION #4:
What are the Implications?

A final question that needs to be answered is what all of this implies for western Canada's big cities. While the answer to this question is not altogether apparent, there are some initial implications that can be drawn:

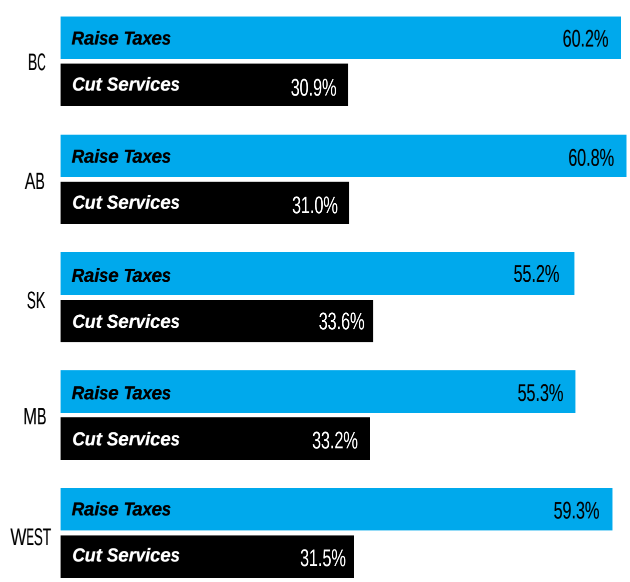
- *The fiscal stresses facing big cities point more in the direction of a revenue problem than a spending problem:* It is generally conceded across the policy community that city tax revenues have not kept pace with either population growth or inflation. Throughout the 1980s and 1990s, many cities also shied away from the debt financing of capital expenditures, preferring to "pay-as-you-go" from current revenues or reserves. Since the operating budget balance of a city cannot run into deficit, and significant resources were also shifted to capital, the end result has been that program spending has not kept pace with population growth or inflation for most cities. In short, the data reveal little to no evidence that cities are over-spending relative to population growth and the effects of inflation.

- *Western Canadians strongly support maintaining municipal services and do not believe that cities are over-spending:* Canada West Foundation's recent *Looking West 2004* survey suggests that a clear majority of westerners wish to maintain their municipal service levels and would rather see their local taxes increased in order to avoid cuts to local government expenditures. In particular, *Looking West 2004* respondents were asked the following question:

> *"Municipal governments typically provide services like police, fire, water treatment, transit, recreation, and building and maintaining roads and other local infrastructure. If your local government were faced with the choice of either increasing its revenues by raising taxes or decreasing expenditures by cutting services, which would you prefer?"*

As shown in *Figure 10,* western Canadians clearly prefer the idea of paying more in taxes to local governments to the idea of reduced local services. In fact, 59.3% of westerners would rather see taxes raised than services cut. Support for increased local tax revenues is highest in Alberta (60.8%) closely followed by British Columbia (60.2%). Those in Saskatchewan and Manitoba are somewhat less willing to consider raising taxes and more willing to consider cutting services, but the differences are modest, and a majority of residents in those two provinces are still in favour of the revenue-raising option. Interestingly, the variations in responses to this question by urban size are not significant for the West as a whole.

FIGURE 10: Raising Taxes or Cutting Local Services
(% in Favour of Each Policy Option)



SOURCE: Berdahl, Loleen. *Looking West 2004.* Canada West Foundation. N=800 per province (3,200 in all). Provincial margin of error = +/- 3.46% 95 times out of 100.

■ *Savings in interest costs have helped keep cities afloat:* As municipal debt was paid down in the 1990s, cities re-directed savings on the interest to prop up program and capital spending. This has helped some cities to maintain real per capita spending, but more often, it helped ensure that spending did not fall as much as it could have. The example of Calgary is a case in point. In Calgary, savings on interest have been pumped into increased program and capital spending at the same time that the total level of spending actually fell in real per capita terms. With every large western city reporting significant funding shortfalls in their capital budgets ($564 million combined for the six cities in 2003 alone), many of them are now moving to the increased use of debt to fund a portion of their infrastructure needs. As such, the role played by lower interest costs in propping up program spending will become increasingly limited.

■ *What health and education are to the provinces, protection is to the cities:* On the provincial scene, health and education are the top spending and policy priorities, and they are growing at a rate much faster than all other areas of provincial program spending. Much the same can be also be said of policing, fire, and EMS services at the city level. This is brought into bold relief by focusing on Winnipeg, one of the cities where program spending, relative to the size of the overall budget, has grown the least in nominal terms. Of the overall increase in tax-supported program spending in Winnipeg from 1990-2002, almost two-thirds has been consumed by police, fire, and EMS. Clearly, this service function remains a priority for the cities. This point is underscored by the fact that for all cities, protection is the single largest growing expenditure of all tax-supported programs and services.

■ *Sluggish program and capital spending implies the threat of a declining level of municipal services.* The data clearly indicate that some cities have experienced a rather significant reduction in real per capita spending on municipal programs and services. It is difficult to avoid questioning if service quality and even levels of services have remained unaffected as a result. To be sure, part of the overall reduction in spending could be cost savings accruing through innovation and better and more efficient delivery of municipal services. However, that assumption remains unproven, and further, cities themselves are repeatedly sounding the alarm that they are simply unable to keep up with the demands on the property tax dollar.

■ *The impact of downloading and offloading of services to the cities is, unfortunately, difficult to get a handle on:* In the current municipal financial environment, a key question that remains is the impact on local expenditures of shifting services from the federal and provincial governments to local governments. Due to a lack of specificity in publicly available data sources, it is difficult to provide a full assessment of this issue. For example, it is generally conceded that many cities are getting increasingly involved in providing more social and community services, but those particular expenditures are not always broken out in city financial statements. As a result, there are very few sources of data that can be used to explore the matter sufficiently.

However, there are exceptions, and the situation in Calgary may provide a small window on the issue. In 1990, the City of Calgary spent about $4.5 million on public housing programs. In the 1990s, this policy area was vacated by the other governments, and the issue of affordable housing landed squarely on the shoulders at city hall. By 2002, the City of Calgary was reporting that it spent just over $35 million on housing programs, a whopping increase of almost 680% over levels existing in 1990. Total spending on all social and community services in Calgary increased from about $29.7 million in 1990 to over $73.9 million by 2002, an increase of almost 150%. Clearly, non-traditional service areas, at least in Calgary, are beginning to compete vigorously for scarce property tax dollars.

CONCLUSION

This brief review of expenditure trends over the last decade was intended to help fill a gap in the policy discussion concerning the fiscal health of western Canada's big cities. To be sure, there are more trends that could be explored than were touched upon in this study. At the same time, an underlying theme has emerged. Spending levels for most of the large western cities have not increased substantially relative to population and inflation, and in fact, have actually fallen for most of the cities. This, coupled with the fact that westerners themselves remain very supportive of both the purposes and services behind municipal expenditures, indicates that efforts to ensure the fiscal sustainability of our cities need to be redoubled, for without it, we could well fall behind in maintaining and building the West's urban places. ■

APPENDIX: City Specific Methodological Issues

Vancouver: From 1990 to 1999, Vancouver made several adjustments to its consolidated presentation, and then a wholesale shift by adopting PSAB standards in 2000. Both disallowed the use of consolidated statements due to comparability issues. Expenditure data were generated from the General Revenue Fund (GRF) and the Capital Fund. Thus, all spending has likely not been captured. Vancouver used to net certain expenditures from conditional grants, user fees, and other miscellaneous revenues. This approach was abandoned in 2000. To be consistent for prior years, an amount for these grants, user fees, and other external recoveries were added to expenditures. This ensures a closer fit with the new accounting presentation. Conditional health grants, user fees and other expenditures totalling some $35 million by 1996 were not added to expenditures. These expenditure responsibilities were transferred to the province in 1996. Vancouver citizens also pay taxes and user fees for certain services provided by the Greater Vancouver Regional District (GVRD), the BC Assessment Authority, and the Regional Transit Authority. The City does not include these amounts in their statements because they simply "flow-through." Since these amounts do reflect the costs of providing municipal services, we have included them. In the early 1990s, the City used to collect taxes for the Regional Hospital district. These taxes were discontinued, and the City began to collect taxes for the Regional Transit Authority instead. For the earlier years, the taxes collected for the Hospital District were assumed to be an amount that the City would have contributed to transit. All contributions to the Joint Sewerage Board (which includes an amount for interest on debt) were treated as a program expenditure since pulling the amount of interest out for every year was not possible.

Edmonton: All data were secured from the consolidated financial statements and supporting schedules in the Annual Reports published from 1990-2002. Operating, interest, and capital expenditures of the Municipal Airport, Power, and Water systems were removed from expenditures for years 1990-1995 to control for changes in the municipal operation. The expenditures of Edmonton Telephones were also removed from 1990-1994 to control for the sale of that utility operation. For years 1990-1995, principal repayments on debt, capital funding, utility and other transfers, and depreciation were also removed from expenditures to allow better comparisons with the data for 1996-2002. Interest costs were removed from general government expenditures.

Calgary: All data were secured from the consolidated financial statements and supporting schedules in the Annual Reports published from 1990-2002. Operating, interest, and capital expenditures of the Calgary Electrical Department were removed from expenditures for years 1990-1997 to control for the creation of ENMAX. Principal repayments on debt for years 1990-1992 were also removed from expenditures. Solid waste (a tax-supported expenditure) was added to utility spending for all years to ensure better comparability with other cities that operate this function as a utility, or simply lump this environmental expenditure in with their utility operations. For 1990, the amount of tax revenue requisitioned by the Public Library Board was added to expenditures, as 1991-2002 expenditures include library operations. The amount added in 1990 ($16 million) is likely less than what was actually spent, however, the difference is probably marginal. The tax revenue amount acts as a reasonable proxy for the actual amount spent in 1990. All depreciation costs for electrical, sewer, water, and general tax-supported expenditures were removed from operating expenditures for years 1990-1994 to ensure compatibility with the figures for 1995-2002. Unlike the water, sewer, and electrical utilities, the amount of depreciation attached to specific tax-supported functions (e.g., police, fire, EMS, transit, etc.) was not highlighted in the annual reports. As such, the amount of depreciation attached to these functions had to be estimated and then removed. If this was not done, the amounts spent on every function from 1990-1994 would be artificially inflated relative to the amounts spent from 1995-2002. The estimated depreciation given to each function was developed by focusing on the 1994 fiscal year. For that year, CWF had two sets of figures – one set that had depreciation costs attached to each function, and one set that had depreciation removed. The differences between the two sets of figures for all the functions were calculated, and then totalled. This amount represents the depreciation costs for these functions for the 1994 year. The degree to which each function contributed to the overall difference could then be determined for the 1994 year, and then expressed as a percentage. For years 1990-1993, the total depreciation was determined, and then amounts were removed from each function according to the percentage of the depreciation that function carried in 1994. For most functions, the amounts removed were generally small, since roads and related spending carried the bulk of these depreciation costs.

Saskatoon: Data were secured from the consolidated statements and schedules in the Annual Reports published from 1990-2002. However, some of the detailed amounts for spending by function had to be estimated due to a lack of detail in the consolidated presentation (especially police, fire, transit, and roads). To estimate police and fire expenditures, the percentage of each as a proportion of the total GRF protection amount was first determined for each year. This percentage was then applied to the total protection amount in the consolidated statements to estimate how much could reasonably be assumed to be police and how much could be assumed to be fire. To separate transit and roads, the transit amount in the utility statements was subtracted from the total transportation amount in the consolidated statements, with the remainder assumed to be roads. Significant adjustments were made to the data for 1990-1993. First, fiscal services were removed from expenditures as well as transfers to reserves. Then, interest was added in. An amount for the library was also added to the total for 1990. With these adjustments, the data appears to be reasonably comparable over time. Removing the Electrical System from the dataset for all years would have increased the comparability of Saskatoon to other cities. However, this was not possible as amounts for the utility were often not separated sufficiently in the consolidated presentation to allow removal.

Regina: All data were secured from the consolidated statements and schedules in the Annual Reports published from 1990-2002. The transit subsidy was removed from expenditures for 1990-1997 since this expenditure was discontinued in 1998. The repayment of principal on debt, transfers to capital, and transfers to reserves were also removed from expenditures for years 1990-1997 to increase comparability with 1998-2002 figures. An amount for the public libraries was added to expenditures for 1990-1997. The amount added was the tax revenue collected on behalf of the Library Board. This amount may be somewhat lower than what was actually spent, but it is a reasonable proxy. An amount for the full value of capital spending was also added to expenditures for the years 1990-1997. This compares with the presentation used in 1998-2002. Interest, principal, and other transfers were removed from general expenditures for all years in which they were included in this function. Solid waste (a tax-supported expenditure) was added to utility spending to ensure better comparability with other cities that operate this function as a utility or lump it in with their utility operations.

Winnipeg: Spending data do not reflect the amounts in the consolidated financial statements because of significant problems with comparability. Rather, the totals reflect the spending in the GRF and the utility funds, along with the capital amounts used for a prior Canada West Report entitled *A Capital Question* (primarily the capital spending in the General Capital Fund, some Equipment Replacement Funds, and the various utilities). The difference between this approach and datasets developed by the City of Winnipeg shows our total spending figures, are on average, about $28 million lower annually. Detailed operating expenditure break-outs for certain tax-supported functions (e.g., police, fire, etc.) were estimated for the years 1998-2002 because these functions now have interest and principal repayment costs on debt attached to them, whereas interest and principal used to be presented separately (1990-1997). The estimated interest and principal attached to each function was developed by focusing on the 1997 fiscal year. For that year, CWF had two sets of figures – one set that included interest and principal costs attached to each function, and one set that did not. The differences between the two sets for the 1997 year for all the functions were calculated, and then totalled. This amount represents the interest and principal costs attached to these functions in 1997. The degree to which each function contributed to the overall difference was then determined for the 1997 year, and then expressed as a percentage. For years 1998-2002, the total interest and principal was determined, and then amounts were removed from each function according to the percentage of the interest and principal that function carried in 1997. Social services spending, which was uploaded to the province, was removed from all prior years to control for this change. The costs of operating Winnipeg Hydro (sold in 2001) were also removed for all years to keep the data consistent.

The spending amounts developed for this report broadly reflect those used in an earlier CWF report entitled *Dollars and Sense: Big City Finances in the West, 1990-2002*. In an appendix to that report, CWF discusses in detail the rationale for adjusting the amounts reported by the cities to ensure better comparability over time and between the six cities. Readers desiring more information are invited to download that report (www.cwf.ca).

IDEAS
CHANGE THE WORLD

2004 has the potential to be a year of great change in Canada: there will be a federal election, the future of our cities is a hot topic, Canada-US relations are evolving, and the nature of our democracy is being debated.

As Canadians talk about these issues, it is critical that the aspirations, perspectives, and ideas of western Canadians are heard.

Through its Western Cities, Building the New West and West in Canada Projects, the **CANADA WEST FOUNDATION** is actively working to generate ideas for positive change and to make sure that the views of western Canadians are an integral part of the national debates during this time of change.

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