# CANADIAN FEDERATION OF INDEPENDENT BUSINESS

## 2005/06 Winnipeg Budget Recommendations

## *LOOKING TOWARDS TOMORROW:*
### *ECONOMIC DIVERSITY AND WINNIPEG'S SMALL BUSINESS COMMUNITY*

**Presented to:**
**Executive Policy Committee**

**Shannon Martin**
**Director, Provincial Affairs**
**Manitoba**

**March 14, 2005**

On behalf of the Canadian Federation of Independent Business (CFIB), and our 2,000 Winnipeg small business members, I wish to thank you for the opportunity to present our members' views and recommendations on the preliminary 2005-2006 current estimates to you today. CFIB is a not-for-profit, non-partisan organization representing the interests of Canada's small- and medium-sized business community. In addition to our 2,000 Winnipeg members, we have a total of 4,800 members in Manitoba and 105,000 across Canada.

I am very pleased to be here today, as many recent proposals at City Hall have tremendous potential to improve the situation for Winnipeg's small firms. As many of you are know, CFIB members have long been concerned with the direction of their local government.

The small- and medium-sized enterprise (SME) sector is Canada's engine of growth. It now contributes roughly half of Canada's GDP. The SME sector employs six out of ten Canadians in communities right across Canada. Credited with the majority of new jobs in recent years, the SME sector also provides economic resiliency by maintaining jobs levels in tough times.

## VIEWS OF WINNIPEG CFIB MEMBERS

CFIB members are surveyed annually to determine which are the most harmful taxes and charges to SMEs. Like their counterparts in the rest of Manitoba, CFIB Winnipeg members rank property-based taxes at the top of the list of most harmful taxes – 73 per cent of CFIB's Winnipeg's members identified local property taxes as harmful to their operations (Figure 1). Figure 2 shows that the proportion of Winnipeg SMEs that identified property taxes as harmful is higher than in the remainder of the province.

**Figure 1**
**Most Harmful Taxes and Charges for Wpg SMEs, 2004**

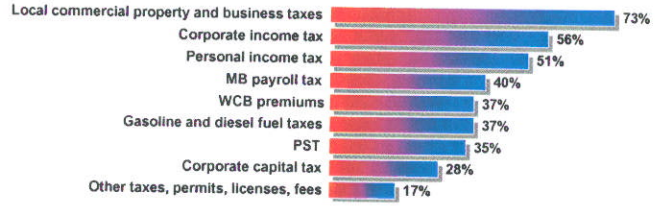
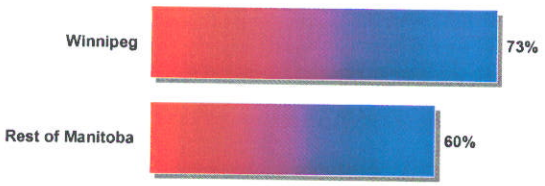



**Figure 2**
**Property Taxes Identified as Harmful, 2004**




Source: CFIB, *Focus on Manitoba Survey*, 2004, 205 responses in Winnipeg and 436 in Manitoba

CFIB members are surveyed on an on-going basis about the issues they feel should be of high priority for action. The most recent results reveal that 56 per cent of Winnipeg members are concerned with the cost of local government (see Figures 3 and 4). Again, concern over this issue in Winnipeg is much higher than elsewhere in the province.

**Figure 3**
**Wpg CFIB Members' Most important Issues**

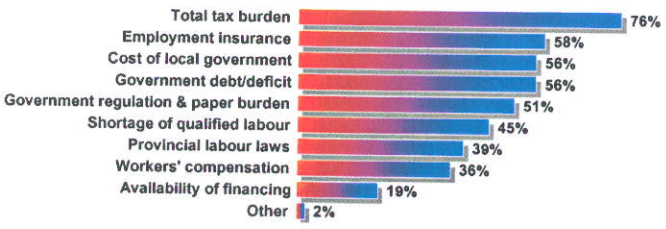
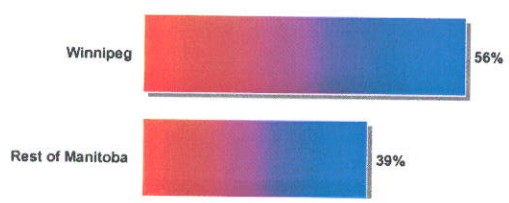



**Figure 4**
**SMEs Concerned with Cost of Local Government**




Source: CFIB, *Our Members' Opinions Survey No. 55*, 2004, 275 responses in Winnipeg and 663 in Manitoba

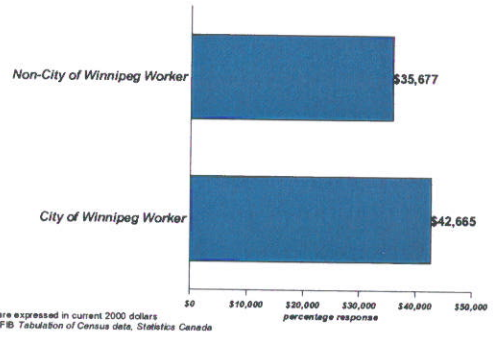
## SPENDING MUST BE KEPT IN CHECK

Businesses do not accept property tax increases as inevitable. When businesses face increasing costs, they cannot simply pass on these costs to consumers. In order to stay competitive, they find ways to streamline their operations and reduce costs. The City must do the same.

CFIB congratulates the City for its commitment of no increase in property taxes continuing eight years of freezes and modest reduction.

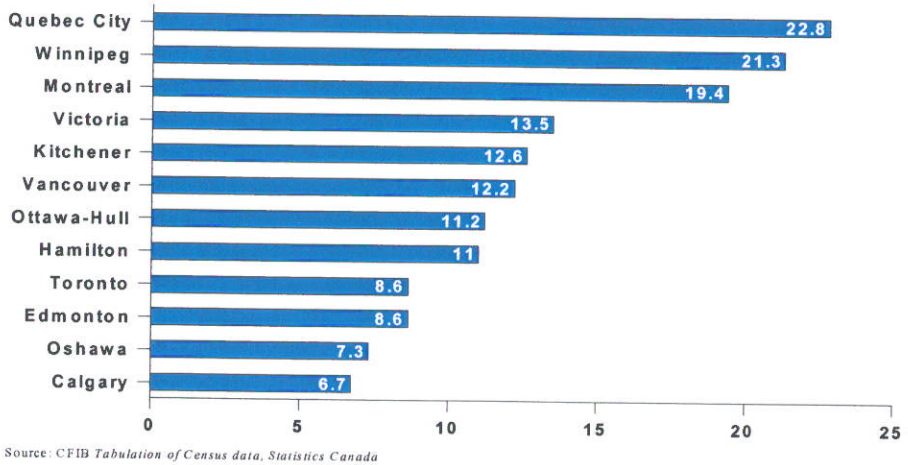
Prior to introducing new taxes or calling for increased revenue, CFIB urges Council to address the wage gap between City workers and those employed in the local private sector. One of the largest expenses of any government is the salaries and wages of the public administration. CFIB recently released a research report on the wage differential between public and private sector employees entitled, *Wage Watch: A Comparison of Public-Sector and Private-Sector Wages*. The research is based on 2001 Census data and compares similar professions in the private sector and public administration. The gap that exists in Winnipeg's civil service is one of the largest in the country at all levels of government, 23.1 per cent more than their private sector counterparts (in similar positions). It is CFIB's position that if the City ensured its salaries and benefits were in line with private sector norms, the need for more money from taxpayers would be significantly reduced. If the City took ten percent off what it spends on wages and benefits, the City would save $43 million – money that could be used to address the infrastructure deficit or reduce taxation.

***Local Public Administration vs. Private Sector Annual Earnings***




Earnings are expressed in current 2000 dollars
Source: CFIB *Tabulation of Census data, Statistics Canada*

***Local Public Administration Wage Premium***
**(%, select cities)**

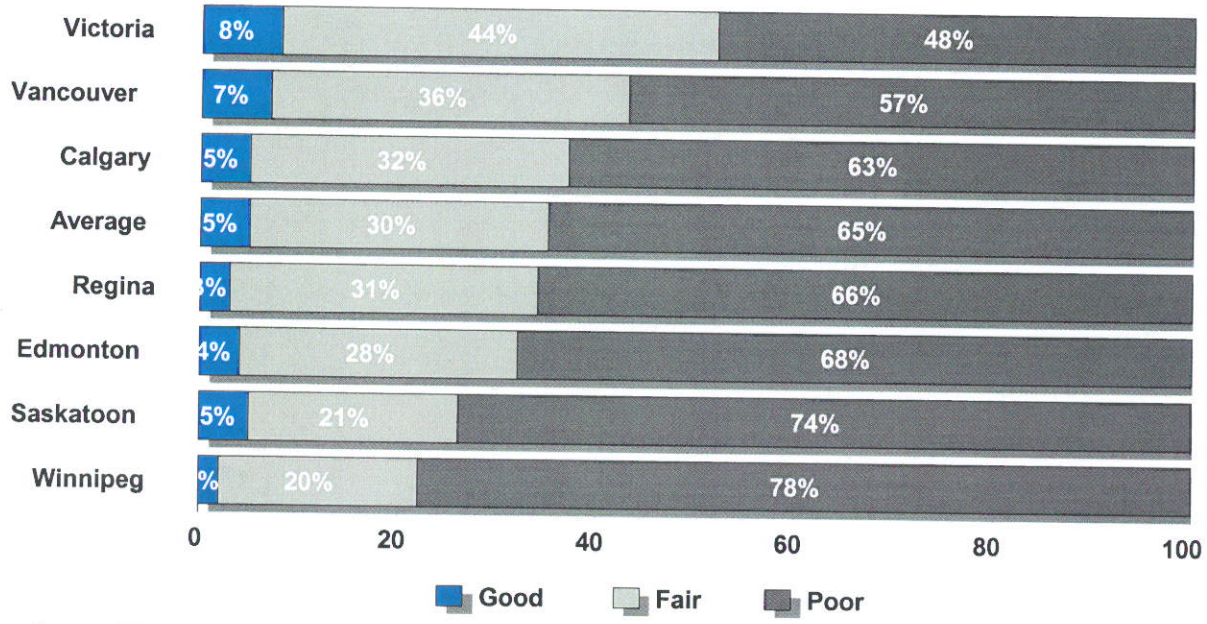



Source: CFIB *Tabulation of Census data, Statistics Canada*

CFIB has long believed that public sector salaries should follow, not lead private sector salaries. In fact, many small firms find themselves competing with government to attract and retain skilled labour. In competing with the public sector for these workers, private sector employers are limited by market forces - a factor of less concern to public sector employers. As a result, excessive public wages and non-wage benefits inflate overall government spending at the expense of taxpayers.

Control of government wages is an issue in which all western jurisdictions fare poorly, however Winnipeg, with 78 per cent of respondents giving the City a *'poor'* rating, ranks last according to our survey data.

**Control of Government Wage Levels**




Source: CFIB, *Our Members' Opinions Survey 52 and 53*, 2003

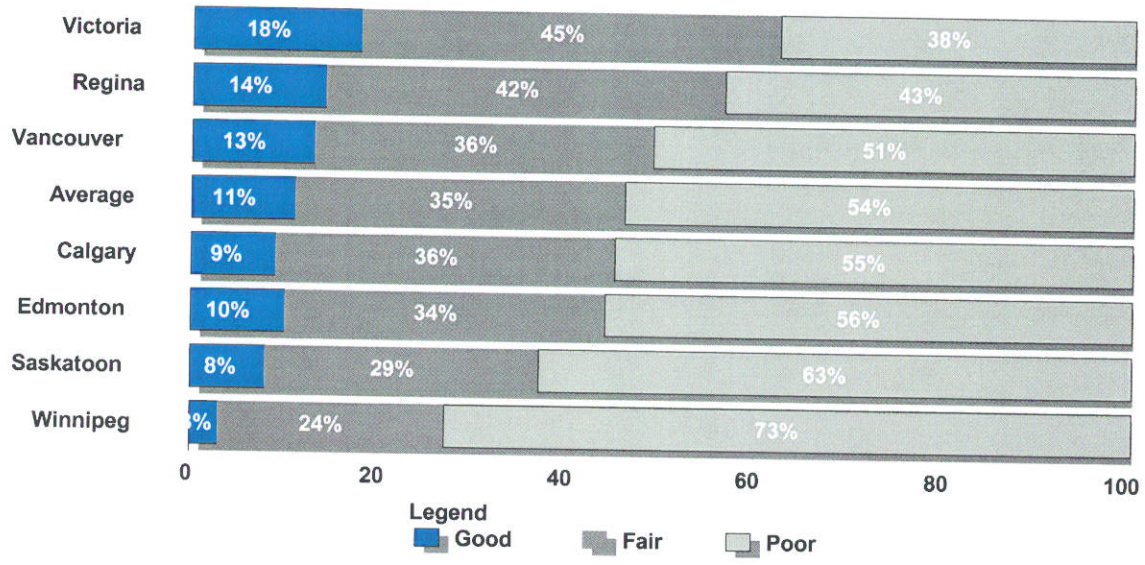
Measures must be taken to minimize the negative impacts of wage differentials. Guided by the principles of transparency, public debate, and accountability, CFIB suggests that Council:

1. **Ensure that public sector/non-wage benefit adjustments occur in response to market forces.**
   Free labour market forces should determine the levels of wages and benefits as opposed to governments and collective bargaining units.
2. **Review policies to ensure public employees' compensation takes into account individual and organizational performance.**
   In servicing taxpayers, public employee compensation must adjust according to performance. Therefore, a review of how goals, objectives, and performance are defined becomes of prime importance.

CFIB believes that controlling the size of government is fundamental to reducing the tax load on individuals and businesses. Policy changes in this area of government expenditures could free-up million of dollars internally, as well as stimulate economic growth.

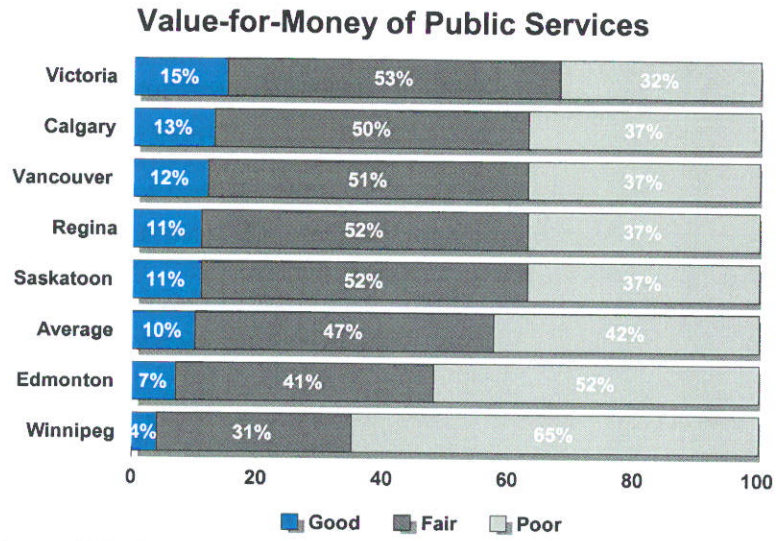
It is important to advise that many business owners have been frustrated with their local government. When asked to rate their local government on overall awareness of the small business sector, 73 per cent of CFIB members in Winnipeg replied '*poor*'. In our recent report, *Western Cities Report Card*, Winnipeg ranked last among seven western jurisdictions on this issue. This finding is particularly troublesome given the impact municipal governments have on the local business climate.

**Overall Awareness of Small Business Sector**




Source: CFIB, *Our Members' Opinions Survey* 52 and 53, 2003

CFIB survey results indicate that the majority of business owners in Winnipeg are not satisfied with the services they receive for the property taxes they pay. From a business perspective, value-for-money of public services is a primary concern. Businesses, especially smaller ones, actually use fewer services than homeowners. While few independent studies have been done in this area, where they do exist they point to significant gaps. For example in Vancouver and Toronto, businesses are estimated to pay $2 in property tax for every $1 in city services received. Businesses in effect are subsidizing services consumed by residents. When businesses are forced to pay more than their share, the principal that taxes should be related to the benefits received from local government spending is violated. With that in mind it is not surprising that many businesses feel they are getting poor value for money of public services.




CFIB's Western Cities Report Card found that 65 per cent of Winnipeg respondents gave their local government a *'poor'* rating on value-for-money of public services, the lowest level among the seven jurisdictions surveyed.

Source: CFIB, *Our Members' Opinions Survey 52 and 53*, 2003)

When asked what local services their business used in 2002, 46 per cent stated police assistance, 37 per cent stated city-provided garbage collection and 19 per cent replied 'city-provided recycling'. A further 15 per cent of business owners received service from the fire department, two per cent used economic development services, two per cent utilized the library and 10 per cent replied 'other'.

Interestingly, the main problems identified by CFIB members with respect to the property tax system are: high rates of taxation (67 per cent), taxes do not reflect use of local services (64 per cent), lack of sensitivity to business profits (35 per cent), and erroneous assessments (32 per cent). CFIB is pleased with Winnipeg's proposal to move to a single province-wide self-sustaining assessment authority, a recommendation CFIB has made for a number of years. CFIB supports the argument that a single assessment authority would remove the duplication of having assessment functions at both the Province of Manitoba and the City of Winnipeg. Combining these two organizational structures would streamline the assessment function in Manitoba and help ensure a fair and equitable arrangement for all Manitobans. Please be assured we will be lobbying the provincial government on this issue as well.

## BUDGET PRIORITIES

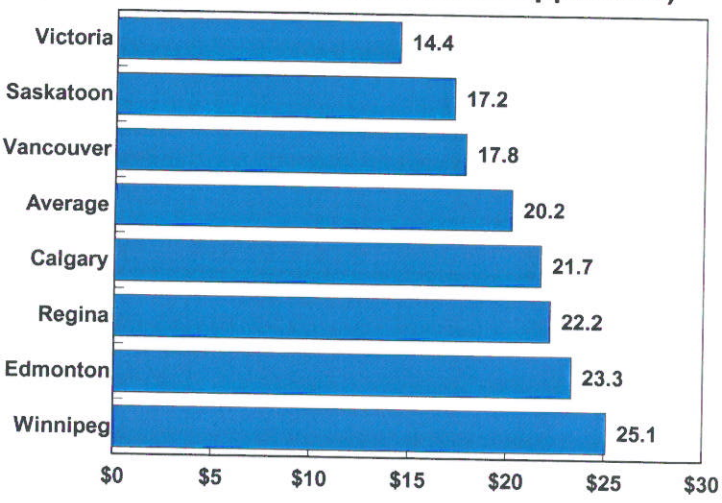
### Property Taxes

CFIB members in Winnipeg see property-based taxes as more harmful than all other taxes, including personal income tax and corporate income tax. This form of taxation is a major problem for small firms as it is completely profit insensitive.

The business community is particularly concerned about the disproportionate share of municipal property taxes they shoulder compared to the residential community. The property tax burden is allocated such that commercial property owners face higher rates than their residential counterparts, while studies demonstrate they use fewer municipal services.

Small business owners do not support a property tax differential between commercial and residential properties. When asked how much property tax should be paid on a business property compared to a similarly valued residential property, 61 per cent of CFIB members stated the same amount should be paid. Only 13 per cent felt businesses should pay two times more and approximately two per cent felt businesses should pay three or more times more than residential properties. One quarter of respondents were unsure.

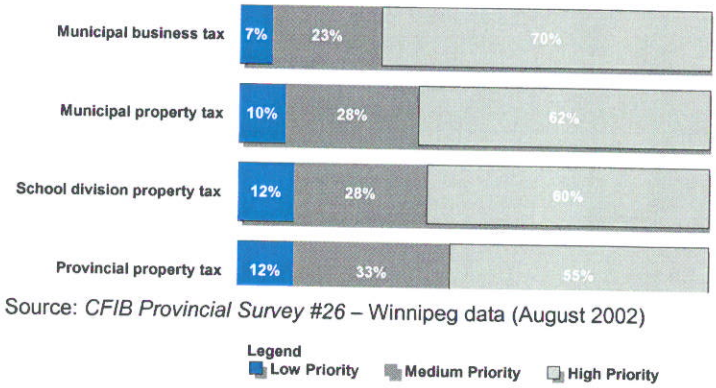
**Effective Tax Rates on Commercial Properties, Expressed as dollars per $1,000 of assessed value (including business taxes where applicable)**




Source: CFIB calculations based on municipal financial information from provincial and local governments

When discussing property taxes, it is also important to compare effective tax rates on commercial properties. This is useful in comparing total commercial tax levies to the total assessed value of commercial property. The effective tax rate is expressed not in percentage terms but as dollars per $1,000 of assessed value. Out of the seven western jurisdictions reviewed, Winnipeg ranked last with an effective tax rate of $25.10 per $1,000 of assessed value. This is twenty-four per cent higher than the western average of $20.20.

**How important is it to your business to have tax cuts in each of the following categories of property taxes?**




Source: *CFIB Provincial Survey #26* – Winnipeg data (August 2002)

In a breakdown of the total property tax burden of CFIB members in the City of Winnipeg, 70 per cent view the business tax as a high priority to cut, 23 per cent view it as a medium priority and seven per cent see it as a low priority. For the municipal component of property tax, 62 per cent feel it is a high priority for reduction.

## Business Tax

CFIB's call for the elimination of the business tax has been consistent for a number of years. As noted in previous budget submissions, 71 per cent of CFIB members in Winnipeg stated that the complete elimination of the business tax would have a positive impact on their business. A further 23 per cent stated it would have a somewhat positive impact. Also, when asked what would the elimination of the business tax allow your firm to do, the majority responded *'stay competitive'*. Other actions businesses cited included: improve wages, benefits and training for staff; expand production; enhance their firm's appearance and keep their business in Winnipeg.

The majority of members (65 per cent) support financing the elimination of the tax through savings from reduced debt and financing charges. This approach would ensure that the business community benefits from the savings achieved through paying down the City's debt. It was followed by support for reductions in spending/services (57 per cent). An additional 44 per cent support funding the elimination of the business tax through growth in the tax base. CFIB has argued for sometime that reduced taxation encourages growth and expansion. Thus, the elimination of the business tax may lead to increased levels of taxation in other areas such as residential property tax. Such a plan would allow the business community to pay for its own tax cut by freezing the revenue generated by the business tax, while allowing the rate to fall. Only 16 per cent of respondents support the concept of financing through new revenue sources and less than seven per cent support compensating lost revenues through increased property tax on all types of properties.

CFIB members were asked whether they support a strategy that would allow for the exemption of a portion of a firm's assessed rental value from the business tax (for example, the first $24,000 in assessed rental value). Two-thirds of CFIB members support this concept. This approach ensures fairness for all businesses regardless of size and profitability. The City could then embark on a long-term plan to raise the exemption/deductible threshold over time until the tax is completely phased out. It is important to note that the Province of Manitoba developed a similar long-term exemption strategy to reduce the burden of the payroll tax. In the first phase, the province provided for a $50,000 exemption, and over time, raised the threshold to $1 million. In doing so, the Province has slowly reduced the number of businesses that pay the payroll tax with very little loss in revenue. CFIB recommends the City consider a similar approach in its efforts to phase-out the business tax.

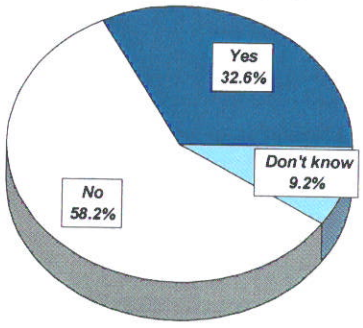
CFIB would also like to reinforce its opposition to the City's current approach to the phasing out of the business tax with businesses in downtown Winnipeg receiving a reduction this year and the remaining businesses having to wait until next year before receiving a similar reduction. However, we have encountered and would like to share with you the fact that the Mayor's recent challenge put forward in the State of the City address to eliminate the business tax over seven years as opposed to the original eighteen-year plan, has been positively received by the small- and medium-sized business community.

It is also important for CFIB to advise that our members would not support reducing the business tax by increasing residential property tax; merging the business tax with other forms of property taxation; or introducing new taxes to help finance the elimination of the business tax.

## Business Subsidies/Economic Development

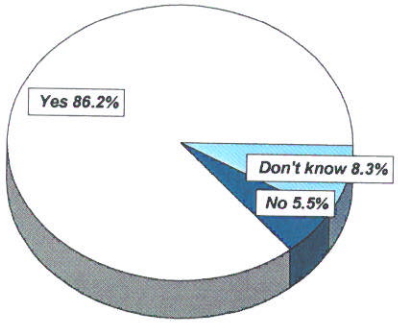
CFIB members do not support the use of business subsidies to attract new business to Winnipeg. Survey results indicate that 58 per cent of members do not feel the City should provide special tax relief to certain businesses considering relocating or starting up in Winnipeg. Thirty-three per cent support this strategy and nine per cent responded 'don't know'. In a subsequent question, 27 per cent feel reductions in economic development spending provide opportunities for cost savings in the City.

***Should the City provide special tax relief to businesses considering relocating to or starting up in Winnipeg?***




Source: CFIB *Winnipeg Business Tax Survey* (September 2001)

***Should Winnipeg contract out more of its public services?***




Source: CFIB *Winnipeg Business Tax Survey* (September 2001)

In previous submissions to the City, CFIB has argued that the elimination of the business tax would do far more to stimulate economic development than any subsidy to a multi-national corporation. The Federation would far rather the City use any additional resources to help pay down a portion of the business tax, which would offer benefits to all Winnipeg firms rather than a select few.

## Contracting Out Services

The option of contracting out more civic services in efforts to improve efficiency and reduce government costs has been debated for some time. The majority of CFIB Winnipeg members support this approach. Survey results indicate that 86 per cent agree the City should contract out more of its public services, while over five per cent disagree and eight per cent replied 'don't know'. In many cases, contracting out cannot only provide savings, but may also improve the quality of service delivery.

Creating special operating agencies, contracting out, initiating public/private partnerships, or ending the delivery of certain services are all valid and appropriate options. For example, the City's fleet services may be able to be delivered by the province's fleet vehicle agency.

## REGULATORY REFORM

The concerns of Winnipeg's small- and medium-sized business community were generally reflected in *The Mayor's Red Tape Commission's Introductory Report.*

It is important to note that the majority of small business owners are currently spending in excess of two hours a day, thirteen working days a year, complying with a variety of

government regulations and paperwork. While CFIB recognizes that the Commission's report is introductory, it marks an important first step to improve Winnipeg's business climate.

CFIB made a formal submission to the Commission and we were pleased to see several of our recommendations were reflected including:

- Measuring the regulatory burden;
- Reporting measures of the regulatory burden to the public;
- Setting reduction targets;
- Creating a "culture" change in the bureaucracy;
- Ensuring adequate communication of existing and proposed regulations;
- Making regulatory accountability a political priority;
- Keeping compliance flexible; and
- Adopting a process to determine the need for new regulations.

The Commission is to be congratulated for resisting cherry-picking regulations and instead focusing on the larger issue of the aggregate burden of regulation on business. While the final report is still pending and Council's support of the initiative is not yet known, the small business community is optimistic that positive change will occur as a result of the Commission's work. It should be noted that the City's regulatory efforts are being actively watched by other levels of government and municipalities. Winnipeg has the unique opportunity to set the bar to which all other municipal regulatory reform is measured and is encouraged to recognize the national implications of its efforts.

## RECOMMENDATIONS

**Property Tax:**

- Maintain the property tax freeze and resist efforts to claw-back benefits through increases to the frontage levy.

**Business Tax:**

- Ensure any reduction in the business tax is applied equally to all businesses in Winnipeg regardless of their proximity to downtown;
- Consider a deductible/exemption approach as part of a long-term approach to phasing out the business tax; and,
- Freeze the revenue generated from the business tax at last year's levels and dedicate any increased revenue to reducing the rate or increasing the deductible or exemption threshold.

**Spending Restraint:**

- Consider contracting out a greater number of services;
- Review spending on festival and street parties;
- Review economic development function to determine relevance;
- Re-examine the need for certain licenses (e.g. vending machines); and,
- Employee wages and benefits:

- Ensure that public sector/non-wage benefit adjustments occur in response to market forces.
- Review policies to ensure public employees' compensation takes into account individual and organizational performance.

**Regulatory Reform:**

- Adopt the recommendations of *The Mayor's Red Tape Commission's Introductory Report;* and
- Ensure that regulatory reform in Winnipeg becomes a permanent part of the culture of all employees.

## CONCLUSION

Full cooperation and participation between the provincial, federal and municipal government is essential to a creating a strong and vibrant capital city. To that end, CFIB is encouraged by recent commitments made by the senior levels of governments to share new revenues with the city. In particular:

- The federal government's decision to eliminate the GST paid by municipalities in Canada, estimated to benefit Winnipeg by $7 million per year;
- The federal government's decision to share gas tax revenue with municipalities, estimated to benefit Winnipeg by $10-$12 million this year;
- The provincial government's decision to share five per cent of net revenues of Winnipeg Casinos in 2005 – increasing to a 10% share in 2006, estimated to benefit Winnipeg by $3 million in 2005, and
- The provincial government's announcement to create the Building Manitoba Fund including sharing the equivalent of a three-cent a litre share of provincial fuel taxes.

While much of this new revenue is specifically targeted at infrastructure and policing it will help reduce pressure on city taxpayers and assist in long-term economic planning.

With the recent changes at City Hall, CFIB is optimistic that our members' priority issues will be addressed. To date, we are encouraged by the approach advocated by the Mayor's Red Tape Commission's Introductory Report and hope Council will endorse those recommendations later this year when the final report is presented. While CFIB still maintains that any reduction to the City's business tax should be applied consistently, we endorse the Mayor's goal of eliminating this tax within seven years.

CFIB urges the City to utilize the additional revenue provided by the federal and provincial governments to reallocate spending and ensure the success of the commitment to phase out the business tax. In addition, Council is encouraged to eliminate the practice of subsidizing business and ensure civil service wages are in line with private sector norms.

While many of CFIB's comments today reflect the impressions of our membership, it should be noted that impressions can and do change. We believe that Winnipeg is a dynamic environment in which to invest and with further positive actions on the part of the City it can meet and exceed its long-term potential. It is CFIB's hope that Council will adopt our recommendations and use them to assist the small business sector prosper in Winnipeg.