CFIB
CANADIAN FEDERATION
OF INDEPENDENT BUSINESS
45 years
1971-2016

640-175 Hargrave Street
Winnipeg, Manitoba R3C 3R8

December 8, 2016

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

Re: Proposed 2017 City of Winnipeg Budget

Dear Mayor and Council:

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 2017 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 a great place to live, it's small business climate provides fewer reasons for entrepreneurs to expand their business and create jobs. In 2016 Winnipeg ranked 79th among 121 Canadian cities and economic regions in CFIB's *Entrepreneurial Communities* index, which ranks small business climates that encourage entrepreneurship. It is concerning that Winnipeg's ranking dropped significantly from 64th place in 2015 and 61st in 2014.

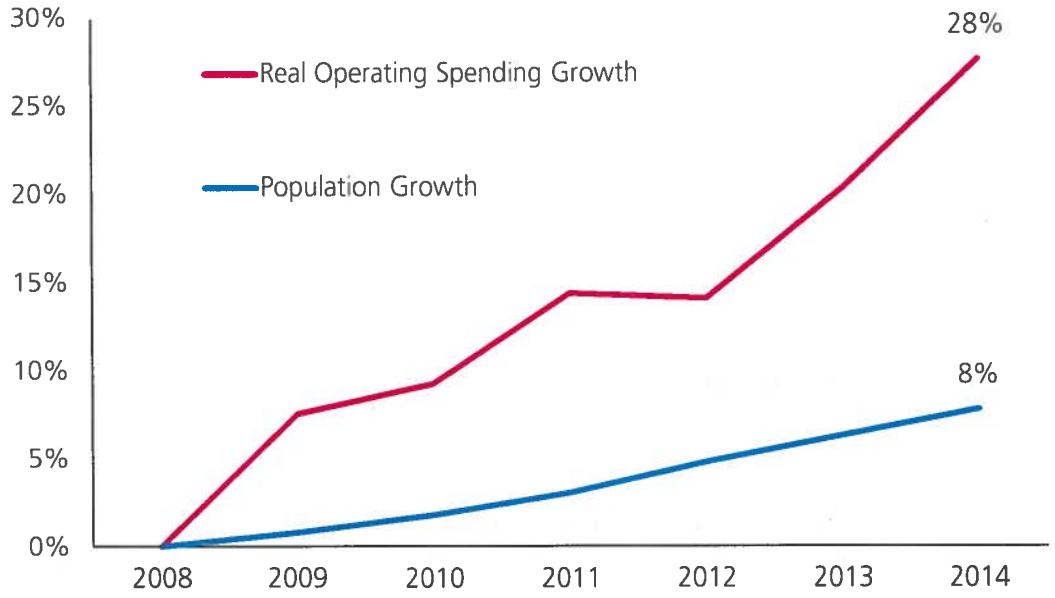
We are pleased the 2017 proposed budget takes incremental steps which could improve Winnipeg's overall ranking. The budget contains some positive steps, such as another small decrease to the Business Tax, and limiting spending increases to a sustainable level (2.31%). However, property taxes are set to increase again (2.33%), which we worry will further erode the City's ability to compete with other municipalities for investment and job creation.

Correcting a Poor Track Record on Sustainable Spending

Small business owners believe municipal governments must maintain sustainable operating spending in order to keep taxes competitive and provide a prosperous business climate. To small businesses, this means holding operating spending growth to the rate of inflation and population growth. In Winnipeg, this benchmark results in annual operating spending growth of roughly 2.7 per cent. In the past, Winnipeg has had a poor track record on this front. From 2008 to 2014, operating spending growth at the City of Winnipeg far outpaced the reasonable spending benchmark outlined below. Inflation-adjusted spending increased by 28 per cent, over 3 times the rate of population growth (8%) (see Figure 1). As a result of exceeding this benchmark, CFIB estimates the City spent $673 million more on operating spending than needed in just seven years.

Figure 1:

Real Operating Spending and Population Growth; Winnipeg 2008-2014



Source: CFIB Manitoba Municipal Spending Watch, 2016.

CFIB was also pleased to see that Winnipeg's audited consolidated financial statements for 2015 came in under budget. Holding operating spending growth to 2.31 per cent in 2017, which is below the sustainable benchmark, is a another positive step toward improving the City's fiscal situation.

However, this sustainable spending growth projection for the 2017 budget relies on an assumption that spending growth for police costs will be limited. Furthermore, several stakeholders have cited concerns with a lack of infrastructure funding in general and for key projects. It is essential that this budget is not underestimating current spending needs; delaying additional spending for future budgets.

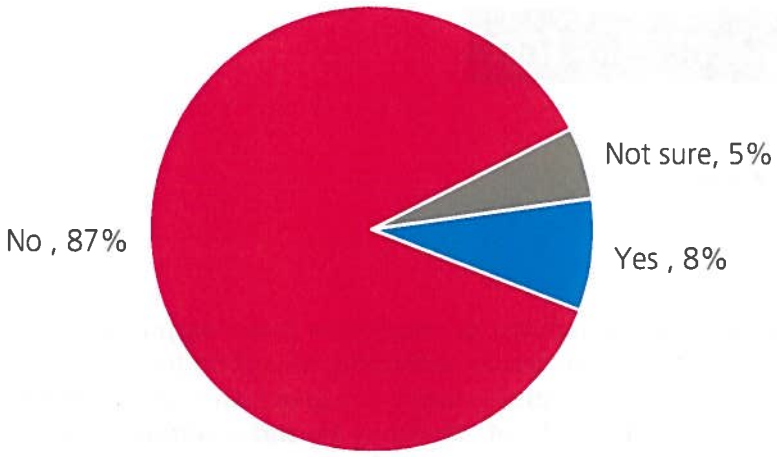
The City's projections for 2018 and 2019 leave further cause for concern. Tax supported operating spending is projected to increase by 8.72 per cent in 2018 and a further 3.68 per cent in 2019. Given Winnipeg's historic population growth and inflation increases, it is safe to assume that projected spending increases for 2018 and 2019 will be well above sustainable levels.

Budgets from 2015 and 2017 should be the beginning of a long-term sustainable spending trend to correct overspending in previous years. To accomplish this goal, the City of Winnipeg must provide fiscally responsible government by tackling problems at the root of these historic overspending trends.

Undoubtedly, correcting Winnipeg's historic overspending trends will bolster the public's confidence in the City's government. When CFIB recently asked its Winnipeg small business members on whether their local government is doing a good job of controlling spending, 87 per cent said 'No', with only eight 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=211), January - March 2016.

Sustainable Labour Costs Needed, Not Additional Revenues

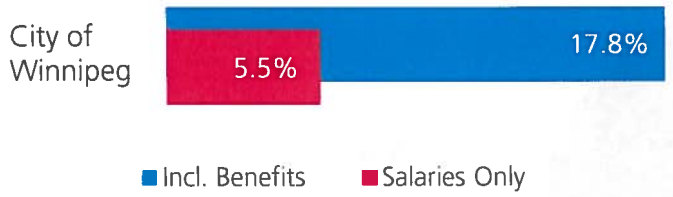
Many years of overspending have bloated the City's operating budget and reduced resources available for infrastructure spending. Small business owners believe the City of Winnipeg must do considerably more to rein in these operating expenses in the future before asking residents for additional revenues,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

While efficiencies may be found in many areas, labour costs are the most likely area to find significant savings. According to CFIB's latest Manitoba Municipal Spending Watch, wages, benefits, and employer contributions to CPP and EI account for approximately 60 per cent of all operating spending in Winnipeg. 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 2015 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. 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 reduce 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.

Time to Reform City of Winnipeg's Municipal Sick Day Policy

A new report from CFIB shows some big-city sick day policies are costly and unfair as municipal government employees can bank unused sick days while most private sector employees cannot.

Banking means that if an employee doesn't use all their allotted sick days in a year, they can save them for later. Of the 16 major cities reviewed, 10 allow banking. Policies vary, with some cities, including Winnipeg and Moncton, offering an unlimited number of banked sick days. Others place a ceiling on bankable days.

Figure 4:

2013 Sick Day Liability (Total in $ millions, $ Per Capita) by Municipal Government

	Total	*Per Capita*
Vancouver[58]	*35.1*	*55*
Victoria[59]	*7.0*	*83*
Calgary	*N/A*	*N/A*
Edmonton	*N/A*	*N/A*
Saskatoon[58]	*14.7*	*59*
Regina[59]	*10.8*	*51*
Winnipeg	*9.4*	*13*
Toronto[60]	*489.0*	*176*
Ottawa[61]	*36.7*	*39*
Montreal[62]	*23.4*	*14*
Quebec City	*N/A*	*N/A*
Moncton[63]	*8.8*	*122*
Fredericton	*N/A*	*N/A*
Halifax[64]	*13.5*	*33*
Charlottetown[65]	*4.1*	*111*
St. John's[66]	*5.8*	*52*

2013 Consolidated Financial Statements as of December 31, 2013 for municipal governments listed. Halifax Regional Municipality is based on consolidated financial statements as of March 31, 2014.

Not limited to core government employees.

Statistics Canada. Table 1 Annual population estimates by sex, July 1, 2001 to 2013, Census Subdivisions, Canada.

In Winnipeg, city employees hired prior to February 8, 2995 can receive a payment equal to 25 per cent of unused sick credits earned as of January 1, 1995 as part of a severance package upon retirement or termination of employment. The City of Winnipeg had $9.4 million in banked sick day liabilities in 2013 (see Figure 4).

Having a safety net in place in case employees get sick in the short-term is obviously a responsible thing to do. However, when governments allow the banking of sick days, they are encouraging their employees to feel entitled to those days whether they're sick or not. It is not affordable to have these costly municipal sick day policies, which create an unnecessary burden on taxpayers. We need to fix the system so that everyone is playing by the same rules.

Instead of hiking property taxes each year, CFIB recommends the City of Winnipeg introduce fairer and affordable short-term disability plans to replace these outdated sick-day banking policies to protect their workers and better align with private sector practices.

While some labour costs are controlled by provincial laws, 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 existing financial resources. Furthermore, with many of the City's largest collective bargaining agreements up for negotiation this 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 2.33 per cent property tax hike.

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 the business tax. The budget's plan to reduce the tax rate to 5.25 per cent and keep the small business exemption at $32,220 moves Winnipeg's tax climate in the right direction. While these changes are welcomed, too many businesses in the Winnipeg 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.

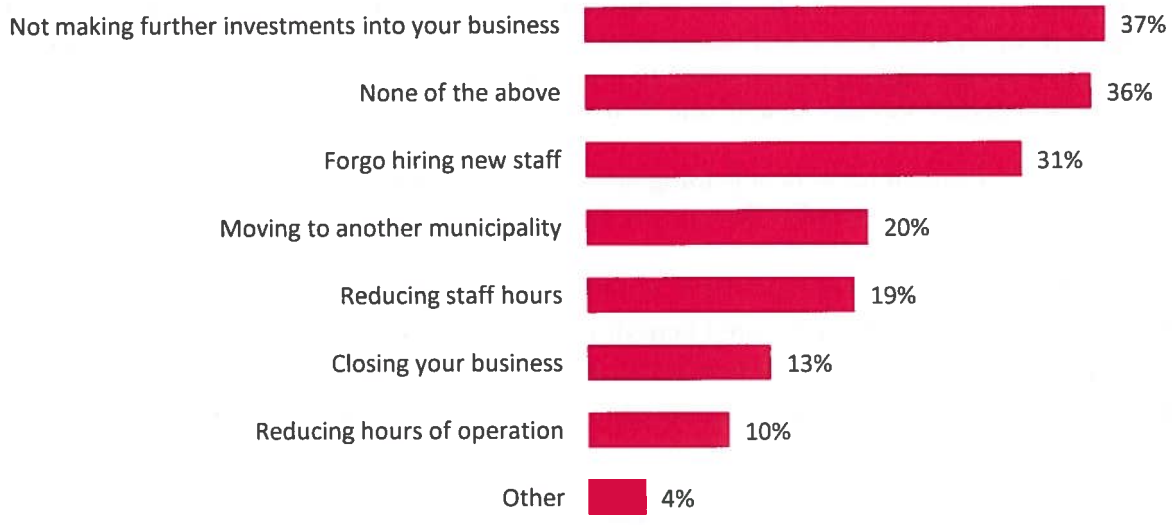
While it is noted Winnipeg has had fewer property tax increases and lower than average municipal tax rates than other major Canadian cities in recent years, the trend of annual property tax increases is concerning.

CFIB members are also concerned by the significant increases to various user fees considered in the 2017 budget, including to water and sewer rates. Winnipeg entrepreneurs spend considerable time and energy complying with municipal 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 significant fee and permit increases have a combined negative influence on business investment in our City. In a CFIB survey of our Winnipeg members, 37 per cent of respondents indicated the current level of municipal property taxes is restricting further investments in their business, and 31 per cent are forgoing the hiring of additional staff (see Figure 5). Most concerning, one in five members is considering moving their business to another municipality.

Figure 5:

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 2017 budget to contain operating costs and mitigate the proposed tax increases:

1. For years beyond 2017, continue to reduce year-over-year operating spending growth to a maximum of inflation and population growth;
2. Conduct municipal core service reviews to identify key services and ensure effective fiscal management;
3. Reduce labour costs to allow more cost-effective delivery of taxpayers' money, so tax increases are not necessary:
    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;
    e. Eliminate the costly and outdated banked sick day policies and replace with affordable short-term disability plans; and
    f. Request a review of provincial arbitration laws review to ensure balance in collective agreement outcomes.
4. Build upon previous work by tabling 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 2017 City budget.

Respectfully submitted by,

Jonathan Alward

Jonathan Alward
Director, Provincial Affairs, Manitoba

Encl: 3rd Edition: *Manitoba Municipal Spending Watch*