



**CANADIAN FEDERATION
OF INDEPENDENT BUSINESS**

In business for your business.

2400 College Avenue, Suite 503
Regina, Saskatchewan S4P 1C8

November 26, 2018

Re: City of Saskatoon's Preliminary 2019 Operating Budget

On behalf of the CFIB and our Saskatoon small business members, we are pleased to provide our members' views and concerns regarding the City of Saskatoon's 2019 Operating Budget and its proposed municipal property tax increase of 4.5 per cent.

We noted that in the message from the City Manager, he stated that part of "the City's approach to financial sustainability includes controlling expenditures, while keeping property taxes and fees affordable." We agree that it is important to focus on controlling expenditures and keeping property taxes affordable for both residential and commercial property owners. However, we fear the proposed 4.5 per cent property tax hike will only add to a number of cost pressures that business owners are already facing including the federal government's tax changes, upcoming payroll tax increases, a costly federally-imposed carbon tax and lingering uncertainty over trade and competitiveness with the U.S. Another municipal property tax hike will just make it more difficult for them to stay competitive.

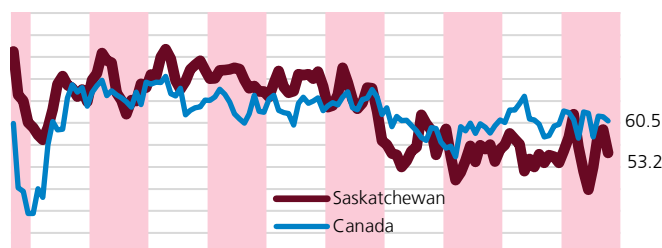
While we acknowledge the City has kept its operational spending increase to 4.2 per cent in 2019, which is in the range of CFIB's sustainable benchmark (population growth (2.0%), plus inflation (2.2%)), we believe the City should further contain costs and find additional cost-savings and efficiencies to mitigate the proposed municipal property tax increase.

Sask small business optimism declines in October; 2nd lowest in Canada

Figure 1

CFIB Monthly Business Barometer Index (Sask vs. Canada)

Index (0-100)



Source: CFIB Monthly Business Barometer, Saskatchewan, October 2018

CFIB's Monthly Business Barometer® has shown to be an extremely accurate indicator of economic growth and is utilized by a number of financial institutions in Canada including Bloomberg, the Bank of Canada and Scotiabank. Tracked against GDP, the Barometer index closely reflects what is currently happening in the economy. Index levels normally range between 65-70 when the economy is growing at its potential.

Saskatchewan's small business optimism declined in October to an index of 53.2—an almost identical level as those seen in Alberta and Newfoundland and Labrador (see Figure 1).

Employment plans also weakened and now about 16 per cent of entrepreneurs foresee full-time cutbacks compared to 12 per cent who are planning to hire

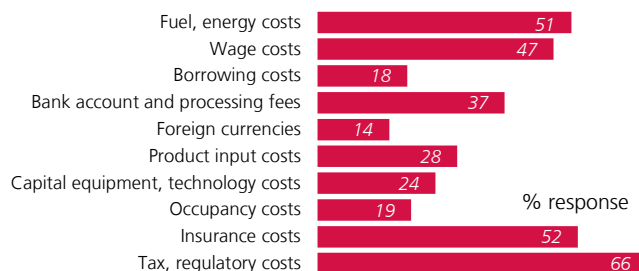
in the coming months. The general state of business cooled off slightly too with 36 per cent of entrepreneurs see their businesses in good shape, versus 14 per cent who see their firms in bad shape.

Top cost pressures: tax and regulatory costs

CFIB's monthly Business Barometer Index also revealed that the top cost pressures for Saskatchewan entrepreneurs continues to be tax and regulatory costs, cited by 66 per cent of respondents in October 2018 (see Figure 2).

Figure 2

Major cost constraints*



* 12-month moving averages.

Source: CFIB Monthly Business Barometer, Saskatchewan, October 2018

There is little doubt that some of the major contributing factors are related to the serious concerns about the federal government's tax changes, upcoming payroll tax increases, a costly federally-imposed carbon tax and lingering uncertainty over trade and competitiveness with the U.S.

CFIB is urging the provincial government to continue aggressively opposing the federally-imposed carbon tax; and urge the federal government to find better ways to reduce emissions that won't negatively affect small businesses and the economy.

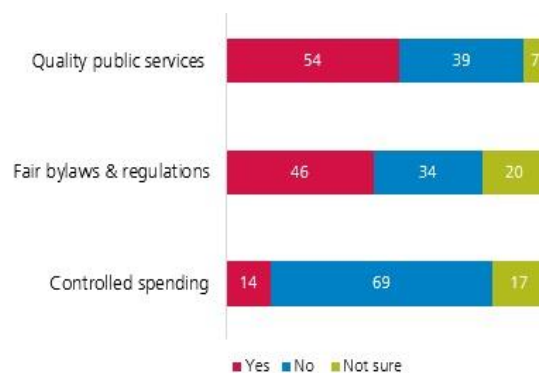
Small Business Perspective on Municipal Issues

A recent CFIB survey of 181 Saskatoon small business owners revealed that 54 per cent believe that the City is doing a good job of providing quality public services, compared to 39 per cent who say they are not doing a good job. Almost half (46%) of entrepreneurs believe the City is doing a good job of creating fair bylaws and regulations (see Figure 3).

However, 69 per cent of Saskatoon entrepreneurs don't believe the City is doing a good job of controlling spending. Only 14 per cent believe the City is doing a good job. It is evident Saskatoon's small business owners believe there are still a number opportunities for the City to find additional cost savings and efficiencies to mitigate the proposed 4.5 per cent property tax increase.

Figure 3

Does your local government do a good job on each of the following? (% response)



Source: CFIB Our Members' Opinion Survey, January - June 2018, n= 181 Saskatoon responses

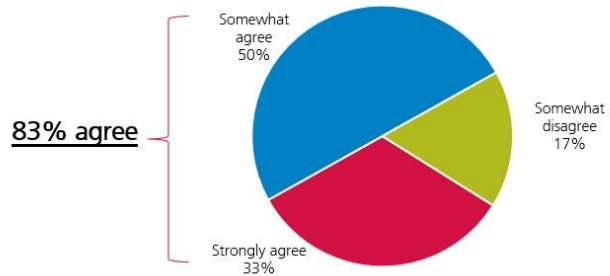
Impact of municipal property tax increases

We realize budget deliberations require difficult decisions as Council strives to meet the challenges of a weakened economy and a growing population. That being said, we are concerned the City is considering another property tax hike for 2019 of 4.5 per cent – the proposed increase follows a 3.79 per cent hike in 2018, 4.82 per cent increase in 2017, and a 3.96 per cent increase in 2016.

For those that say municipal property tax increases don't have an impact on Saskatoon's business community, it is clear our job creators have a very different perspective. We are not talking about billion-dollar multi-national corporations that can absorb the cost. This is about your local hardware store or your favourite restaurant. It is about your florist, your mechanic, and your hairdresser. There are all kinds of businesses who are impacted by annual property tax hikes. In fact, a recent CFIB survey found that 83 per cent of Saskatoon business owners stated that recent municipal property tax increases have negatively impacted their business. Only 17 per cent said there has been no impact (see Figure 4).

Figure 4:

To what extent do you agree or disagree with the following statement: **Recent municipal property tax increases have negatively impacted my business**



Source: CFIB, 2019 Saskatchewan Pre-Budget Survey, October 2018, Saskatoon responses, n=68

"We moved in here in May of 2013....In 4 years they have increased nearly 22 per cent and that is an insane level of (property tax) increase compared to my residential taxes. The City is treating businesses here like a cash cow and if I could I would move this business to Warman or Martensville."

- Small business owner, Professional Services sector, Saskatoon

"We have been receiving property tax increases yearly for about 10-12 years...My business pays \$12,000 in property taxes and yet we pay to haul our own garbage, we pay extra for utilities, we pay extra for water and sewer. And we get our street cleaned once a year and the snow removed on the street once a year."

- Small business owner, Construction sector, Saskatoon

CFIB ranks best & worst property tax gaps

In December 2017, CFIB provided Council with a copy of our 10th annual research report, [*WANTED: Property Tax Fairness in Saskatchewan*](#), which examined municipal and total property tax gaps for 75 municipalities and 31 Rural Municipalities (RMs) with a population of 1,000 or more. The gap measures the ratio of commercial and residential property tax bills for properties assessed at \$200,000.

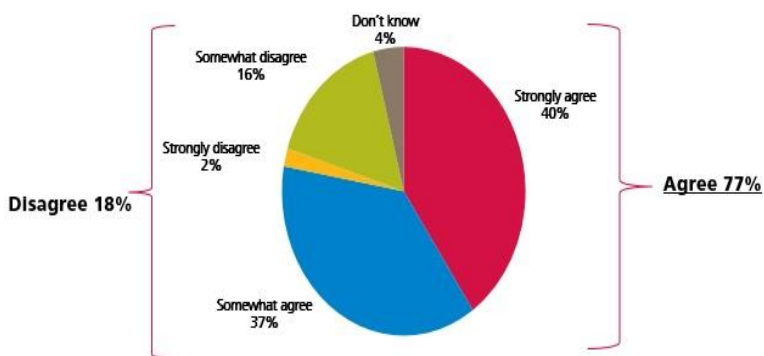
CFIB's report revealed the amount of property taxes commercial property owners paid in Saskatchewan's 15 cities ranged from \$1.39 to \$3.86 for every dollar in municipal property taxes paid by homeowners, with an average of \$2.36. The City of Saskatoon had the third lowest municipal property tax gap (1.76) among Saskatchewan's cities in 2016. Saskatoon also had the lowest commercial property tax burden out of all the cities (\$1,847).

Support for reducing the commercial to residential property tax gap

An overwhelming majority of commercial property owners in Saskatchewan continue to pay higher property taxes than residential property owners. Of the 75 municipalities examined, 15 increased their property tax gap from 2015 to 2016, 35 had no change and 25 actually reduced their gap.

Figure 5

To what extent do you agree or disagree with the following statement? **Municipalities should lower commercial property taxes to be closer to residential property taxes**



While some municipalities are doing a better job than others in making municipal property taxes fair for small businesses, there is still more work to be done. Many municipalities need to commit to a plan to make their property tax system fairer for entrepreneurs. In fact, a CFIB survey found the majority (77%) of Saskatchewan small business owners agreed that municipalities should work towards lowering commercial property taxes to be closer to residential property taxes. Only 18 per cent disagreed (see Figure 5).

Source: CFIB, 2017 Pre-Budget survey, November 2016, n=303 Sask responses

Municipalities making progress:

We were pleased the City of Meadow Lake listened to CFIB's recommendation and took steps to reduce their property tax gap in 2016 by formally adopting a policy in 2015 to reduce the gap between residential and commercial taxation over a number of years.

The City of Prince Albert had the highest property tax gap out of all Sask cities, and the fifth highest municipal property tax gap in the province. We were pleased that during the Mayor's 'State of the City' address on January 25th, 2018 the Prince Albert Mayor responded to CFIB's report and committed to fixing the problem: *"Small businesses are the ones that are really hurting. They are the backbone of our community and we have to make sure they survive. We can't be part of their demise by having the highest taxes in the province. We are committed and we are going to address it."*

As Council knows, the CFIB commended the City of Saskatoon for taking decisive action towards reducing the commercial-to-residential tax gap by implementing its 10-year plan to reduce their tax gap to 1.75 by 2010, which was achieved. However, remaining competitive is a moving target. We would therefore urge the City to adopt and implement the Administration's proposed plan for the Municipal Tax Policy Ratio between commercial and residential properties to be shifted to 1.43 over an 8 year period.

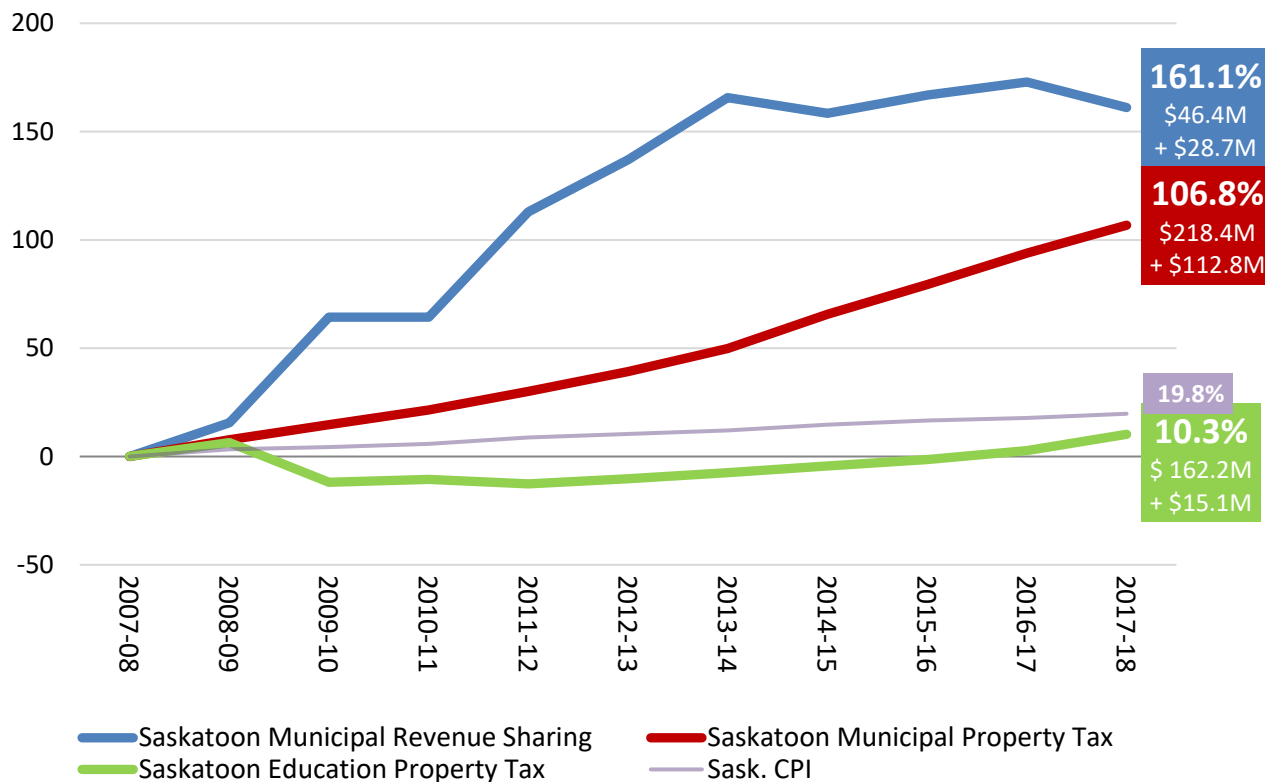
Support for the introduction of a base tax for all homeowners

CFIB's property tax gap report revealed 51 of the 75 municipalities and six of the 31 RMs studied in the report have a base tax. Of those, 12 of the 15 Cities have a base tax. When surveyed, 70 per cent of Saskatchewan small business owners agree a base tax for basic core services should be implemented for all homeowners. Local government services are enjoyed by all taxpayers and the costs must be shared by all taxpayers. We urge the City to consider the introduction of a base tax for all homeowners.

Figure 6

Saskatoon Cumulative Revenue Growth (Per Cent) 2007-08 to 2017-18

This chart illustrates Saskatoon's cumulative revenue growth for Municipal Revenue Sharing and Property Tax. Property Tax information comes from the Mill Rate Survey and reflects the calendar year. To compare, the growth of Saskatchewan's Consumer Price Index is included.



As you know, the provincial government provides one full point of the Provincial Sales Tax (PST) to municipalities, providing a long-term, stable and predictable revenue stream. In 2018-19, the Government of Saskatchewan distributed nearly \$241.1 million to municipalities in municipal revenue sharing; a \$114 million increase (89%) over 2007-08. In fact, revenue sharing in Saskatoon has increased from **\$17,775,569** in 2007-08 to **\$43,381,601** in 2018-19; a 144% increase over 2007-08.

According to recent analysis, in 2017-18 the City of Saskatoon has received a 161 per cent (\$28.7 million) increase in municipal revenue sharing since 2007-2008. However, over the same time period, the City's municipal property tax revenues have also increased by 106.8 per cent (\$112.8 million) despite the modest growth of the province's consumer price index of only 19.8 per cent over the same time period (see Figure 6). Given this predictable revenue sharing, we believe the City of Saskatoon should use this revenue prudently and work even harder to contain costs to mitigate the proposed 2019 municipal property tax hike.

No support for increased taxation powers to municipalities

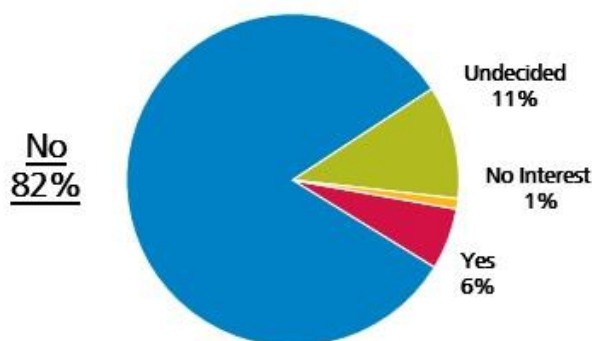
On February 15, 2018 in a media interview with CBC news, City of Regina's Mayor Fougere stated: "we're discussing through the Saskatchewan Urban Municipalities Association (SUMA) and the City Mayors' Caucus the whole issue of new sources of revenue for municipalities."

While we recognize the fiscal pressures Saskatchewan municipalities face, we fear giving new taxation powers to them would not only increase the overall tax burden, but further hurt their local small business community that are already struggling in a slower economy.

When asked whether municipalities should have authority to levy new taxes (e.g. fuel, income or sales taxes) a strong majority (82%) of Saskatchewan business owners disagreed; only 6% agreed. It is important for everyone involved to remember that while we have three levels of government, there is only one level of taxpayer (see Figure 7).

Figure 7

Should Saskatchewan municipalities be given the authority to levy new taxes (e.g. fuel, income or sales taxes)?



Source: CFIB, Mandate 271, Saskatchewan results, n=295

We are pleased Premier Scott Moe does not support increased taxation powers for municipalities. In response to [CFIB's 2017 Leadership Candidates' survey](#), the Premier said: *"Our government committed to deliver municipalities one percentage point of the PST revenue for the past 10 years. My team will not allow increased taxation powers for municipalities, but we will need to rework revenue sharing with municipalities to ensure they are spending their money efficiently and effectively. That means working together on procurement, shared services, and partnerships among municipalities."*

Continue to find cost-savings to reduce the proposed property tax increase

We were pleased to learn that in 2017 the City identified over \$30 million in operational efficiencies, additional funding and revenues. We understand that every division in the organization is striving to reduce waste, identify efficiencies and improve processes (e.g. over \$800,000 in IT efficiencies were identified). We were also interested to learn about the creation of the new mobile command vehicle for firefighters and police officers from a used diesel motorhome achieved a savings of \$1 million (versus purchasing a new vehicle). We urge the City to build upon this work and continue implementing additional cost-savings measures, leaving no stone unturned, to reduce the proposed 4.5% property tax increase.

Continue to reduce labour costs

Business owners make difficult decisions every day in order to live within their means and keep their businesses running, and they expect their local governments to do the same.

We know salaries make up 58 per cent of the total expenditures at the City. According to the City of Saskatoon's 2019 Operating Budget, the majority of expenditures, \$294.4 million, an increase of \$13.3 million (4.7% increase) from 2018, are being allocated towards staff salaries and payroll costs.

As we have mentioned previously, the public-private wages/benefits gap needs to be addressed at all levels of government. CFIB's *Wage Watch* report, which is based on census data, shows that there is a large disparity in wages and benefits in favour of the public sector when comparing similar jobs in the private sector. The results show, on average, municipal government workers in Saskatchewan earn 14.1 per cent more than their private sector counterparts in the same jobs (wages/benefits). Therefore, it is imperative the City continues to examine its spending on salaries and benefits, as this represents such a significant portion of operational expenditures. This would include bringing salaries, wages and benefits of municipal employees in line with private sector norms, hiring new employees at compensation levels that are in-line with private sector norms, and enrolling new hires in a defined contribution pension plan, instead of a defined benefit pension plan.

Support to reduce the size and cost of municipal government through attrition

While the cost per worker is important, the number of employees is also significant. Across the country, some provincial and local governments have initiated civil service reduction plans through attrition.

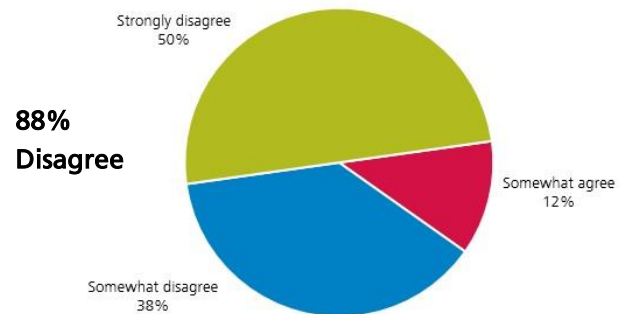
The 2019 Preliminary Budget also includes an additional 56.1 FTEs over 2018. However, a recent CFIB survey found 88 per cent of Saskatoon business owners don't believe the City needs to increase in size to keep up with the community's growth (see Figure 8).

As recommended previously, we believe the City should consider attrition-focused staffing reductions and introduce a plan to reduce the size and cost of its municipal civil service. In fact, a CFIB survey found the majority (64%) of Saskatchewan business owners believe municipalities should reduce the size and cost of their civil service through attrition (i.e. not replacing employees who retire or leave). Supporters say it would result in smaller, less costly and more efficient municipal governments. It would also help free up revenue for other municipal initiatives (e.g. infrastructure). Only 17 per cent opposed the idea (see Figure 9).

At the provincial level, we are particularly pleased with the strong commitments Premier Scott Moe made to business owners, which included the introduction of a 5% workforce reduction in Executive Government and Crown Corporations through retirement/attrition as part of your plan to balance the budget (Potential savings of \$70 million).

Figure 8

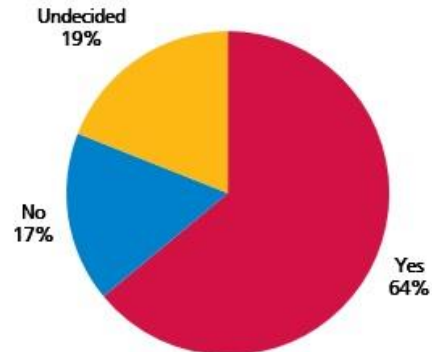
My municipal government needs to increase in size (e.g. increase spending/taxes) to keep up with my community's growth



Source: CFIB, 2019 Saskatchewan Pre-Budget Survey, October 2018, Saskatoon responses, n=68

Figure 9

Should Saskatchewan municipalities reduce the size and cost of their civil service through attrition (i.e. not replacing employees who retire or leave)?



Source: CFIB, Saskatchewan Mandate 267, 358 Sask responses

Time to reform City of Saskatoon's municipal sick day policy:

A 2016 report from CFIB shows some big-city sick day policies are costly and unfair as municipal government employees can bank unused sick days while most private sector employees cannot.

Banking means that if an employee doesn't use all their allotted sick days in a year, they can save them for later. Of the 16 major cities reviewed, 10 allow banking. Policies vary, with some cities, including Winnipeg and Moncton, offering an unlimited number of banked sick days. Others place a ceiling on bankable days.

While many cities have grandfathered "cash out" policies for banked sick days, some cities still allow it, including Saskatoon, Vancouver, Moncton and Charlottetown. Montreal also allows workers to use banked sick days towards retirement (see Appendix A).

In Saskatoon, employees can bank up to 194 days, which can be converted to cash payments upon retirement under certain grandfathered collective agreements. According to the City's 2017 Annual Report, Saskatoon had \$20.5 million in banked sick day liability.

Having a safety net in place in case employees get sick in the short-term is obviously a responsible thing to do. However, it is not affordable to have these costly municipal sick day policies, which create an unnecessary burden on taxpayers. We need to fix the system so that everyone is playing by the same rules.

CFIB recommends the City of Saskatoon introduce a fairer and affordable short-term disability plan to replace its outdated sick-day banking policy, which will protect your workers and better align with private sector practices.

Cutting red tape for Saskatoon business owners – a low cost way to help!

We know entrepreneurs deal with piles of red tape associated with the PST, GST, employment standards, municipal by-laws, payroll taxes, WCB paperwork—the list goes on and on. To be clear, business owners have no issue with the legitimate rules - and agree a certain amount of regulation is important to protect human health and the environment. So we are not talking about deregulation. Red tape is something else. Small business owners tell us red tape holds back their business - dealing with inconsistent information, confusing forms, outdated rules and rude customer service or getting the run around.

According to CFIB's research, in Saskatchewan, federal, provincial and municipal regulations cost businesses \$1.1 billion per year, of which \$330 million is considered "red tape". Reducing municipal red tape can give much needed time and money back to business owners.

In a recent CFIB survey, our Saskatoon members were asked to identify which municipal regulations were most burdensome for their business in terms of time and money spent on compliance. Thirty per cent of Saskatoon entrepreneurs cited building and renovation permits and 16 per cent cited business licensing as the most burdensome regulations to their business.

We recognize the City administration's ongoing work to streamline and improve some processes. For example, the streamlining of the City's policies and requirements for infill developments in the Downtown core will improve the development process and make it easier for developers looking to build downtown including no longer requiring traffic impact studies for Downtown development, and waiving any requirements for on-site storm water retention within the downtown area. We understand the process was done in conjunction with developers and the Saskatoon Home Builders Association. However, we encourage the City to continue to make red tape reduction an ongoing priority (e.g. streamlining processes, eliminating redundant paperwork, improving customer service).

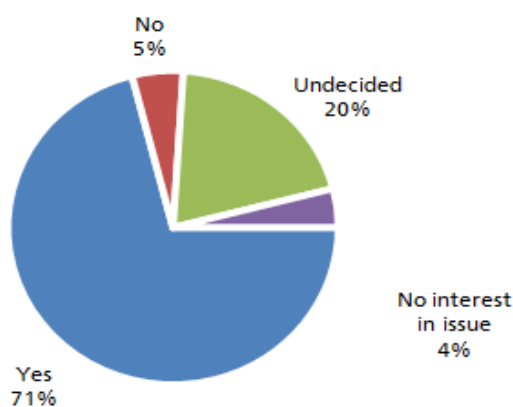
A growing number of jurisdictions across the country are making red tape reduction a priority. For years, CFIB and others have been working hard to show governments that reducing excessive regulation has real potential to grow the economy, allowing business owners to focus their resources on innovating, improving productivity and expanding their business.

At the provincial level, it is evident the Government of Saskatchewan is serious about cutting red tape. We commended the province for completing its count of regulatory compliance requirements in the Acts, Regulations, and the related administrative policies and forms. The Government of Saskatchewan also made the use of the Direct Cost Estimator (DCE) – a comprehensive cost estimation tool that estimates direct costs to external stakeholders and to government – mandatory for all provincial ministries, agencies and Crown Corporations when presenting regulatory proposals for approval. Use of the tool allows the government to make informed choices when approving how regulatory decisions will be implemented. Each year, the *Regulatory Modernization Annual Progress Report* is tabled with the legislature which updates progress on red tape reduction. For 2017-18, the Report highlights 44 initiatives that will result in forecasted savings of \$133.8 million over the next 10 years.

Some suggest municipal governments should also measure and reduce the total number of regulatory requirements imposed on small- and medium-sized businesses. A CFIB survey found a strong majority (71%) of Saskatchewan business owners agreed that such a move would make governments more accountable to businesses and help save businesses time and money (e.g. streamlining permits). Only five per cent disagreed (see Figure 10).

Figure 10

Should Saskatchewan municipalities measure and reduce the total number of regulatory requirements imposed on small- and medium-sized businesses?



Source: CFIB, Saskatchewan Mandate 259, 226 Sask responses

Municipal Red Tape Challenge:

Next year marks the 10th Anniversary of CFIB's annual Red Tape Awareness Week TM (January 21-25, 2019) campaign and to mark this milestone CFIB is issuing a ***Municipal Red Tape Challenge***. As you know, CFIB recently sent a letter to Council asking the City of Saskatoon to enact a 'Red Tape Reduction Plan', which should include:

- the application of a small business lens (i.e. a checklist to ensure new regulations are properly challenged);
- the adoption of a "one-in-one-out" rule to keep the regulatory burden from growing; and

- improvements to service for citizens by enhancing feedback (online “suggestion boxes,” business advisory panels, etc.).

What is needed to accept the challenge? Your commitment to reduce red tape!

- A letter to CFIB accepting the challenge must be received by December 14, 2018;
- CFIB will highlight the leadership your municipality is showing during our 2019 Red Tape Awareness Week™ in helping small business succeed.

Reducing “red tape” can lift constraints on private sector development and foster economic growth and these simple measures can help grow small business in your community and attract new entrepreneurs.

Recommendations:

With these facts in mind, CFIB urges Council to consider the following recommendations to further contain operating costs and mitigate the proposed 4.5 per cent municipal property tax increase:

Short-term recommendations:

1. Continue to find cost-savings and internal efficiencies by:
 - Continuing to review current programs and services with the objective of identifying programs and service areas that can be eliminated, streamlined, contracted out to the private sector, or sold.
 - Committing to make red tape reduction an ongoing priority for the City by continuing to look for ways to further reduce the regulatory burden for Saskatoon business owners (e.g. further streamlining processes, eliminating redundant paperwork, improving customer service).
 - Accept *CFIB's Municipal Red Tape Challenge* by enacting a red tape reduction plan.

Medium to Long-term recommendations:

2. Continue to reduce the size & cost of the municipal civil service by:
 - Introducing a plan to reduce the size and cost of the civil service (primarily through attrition and pension reform).
 - Developing a long-term strategy to narrow the compensation disparity between public and private sector employees.
 - Eliminating the costly and outdated municipal banked sick day policies and replacing it with affordable short-term disability plan.
3. Adopt the Administration's proposed plan for the Municipal Tax Policy Ratio between commercial and residential properties to be shifted to 1.43 over an 8 year period.
4. Consider the introduction of a base tax for all homeowners.
5. Develop a plan to measure, report and reduce the total number of regulatory requirements imposed on Saskatoon businesses.

We thank you for considering the views of Saskatoon's small business community as you work to finalize the City of Saskatoon's 2019 Preliminary Budget. As CFIB's research has shown, municipal decisions significantly impact Saskatoon business owners' ability to grow and create jobs.

Respectfully submitted by,

(Original signed by)

Jennifer Henshaw, CFIB's Senior Policy Analyst, Prairie

Appendix A

Table 1

2013 Sick Day Liability (Total in \$ millions, \$ Per Capita) by Municipal Government

	<i>Maximum Number of Sick Days that can be Accumulated for Employees Starting in 2015</i>	<i>Cash Payout at Retirement/Termination of Employment With Unused Sick Days</i>	<i>Early Retirement With Unused Sick Days</i>
Vancouver	261	Yes	No
Victoria	130	For grandfathered plans	No
Calgary	Cannot bank sick days	Not applicable	Not applicable
Edmonton	Cannot bank sick days	Not applicable	Not applicable
Saskatoon	194	Yes	No
Regina	215	For grandfathered plans	No
Winnipeg	Unlimited	For grandfathered plans	No
Toronto	Cannot bank sick days	For grandfathered plans	For grandfathered plans
Ottawa	Cannot bank sick days	For grandfathered plans	For grandfathered plans
Montreal	40 sick days	Termination of employment only	Yes
Quebec City	Cannot bank sick days	Not applicable	Not applicable
Moncton	Unlimited	Yes	No
Fredericton	Cannot bank sick days	Not applicable	Not applicable
Halifax	150	No	No
Charlottetown	350	Yes	No
St. John's	260	For grandfathered plans	For grandfathered plans

Source: *The Cost of Banking Sick Days in the Public Sector, CFIB Research Snapshot, April 2016*