

Fostering Communities of the Future

Small Business Recommendations on the Municipal Legislative Review

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Municipalities deliver some of the most important services that keep people safe and make Newfoundland and Labrador a better place to live. Their decisions also have significant effect on the ability of entrepreneurs and business owners to grow and create valuable jobs that sustain communities. The Government of Newfoundland and Labrador's review of the municipal legislation may change fundamentally how municipalities are governed and in turn how they govern. Small businesses are key drivers of local economies, so it is important their views are taken into account during the municipal legislative review.

Introduction

Municipalities in Newfoundland and Labrador have substantial responsibilities to uphold, but this can be challenging due to finite resources. Currently, the municipal legislation and its associated regulations are outdated and unresponsive to the needs of entrepreneurs and business owners. From the small business perspective, an improved legislative framework should ensure municipalities have the ability to work with entrepreneurs to develop and grow the economy. This submission will outline some suggested changes to the municipal legislative framework that can allow for more small business-friendly municipalities.

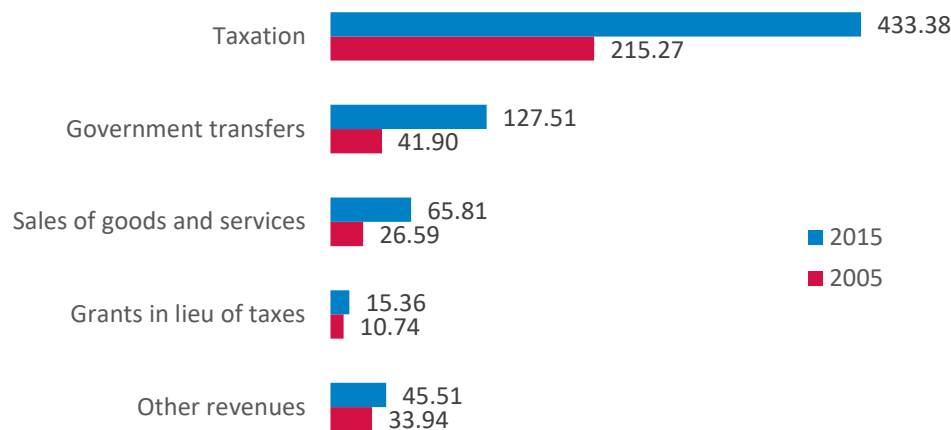
CFIB represents over 2,000 small- and medium-sized businesses in Newfoundland and Labrador, and almost 109,000 nationally, from all sectors of the economy. Policy positions are taken at the direction of our membership through surveys and discussions with members. This submission was completed using data gathered from our membership. It does not preclude CFIB from providing additional information for consideration as it becomes available.

Municipal Legislative Review

Many municipalities have noted the need for more revenue to meet the demands and expectations placed on them. From a small business perspective, municipalities have been able to generate substantial revenue. The evidence does not bear this out. Based on the audited financial statements of the 25 largest municipalities¹ in the province, actual own-source revenues (i.e. total revenues less government transfers) nearly doubled from \$287 million in 2005 to \$560 million in 2015 (see Figure X.) Own-source revenues as a share of total revenues declined between 2005 and 2015 in those communities, but this is largely due to an increase (over three times) in government (federal and provincial) transfers over that period.

Figure 1:

Actual Revenues (2005-2015)



Source: 2005-2015 Audited Financial Statements for the 25 largest municipalities.

Taxation represented about 66 per cent of the total revenues generated by the largest municipalities in 2015. However, the growth in revenue has disproportionately burdened businesses in favour of residents. The largest share of the increased revenues has come from taxation. CFIB analysis of property taxes of the largest 25 municipalities shows businesses are paying on average three times more than residents on property of equal value (Appendix A provides the property tax ratios for these municipalities). Notwithstanding the higher taxes they pay, businesses generally receive fewer services as well. For instance, they typically have to pay separately for services like snow clearing and waste management.

It is often argued that businesses, unlike residents, are able to make money from the property they own, that they can write off expenses and that they have the ability to “pass on” the burden of higher taxes to their customers by raising prices. This is considered justification to tax at a higher rate. However, this view neglects the reality that property taxes are profit-insensitive and must be paid even if a business

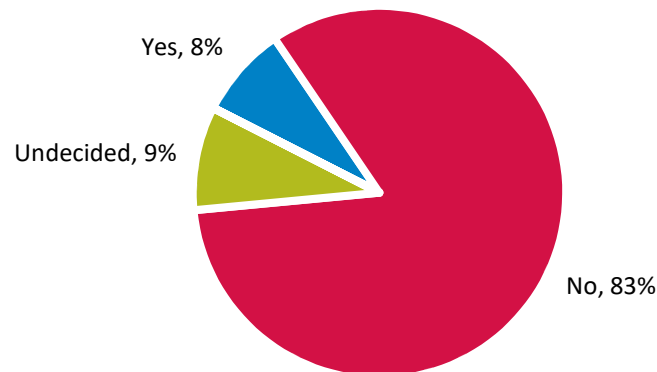
¹ Approximately 60 per cent of Newfoundland and Labrador’s population lives in the 25 largest municipalities.

is struggling to survive in an extremely competitive environment. Further, high taxation does not provide a business owner with the financial flexibility to invest in new equipment, raise employee wages, pay down debt, hire additional employees, or provide employee training.

While business owners have many concerns with the current property tax system, they feel municipalities should not have the power to levy additional taxes (see Figure 2). There are a number of proposals being discussed as to how municipalities could generate more revenues. From the small business perspective, municipalities are able to generate enough revenue through the tax system that it is unnecessary to tax through other means. The increases in revenues have resulted in concomitant increases in spending because municipalities have to present balanced budgets, which should not be changed. As Figure 1 above shows, the largest municipalities in the province collectively have been able to generate substantial revenues to deliver municipal services compared to a decade prior. Better control of spending will allow municipalities to effectively deal with the implications of a weaker economy and the slower development that results.

Figure 2:

Should municipalities have the authority to levy taxes other than property taxes?

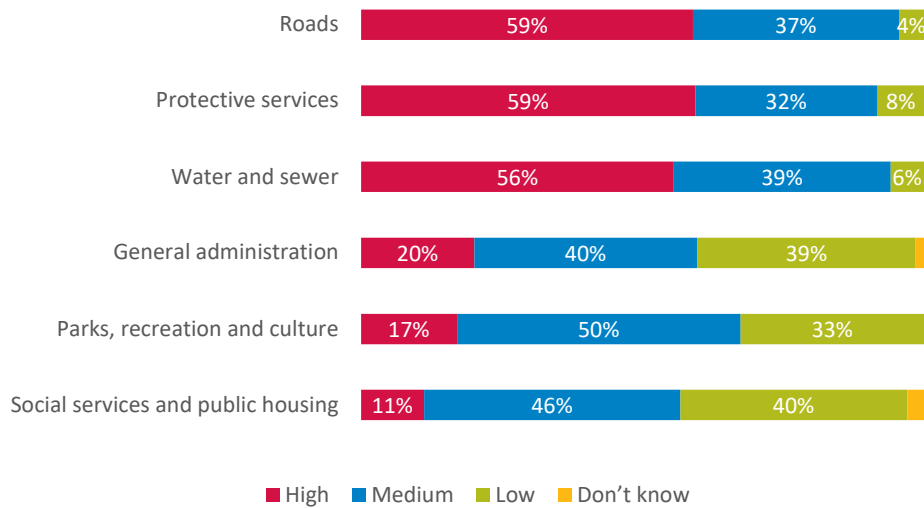


Source: CFIB, Mandate Ballot Survey, September – October 2013, 100 responses.

Small business owners in the province value the municipal services they receive because these services allow them to conduct their business on a daily basis. However, it is necessary to ensure there is clarity of the roles of provincial and municipal governments. Small business owners are clear that municipalities should focus on the delivery of core municipal services, like roads and snow-clearing, water and sewer systems, and fire protection (see Figure 3). There are some services being delivered for which there is unnecessary overlap. For example, some municipal leaders feel it is necessary to provide and administer public housing, yet the provincial government has a Crown corporation to deal with public housing in the province. Small business owners place social services and public housing as a low priority for municipalities.

Figure 3:

Municipal Government Operating Spending Priorities



Source: CFIB, NL Municipal Taxation and Spending Survey, March-April 2016, 142 responses.

In 2014, almost all of the 25 largest municipalities submitted their financial statements beyond the deadline, as identified in an Access to Information request.² It is unfortunate this is happening despite the concerns raised by the Auditor General in 2013 that the vast majority of municipalities were missing the deadline to have approved financial statements submitted to the then-Department of Municipal Affairs. In response to the Auditor General's findings, the Department expressed confidence

“...that it has reasonable processes in place which support and promote the receipt of financial statements and budgets in accordance with legislative timelines, including the practice of with-holding grant funding until a municipality is compliant with these legislative requirements. The Department will continue to work with municipalities to improve compliance with these legislative activities.”

A review of the 2015 audited financial statements shows that missing the submission deadline for the financial statements persists. In fact, some audited financial statements are approved after a municipality submits the next year's budget. What is not clear in the legislation are the implications for missing a legislated deadline.

When the government announced its Community Sustainability Partnership in April 2015, there was a commitment to the implementation of accountability measures and the development of a broader accountability framework. It is clear the provincial government has more work to do if major municipalities in the province are still not

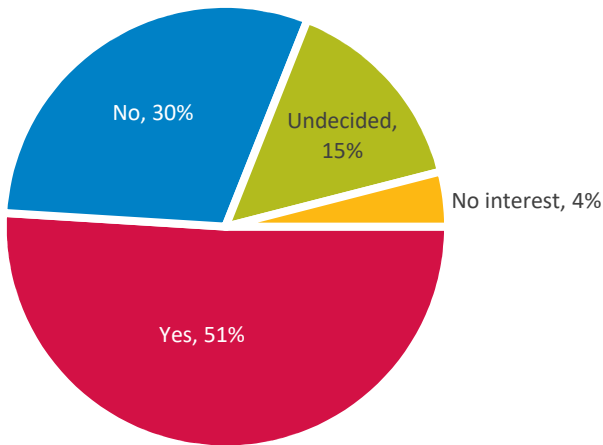
² The Access to Information request is available at this link: <http://atipp-search.gov.nl.ca/public/atipp/requestdownload?id=2743>. Correspondence from the Town of Labrador City to CFIB, dated August 3, 2016, indicated that permission was granted by the provincial government to allow for submission of the audited financial statements beyond the legislated deadline.

submitting their audited financial statements on time. This issue should be addressed by any amendments to the legislation.

CFIB proposes the creation of a Municipal Auditor General to encourage municipalities to spend taxpayers' dollars more efficiently and bring greater financial reporting accountability at the municipal level. A recent survey shows 51 per cent of business owners support a municipal auditor general, while 30 per cent are not, 15 per cent are undecided, and four per cent have no interest (see Figure 4). It is encouraging the City of St. John's is reviewing the possibility of an auditor general for the city. However, this should not preclude the provincial government from appointing an auditor general.

Figure 4:

Should the Newfoundland and Labrador government appoint an independent auditor general to perform annual audits of municipal spending?



Source: CFIB, Mandate Ballot Survey, February-March 2016, 84 responses.

The *Municipalities Act, 1999* requires municipalities to make some documents; like audited financial statements, budgets, council minutes, and assessment rolls; available to the public during the normal business hours of the council. If one does not visit a council office, receiving these documents requires a request submitted to the municipality and the use of staff resources to get them released. At a time when information is readily available through electronic media, all of this information should be accessible through a municipal website. Bishop's Falls, Corner Brook, Labrador City, and Stephenville are examples of municipalities that release their audited financial statements on their websites. However, recognizing that a number of municipalities may not have the financial and human resources for this, the Department of Municipal Affairs and Environment could act as repository for all municipal financial information. The governments of British Columbia, Alberta and Nova Scotia are examples of how aggregate municipal financial data can be released.

Regulations

Municipal regulations form a regular part of doing business in Newfoundland and Labrador, whether it is, for example, paying property and/or business taxes, which includes property assessments; applying for business and operating permits and licences; or receiving approval to operate in a designated area. Excessive regulations and poor customer service are identified as one of the main barriers entrepreneurs face when it comes to starting or growing their businesses. The effect municipal red tape has on business growth and diversification is not always recognized. Some of the red tape is derived from the development approval process. It is a time-consuming process, and can be confusing which level of government has responsibility in a certain policy or program area. For example, municipal and provincial governments have a say in how digital signage is approved. However, there is a lack of clarity and situations can exist where business owners don't know where to get answers. Further, there is substantial red tape involved in the development approval process. For example, a development application may require a public consultation period that adds time to the approval process. More independence at the municipal level regarding changes to development regulations could reduce red tape and provide certainty for a business owner.

Conclusion

The role of governments is to create the conditions necessary for entrepreneurship and economic development to flourish. CFIB will continue to work for municipalities that recognize the importance of fair taxation and fewer regulations. The current municipal legislative review is an opportunity to foster future communities that are robust and economically sustainable.

Summary of recommendations

- ▶ **Do not provide new tax authority to municipalities, rather give authority to find more creative means to generate revenue on property and development.**
- ▶ **Do not remove from the legislation the requirement for municipalities to present balanced budgets.**
- ▶ **Appoint an independent Municipal Auditor General to regularly monitor, review and report on local government finances.**
- ▶ **Municipalities should place public documents, particularly financial information, on their public websites; the province should act as a repository for province-wide municipal financial information.**
- ▶ **Provide greater independence and flexibility for municipalities to administer their development regulations.**
- ▶ **Ensure there is clarity of jurisdiction at the municipal and regional level, with the cost of service delivery being paramount.**

Appendix A

Select Municipal Property Tax Ratios

<i>Municipality</i>	<i>2012 Property Tax Gap</i>	<i>2017 Property Tax Gap</i>	<i>Change in Property Tax Gap</i>	<i>2017 Residential Mill Rate</i>	<i>2017 Commercial Mill Rate</i>	<i>2017 General Business Mill Rate</i>
Bay Roberts	2.37	2.92	+0.55	6.50	7.00	12.00
Bishop's Falls	2.14	2.29	+0.15	7.75	7.75	10.00
Bonavista	2.41	2.85	+0.44	6.50	6.50	12.00
Botwood	2.33	2.73	+0.40	7.50	7.50	13.00
Carbonear	2.30	3.14	+0.84	6.60	9.75	11.00
Channel-Port aux Basques	2.35	2.94	+0.59	8.00	10.50	13.00
Clarenville	3.29	4.32	+1.03	5.90	8.50	17.00
Conception Bay South	2.98	3.71	+0.73	7.15	11.50	15.00
Corner Brook	3.51	3.90	+0.39	7.50	12.50	16.75
Deer Lake	2.00	2.14	+0.14	7.00	7.50	7.50
Gander	1.65	2.50	+0.85	6.70	6.40	10.35
Grand Falls- Windsor	2.08	2.42	+0.34	7.75	10.75	8.00
Happy Valley- Goose Bay	2.82	3.84	+1.02	6.25	10.50	13.50
Harbour Grace	1.76	2.29	+0.53	7.75	7.75	10.00
Labrador City	6.78	4.52	-2.26	4.25	15.65	3.55
Lewisporte	2.89	3.57	+0.68	7.00	7.00	18.00
Marystown	2.47	2.93	+0.46	7.00	8.00	12.50
Mount Pearl	3.16	4.21	+1.05	7.00	12.00	17.50
Paradise	3.31	4.34	+1.03	6.80	11.50	18.00
Pasadena	3.00	2.83	-0.17	6.00	6.00	11.00
Placentia	2.95	4.35	+1.40	6.20	9.00	18.00
Portugal Cove-St. Philip's	2.18	2.23	+0.05	6.90	6.90	8.50
St. John's	3.22	3.38	+0.16	7.30	24.70	-
Stephenville	2.39	2.70	+0.31	7.40	8.00	12.00
Torbay	2.71	3.81	+1.10	6.70	10.50	15.00

Source: 2017 Municipal Tax and Fee Structures.