



2006 City of Winnipeg

Pre-Budget Submission



March 21, 2006

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About the Canadian Taxpayers Federation

The Canadian Taxpayers Federation (CTF) is a federally incorporated, non-profit and non-partisan, advocacy organization dedicated to lower taxes, less waste and accountable government. The CTF was founded in Saskatchewan in 1990 when the Association of Saskatchewan Taxpayers and the Resolution One Association of Alberta joined forces to create a national taxpayers organization. Today, the CTF has over 72,000 supporters nation-wide.

The CTF maintains a federal office in Ottawa and offices in the five provincial capitals of British Columbia, Alberta, Saskatchewan, Manitoba and Ontario. In addition, the CTF has a Centre for Aboriginal Policy Change in Calgary dedicated to monitor, research and provide alternatives to current aboriginal policy and court decisions. Provincial offices and the Centre conduct research and advocacy activities specific to their provinces or issues in addition to acting as regional organizers of Canada-wide initiatives.

CTF offices field hundreds of media interviews each month, hold press conferences and issue regular news releases, commentaries and publications to advocate the common interest of taxpayers. The CTF's flagship publication, *The Taxpayer* magazine, is published six times a year. An issues and action update called *TaxAction* is produced each month. CTF offices also send out weekly *Let's Talk Taxes* commentaries to more than 800 media outlets and personalities nationally.

CTF representatives speak at functions, make presentations to government, meet with politicians, and organize petition drives, events and campaigns to mobilize citizens to effect public policy change.

All CTF staff and board directors are prohibited from holding a membership in any political party. The CTF is independent of any institutional affiliations. Contributions to the CTF are not tax deductible.

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INTRODUCTION

Too often, Winnipeg's leaders were obsessed with false comparisons of spending and taxation levels with other jurisdictions. Talk of comparisons usually led to attempts to justify more revenues as opposed to more restraint, as it was the case in former Mayor Murray's "New Deal" initiative that would have expanded city taxing powers.

These comparisons rarely consider the overall size of Winnipeg's government with other cities, and almost never factor in the lower cost of goods, services, labour and living. Comparisons were usually loaded to suggest that Winnipeg needed more, not less, government.

Forget the comparisons: City Hall should set clear objectives around how much Winnipeg spends, rather than focusing on how much it *could* spend if only it were another city. For eight years, Winnipeg has skated by with a tax freeze built on windfall revenues (e.g. revenue from the sale of Winnipeg Hydro) and modest growth; it is time to abandon that in favor of an actual strategy, built around smaller government and a clear sense of priorities.

BUSINESS TAX

One of the most significant challenges the city will face this year is the business tax. Mayor Katz was elected on a promise to eliminate this tax – a promise also made, but broken, by the former Mayor.

Implementation has already been complicated. First, against the advice of the Canadian Taxpayers Federation, the Mayor reduced the tax rate to 7.75% in the downtown area, leaving the rest of the city paying an inequitable rate of 9.75%.

Now, with some businesses paying more than others, critics are quick to point out that while the Mayor has promised to eliminate the \$62 million business tax, there is no actual plan to do so. Without a credible plan, improvisation will continue, and Winnipeggers have often seen City Hall bungle implementation of improvised policies too many times. To make change credible, city leaders need to explain how they plan on delivering.

Recommendation 1: Provide a comprehensive, cost-out plan for the elimination of the business tax.

REDUCE SPENDING ON SALARIES & BONUSES

According to the Canadian Federation of Independent Business, the city is still paying 21 percent more for comparable skills, management and labour than its private sector competitors. A wage premium second only to Quebec City. This premium is hardly necessary given the benefits and job security offered by City Hall. To make matters worse, city salaries are often significantly higher than for comparable positions in the Manitoba provincial government, even though both governments are in the same job market and based in the same City. Winnipeg's rich and generous pay packages are effectively the highest in the Manitoba market.

The city is in negotiations with several of its unions this year, including the Winnipeg Police Association, United Firefighters, and Canadian Union of Public Employees. Collectively, these unions represent most of the city's workforce. Has the mayor or council stated any public objectives for these negotiations? No. Yet showing more restraint than the likes of Mayor Norrie or Mayor Murray on just one of these agreements could pay enormous dividends for taxpayers – many of whom are making much less yet working just as hard to pay for those who do.

In the tax-supported operating budget, the city's salary budget has grown by an average of 3.2% a year from 1999-2005. If the city had been able to do nothing more than hold its rising salary bill to keep up with the Average Weekly Earnings, then it would have \$20.3 million more in 2006, or enough to wipe out nearly a third of the business tax and still have money left over for roads or residential property tax relief.

Then there is the issue of bonuses; last year alone the city paid out over \$114,000 to senior bureaucrats, a system that even the Chief Administrative Officer Annitta Stenning has recognized as flawed. These bonuses are not tied to any performance measurement data that is available to the public. Paying them out simply reinforced the notion that city hall still has to cut the fat. The province has all but eliminated bonuses for employees and it is time for the city to follow suit.

Recommendation 2: Keep public union salaries negotiations in line with the Average Weekly Earnings for a potential savings of nearly \$21 million.

Recommendation 3: Eliminate employee bonus payout at City Hall.

PROPERTY TAXES

The CTF has consistently maintained the principle that tax cuts are not

another spending item. With lower interest rates and a competitive real-estate market, Winnipeg's assessment base is growing.

According to the preliminary operating budget, the City will enjoy an additional \$5.3 million in property tax revenue in the next fiscal year. Clearly the impact of past property tax cuts have not had a devastating effect on revenues, in fact it has been quite the contrary. This year the City of Winnipeg will have more property tax revenue than the past two fiscal years.

In 2005, the CTF's Capital Region Property Tax & Utility Charges Survey, found that property taxes have come down marginally in Winnipeg, but still remain the highest in the Capital Region.

City Hall needs to build on the progress already made. Therefore we encourage City Hall not freeze property taxes in the 2006 budget year.

Recommendation 4: To ensure Winnipeg's competitiveness the CTF recommends a 2 percent reduction in property taxes to augment tax cuts given in previous years.

ROADS AND INFRASTRUCTURE

Winnipeg will receive over \$20 million in federal gas tax money for 2005 and 2006, and an unknown amount of “C-66” transit money from Ottawa as a result of the provincial government’s budget amendments in 2005.

With special interests lobbying for bus rapid transit (BRT) studies, or money for new sports facilities, or cash for theatre bailouts, many are wondering where these dollars will go. City Hall proved to be all talk and no action last year when it came to focusing on the city’s biggest priority: roads.

While some facilities do need repairs, Winnipeg already has a massive network of community centres. Winnipeg already has solid ridership on a bus service in need of basic improvements, and a massive BRT boondoggle is not as high a priority as heated shelters and cleaner buses. Winnipeg has so many theatres they keep putting each other out of business, and bailing them out or fixing them up will only perpetuate the problem.

In this year’s budget, City Council needs to commit gas tax and C-66 dollars in a long term plan that focuses all of those monies on public enemy #1 – broken roads. When new savings appear, then it may be time to consider other issues. But roads must come first, and council must commit to do so now if it will actually happen later.

Recommendation 5: Commit gas tax and C-66 dollars in a long term plan that focuses all of those monies on road repair.

PRIORITY SPENDING AND SAVINGS

Fire and Paramedic Services

If City Hall wants to save money, it should complete or pick-up unfinished business. Case in point, the Fire Paramedic Service. Much has been made about this issue in the past week, most notably Mayor Katz's trip to the United States which did not include the Paramedics.

Officially amalgamated almost a decade ago, the merger is still only half-way complete, as successive fire chiefs, Chief Administrative Officers, mayors and councilors have balked whenever it has come time to 'close the deal.'

The amalgamation was originally designed to address three costly trends. First, demand for paramedic service was rising. Second, demand for fire protection was plateauing with no change in how service was delivered. Third, both services spent a fortune sending two or more vehicles to emergencies when one vehicle would do because skill sets and dispatching was not properly coordinated. These problems will all remain as long as the merger is incomplete. The goals: to create a safer, more efficient and less costly service.

Since the Fire Paramedic Service is the third costliest item on the city's Operating Budget after Public Works and the Police Service, it's high time City Hall showed that it's not enough to propose a worthy reform: one has to have the will to see it through to get credit for it.

Recommendation 6: Complete the amalgamation of Winnipeg's Fire and Paramedic Services.

Alternative Service Delivery

The alternative services delivery (ASD) committee is city council's best hope for short-term cost control. Although it is only an ad-hoc committee, it is also the only vehicle at City Hall that is by definition designed to enable positive change. In previous years, under Councilor John Angus, the Committee was basically nothing more than a vehicle to rubber-stamp administration proposals to create Special Operating Agencies. However, last year, under the leadership of rookie Councilors Franco Magnifico (St. Boniface) and Justin Swandel (St. Norbert), the committee became the most valuable cost-savings vehicle on council, successfully tendering out garbage service in the south end (savings: \$3 million in a full year) and moving a proposal up to "stop the bleeding" in the city's gravel operation.

Neither of these steps would have happened without the support of the Mayor and Executive Policy Committee. But as important: the work of moving forward was delegated to this ad hoc committee with the will to push these initiatives forward onto the Council agenda.

For years, City Hall has studied around the edges, discussing alternative service delivery opportunities without taking any action. Many ideas have been floated in recent months by journalists, councilors and other critics. Why does City Hall still have its own construction department, its own railroad, or its own cleaning staff? Why does the city build its own buildings when governments are increasingly using public private partnerships to save time and money on construction and maintenance? Why does the city sell its own land when real estate agents can do so without the expensive overhead?

It is time to get the ASD committee working on other projects so that its success in 2005 does not become a one-time success. Some might not pan out in the 2006 budget year. But then, it took decades to complete the citywide tendering of all garbage pickup, so it might not hurt to get the committee started on other 'alternatives' if we want to see more positive results.

Recommendation 7: The City continue to expand the Alternative Service Delivery Model.

Duplication and Overlap

Avoid trying to be the provincial government. City Councilors often complain that the provincial government does not transfer enough revenue to the city to manage civic affairs. This is what experts in intergovernmental relations call the “fiscal imbalance.” But these criticisms are hardly credible when the city is taking on so many provincial responsibilities such as funding for low-income housing, arts funding and even social workers.

The Mayor’s own Red Tape Commission noted that City Hall is often the first line of response to public pressure, and the result is a hodge podge of overlapping laws and services. In some cases, the fault is the provincial government’s, as services have been downloaded, or the province has refused to answer city proposals to merge services (like property tax assessment). But in other cases, like arts funding and housing, the city is eager to invade the province’s jurisdiction; the city spent \$940,000 last year on housing construction and Executive Policy Committee recently announced that it hopes to raise that to \$1 million this coming budget year.

Receiving grants from the province to save money might be one route to restore “fiscal balance,” but another simpler route would be to stop spending money on provincial priorities and instead spend them on city responsibilities.

Recommendation 8: Identify what the core services of the City of Winnipeg are without overlapping what other levels of government are already doing.

Recommendation 9: To continue financing high priority spending areas such as debt servicing costs, fire and police services the CTF recommends the city reduce spending in low priority budget envelopes to a comparable extent.

Budgeting by improvisation

Stop improvising temporary savings when they could be permanent savings. The last fiscal year was just the latest in a series of “deficit emergencies” faced by the city over the last decade, in which mid-year projections showed an impending deficit unless corrective measures were taken. Savings were found through restraints on discretionary spending and resulted in a balanced budget. Meanwhile, much of what the city saves in the budget year comes from “vacancy management,” where positions that come open owing to absences, retirements or staff departures stay open longer than they normally would to save in-year dollars.

This is budgeting by improvisation. What the city needs to do is find some time in 2006 and after the election in 2007 to take the idea of financial planning seriously. If a staff position is so unnecessary that it does not impact on service to leave it unfilled for six months, it might be better to ask if the “vacancy” should be a deletion. If an in-year cost can be saved in an emergency, then could it be saved forever instead?

City Council is there to set policy. It should set clear targets, like how many staff it expects to need in 2010, and what shape its roads must be in, and how low its taxes must be to be competitive. With broad overall goals, city budgeters will be forced to prioritize instead of improvise, a change in habits that can only save money in the long term. Winnipeg has proven that it can do this through its careful planning for debt reduction and “cash-to-capital” program, which has reduced the debt. If it can do it for debt, it can do it for operations, too.

Recommendation 10: Council should set measurable targets for staffing levels, road conditions and taxation levels until 2010.

ASSESSMENT

At the big-ticket price of \$12 million annually, Winnipeg's Assessment Department costs almost twice as much as the City's 2005 budget for regional road repair. Last December, City Hall was caught off guard yet again by massive shifts in business tax assessments, and the mayor is scrambling to find a way to avoid massive assessment-based increases for businesses which were expecting to pay less as a result of the his pledge to reduce and eliminate the tax.

The free pass for assessment in Winnipeg is over. The city cannot afford any more surprises when it comes to tax assessment. Part of the problem is market value assessment – a system the CTF has long criticized as inefficient, unfair and unnecessarily complicated. But part of the problem is also an assessment service that sees taxpayers as adversaries, not customers. In the long term, the city and the province must explore other methods of levying tax – provided those alternatives will save taxpayer dollars rather than create new cash grabs.

But taxpayers deserve more than just a better system. They also deserve better service. If the province will not accept City Hall's recommendation to merge with the provincial assessment department, then City Hall should consider doing what major Canadian cities like Ottawa are doing in the wake of their own market value assessment problems. Ottawa recently passed a resolution to subcontract assessment to a competitor for MPAC (the Ontario government's Municipal Property Assessment Corporation), and it is high time Winnipeg did the same.

Recommendation 11: Consider merging the city's assessment department with the province's or sub-contracting out assessment.

SPECIAL OPERATING AGENCIES

The city should resist the temptation of creating more Special Operating Agencies (SOA).

In the 1990s, the CTF lobbied City Hall to make its services more efficient by exploring different models of service delivery including special operating agencies, contracting and allowing more services to be delivered by community groups or organizations.

Since then, with obvious bureaucratic motivations, City Hall has grasped at the easiest of the three – special operating agencies, or SOAs - with often disastrous results.

The good news: a well-managed SOA is a City department that works like a business, with managers given broad power to purchase services, shuffle staff or find efficiencies at their discretion, provided they achieve the desired service and budget targets. The bad news is that this discretion is worthless if no one is willing to monitor management's progress or hold them to the results. In late 2005, the Alternative Service Delivery Committee acted on one of the disasters: Glacial Sand and Gravel, the city's gravel pit. In last year's State of the City address, Mayor Katz asked listeners why the City needed to be in the gravel business. Why indeed, when the Glacial SOA has lost at least \$1.3 million, and as much as \$1.6 million in its short (five year) lifetime as a business.

Only government could lose money pulling gravel out of the ground and selling it. Why did it happen? Why is the Golf Services SOA underperforming, and why are City parking lots now seeing fresh new payment machines and new "Parking Agency" signs when roads and sewers are still falling apart? It could be because the SOA concept is being misused. SOAs are meant to be a middle ground between private and public management for certain services, not a new form of crown corporation for city managers to hide behind.

Recommendation 12: Do not create any more Special Operating Agencies, in lieu of this continue to expand the ASD model (see Rec. 7.)

Final Thoughts

The CTF acknowledges the progress that has been made by the mayor and Council in the past fiscal year, but there is much more to accomplish. The 2006 budget presents its own unique challenges and opportunities.

By targeting spending, identifying what the core services of the civic government are, tax reduction and expanding the ASD model, the CTF believes Winnipeg will become more competitive and an attractive place to keep our youth and grow private investment.

Taxpayers hate to see their money wasted, whether it is through mismanagement or bad public policy. Council must realize this and ensure that the city's spending practices and policy planning respect and value the taxpayers who fund and receive its services. Instead of grasping for more taxing powers, and spending on non-priority items, Winnipeg should get back to basics, and deliver taxpayers the quality services they deserve.