CFIB
CANADIAN FEDERATION
OF INDEPENDENT BUSINESS.

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Winnipeg, MB
R3C 3R8

March 15, 2016

Winnipeg City Council
510 Main Street
Winnipeg, MB R3B 1B9

Re: Proposed 2016 City of Winnipeg Budget

City Council Members:

On behalf of the Canadian Federation of Independent Business (CFIB) and our 1,700 Winnipeg members, I am pleased to provide CFIB's recommendations for the city's proposed 2016 budget.

As you may know, the CFIB is a non-profit, non-partisan business association that seeks to give independent business a greater voice in determining the laws that govern business and the country. With 4,800 members in Manitoba and 109,000 members across Canada, we are the largest organization exclusively representing the interests of small and medium-sized businesses (SMEs) to government.

While Winnipeg has many qualities that make it great place to live, the small business climate provides fewer reasons for entrepreneurs to be confident to expand their business and create jobs. In 2015 Winnipeg ranked 64th among 121 Canadian cities and economic regions in CFIB's *Entrepreneurial Cities* index for having a small business climate that encourages entrepreneurism. Even more concerning, Winnipeg's ranking dropped (61st in 2014) and had the worst ranking of major Prairie cities.

Unfortunately the overall 2016 budget proposal threatens to make this mediocre ranking worse. While the budget contains some positive steps, such as lowering the Business Tax on small business, unsustainable operating spending increases, higher property-based taxes and more licensing and permit fees negate this good work. Unless the City of Winnipeg provides truly sustainable operating spending, continual tax increases will erode the city's ability to compete against other municipalities for investment and job creation.

Poor Track Record on Sustainable Spending

Small business owners believe municipal governments must maintain sustainable operating spending in order to provide a competitive business climate. To small business, this means holding operating spending growth to the rate of inflation plus population growth. In Winnipeg, this benchmark would result in annual spending growth of about 2.8 per cent. Winnipeg has a poor track record on this front and today's budget exacerbates the problem.

From 2008 to 2013, operating spending growth at the City of Winnipeg far outpaced the reasonable spending benchmark outlined above. Inflation-adjusted spending increased by 20 per cent, over 3 times the rate of population growth (see Figure 1). As a result of exceeding this benchmark, CFIB estimates the city spent $471 million more on operating spending than needed in just 6 years. This amount is equivalent to the financial resources required to build three Waverly underpasses without any federal or provincial support.

Submitted by Elliot Sims
CFIB.
EPC - Mar 15, 2016

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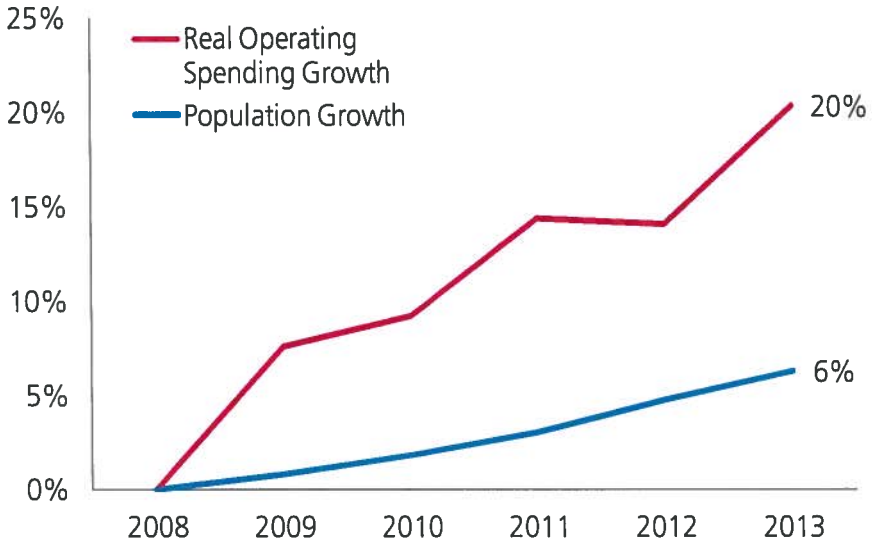
Figure 1:

Cumulative Growth in Population and Real Operating Spending; Winnipeg 2008-2013



Source: CFIB Manitoba Municipal Spending Watch, 2015

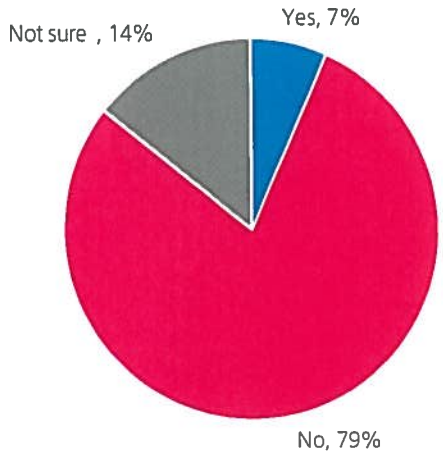
This unsettling trend continues in the proposed 2016 budget. Operating spending is projected to increase by nearly six per cent in 2016 – more than double the sustainable rate of growth! While fiscal projections for 2017 and 2018 indicate slightly smaller spending growth rates near five per cent, these are still well above Winnipeg's sustainable rate.

This spending record and projections create significant concern within Winnipeg's small business community. When CFIB recently asked its Winnipeg members on whether their local government is doing a good job of controlling spending, 79 per cent said 'No', with only 6 per cent saying 'Yes'. (see Figure 2).

Figure 2:

"Does your local government do a good job on each of the following?

Controlled spending (% response)



Source: CFIB, Our Members' Opinions survey, Winnipeg respondents (n=244), July - December 2015.

Sustainable Labour Costs Needed, Not Additional Revenues

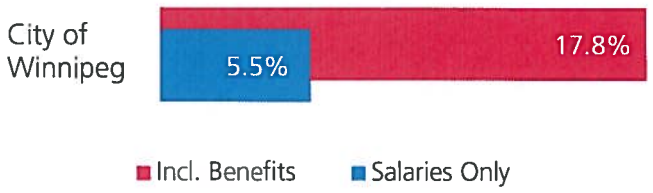
Many years of overspending has bloated the city's operating budget and reduced resources available for infrastructure spending. Small business owners believe the City of Winnipeg must do considerably more to rein in these operating expenses before asking residents for additional revenues, either directly through property taxes/user fees or indirectly through additional provincial transfers.

While efficiencies may be found in many areas, city labour costs are the most likely area to find significant savings. According to CFIB's Manitoba Municipal Spending Watch, wages, benefits, and employer contributions to CPP and EI account for approximately 62 per cent of all operating spending. These labour costs can be attributed to two factors, the cost per municipal worker and the total number of municipal workers. **On both fronts, Winnipeg must do a better job to contain costs.**

According to CFIB's Municipal Wage Watch report, Winnipeg has the second highest cost per municipal worker among major Western Canadian cities. Compared to private sector workers doing the same job, City of Winnipeg employees earn 5.5 per cent more in wages - over $2,600 more per year. Combined with other benefits, such as shorter work weeks, Winnipeg employees earn nearly 18 per cent more in wages and benefits than private sector workers (see Figure 3).

Figure 3:

City of Winnipeg Municipal Wage and Benefits Advantage.



Source: CFIB, Municipal Wage Watch, 2015

While the cost per worker is important, the number of employees is also important. Across the country, local governments have initiated civil service reduction plans conducted through attrition. With record retirement levels on the horizon, this is a once in a generation opportunity to right-size the footprint of municipal government. **The City of Winnipeg should evaluate if there are opportunities to achieve similar savings in all sectors of the municipal government.**

Montreal plans to reduce the size of its civil service

In early 2014, the Mayor of Montreal announced plans to reduce the municipal workforce by 2,200 employees over five years to lower wage costs. The reductions are to be achieved by replacing only every second employee who retires (except police and fire department staff would all be replaced). It is estimated that this would save the City of Montreal $240 million during the next five years. Source: CBC News (2014). *Montreal to cut 2,200 jobs over next five years - Plan will save $240 million over five years and $2 billion over 10 years, Mayor Denis Coderre says.* CBC News, published April 3, 2014.

While some labour costs are controlled by provincial laws, city council has a role to play in advocating for provincial policies that reflect the economic realities of the city. We recognize some councillors publicly recognize the growth of labour costs as unsustainable; however, council as a whole needs to take real action. Urging the province to undergo a review of provincial arbitration laws that affect municipalities would be a strong first step.

Winnipeg City Council must be a leading voice calling for a level playing field between the public and private sector. Specifically, this means the city should:

- Limit any employee wage increases to the rate of inflation;
- Move all new hires from Defined Benefit to Defined Contribution pension plans;
- Eliminate the pension bridge benefit for early retirement; and
- Request a review of provincial arbitration laws to ensure balance in collective agreements.

By better controlling labour costs, there is an opportunity to free up more existing financial resources so they can be allocated towards infrastructure spending, a high priority spending area for this city council and Winnipeg residents. **With many of the city's largest collective bargaining agreements up for negotiation within the year, now is the time to make real progress.**

Tax Hikes Impact Overall Competitiveness

CFIB recognizes budget deliberations require difficult decisions as council strives to meet the demands of a growing population. While CFIB applauds the city's move to reduce the Winnipeg Business Tax, our members are concerned the city is considering another 2.3 per cent property tax hike, a $1.10 per foot increase to property frontage fees and many user fee increases.

As the last major Canadian city to levy a business tax for which the business community receives no additional services, CFIB is pleased to see Winnipeg city council continue its efforts to reduce revenues from the business tax. The budget's plan to reduce the tax rate to 5.3 per cent and increase the small business exemption to $32,220 moves Winnipeg's tax climate in the right direction. While these changes will take more businesses off the tax rolls, over half of businesses still pay this tax. Elimination of the Winnipeg business tax remains a top priority for our members with 84 per cent saying they would like to see city council outline a plan to accomplish this goal.

While it is noted Winnipeg has had fewer property tax increases and lower than average municipal tax rates than other major Canadian cities in recent years, the trend of annual property tax increases is concerning. The burden of property taxes disproportionately affect small businesses: a homeowner is projected to see a $38 increase in their tax bill due to the 2.33 per cent property tax increase, but a business is estimated to see a $54 increase from the same increase.

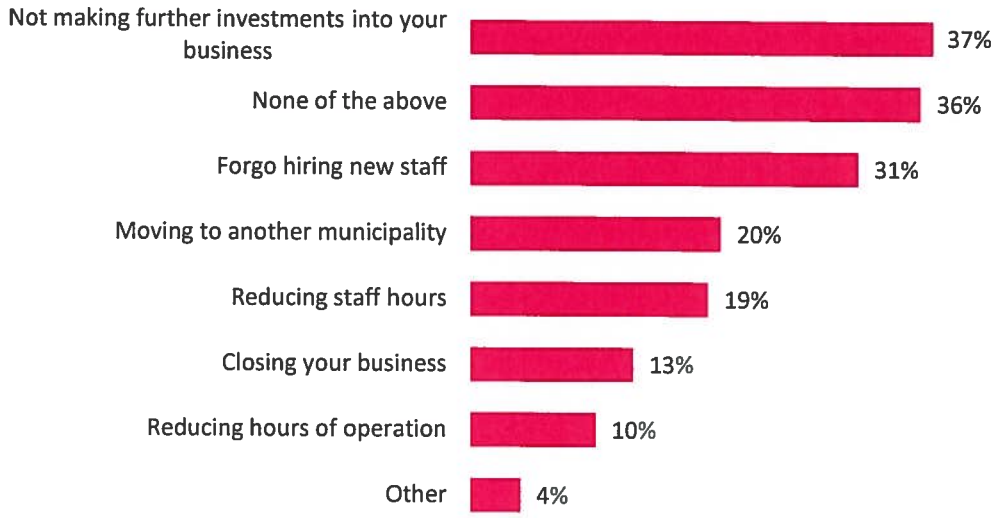
CFIB members are also concerned by the significant increases to various user fees considered in the 2016 budget, including to water and sewer rates. Winnipeg entrepreneurs spend considerable time and energy complying with city by-laws and regulations and the additional costs imposed by the draft budget will make it even more expensive to do business in Winnipeg.

The existence of the Winnipeg Business Tax, continual property tax hikes and unwarranted fee and permit increases have a combined negative influence on business investment in our city. In a recent survey of our Winnipeg members, 37 per cent of respondents indicated the current level of municipal property taxes is restricting further investment their business and 31 per cent are forgoing the hire of

additional staff (see Figure 4). Most concerning, one in five members is considering moving their business to another municipality.

Figure 4:

Given the current municipal property taxes on your business, which of the following have you considered?



Source: Manitoba 2015 Pre-Budget Survey, October 2014, Winnipeg Responses n=163

Until city council begins to seriously address the growing taxation burden of small and medium-sized businesses, Winnipeg will jeopardize business expansion and job creation in our city.

Recommendations:

With these facts in mind, CFIB urges the City of Winnipeg to consider the following recommendations for the 2016 budget to contain operating costs and mitigate the proposed tax increases:

1. **Reduce year-over-year operating spending growth to a maximum of inflation and population growth;**
2. **Reduce labour costs to allow additional infrastructure investment without raising taxes:**
   a. **Initiate a plan to reduce the size and cost of the municipal civil service (through attrition);**
   b. **Limit any employee wage increases to the rate of inflation;**
   c. **Move all new hires from Defined Benefit to Defined Contribution pension plans;**
   d. **Eliminate the pension bridge benefit for early retirement; and**
   e. **Request a review of provincial arbitration laws review to ensure balance in collective agreement outcomes.**
3. **Table a long-term plan to eliminate the Winnipeg Business Tax.**

If you or your staff has any questions, please do not hesitate to call our office at (204) 982-0817. Thank you for considering the views of Winnipeg's small business community as you work towards finalizing the 2016 City Budget.

Respectfully submitted by,

Elliot Sims
Director, Provincial Affairs, Manitoba