

Sault Ste. Marie Chamber of Commerce
Position Paper—2015 Municipal Budget
March 13, 2015

Submitted To: The City of Sault Ste. Marie
And To: The City of Sault Ste. Marie Finance Committee

Overview

The Sault Ste. Marie Chamber of Commerce developed a strategic goal to be an advocate for business in Sault Ste. Marie. To achieve that goal, the Chamber develops formal positions on various matters that impact local businesses within the Municipal, Provincial and Federal jurisdictions.

This paper is intended to communicate to the City of Sault Ste. Marie, the Chamber's position on the municipal budget. Since budgeting is both a distinct annual process and a multi-year planning process, this paper will address the budget from the point of view of the current fiscal year and goals for the future.

Our goal is to work with and support the City, as the voice of business, with a view to creating a collaborative process between the City and the Chamber, as it relates to budgeting and taxation. As one of the largest stakeholder groups in the community, we have a role in the development and implementation and support of a fiscally responsible budget and taxation strategy which will benefit all taxpayers, now and in the future.

The year 2015 will be a transformative year for our community. We have a new mayor and council starting a new term, we have a provincial cabinet minister in the first 12 months of a four year majority government and we have an MP sitting with the government and running for re-election in the year. We have many senior staff at the City who are in a position to retire, some of whom have announced retirement. There are opportunities before us unlike any other time in recent memory—ACR Tour Train, Port of Algoma, Modernized OLG. There are also challenges before us—high provincial debt, a severely declining workforce, an aging population and an uncertain national economic outlook. The 2015 budget must be a budget that addresses our challenges, enables us to move toward capitalizing on our opportunities. It must position our community to increase our rate of growth over the medium and long term. The 2015 budget can be the first step toward creating a culture in the community and among all citizens which places highest priority on fiscal restraint and discipline with a view to achieving our long term goals.

There are three prevalent philosophies that have found their way into the culture of the community over the last several years. These philosophies have impacted budgeting, cost management and public perception of taxation and spending by the City. They are:

1. Costs and spending must always be expected to increase, as expressed when staff make budget presentations to council;
2. Council must tell staff what to cut in the event the proposed budgets reflect expenditure levels in excess of what council determines acceptable, as expressed when staff make budget presentations to council;
3. There is no waste within the corporation, as expressed during the last election by some candidates.

The sum total impact of these philosophies is that during budget deliberations by council, debate is intense but unfortunately focused on shallow or narrow issues that are usually in the realm of capital expenditures or the re-purposing of budgeted funds for current needs. These philosophies make it impossible to evaluate many operational costs which comprise most of the budget. For an example of a community that has successfully disposed of these philosophies one needs to look at the City of Windsor where council has managed a zero percent tax increase for more than 7 years without negatively impacting core services. Windsor moved from being the highest taxed city in Ontario to the lowest in only 7 years. (See Windsor Star October 6, 2014)The Chamber hopes to work with the City to encourage the development of a culture that refutes these philosophies, challenges staff and formally institutes a strategy of continuous improvement within the organization to achieve cost savings and spending reductions.

INTRODUCTION

1. The Chamber believes the City of Sault Ste. Marie should set a course to become the best place in Canada to do business;
2. Currently the City is only able to provide the services it delivers because it receives a direct cash infusion from the Province of Ontario in the amount of \$17,200,000. This is paid through a program called the Ontario Municipal Partnership Fund (OMPF). This amount represents 22% of the total revenue of the City's 2014 budget. These funds are paid out of revenues generated at the provincial level and are only paid to municipalities who don't have property assessment to fund all of their services. In essence this is a transfer from "HAVE" cities to "HAVE-NOT" cities, of which Sault Ste. Marie is a have-not city.
3. The Chamber is concerned that **this level of reliance on a hand-out from the province leaves our community vulnerable to changes in the provincial political landscape and / or to changes to provincial fiscal policy.**
4. The Chamber believes that for our community to reach its full potential it must:

- a. take a strategic direction aimed at eventually becoming fiscally independent the OMPF cash subsidy;
- b. take a strategic direction aimed at becoming the best place to do business which requires in part that it have a highly competitive, if not the best, business property tax rates.

CHAMBER'S POSITION

5. The Chamber does not support the City's preliminary budget for the following reasons:
 - a. We do not believe it is prudent to budget an increase in expenditures at a time when the City is aware of a reduction of direct grants from the province of \$1,000,100;
 - b. The annual rate of inflation was less than 1% over the last year (.97%) but the budget is calling for increases in spending of 1.4% just to maintain existing services and a levy increase of 4.6% which includes the funding of expenditures approved in 2014 but funded with a surplus from 2013;
 - c. From 2006 to 2015 the total budgeted tax increases in our city amount to roughly \$22,000,000 which is a 29% increase but inflation during the same period of time was only 14.88%;
 - d. The increases in the assessment in our city over the last several years have come largely from public sector investment or private investment that was made possible because of public sector revenue sources. The same holds true for 2014 where the lion's share of the increase came from the commercial sector, namely the new PUC building, Extencicare and Sault Airport improvements. All of which were either taxpayer investments or supported to some extent by taxpayer funded programs; for 2015 we can anticipate assessment growth from a much smaller number of publicly funded projects as governments reduce spending to reign in their budgets. Private sector investment in our city that would impact the assessment level is not expected to make up the difference and in fact may decline in 2015 compared to prior years.
 - e. **Our rate of spending growth has far exceeded our growth in property assessment and our growth in population over the last decade. This is an unsustainable set of circumstances as more and more tax dollars are being expected of the same taxpayers and the same properties.**

THE CHAMBER'S PROPOSALS

6. The Chamber's proposals are intended to achieve spending growth that is in line with the natural growth of the city and to ensure that the core focus of this council and future councils is strategic decision making aimed toward economic growth, assessment growth, population recovery and a normalizing of the city's age and socio-economic demographics:

- a. The Chamber proposes that it commence a practice of informing the citizens of the amount of tax it levies per \$100,000 of assessed value, compared to other communities in the province. This is a clear and effective comparison metric that will allow more people to understand the cost of municipal services relative to other communities. The current practice of comparing the City's tax level based on taxes on an average home convolutes housing prices and housing market variations across various communities and makes meaningful comparisons impossible;
- b. The Chamber proposes that the City avoid the temptation of seeking revenue generating strategies such as development fees. Such revenue sources will not serve our need to attract outside investment and will remove a key differentiator we have compared to many cities in the southern portion of the province where the pace of development must be managed due to robust economies and an active investment community;
- c. The Chamber proposes that the City commence, in 2015, an in-depth strategic planning process that will result in a proper and effective strategic plan. The plan will guide us toward achieving our goals, rather than enumerating operational or project-related expenditures. To properly budget and govern, we require a strategic plan that will align our resource utilization and decision making in a way that addresses our population growth challenges, the challenges we have attracting investment and the need to compete for more and more newcomers to settle in our community in order to sustain our workforce;
- d. The Chamber proposes that the City create an executive position which will be solely responsible for guiding and managing the process of transforming the corporation to a culture of continuous improvement, cost cutting and service enhancement—in short, a champion of taxpayer value who will interface with all departments doing deep dives into the operations with a view to saving and streamlining the entire corporation. The successful candidate should be compensated in part but substantially based on savings—thereby requiring results that are not only within a certain order of magnitude of value but that are also politically palatable;
- e. The Chamber proposes that the City undertake a comprehensive review of all of its assets to determine whether the cost of ownership is warranted versus the value to the taxpayer. Specifically, with respect to all of its real estate, the City ought to study whether or not it can free up capital through sale and lease-back transactions that benefit the taxpayer. The province is currently exploring the sale of some or all of Ontario Hydro which may include legislative changes allowing for a loosening of restrictions on the sale of utility companies in general. The City ought to study the potential impacts of a possible sale of some or all of its interest in the PUC group of companies, with a view to possibly freeing up capital for the benefit of the taxpayer;

- f. The Chamber proposes that the City re-examine its relationship with the Sault Ste. Marie Economic Development Corporation with a view to developing a stronger, better-funded and more autonomous entity.
- i. The EDC's current mandate is focused on growing the local economy from among existing business within the city. While there is value in that approach, the current model and funding severely limits the ability of the EDC to reach out to outside businesses whose work has synergies with our economy. We suggest a study of the most successful such entities in North America to inform the funding decision going forward. Further, the EDC should be tapped to lead an industrial land inventory and strategy which will aid the City in positioning itself to be ready to support industrial development opportunities;
 - ii. The EDC ought to be tasked and funded to ensure the City has an effective "People" Strategy as well as an economic strategy. New investment is evaluated increasingly on the basis of available skilled labour and professionals. To the extent we are unprepared to provide support for the "people needs" of prospective investors', the EDC ought to be mandated to fill that gap as a lead with other community partners, including the Chamber;
 - iii. The EDC is mandated to achieve certain deliverables with a specific base funding under the current Memorandum of Agreement between the City and the EDC. In addition to that, the EDC ought to have the opportunity to generate additional fees from the City for projects that arise outside of the terms of MOA. This will ensure that the EDC resources are used to fulfill its core mandate and not have their resources distracted or diluted by unforeseen projects. This will also serve to demonstrate the value of the EDC to the City and the citizens, resulting in judicious use of the resource.
- g. The Chamber proposes that the City refrain from using prior year surpluses to reduce the current levy. While some may believe that surpluses belong to the taxpayer, if the expenditure budget is allowed to grow on the comfort of surpluses, a dangerous gap is created between the tax levy and the expenditure budget that will result in a shock to the community when a surplus is not be available in future years. The more often the City avoids hard spending decisions by using surpluses, the bigger the risk. The City must focus on managing the expenditures not managing the levy.
- h. The Chamber proposes that the City adopt a special by-law that will require that this budget and all future budgets limit spending increases (as opposed to taxation increases) to the net sum of any new assessment and changes in (non-targeted or unconditional) grants from other levels of government. To illustrate by example: if grants shrink by \$1,000,000 and new assessment grows by \$1,500,000, the City expenditures would increase by only \$500,000;

- i. The Chamber proposes that the above-noted by-law remain in force until the residential taxation levy per \$100,000 of property assessment is within the lowest 25% of all municipalities in the Province of Ontario and thereafter require that all spending increases be less than the greater of increases in the rate of inflation and the net sum of any new assessment and changes in grants from other levels of government;
- j. The Chamber proposes that the City adopt a special by-law that requires it to adjust the rates of property tax as between residential properties and business properties over a number of years until it achieves the goal of having the lowest rates of business property tax in the Province of Ontario and thereafter continue to adjust the rates until we have the lowest rates of business property tax in the country;
- k. The Chamber proposes that the above described by-laws be capable of amendment or repeal by a 3/4 majority of the whole council or by a majority vote of the residents of the City;
- l. The Chamber proposes
 - i. that city council have an up or down vote on the budget,
 - ii. that it votes to reject the budget,
 - iii. that it votes in favour of sending the budget to the City's paid professional executive staff for revisions with instructions to find the required savings,
 - iv. that less than 50% of the savings be derived from changes to services and more than 50% of the savings be derived from operational efficiencies;
- m. The Chamber proposes that budgetary surpluses be used to augment the City's asset management reserve fund and to increase investment in the economic development funds.

The Chamber believes that the City must take action now to control spending and re-align its budget to match its means. In the absence of action to impose fiscal discipline and to create the conditions to achieve long term economic growth, the Chamber is very concerned that population growth, demographic imbalance and stagnant economic growth with pervade our future and lead to declining economic conditions in our city.

Yours Respectfully,

Sault Ste. Marie Chamber of Commerce