



HALIFAX CHAMBER OF COMMERCE

stronger together

WORKING FOR YOU

Municipal Pre-Budget Submission

March 2011





WE ARE

A not-for-profit business organization that takes a business - like approach to its operations.

Objective and non-partisan; we do not lobby for specific interests.

Funded exclusively through membership fees and fees for services we provide.

Experts in running conferences, publishing and disseminating information, helping people network, developing leadership skills, and building community capacity.

Specialists in the development and advocacy of public policy.

Not a government department or agency.

Independent from, but affiliated with the Nova Scotia, Atlantic Provinces and Canadian Chamber of Commerce.

A diverse organization made up of businesses that mirror the Halifax, Nova Scotia and Canadian economics.

Introduction

For over 250 years, the Halifax Chamber of Commerce has been the leading voice for business in Halifax. The first established in North America, the Chamber strives to make Halifax an even more attractive city in which to live, work and conduct business. Maintaining this balance is essential to a vibrant and competitive future. Today, the Halifax Chamber represents approximately 1500 member companies employing more than 90,000 people - over half of the city's workforce.

This annual pre-budget submission from the Halifax Chamber of Commerce is prepared in collaboration with the Chamber's Municipal Affairs Committee. We seek to provide you with input from the business community on the issues we feel are most important to building and maintaining a competitive business climate in our city so that we can grow our economy together.

This year, the Chamber will be focusing its advocacy efforts in the following key areas:

- 1. Commercial Tax Competitiveness**
- 2. Effective Investing & Spending**
- 3. Fiscal Responsibility**
- 4. Effective Governance**

In the Chamber's 2010 Spring Issues Survey, when members were polled about the top three issues the Chamber should be working on, the number one answer yet again was "making Halifax cost competitive for business".

Commercial Tax Competitiveness

Commercial Tax Reform

Despite our ongoing advocacy efforts, commercial tax reform has not yet seen any traction with Council. As explained in our letters and statements, commercial tax reform is not necessarily about paying less tax – although that would surely be welcomed. Rather, commercial tax reform is a method of strengthening the competitiveness of our commercial sector through adopting a more equitable and more transparent tax structure.

The Chamber has long advocated for commercial tax reform, consistently reminding Council of the importance of the commercial sector and its growth. The total tax burden on businesses is far too high, and the commercial sector does not receive the same level of service as the

residential sector does. Commercial tax reform was ignored in last year's budget, and it is our intention to ensure it does not fall off the radar altogether. It is also time our Municipality stepped up and acknowledged the fact that **businesses pay a tax rate that is approximately four times higher than residents'**. If we want to be a business-friendly city, we need to show it. A tax model which is transparent, equitable, and competitive will serve our business community well now and into the future.

The Commercial "Multiplier"

In the last few years, the Municipality's Tax Reform Committee clearly acknowledged that the business sector is unfairly burdened under the current municipal tax system, as commercial properties are taxed at a much higher rate using a "commercial multiplier". The Chamber is curious as to where our multiplier came from – how was it calculated? Why is it so high? This is something we have been investigating, and it appears as though there is minimal justification for the figure.

Discussions with other Canadian municipalities reveal that the multiplier approach is employed elsewhere, but not necessarily to the same extent as it is here. In a 2008 policy report entitled *Spend & Tax* released by the Atlantic Institute for Market Studies, Harry Kitchen, Professor of Economics at Trent University, concluded that higher effective property tax rates on commercial properties in one region when compared with lower neighboring commercial property tax rates creates a real incentive for firms and businesses to locate in the municipality that is taxed at a lower rate¹. The report also states that over-taxation of the non-residential sector can lead to less economic activity, lower output, fewer jobs and a less competitive business climate. If we are truly "open for business", it is clear that some real changes need to be made.

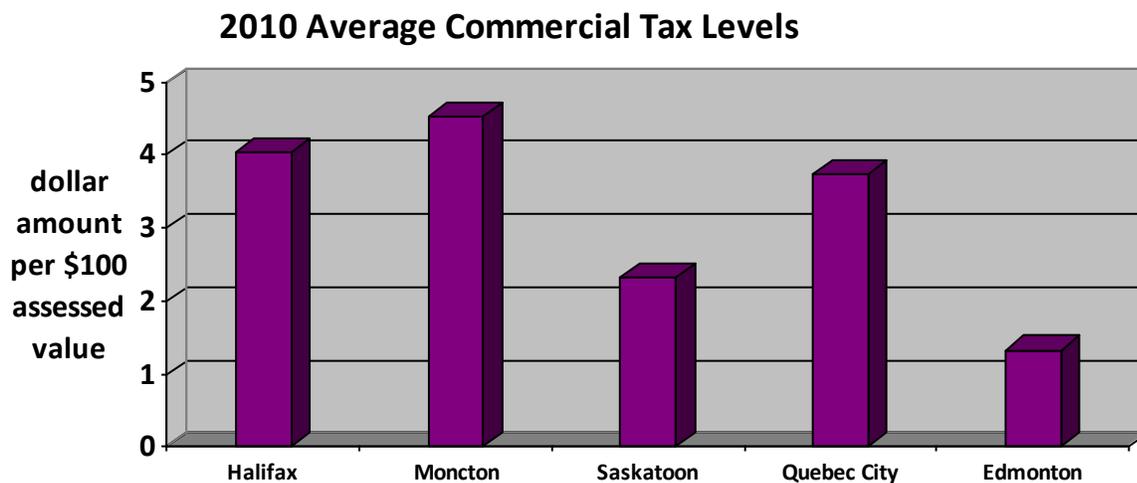
It is important to remember that "equity" was the number one concern expressed by the public during the consultations held by HRM's Tax Reform Committee. In a Canadian Centre for Policy Alternatives commentary, taxation "equity" was defined as the extent to which the responsibility to pay taxes is shared among taxpayers – both in our ability to actually pay it, but also in terms of the benefits we receive from it². Seeing as though our commercial sector pays almost four times as much as the residential sector (and certainly not for four times the

¹ Kitchen, H. 2008. *Spend & Tax: Improving the Efficiency and Accountability of taxation in HRM*. Atlantic Institute for Market Studies. Halifax, NS.

² Bradfield, M. 2010. *How to Make Municipal Tax Reform as Fair as Possible*. Canadian Centre for Policy Alternatives. Retrieved from <http://www.policyalternatives.ca/>.

services), at a minimum we are asking for greater transparency and justification around this figure.

As indicated in the Chamber's 2011 Economic Strategy Scorecard Report, our city's commercial property tax level – which has unfortunately been well above the average of our benchmark cities since at least 2004 – is now increasing at an even greater rate, placing us even further away from the Strategy's goal of developing a competitive business environment. In 2010, the average commercial tax level in Halifax was at \$4.04 per \$100 of assessment. The 2010 average commercial tax level for Charlottetown, Edmonton, Moncton, Montreal, Quebec City and Saskatoon was \$3.10 per \$100 of assessment. It is clear that Halifax is on the high side, and well above the average of all other measured cities. The Scorecard has been using KPMG's study on competitive commercial tax levels as a measure for commercial tax competitiveness for the last number of years.



Source: 2011 Economic Strategy Scorecard

Last year, the Chamber gave the city a D- grade for Commercial Tax Competitiveness in our annual post-budget Report Card. We ask that steps to be taken in this year's budget to address our uncompetitive commercial climate.

Effective Investing & Spending

Economic Growth

According to the Atlantic Provinces Economic Council in their Outlook 2011 report, Nova Scotia is expected to see real GDP growth slow from 2.1% in 2010 to 1.6% next year. Meanwhile, New Brunswick will see a much slower decline in real GDP growth from 1.9% to 1.7%, while Newfoundland and Labrador will see real GDP growth slow from 4% down to 3% - still maintaining their status as having the highest among the Atlantic Provinces.

Furthermore, according to our 2011 Economic Strategy Scorecard data, business confidence remains unimpressive here in Nova Scotia. For the third year in a row, we have ranked third behind New Brunswick and Newfoundland – and it's easy to see why. Businesses in HRM and the province are currently facing increasing pressures on a number of levels; rising fuel costs, rising water rates, rising power rates, and an increase in bridge tolls to travel between Halifax and Dartmouth, to name a few.

Clearly, we require a shift in attitude regarding economic development; a shift away from one of hesitation and towards one of proactive decision-making. In May 2010, the Chamber gave the city poor marks in our annual Municipal Budget Report Card for once again not spending strategically to revitalize the downtown business districts and create a “gung-ho” business climate. It is imperative to us that future decisions made at council are done so with the vital contributions that our business community makes to the municipality in mind.

HRMbyDesign

The Chamber has always strongly supported the HRMbyDesign process, from the stages of inception to execution, and continues to do so.

This year, we will look for a detailed and transparent update on the status of HRMbyDesign. Ideally, answers to the following questions will be provided:

- Where are we now?
- What have we accomplished thus far?
- What is set to be accomplished in the immediate future?

HRMbyDesign, as you know, requires continuous investment and dedicated focus to execute the many stages as intended, and high level of accountability throughout the process.

The Chamber will be monitoring the City's budget for indications of continued focus, investment, and implementation plans for HRMbyDesign. If all is going according to plan, then the results of this initiative should be publicly communicated.

Fiscal Responsibility

The Chamber continues to stress to the City the importance of living within our means. We will be looking in this year's budget to see whether the municipality continues to repay its debt targets, and if it is focusing on a long-term financing plan to replace and renew infrastructure and truly revitalize the downtown core by strategically investing in the downtown business districts.

Furthermore, we recommend attention be paid to diversifying HRM's revenue sources; while we understand that this is a significant challenge for the municipality, the fact remains that significant reliance upon property tax is not a sustainable way to run a city's operating budget, nor is it a good tactic for achieving long-term economic growth.

Finally, we will be looking for evidence that the City is working to create a downtown investment reserve fund. This is an issue that repeatedly is brought up at the Chamber's Municipal Affairs committee meetings. We have seen no evident attempts to revitalize the downtown core through strategic investments, and this is a problem – particularly in both a City and province that are perceived to be less supportive of business and not overly tax competitive.

Other municipal finance areas we will be monitoring include:

- The City's pension plan and its mounting deficit; with a deficit of approximately \$7 million dollars, the city should be taking clear and measurable steps towards reforming or restructuring their current pension plan to protect the financial security of future retirees and mitigate the fiscal risk to the city.
- The City's Multi-Year Financial Strategy has proven to be quite effective in recent years – the Chamber encourages the Municipality to continue to work towards bringing our net debt to the point where the city can achieve the Strategy's objective of financial flexibility.

Effective Governance

The Chamber has communicated our position on the governance of Halifax and we will continue to do so.

We have been actively involved in the City's District Boundary Review process. President Valerie Payn presented to the Committee of Council last March, expressing the Chamber's position for a smaller council and will also be presenting our views before the Utility and Review Board at a public hearing on the evening of June 20th.

We have communicated this position in our 2010 Municipal Budget Report Card, where we gave the city a "C" grade for not addressing this issue, and in our annual Municipal Issue Note 2010 which was sent out this fall.

From tax decisions to setting infrastructure priorities, businesses in the city depend on an efficient council to make smart choices for them. A majority of Chamber members have indicated that they support a smaller council and streamlined decision-making as opposed to delayed decisions that can have a significant impact on businesses. This would also help focus

council meetings and further separate policy and operational decisions. However, just making council smaller is not the golden solution; councilors will also have to take leadership into their own hands to ensure we have a council devoted to making Halifax an even better city.

In sum, the Chamber's overall message to the city is to live within its means and invest in the right areas to stimulate economic development. We ask you to consider the essential role the commercial sector plays in the economy and the importance of a highly competitive commercial climate so businesses can continue to contribute to the success of our municipality.

CHAMBER ADVOCACY WORK

This note describes some of the key areas the Chamber will be looking for in this year's 2011-12 municipal budget.

More information about the Chamber and its advocacy work can be accessed by contacting the office or visiting the Chamber web site at www.halifaxchamber.com.

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