



**GREATER CHARLOTTETOWN AREA
CHAMBER OF COMMERCE**

*City of Charlottetown
2009 Budget Consultations*

**Submitted to Councillor Cecil Villard, Chair
Finance, Audit and Tendering Committee**



1. Introduction

The Chamber welcomes this opportunity to provide commentary and recommendations prior to the development of Charlottetown's 2009 Budget. What goes on at City Hall is of direct interest and consequence to the Chamber's 850 members. Whether it is commercial tax rates, sewer and water charges, parking, downtown development or policing, the impact of your decisions directly affects our ability to sustain a viable business base. That business base, in turn, ultimately determines the City's revenues.

The Chamber, this year, requests written feedback providing your reaction to our comments and recommendations. Although we hope our past submissions have had a positive effect on your deliberations, without written feedback we have had no assurance of this. Provision of written feedback would enhance the integrity of the pre-budget consultation process.

2. A Synopsis of Some Points from the 2008 Submission

These recommendations remain current and valid, and are deserving of full consideration:

Issue	Recommendation that the City:
<ul style="list-style-type: none">• Sound municipal stewardship requires foresight and planning, particularly when it comes to capital expenditures.	<ul style="list-style-type: none">• Prepare and publish (as part of its Annual Budget) a multi-year plan for capital expenditures.
<ul style="list-style-type: none">• Annual Budget does not include any information on quantities of service levels or performance measures.	<ul style="list-style-type: none">• Include in its Annual Budget measures of service levels and performance.
<ul style="list-style-type: none">• Transparency	<ul style="list-style-type: none">• Include in its Annual Budget a break-out of residential and commercial property tax revenues.
<ul style="list-style-type: none">• Debt management	<ul style="list-style-type: none">• Include in its Annual Budget a medium term projection of total debt, incorporating the effects of the current debt reduction strategy and a multi-year capital plan.

3. The Economic and Fiscal Environment

The economic and fiscal environment now facing the City, and our members, is substantially different from that of a year ago. The unprecedented events in the integrated world financial markets are now having direct local effects, and our members expect serious challenges. No one can predict the full consequences of a deteriorating economy. In the event of a recession forcing the City to develop a contingency plan, we recommend a focus on expenditure reduction rather than revenue increases. It is critical that the long term commercial revenue base of the City be assured.

4. The Property Tax System

The Chamber was encouraged by the announcement in the Provincial 2008 Budget that “. . . a Commissioner on Land and Local Governance will be appointed to conduct a thorough review - including a broad examination of the fairness, equity, and transparency of the provincial/municipal financial framework . . .” Surely the Chamber and the City have common interests, and it could be advantageous to collaborate to ensure that submissions from each (to the Commissioner) reflect the strength of mutual interests and concerns.

It is clear to the Chamber that PEI's property tax system must be thoroughly and publicly examined. Prince Edward Island is in no way unique in this regard. Most jurisdictions with a property tax system have experienced rapidly escalating property values. As a result, a range of measures have been implemented to limit the impact of 'market value' assessments on property owners. While the actions taken have varied, the common outcome is a suspension of calculating taxes based on 'market value'. These interventions have been designed as short term measures, and not a fundamental redesign of the property tax system. Thus, the dilemma all jurisdictions face, including PEI, is how to transition back to 'market value'.

PEI's approach to cushioning the impact of rising residential market values has been to continue market value assessments, while freezing residential assessments for tax calculations. Thus, for owner-occupied dwellings, a gap has developed between assessments for tax purposes and market value. If a property is sold during the freeze period, the new owner's taxes revert back to market value assessment. The gap will remain for all unsold residential properties until the freeze ends in 2010.

The suspension of market value as the base for residential tax owing may have introduced undesirable distortions. As the freeze did not apply to commercial assessments, there may have been a shifting of tax burden from residential to commercial taxpayers. The Chamber would be most interested to know if this has indeed occurred.

Clearly, a key concern of the Chamber is the property tax paid by the commercial/ industrial sector. There are four aspects to this concern:

- i) competitiveness - commercial property taxes must not place local businesses at a competitive disadvantage
- ii) fairness - commercial property taxes must be fair in terms of services received, as well as in relation to residential property taxes
- iii) predictability - commercial property taxes must be predictable, with no sudden annual changes
- iv) transparency - requires full disclosure of all variables that affect commercial taxes, including the assessment base and annual additions to the base

Commercial tax rates for the Greater Charlottetown Area are shown below:

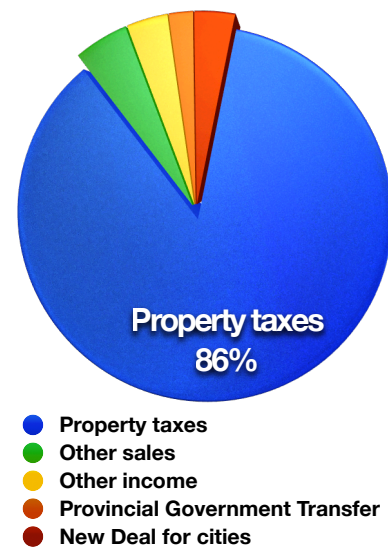
	Year	Provincial tax rate	Municipal tax rate	Commercial tax rate
Business Improvement Area	2004	\$1.50	\$2.42	\$3.92
	2005	\$1.50	\$2.51	\$4.01
	2006	\$1.50	\$2.51	\$4.01
	2007	\$1.50	\$2.51	\$4.01
	2008	\$1.50	\$2.51	\$4.01
City of Charlottetown	2004	\$1.50	\$2.31	\$3.81
	2005	\$1.50	\$2.36	\$3.86
	2006	\$1.50	\$2.36	\$3.86
	2007	\$1.50	\$2.36	\$3.86
	2008	\$1.50	\$2.36	\$3.86
Cornwall	2004	\$1.50	\$0.84	\$2.34
	2005	\$1.50	\$0.86	\$2.36
	2006	\$1.50	\$0.81	\$2.31
	2007	\$1.50	\$0.81	\$2.31
	2008	\$1.50	\$0.81	\$2.31
Stratford	2004	\$1.50	\$0.99	\$2.49
	2005	\$1.50	\$0.99	\$2.49
	2006	\$1.50	\$0.99	\$2.49
	2007	\$1.50	\$0.99	\$2.49
	2008	\$1.50	\$0.99	\$2.49

Available information suggests that commercial tax rates for the city of Charlottetown are in line with those across the Atlantic region. There is, however, no information to indicate whether current commercial taxes are fair in terms of services received. Recent analytical work by the Atlantic Institute for Market Studies on municipalities in Nova Scotia and New Brunswick is promising, and could, if applied to PEI, provide some much needed benchmarking, something the Chamber intends to pursue.

Predictability is paramount. The business community must be able to plan with an assurance that property tax changes do not increase without adequate notice (whether from assessment changes or changes in rate). The Chamber is concerned, both for its members and for the City, that predictability has been adversely affected by the decision of the Provincial Government to move away from a revenue sharing formula to discretionary grants. A discretionary grant based system does not give the degree of predictability required by business. While there have been some assurances that total transfers would not decrease, there are no assurances that transfers will reflect expenditure needs, or a growing tax base. The Chamber would support the City in representations to the Province to secure predictability in the transfer of property tax revenues.

In 2007, Charlottetown received \$32.5 million in property tax revenues, an increase of 5% over 2006. When specific-purpose sewer and water levies are excluded, property taxes accounted for 86% of operating revenues. As tax rates were unchanged, and residential assessments frozen, the increase in revenues was primarily due to commercial property taxes and additions to the total assessment base.

Jurisdictions across North America are concerned about their property tax systems, and recognize that thorough examinations of issues and options are essential. The Chamber recognizes that the Provincial Government has ultimate control and responsibility for the real property tax and assessment system. The Chamber offers its full support to the City in preparing its representations to the announced review of the provincial/municipal financial framework. The Chamber has at its disposal a broad range of analytical skills and business experience that certainly could be utilized to the advantage of the City.



5. Specific Issues

Parking:

The Chamber welcomed the initiative of the city to undertake a detailed parking study for the Charlottetown centre. The Report has some excellent recommendations which could potentially enhance business opportunities. The lack of action on the recommendations is troubling, however, given the importance of the issue and a report 'in hand'. The Chamber strongly encourages the City to continue consultations on the report and develop a plan of action. Key matters of concern include:

- lack of an overall parking strategy, including pricing and incentives
- demand greater than supply at peak times
- perception that city core parking difficulties are serious enough to act as a deterrent to retail and commercial activities
- use of loading zones

City Core Development and Revitalization:

Developments during the recent past are indeed positive, partly due to the incentive programs offered by the City. The Chamber appreciates the opportunity to be on the committee to review continued effectiveness of incentive programs, but again, is disheartened by the lack of progress to date. Both the Development Tax Incentive Program and the Downtown Revitalization Tax Incentive Program, plus linkages with any applicable Provincial Government incentive programs, should be included in the review. It is critical that an appropriate incentives strategy be in place if the City is to continue to be competitive in business location decisions.

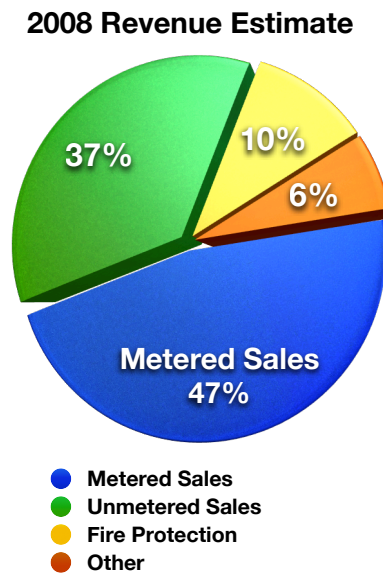
Vacant Building/Lot Tax and Assessment Policy:

Charlottetown, like many municipalities, is struggling to maintain business occupancy within the city core. The establishment by the City of a consultative committee to examine options is a positive move to address this issue. However, the fact that the committee has yet to meet cannot be considered positive. While the Chamber certainly recognizes the complexity of the issue, it believes constructive action is possible. A thorough review of the current assessment and tax policy applicable to vacant premises and lots would be a good place for the committee to start. To continue to ease the tax burden on owners of vacant properties or lots may

not be in the best long-term interest of the City. Such policy seems to reward inaction. A policy with the right penalties and incentives *after* action is taken by the owner might be more effective.

Sewer and Water:

The City's Sewer and Water Utility is an \$8.5 million operation with \$27 million in outstanding debt - obviously a business entity of significant proportions. The City is to be commended for initiating a comprehensive review of the Utility and the Chamber looks forward to its involvement in the assessment and follow-up to the consultant's study. Although there was no consultation with stakeholders on the terms of reference for the consultant's study, the Chamber believes the end product, when completed, should provide the necessary benchmarking and analysis for sound recommendations. Clearly, the Utility is facing significant challenges, from new water supply sources, demand management strategies and infrastructure additions, through to establishing rates that do not deter business location or expansion decisions.



With regard to the preceding four issues, the Chamber views on-going and meaningful consultation as a critical component of sound decision making based on the best information and evidence available. But as with the game of golf, while it is important how you address the ball, equally important is how you follow through.

6. Concluding Comments

The issues the Chamber has raised in this brief are interrelated. Assessments, tax rates, parking, economic development incentives, and sewer and water strategies and levies all impact on the economic and financial climate in which the business community operates. The City is indeed a flourishing community, and its future is largely dependent on a thriving business community; a business community that looks to the City to display:

- Leadership
- Strategic thinking
- Long-term planning
- Sound decision making
- Performance measurement
- Accountability
- Transparency

The Chamber appreciates this opportunity to present our concerns and recommendations as part of the City's budget process.

Submitted by: