2005-2006 HRM Budget Response

March 3, 2005

HALIFAX CHAMBER
OF COMMERCE

The Halifax Chamber of Commerce is a best-practice business advocacy organization that continuously strives to make Halifax an even more attractive city in which to live, work and play. The almost 2,000 Chamber members employ more than 90,000 people, representing over half of HRM's labour force. It is also the oldest Chamber in North America – celebrating 250 years in 2000 – and was the first certified to the ISO 9002 and 9001: 2000 international standard of quality.

The Halifax economy is a $10 billion dollar economy[1] - the largest and strongest in the region. With unemployment below, and average income above national averages HRM occupies a strong economic position. The GDP of HRM represents 46% of provincial GDP[2] and is home to more than 22,000 employer businesses.[3] As the economic engine, not just of the province but also of the region, the municipality's economic health is vital to the entire region.

HRM faces many challenges in the future. With global economic changes and the potential appreciation of the Canadian dollar predictions across the country are of generally slower economic growth over the next few years. The importance of HRM to the regional economy and the economic outlook in coming years increases the importance of making HRM as competitive and conducive to business as possible. HRM has many assets that make the city attractive to current and potential businesses, from its universities and colleges and highly educated workforce to our world-class harbour and position as a transportation hub. In order to capitalize on these assets however, HRM must maintain its reputation for sound fiscal management and foster an environment of competitiveness.

Council has identified four themes the community expects from its municipal government:
· Safe communities
· Healthy, sustainable, vibrant communities
· Excellence in governance
· Excellence in service delivery
If each of these outcomes is to be realized, an environment of fiscal responsibility is required.

Fiscal responsibility must be a fundamental principle guiding municipal decisions that seek to balance:

- current demands for municipal services with limited municipal resources;
- the maintenance and fostering of economic activity through the tax system while ensuring the adequate funding of municipal services; and
- the requirements and interests of residential and commercial taxpayers.

[1] Gardner Pinfold. Economic Potential of HRM and Halifax Harbour. May 2004.
[2] Conference Board of Canada. Metropolitan Outlook.
[3] Nova Scotia Government, Economic and Statistics Division. NS Statistical Review. September 2004. Accessed on-line: http://www.gov.ns.ca/finance/publish/statsrev/2004/sr2004.pdf

Key Priority Areas:

Fiscal Management

HRM has been awarded a rating of A stable by Standard and Poor's rating agency. While the rating reflects such factors as intergovernmental system stability, it also points to solid fiscal management in HRM, including reasonable expenditure trends and flexibility and sound budgetary performance.

Spending

By and large HRM has resisted expansionary budget pressures and has kept spending in check. Analysis of HRM's expenditures shows annual increases in spending of between 3 and 4%. HRM's analysis indicates that municipal cost per residence from 1995 to 2004 has remained flat. Achieving this while reducing the debt and maintaining service levels is a true achievement.

The proposed 2005-2006 budget represents a break from this pattern of controlled spending of the past decade. The proposed budget projects spending increases of approximately 7% with a large portion (approximately one quarter) of the increase dedicated to capital spending. Up to now HRM has done an excellent job controlling costs and keeping levels of taxation relatively flat.

We do recognize the difficulty HRM faces with respect to maintaining service levels given rapidly increasing costs and while we are pleased to see that new spending is on priority items, we take this opportunity to express our concern about the level of new spending particularly if this represents a trend for HRM, which has, up to now, demonstrated admirable spending restraint.

Inflation Control

HRM's budget documents provide a variety of examples of how the cost of municipal services has inflated dramatically faster than the Consumer Price Index. While the municipality certainly purchases different goods than the average consumer, we are concerned about the levels of inflation of some items and the manner in which this information has been presented. Examples of inflation are presented as if these costs are entirely outside the control of the municipality. This is undoubtedly true of some items, such as fuel costs and education costs passed on by the Province. And while cost drivers for HRM are undoubtedly different than for residential and business consumers, certain of these costs, such as asphalt and construction costs appear to be increasing at much higher rates than national averages for these commodities. We would like to see a review of HRM's procurement practices to determine whether these are contributing to inflated costs. A review should examine the time of year tenders are being let, level of competition for tenders, and any factors that may be contributing to such high prices.

Debt Reduction

HRM has managed its debt burden down from $347.5 million to $289.4 million in only 5 years. This represents excellent fiscal management. We fully endorse the continuation of the debt reduction policy as this will allow greater fiscal flexibility in future years, translating funds into more meaningful uses such as service provision, infrastructure or lower taxes.

Revenue Sources

While HRM has sought to control tax increases by adjusting tax rates downward to offset increased property assessments, upward pressure on taxes has come from an increase in the cost of doing business coupled with flat levels of departmental revenues.

Increased assessments, an unchanged residential property tax rate and slightly lower business property tax rate, will provide HRM with a 7.5% increase in property taxes revenues. It is important to note that all increases in spending that are not borne by other levels of government are funded by the taxpayers, whether in the form of property taxes, other taxes or levies or service fees. We are concerned about the increased taxes this budget represents for residents and businesses. Few residents will see their incomes rise by 7%; few businesses are likely to grow revenues by this amount. We are particularly concerned if this increase represents a trend for HRM. A competitive tax environment, both business and residential, is essential to attracting new businesses and business persons to HRM.

To reduce the upward pressure on taxes, HRM has been seeking out alternate revenue sources. To this end, the HRM has sought a share of the federal fuel tax. The Chamber has supported this initiative, calling upon the federal government to fulfill its commitment to federal fuel tax sharing with municipalities. This will result in over $145 million to municipalities in Nova Scotia over the next five years. These funds are intended to be allocated to sustainable infrastructure spending. Well-maintained and improved infrastructure has many economic and social benefits. The economic benefits of well-maintained and well-planned infrastructure can include significant benefits not only to transportation dependent business but to all businesses as well as to low and middle income employees. We encourage HRM to ensure maintenance of existing infrastructure and to consider of the full economic impacts of any future infrastructure projects.

HRM Tax Structure

Business/Residential Tax Burden

As noted above HRM has endeavoured to maintain relatively flat levels of taxation. However because departmental revenues have not increased with expenditure increase, there has been upward pressure on taxes. Over the past five years taxation of the commercial sector has grown relative to residential taxes. In fact, 2004-2005 commercial tax rates in HRM are 2.5 times higher for businesses than for residential taxpayers. This means that business taxpayers are subsidizing residential taxpayers at least $70 million annually, at the same time as businesses receive a lower level of services. KPMG's competitiveness study shows HRM to have the highest commercial taxes in the Atlantic region. This anti-competitive tax structure places an excessive cost burden on businesses and makes Halifax inhospitable to businesses.

It is essential to recognize the contribution of the business sector to the sustainability and vigour of HRM and its residents. A competitive tax environment that taxes businesses at a level appropriate to the level of services received sends a strong positive message to existing businesses and to businesses choosing where to locate. A strong, vibrant business community attracts employment and therefore new residents to the municipality, sustains economic activity and increases the productive output of the region.

Ultimately the municipality's dependence on business sector taxes must be reduced in order to stimulate economic growth by reducing costs of existing businesses and making a business climate that is attractive to new businesses.

Elimination and Realignment of the Business Occupancy Tax (BOT)

HRM is working with the Province of Nova Scotia to eliminate the business occupancy tax. The benefits of this move are compelling and the Chamber is fully supportive of this initiative.

Nova Scotia is the only province in Canada that has retained the business occupancy tax and it continues to have a negative impact on the business climate in HRM. Not only does the Business Occupancy Tax inequitably discriminate among businesses, it is a deterrent to attracting businesses to HRM. The Chamber encourages HRM to pursue aggressively business tax reform particularly as it relates to the prompt elimination of the business occupancy tax and the subsequent realignment of commercial taxes. Elimination of the Business Occupancy Tax would reduce administrative duplication and streamline the process by collecting the revenues through property taxes and creating the appearance of greater simplicity for business collection.

In the event of BOT elimination and subsequent commercial tax realignment, the Chamber calls on the municipality to direct all administrative savings and any new revenues from BOT elimination and subsequent realignment back to the business community in the form of more competitive commercial property tax rates.

Maintaining a competitive and healthy business environment in HRM requires a tax structure that provides the business sector with fair and predictable levels of taxation. The Chamber will work with both HRM and the Province to explore options for improving the municipal tax structure.

HRM's review of the municipal tax structure is an important step towards improving HRM's tax system and is an initiative the Chamber strongly supports. The Chamber would also like to see information linking the costs to provide services with taxes paid.

Planning for the future

Long Term Capital Planning

HRM is taking a long-term view of capital requirements and approaching asset management from a lifecycle cost perspective. This approach is essential to a prosperous future for our municipality.

Regional Planning

With HRM's population projected to be 450,000 by 2020[4] the municipality will face growing challenges to control expenditures and ensure a sustainable future for HRM. The Chamber would like to take this opportunity to commend HRM on its Regional Planning process, a process that will potentially save HRM millions of dollars. The Chamber views this process as essential to the sustainable development of the municipality.

The regional plan provides an excellent framework for the municipality that promotes smart growth - which entails making maximum use of municipal infrastructure. The economic consequences of adopting the regional plan are substantial - estimated by HRM staff at $250 million over a 25-year period. Accordingly, we see this as a necessary undertaking. The Halifax Chamber strongly supports the implementation of the Regional Plan as proposed to protect the long run financial health of HRM.

The Chamber is strongly supportive of a number of HRM initiatives that we believe are indicative of the high quality of leadership we enjoy within HRM. We do, however, have concerns over increases in costs and spending. We strongly encourage HRM to review its procurement policies to ensure HRM, and ultimately, taxpayers, are receiving good value for money. We also strongly encourage HRM to take a hard look at the proposed increase in tax burden. This is a serious concern.

Thank you for the opportunity to provide input to the budget. The Chamber is committed to working with Council and HRM staff to make HRM a better place to live, work and play.

[4] Source: Conference Board of Canada. Cited on Greater Halifax Partnership web site: http://www.greaterhalifax.com/inside.asp?cmPageID=107.