HALIFAX CHAMBER OF COMMERCE

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WORKING FOR YOU
Municipal Pre-Budget Submission
March 2010

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 ever 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 1700 member companies employing more than 90,000 people - over half of the city's workforce.

The pre-budget submission, written with input from the Municipal Affairs Committee, provides feedback and suggestions to the City related to its fiscal management and planning, including specific ideas related to this and future years' city budgets. The pre-budget submission also fulfills a goal stated in the Chamber's municipal relations plan, which is "to increase communication with Council, to share information and to build on relationships with HRM."

In the Chamber's 2009 Spring Issues Survey, members were asked "what are the top three issues that the Chamber should be working on?" The number one answer was "making Halifax cost competitive for businesses." Businesses in Halifax are facing potential tax increases from all levels of government, as they seek to deal with budget deficits resulting from the recent economic recession. In this situation, The Chamber looks to the city to do what it can to minimize any increases in the cost of doing business in Halifax.

The 2010-2011 Budget will be especially challenging for the city, as a short fall of more than $30 million must be addressed. The options presented Council to deal with the shortfall include a 3 to 4 per cent tax increase. The Chamber feels that it is more important than ever for the Council to prioritize spending and focus on investments that will contribute to growing the city's economy, while aggressively seeking to improve the overall effectiveness of its operating expenditures.

In keeping with the goals of the Regional Plan, the Economic Strategy and the Annual Economic Scorecard, the Chamber has identified the following focus areas for this year's pre-budget submission:

1. Municipal Finance and Taxes
2. Infrastructure and Transportation
3. HRMbyDesign
4. Governance

In the Chamber's 2009 Spring Issues Survey, when members were asked "what are the top three issues that the Chamber should be working on?" the number one answer was "making Halifax cost competitive for businesses."

1. Municipal Finance and Taxes

In the 2009-2010 Pre-Budget submission, the Chamber recommended that the city "Prepare a contingency plan to mitigate the impact of a potential recession-driven tax revenue decrease in 2011". The Chamber is disappointed that although the city knew this year was going to be a challenge, a budget shortfall was presented to Council with potential tax increases as a result.

Additionally, Standard and Poor's recently changed their outlook on the city's credit rating from A+ (positive) to A+ (stable). This is a concern to the Chamber as any future downgrade could increase the city's cost of borrowing.

Given the city's current financial situation, focusing back on these three broad objectives of the multi-year financial strategy is more important than ever.

The three objectives are:

- To anticipate future operating, capital and reserve requirements, and create a multi-year, balanced financial plan
- To reasonably predict tax rates and debt
- To develop targets for services with links between costs, services and financial capacity

Expenditures

The Chamber urges the city to look to cutting costs and creating efficiencies before considering a tax increase. For the most part, the city's projected $30 million shortfall is coming in the form of increased costs of services, increased compensation costs and new services. According to the Fiscal Framework, the city's expenditure growth on average has been 5.2 per cent. However, the Fiscal Framework report stated that taking into to account inflation (we are assuming municipal inflation was used) per dwelling unit expenditure growth has been 1.7 per cent. This brings into question the sustainability of continuing to use municipal inflation for budgeting purposes.

In budgeting exercises, indices such as the consumer price index are often used to:

- Normalize expenditures over a long period of time- for example to allow a comparison of a cost 10 years ago to a cost today. Such amounts are referred to as "inflation adjusted" or "real" dollars versus unadjusted amounts – which are referred to as "nominal" dollars.
- Provide a benchmark by which to evaluate the reasonableness of a proposed cost increase.

When the city's cost increases are held below CPI for a period of time, then this would represent a lowering of the real cost of the cities' services and be a positive contributor to the competitiveness of businesses based in the city. When increases exceed CPI, the opposite is true.

The city seems to prefer to use its own "municipal price index" to adjust it's cost increases for inflation. The Chamber does not support this approach.

As shown in the chart below, there have been significant differences between municipal inflation (which is a number calculated by city staff) and the consumer price index for Halifax.

<u>Municipal inflation</u> (stated in HRM's budget book of the year indicated)*	<u>CPI for Halifax</u> Conference Board of Canada – Autumn Metropolitan Outlook, 2004- 2009
2004-2005 – 2.9%	2004 - 1.7%
2005-2006 – 4.4%	2005 - 2.4%
2006-2007- 5.0%	2006 - 2.1%
2007-2008- 4.0%	2007 - 2.0%
2008-2009 4.0% stated as the 2007 statistic	2008 - 2.8%
2009-2010 3.2% 2008 statistic	2009 -forecast 0.4% For the Province CPI is -0.2%[1]
2010-2011 1.51%	1% according to fiscal framework

*The number the city used to calculate the municipal price index. This number is found in the overview section of the city's budget documents.

Use of the municipal price index masks the true increase in real costs being passed on to the Chambers members.

With the real cost increases understood, the Chamber's position is that the city needs to prioritize expenditures and review expenditures on a line by line basis. The city cannot stop

[1] http://www.gov.ns.ca/finance/statistics/agency/common/default.asp?p=3

spending money, but it can focus its spending. The Chamber suggests that the city focus spending on areas that will grow the city's economy and that decrease the present and future costs of doing business in Halifax.

The Chamber also recommends that the city finally address the structural problem built into the snow and ice budget. Despite a mild winter, the snow and ice budget is still underfunded. In addition, the city must continue to monitor the pension plan as it currently has a $7.1 million deficit. HRM employees have a defined benefit plan for regular earnings. The city should look for opportunities to control its pension expense, including structural changes.

Revenues

Last year the Chamber recommended that the city prepare a contingency plan to mitigate the impact of an economic downturn. Due to the fact that assessment values are based on market values two years prior, the full impact of the economic downturn won't be felt by the city until next year. Now the city must act to create that contingency plan. The city is facing a $30 million short fall and we feel Council understands the seriousness of the situation.

The city should also be working towards diversifying its revenue stream. Specifically, the city should work towards decreasing reliance on property tax, which is currently 76 per cent of its revenue. This is among the highest in Canada, when compared to other cities. We understand that Standard & Poor's Rating Services the long-term issuer credit rating for Halifax Regional Municipality, lowered the city's rating to "A+/stable" from "A+/positive" due to a number of factors, including the fact that HRM does not have the transfer revenue from other levels of government that comparable cities have (currently, 1.7 per cent of the city's total revenue comes from the provincial government).

Service Review

According to the staff presentation to Council on March 23rd, budget shortfalls are projected for the next four years, as program costs are projected to rise 5.23 per cent annually, yet tax revenues will grow only 1 to 2 per cent. According to the Fiscal Framework and Council's comments at the March 23rd meeting, the strategy to deal with the $30 million short fall seems to be one-third efficiencies and two-thirds cuts and tax increases. The city could seriously ramp up the service review process that is currently underway to improve this strategy, putting more emphasis on finding efficiencies.

In June 2009, Council approved the service review process and the schedule which was part of the report. The Chamber was encouraged by the fact that the service review will be ongoing, entrenched in Council's operations. However in the Chamber's view, the implementation plan was not aggressive enough. Significant cost savings will result from effectiveness improvements to large cost drivers, not peripheral city services, such as burials and cemeteries. Tough decisions must be made and soon, in order to fix the structural problems in the city's budget. The service review is a tool that can be used now to make significant changes to the way the city does business.

The service review process should also be used to ensure that the fees paid to the city by commercial tax payers are reasonable. Earlier this year, the Chamber expressed concern over the fact that businesses feel they are paying twice for waste collection services – once in the tax rate and again as fees to haulers. We encourage the city to include waste collection as part of the service review process or to assess this situation as part of a tax review.

Fiscal Health Indicators

In June 2009, Council approved both a definition of fiscal health and sixteen indicators which will be used to measure it. Reporting on the sixteen indicators will be included in quarterly financial updates to Council, with the goal of supporting strategic decision making. The Chamber has met several times with city staff to discuss the fiscal health indicators. We were pleased to hear that the indicators will be used as decision making tools for Council. We look forward to Council using and communicating the use of the indicators on a regular basis and perhaps developing indices (such as pass or fail index for decisions) once the indicators have been applied in practice.

Reserve Management

Management of reserve funds is an issue that the city must examine, in order to address both the infrastructure deficit and financial challenges. A capital contribution this fiscal year for $12.5 million for construction of cell six at the landfill could have been avoided. In addition, it was noted in the Fiscal Framework presentation that reserves need to be built in order to meet future capital needs.

Taxes

We cannot express how disappointed the Chamber was to learn that the Tax Reform project is not moving forward. The Chamber agreed three years ago to support the residential tax reform process, with the promise that commercial tax reform would follow. It is widely known that the commercial sector pays up to four times more in taxes than residential. Commercial tax reform, as it is understood by the Chamber and the business community, is not necessarily about paying less tax, but it is about equity and transparency, letting businesses know how much they are paying for what. Now that residential tax reform has been voted against, we will still be expecting to see movement on the commercial tax reform front.

2. Infrastructure and Transportation

Infrastructure Funding

According to the Conference Board of Canada's "Mission Possible Successful Canadian Cities", one of the four cornerstones of successful cities are:

1. A strong knowledge economy
2. Connective physical infrastructure
3. Environmentally sound growth
4. Social cohesion

There is no doubt that Halifax has a strong knowledge economy and with the aid of the Regional Plan, growth is becoming environmentally sound. However, improvements are needed on the connective physical growth piece of the equation. According to the December 2009 Council Focus Area report on transportation, HRM's capital budget and the percentage of capital funding for infrastructure coming from sources other than debt have been slowly growing over time; however, HRM has an annual infrastructure funding gap of nearly $50 million and public expectations for new infrastructure has also been growing.

The Asset Management Program and Strategy, due to be completed by the city, should help to mitigate the pressure of the infrastructure deficit. However, the city should focus on communicating the financial situation to the public in order to properly manage public expectations. Council must also realize the limitations of the city to provide services. According to this year's Fiscal Framework presentation (page 7), there has been $1.7 billion invested in service expansion since 1996. Quoted from the Fiscal Framework, "HRM will not get future growth in revenues sufficient to meet the challenges of service growth, aging infrastructure, low levels of funding from other levels of government and increasing operating expenditures (in the form of wages, contracts and inflation)". Clearly, this situation is not sustainable for the city in the long run and a plan to address this must be made, communicated and strictly adhered to.

The Downtown

Council must consider making the downtown a Council Focus Area. Under the current Council Focus Area of Infrastructure (December 2009 report, page 3), community beautification is listed as an outcome; however, neither the downtown, nor the business districts are specifically mentioned. The health of the downtown is vital to the entire municipality.

Of course, downtown revitalization is not totally dependent on the city. The financial market and the private sector have vital roles to play. However, many cities have and are currently experiencing the "donut effect"; the core of their downtowns emptying, and many of these cities have and are taking steps to address the issue.

For example, in the late 1990's the city of London Ontario introduced a number of financial incentives to encourage the revitalization of their downtown. These incentives had the effect of not only stemming the trend of decline, but reinvigorating investment and interest in the core. These financial incentives included:

- A Facade Improvement Loan Program
- An Upgrade to Building Code Loan Program and
- A Tax Grant Program[2]

The Chamber was pleased to learn that uptake on the Barrington Street Heritage District program has been positive. We were also encouraged by the proposal to change downtown traffic patterns. However, more needs to be done.

We look forward to the Regional Plan Review in 2011; we recommend that an updated Regional Plan reflect a focus on the core of the city. We will also be looking for Council to designate the downtown as a Council Focus Area next year. We want this Council to take bold steps to revitalize the downtown, such as creating a downtown investment reserve fund. A vibrant, competitive city core is critical. If we are to make Halifax a true "hub city" we must invest in its heart. According to a letter from Wayne Anstey to the Business Improvement Districts dated February 24th, 2010 "$3.2 million Capital District funding (was transferred) to alternative projects". On page three of the letter…"staff will make every effort to reinstate these funds in future years' budgets." Making an effort is not enough, as it is crucial that these funds be reinstated.

<u>Transportation</u>

The Chamber strongly supports an amalgamated Transportation Authority. In 2001, the Chamber formed a transportation task force. The task force discovered that there is limited integrated transportation planning between stakeholders. Although this situation has improved somewhat with formation of the Strategic Joint Regional Transportation Committee, an integrated Transportation Authority would formalize integration and take it one step further.

In the meantime, it is vital that Metro Transit is adequately represented directly on the Strategic Joint Regional Transportation Committee. It is also vital that the city continue to lobby the Province for increased transit investment. Nationally, per capita spending by the provinces

[2] http://www.london.ca/d.aspx?s=/Economic_Development/downtownrevit.htm

on transit is on average is $19.87, while the province of Nova Scotia spends just $3.79 per capita.[3]

The Chamber is taking a keen interest in renewal of the Regional Plan, especially chapter four, which addresses the Transportation Master Plan. As we understand, the Transportation Master Plan is actually a compilation of five plans the: Regional Parking Strategy Plan, Public Transit Functional Plan and the Active Transportation Plan, which have already been approved. In addition, the Transportation Demand Management Plan and the Road and Road Network Functional Plan which are currently in process. The city must ensure that the business community is properly consulted when creating these plans.

<u>Transit</u>

On February 9th 2010, Committee of the Whole approved, in principle, the five-year transit plan. This is a major step forward, as this is the first time that transit service and expansion was framed by the Regional Plan. We understand that annual transit service plans will come forward over the next few year based on the five year transit plan.

Transit expenses are investments in infrastructure and in the long run, spending on transit decreases spending on roads and road networks. However, all investments have a real cost; currently there's a "funding gap" of $20.5 million between existing transit service and the services outlined in the five year plan. While $20.5 million seems like a large sum, in terms of transportation infrastructure, it isn't. For example, just one interchange that is currently being built along Larry Uteck Boulevard will cost $21 million.

The Chamber recommends that Council fully implement the recommends in the five year transit plan. Determining an appropriate operating funding strategy will be a challenge for Council, however, it is necessary. The public and the business community has already responded to investment in convenient, rapid, non-traditional transit, such as Metro X Rural Express. *The stats for Rural Express are that 96% of customers reported they were new to Metro* Transit and 70% were using the service for four or more days a week in both directions.[4] Obviously Haligonians are able and willing to take convenient transit. The Chamber also recommends that the city continue to work with the Halifax Airport Authority to establish bus transit to Stanfield International Airport.

3. HRMbyDesign

This year's Annual Economic Scorecard gave the city a green light on the measure of "approval times for development approvals". Just two years ago, this Scorecard measure received the lowest possible score – two red lights. The city should be commended for such a marked

[3] Canadian Urban Transit Association. (2006). *Federal, Provincial and territorial Funding for Transit: A Compendium.*

[4] *http://www.halifax.ca/council/agendasc/documents/091027cow4plan.pdf*

improvement. Of course, more should be done. Seventy percent of development applications that were submitted to the city in 2009 were processed within the targeted time frames, so thirty per cent were not; there is room for improvement.

The approval of HRMbyDesign was a huge step for the city. Now, the city must ensure that the process goes according to plan. Stakeholders will be watching closely to see how the first project fares under the new process. The city must ensure that the Design Review Committee works as it should and that the site plan approval process truly only takes sixty days. The city should communicate the results of HRMbyDesign to both citizens and the business community, as many people participated in the consultation process and are interested in the results.

We understand that the next phase of HRMbyDesign is the Neighbourhood GreenPrint Program, which will address planning for the Regional Centre minus the downtown core. We trust that the business community will be involved with this consultation process and that the results will be just as exciting as the Downtown Plan.

4. Governance

An Efficient Council

The Chamber has been actively involved in the city's District Boundary Review. President Valerie Payn presented to the Committee of Council in March, expressing the Chamber's support and views on the process.

The Chamber supports a more efficient and responsive Council. From tax decisions to setting infrastructure priorities, businesses in the city depend on an efficient Council to make smart choices for them. The Chamber is in favor of a smaller council size, as a streamlined council would help focus council meetings and further separate policy and operational decisions. However, just making Council smaller is not the answer; Council will have to take leadership into their own hands to ensure we have a Council devoted to making Halifax a better city.

Improved Utilization of Community Councils

The Chamber is also supportive of a stronger role for Community Councils. According to the Conference Board of Canada's, Mission Possible Successful Canadian Cities, Volume Three, "The scale of urban governments can make a difference in the effectiveness and efficiency of service delivery. Sometimes, the appropriate scale depends on the services provided (for example, transportation services are delivered best on a regional basis). Giving Community Councils more authority will help to address the scale of HRM, bringing Council closer to the local level and addressing the urban/rural divide.

We understand that a request for revisions to the Charter has been sent to the province, which if approved will allow Community Councils more authority in local planning issues. The

Chamber supports this revision, as we continue to support streamlining planning approval times.

Conclusion

The upcoming year will truly test and demonstrate the resilience of our city's governance and financial structure. According to the Conference Board, there are three enabling conditions that create the environment required to achieve the changes that will propel Canada's major cities to sustainable prosperity: effective governance capacity; sufficient fiscal resources and strong political leadership.

The decisions that will be made for surrounding governance and budgeting this year are vitally important to ensure that Halifax is a competitive place to do businesses. We will be looking to Council to make the right choices for the good of all businesses and citizens of Halifax.

We thank you for the opportunity to present this pre-budget submission, and we look forward to working with you in the future.

Executive Summary of Recommendations

1. Municipal Finance and Taxes

- Businesses in Halifax are facing potential tax increases from all levels of government. The city must do what it can to minimize any increases in the cost of doing business in Halifax
- The Chamber urges the city to look to cutting costs and creating efficiencies, before considering a tax increase
- Prioritize expenditures and review expenditures on a line by line basis
- Use the consumer price index to inflation adjust budget dollars
- Use the service review process to make substantial changes that will create structural efficiencies
- Address the structural problem in the snow and ice budget
- Act to control pension cost increases, including structural changes
- Move forward with commercial tax reform

2. Infrastructure and Transportation

- Designate the Downtown as a Council Focus Area
- Reinstate the $3.2 million Capital District funding that was transferred to alternative projects
- Ensure the business community is fully engaged in the review of the Regional Plan
- Create an amalgamated transportation authority
- Continue to lobby the Province for increased investment in Transit
- Manage public expectations for new infrastructure through communications
- Fully implement all aspects the Asset Management Program and Strategy as soon as possible

3. HRMbyDesign

- Ensure the HRMbyDesign process is implement according to plan
- Communicate the results of HRMbyDesign

4. Governance

- The Chamber is in favor of a smaller council size, as a streamlined council would help focus council meetings and further separate policy and operational decisions
- Improve the utilization of Community Councils, through increased power through the Charter

CHAMBER ADVOCACY WORK

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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