Digging into debt

Burying hope for tax relief

Canadian Taxpayers Federation Presentation to the Alternative Service Delivery Committee relating to the proposed Primary Materials Special Operating Agency

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Mr. Chairmen, members of the committee, I applaud the ASD committee's commitment to affordable government and to searching for efficient and low cost solutions to government services.

The establishment of the Alternative Service Delivery committee is an asset to the city and Winnipeg taxpayers who are determined to find relief in city expenditures and property taxes.

The Canadian Taxpayers Federation has in the past lent its support to the creation of the ASD initiative and will continue to do so in the future. But support for any given ASD initiative is not given unconditionally.

Taxpayers must be convinced without a reasonable doubt that the purpose of restructuring of civic services will yield the most favourable results. In other words, the burden of proof rests with the city to demonstrate that cost saving initiatives will indeed maximize service delivery savings and, down the line, property tax relief.

Having read the Selection Report - Agassiz Sand and Gravel Special Operating Agency and its antithesis - the Manitoba Heavy Construction Association's review of the proposed SOA, we have reached our own conclusions and recommendations - namely that the ASD return to the drawing board and review the full breadth of alternative service delivery options for the Pine Ridge Gravel Pit.

We strongly oppose the ASD initiative that the City of Winnipeg use taxpayer dollars to head into direct competition with the private sector in the aggregate supply business under the auspices of a SOA.

The creation of primary materials SOA would:

- have a detrimental impact on aggregate service delivery in the private sector,
- place Winnipeg taxpayers in unnecessary financial risk,
- potentially forfeit greater revenues from other ASD options,
- potentially forfeit greater property tax relief, and
- shift the tax burden from Winnipeg taxpayers to Manitoba and Canadian taxpayers.

- **Detrimental impact on aggregate service delivery in the private sector**

The establishment of primary materials SOA competing with the private sector would create an uneven playing field. The SOA would retain the city as a captive market for 3 or 5 years.

To achieve its projected market share and revenues, the SOA may practice predatory pricing and drive some aggregate providers out of business. Smaller ma and pa operations would be particularly susceptible to predatory pricing. Private sector jobs would be at stake.

Surely the city's idea of being "open for business" does not include the notion of driving potential competitors in the private sector *out of business*.

The 19 private sector service providers of aggregate in Manitoba are sufficient to ensure competition in response to a request for city bids.

- **Place Winnipeg taxpayers in unnecessary financial risk**

The SOA model requires $1.5 million in capital expenditures, placing Winnipeg taxpayers at risk for $1.5 million plus interest. Given the current property tax burden and the burden of high debt servicing costs, now is not the time for the city to incur greater debt.

The SOA model is subject to market risk and it cannot provide assurances that it will hit projected revenues and expenditure targets. Winnipeg taxpayers will be negatively affected if retained earnings are not realized.

- **Potentially forfeit greater revenues from other ASD options**

Flaws in the SOA's projected revenues and Net Present Value analyses are identified in the MHCA review. The review claims that the ASD option to lease the gravel pit would yield revenue increases of $2 million more than the SOA option.

In light of the MHCA analysis, the ASD committee should satisfy stakeholders and Winnipeg taxpayers that the SOA option will exceed all other revenue projections from other alternative models, including the lease option. Failing to do so, the committee should give consideration to the benefits of these other ASD options.

- **Potentially forfeit greater property tax relief**

Assuming the observations of the MHCA are correct and assuming that the city could generate revenues through the lease option that would exceed the SOA option by $2 million, the city would be shooting itself in the foot and taxpayers would be left footing the bill. The expectation to maximize property tax relief cannot be accomplished if superior models of revenue generation are available to the city.

Again the burden of proof rests with the city to illustrate that the SOA model is the best. Failing that other alternatives should be given due consideration.

- **Shift the tax burden from Winnipeg taxpayers to Manitoba and Canadian taxpayers**

The SOA' 5-year projected balance sheet incurs the cost of corporate income tax equivalents. Although the bottom line is diminished on account of the income tax liability, the city is the actual beneficiary of the tax.

Had the gravel plant come under private lease or ownership, the corporate tax dollars would be enjoyed by all Manitoba and Canadian taxpayers, not just those in Winnipeg. Owing to lost tax revenues, the income tax burden is being shifted from Winnipeg taxpayers to Manitoba and Canadian taxpayers.

Should the SOA capture a greater market-share, other businesses would suffer. As a result the province and Ottawa would suffer from erosion of corporate income taxes.

Having outlined our concerns with the proposed primary materials SOA, we recommend that the city not proceed at this time with approval of the SOA until all the concerns and objections can be satisfactorily refuted and resolved. Failing that, the city should consider other ASD options to the Pine Ridge Gravel Pit that will yield the greatest return to the city without: placing Winnipeg taxpayers at risk, accumulating unnecessary debt and heading into direct competition with a healthy private sector industry.

Thank you.