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FAST FACTS

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EOC Recommendations: Economic Opportunity for Whom?

Mayor Katz's Economic Opportunity initiative involves an annual \$55 million gift to the business community, through removal of the business tax, at the expense of – well, we don't know exactly, but undoubtedly other taxpayers will feel the pinch. This needs to be said plainly, because the political pirouettes we've been watching have been so complex as to obscure that simple fact. More importantly, they tend to direct our attention away from the larger implications of a \$55 million budget hole.

The case presented for removal of the business tax is less than persuasive. A recent analysis in the *Winnipeg Free Press* by University of Manitoba economist Ian Hudson suggests that the benefits, in terms of increased investment in Winnipeg's economy, are likely to be very modest. What about the costs?

According to the mayor's Economic Opportunity Commission (EOC), \$15-20 million of the revenue expended on the cut will be recouped through the city's participation in public-private partnerships (PPPs) and other partnerships with non-profit groups and the private sector. Both Hudson and another U of M economist, John Loxley, have looked at PPPs and their analyses will leave readers in serious doubt as to how much can be saved in this manner. Another \$8 million is supposed to come from the provincial government, an equally questionable source. Even in the unlikely event that these two sources of savings

pan out, another \$35 million must be saved to finance the tax cut.

Concerned citizens, therefore, should take a hard look at other possible sources of the savings and how those savings will affect the city's future. We should not wait for a public debate on the issues. It would be naïve to suppose that a city government embarking on a plan to improve the fortunes of one group of citizens by \$55 million, at public expense, will be at pains to consult the public. In fact, the EOC report has already been made part of the budget process, without public scrutiny.

So where will the savings come from? For starters, city council has approved a transit fare increase, from \$2.00 to \$2.25, which is expected to yield an additional \$2.2 million annually in revenue. Some of that money, according to the mayor, will go to increased costs, but an undetermined amount will be put into a reserve fund for a future rapid transit system.

So, an undetermined portion of \$2.2 million will go into a fund to pay for a transit system, the cost of which Mayor Katz estimates at \$300 million to \$1 billion. Since the mayor has already demonstrated his unwillingness to consider funding rapid transit in the conventional way, one transit line at a time, it seems less than certain that there will ever be a rapid transit system. If so, what will happen to the reserve fund? Will the money slip quietly into general revenues, or go to lessening the cost of another reserve fund, and in the end help indirectly to pay for the tax cut, or future tax cuts? The



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question is worth asking.

City council is also looking at an 11.6 per cent increase in water and sewer rates. The money is supposedly needed to help pay for a \$300 million water treatment plant, but, at the same time, an additional \$11.1 million in sewer and water revenues is being diverted into general revenues, bringing the total annual diversion to \$32.5 million. The money, it should be noted, is being taken from sewerage improvements at a time when the city is under a legal obligation to invest heavily in a seriously deficient sewer system.

Other possible sources of savings are set out in the Economic Opportunity Commission report. Five million dollars of the \$15-20 million in savings from PPPs was to come from selling off pools and fitness centres, turning them over to voluntary associations or contracting out the services. We need to ask ourselves whether we want these services to be viewed as businesses that have to turn a profit, or to keep them as a public service available to everyone, including those who can't afford a fitness club membership.

In fairness, Mayor Katz has provided a verbal assurance that savings from pools, fitness centres and libraries, referred to below, are "off the table". But, in view of the fact that a total of \$7 million in savings was anticipated, it is worth remembering that something taken off a table can be replaced. The EOC report recommends that the city undertake a "pilot project" in off-loading the costs of some city services to neighbourhood associations. It claims that around the world such associations "raise billions of dollars every year in order to support local projects such as pools, play structures, park maintenance, street cleaning and a number of other services."

If readers of the report are having difficulty imagining, say, Whyte Ridge residents voluntarily agreeing to fund some of their own services in order to unburden the city, they may wish to reflect on the situation of homeowner or community associations, popularly known as

gated communities, which supply some of their own services. This is common practice in many American jurisdictions. When the idea of homeowner associations was first proposed, municipal officials were delighted at the potential savings.

The other side of the coin, however is that neighbourhoods supplying their own services can and do build a case for property tax cuts. This has become a major issue in the United States and, in at least one state, New Jersey, anti-double-taxation legislation requires municipal governments to refund the costs of services supplied by homeowner associations.

The best-case outcome of this course of events is a city studded with barricaded enclaves of privilege. The worst case is a municipal government with an eroding tax base, struggling to maintain services in moderate and low-income neighbourhoods. Before we start down this road, we had better take a good look at where it leads.

Other recommendations in the EOC report:

- "Sell off or tender out the management of the city's golf courses."
- Off-load the costs of various city services in commercial districts – including street and bus shelter cleaning, enforcement of panhandling and vagrancy by-laws – on the members of Business Improvement Zones.
- Use of volunteers, instead of paid professionals, in public libraries.

These and similar items could be walked through city council one by one. Those of us who care about how the city is governed will be well advised to think through the final implications of these changes before they begin. If we don't, we may wake up one day to find ourselves living in a very different city than the one we know now.

- Christopher Leo

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