

Report Card on Ontario's Municipalities

By: Ted Mallett



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support for CFIB's legislative and political action projects. His experience covers a wide range of small business policy issues including banking, entrepreneurship, the environment, local government and community economic development. His work is often published and reported in the media and academic journals.

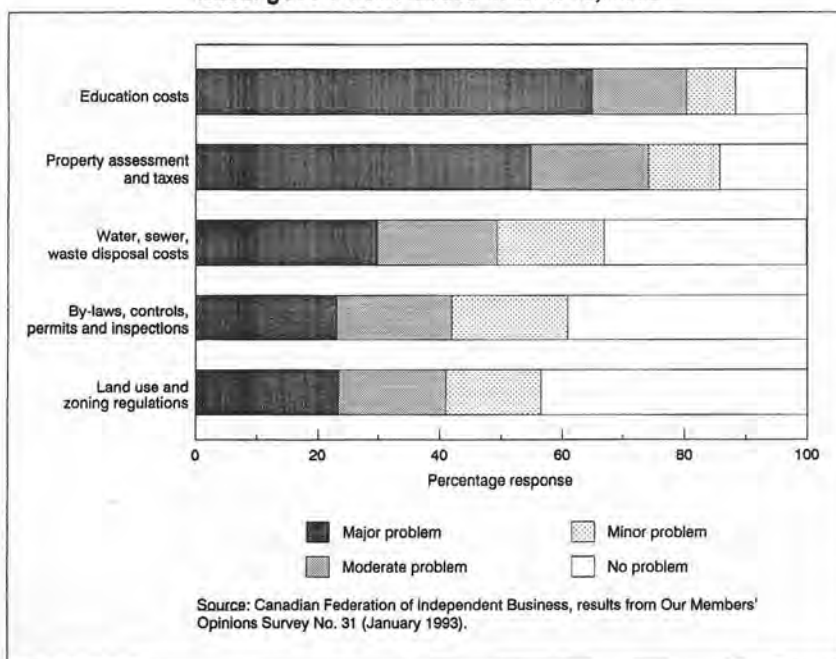
Mr. Mallett obtained an Honours B.A. in economics from the University of Waterloo in 1982 and an M.A. in Economics from the University of Toronto in 1986.

Taxation concerns topped the list of local government issues according to a 1992 survey of small and medium-sized businesses in Ontario. Major problems with the cost of the education system were cited by almost two-thirds of those responding to the survey. Another 23 per cent had moderate to minor problems with education costs, while only 12 per cent indicated that they had no problems. Approximately half the funds for the education system in Ontario come from the property tax base. It is not surprising, therefore, that business owners hold similarly strong views on municipal assessments and tax levels - a major problem for 55 per cent of those surveyed. These tax-related issues received far more negative comment than other local regulatory issues such as the burden of municipal charges, by-laws, permits, or land-use and zoning regulations (see Figure 1).

These findings reflect the view of 8,300 members of the Canadian Federation of Independent Business (CFIB). The survey was conducted by face-to-face interviews with business owners during the third and fourth quarters of 1992. The results mirror the tone of comments that CFIB receives every day from its membership and broadly reflect the traditional bane of small business existence - taxes, regulations, red tape and paper burden. A summary of results is shown in Table 1 at the end of the report.

Comparing the results among major cities revealed some wide variations in how local businesses reacted to local government issues. Combined views on education costs, assessments and tax levels showed that business owners in Timmins, Belleville, Kingston, Waterloo Region, Hamilton-Wentworth, Peterborough and Ottawa-Carleton were the most dissatisfied.

Figure 1
Local government issues in Ontario, 1992



Timmins was undergoing a bitter public sector strike during the time of the survey which drew a great deal of attention to the high cost of providing public services. The other cities mentioned above were going through, or had recently gone through protracted fights over market value assessment (MVA) changes which promised to introduce some significant redistributions of tax loads. On average, more than 70 per cent of the respondents in these cities had major problems with the two top local issues (see Figure 2 and Table 2). The confidence bands shown in Figure 2 are meant to account for sample size variations, so the rankings should be interpreted as general rather than absolute.

Business owners in Niagara, Sault-Ste-Marie, Metro Toronto, Brantford and Guelph were not far behind in condemning their communities' tax environments. Between 60 and 65 per cent of the respondents in these cities said education costs and property taxes were major problems for their businesses. Major tax-related problems were cited by at least 45 per cent of the businesses in every city covered by the survey.

The degree of problems caused by taxes and education spending sometimes differed substantially between neighbouring municipalities - indicating just how local the problems (and solutions) can be. Halton Region, for example, ranked far better than neighbouring Hamilton-Wentworth. Waterloo Region and Guelph also received

significantly different scores, while Metro Toronto was rated worse than surrounding regional municipalities Peel, Durham and York.

Property tax is often the single largest tax obligation a business has to face - and one that is highly insensitive to profitability. In contrast, income taxes and, to some

degree, sales taxes of business inputs are responsive to variations in the business cycle, giving some cushion in times of financial hardship. Property taxes offer no such cushion. During the 1990-92 recession, therefore, it was no surprise that the cost of local government was cited as the fastest growing concern among the CFIB

membership.

Cyclical problems are made worse by the fact that municipalities tend to pile far greater tax loads on commercial and industrial properties than on residential property. Business occupancy tax is the most obvious "extra" tax because it has no equivalent in the residential sector, and has no economic rationale other than to get more money with the least amount of voter hostility. Also, provincial law requires mill rates to be higher for business properties than for residential properties. The result is a local spending structure that is missing key checks and balances.

Because local businesses pick up the bulk of property tax bills, residents are less likely to complain about government overspending and the "gold plating" of local public services. As a result, local bureaucracies in school boards and municipal governments have burgeoned, as have their wage levels. The expansion of government has reached the point where one employee in 10 in Ontario now works in the local public sector.¹ Recent CFIB research also found that local government pay scales were about 10 per cent more generous than those found in similar private sector occupations. If one includes paid and unpaid benefits into the equation, the pay gap increases to more than 20 per cent in favour of the public sector.²

Much of the dissatisfaction with regard to school taxes is rooted in a deeper concern about the perceived inability of the system to provide proper education. For too long the school systems have received easy money from both local and provincial sources and developed into inflexible bureaucracies centred on themselves rather than their product - education. In the past educators never had to justify their expenditures in terms of quality. Lately, progress has been made to make school systems more sensitive to concerns, but only because of pressures brought on by taxpayers who are questioning the results they receive relative to the huge sums they pay.

More progress is possible on the education front as long as financial pressures are maintained to help break apart the top-heavy systems and allow more decision-making at the classroom level. Among possible measures to achieve such goals, small business owners strongly endorse standardized testing of students to measure properly the progress of the system. Businesses, as taxpayers, also believe that all school boards should be required to pub-

Figure 2
Major problems with taxes and education costs

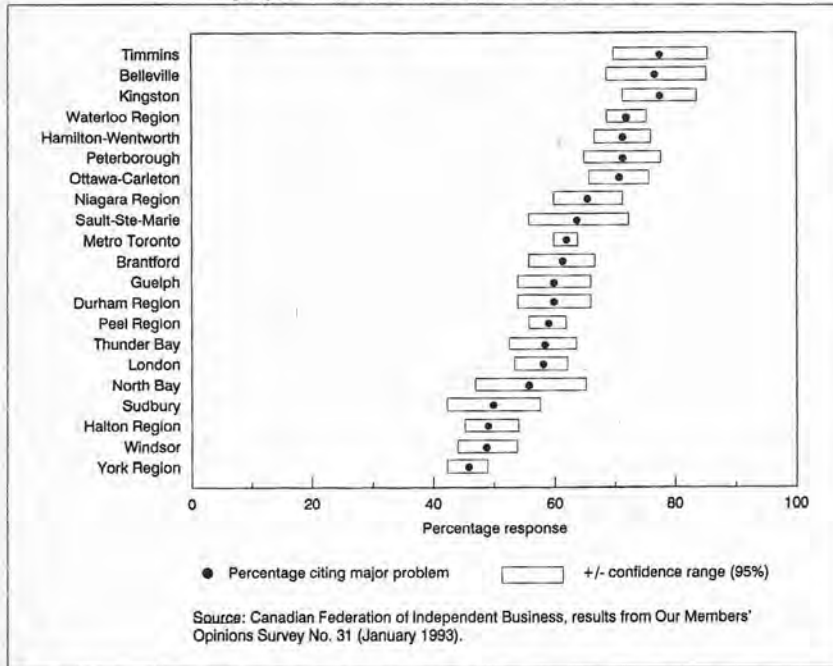


Figure 3
Major problems with charges and regulations

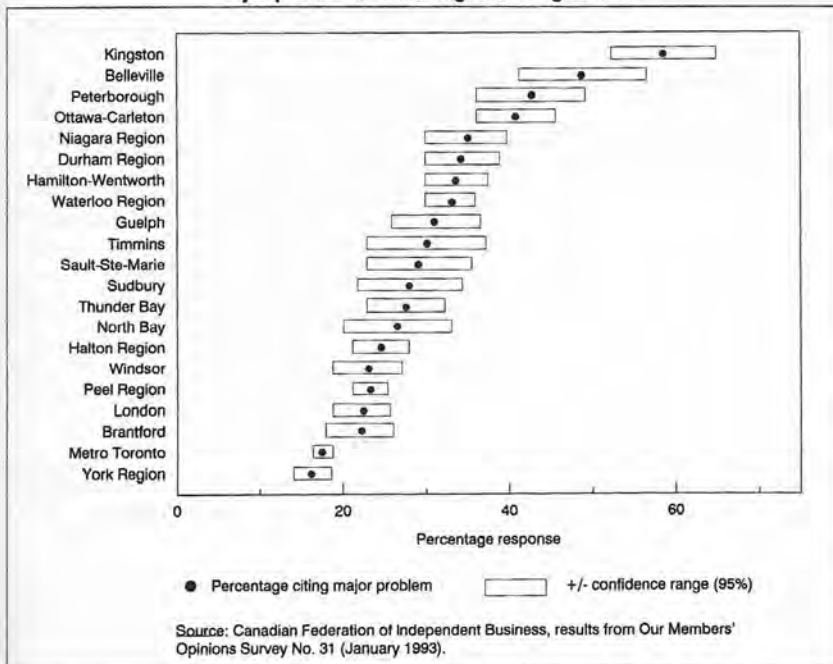


Table 1 - Ontario-wide survey results

	Major Problem	Moderate Problem	Minor Problem (% response)	No Problem	Total Response
Cost of education	64.7	15.6	7.9	11.6	100.0
Property assessment & Taxes	54.9	19.3	11.6	14.2	100.0
Cost of water, sewers & waste disposal	29.9	19.5	17.5	33.1	100.0
By-laws, controls, permits & inspections	23.1	18.9	18.9	39.1	100.0
Land use & zoning	23.4	17.6	15.5	43.5	100.0

Table 2 - Survey results * by major city

Property assessment, taxes & education costs **	Major Problem	Moderate Problem	Minor Problem (% response)	No Problem	Total Response
Timmins	77.9	13.9	4.1	4.1	100.0
Belleville	77.2	17.3	4.6	0.9	100.0
Kingston	77.2	19.3	2.3	1.2	100.0
Waterloo Region	72.0	14.2	7.2	6.6	100.0
Hamilton-Wentworth	71.7	17.1	9.0	2.2	100.0
Peterborough	71.3	20.4	7.3	1.0	100.0
Ottawa-Carleton	71.1	18.6	6.6	3.7	100.0
Niagara Region	65.5	18.7	9.9	5.9	100.0
Sault-Ste-Marie	64.4	24.7	7.5	3.4	100.0
Metro Toronto	61.7	16.8	7.3	14.1	100.0
Brantford	61.2	19.7	9.7	9.4	100.0
Guelph	60.1	17.5	7.8	14.6	100.0
Durham Region	60.0	14.2	8.6	17.2	100.0
Peel Region	58.7	13.5	12.6	15.2	100.0
Thunder Bay	57.7	23.3	8.2	10.8	100.0
London	57.4	16.1	14.3	12.2	100.0
North Bay	56.4	11.9	8.7	23.0	100.0
Sudbury	49.7	23.9	17.0	9.4	100.0
Halton Region	48.9	15.9	8.9	26.3	100.0
Windsor	48.3	18.4	8.7	24.6	100.0
York Region	45.3	22.3	12.8	19.6	100.0
Charges, regulations & by-laws			(% response)		
Kingston	58.8	15.3	17.3	8.6	100.0
Belleville	48.8	19.6	25.6	6.0	100.0
Peterborough	43.2	11.0	33.7	12.1	100.0
Ottawa-Carleton	41.6	23.3	18.2	16.9	100.0
Niagara Region	35.0	18.3	32.0	14.7	100.0
Durham Region	34.2	13.2	10.5	42.1	100.0
Hamilton-Wentworth	33.8	31.4	26.9	7.9	100.0
Waterloo Region	33.0	16.1	19.4	31.5	100.0
Guelph	31.9	16.2	11.0	40.9	100.0
Timmins	30.2	19.8	25.0	25.0	100.0
Sault-Ste-Marie	29.2	22.2	15.1	33.5	100.0
Sudbury	28.5	28.0	25.0	18.5	100.0
Thunder Bay	27.8	24.2	18.2	29.8	100.0
North Bay	26.5	7.7	9.4	56.4	100.0
Halton Region	24.4	11.8	11.1	52.7	100.0
Windsor	23.2	17.8	10.5	48.5	100.0
Peel Region	23.1	11.1	19.7	46.1	100.0
London	22.4	19.2	21.5	36.9	100.0
Brantford	22.2	17.2	16.2	44.5	100.0
Metro Toronto	17.4	13.6	15.1	53.9	100.0
York Region	16.5	11.5	15.4	56.6	100.0

*The five issues presented in the survey were combined into two categories for reporting purposes to strengthen the sample sizes in the smaller cities.

**The two separate responses were averaged for Table 2.

Source: Canadian Federation of Independent Business, results from our Members' Opinion Survey No 31 (January 1993)

lish detailed and consistent financial and operating statistics for the public to monitor.

Next to taxes, regulatory concerns have traditionally been the number-two concern of small business owners and the findings of this survey are not different. Though fewer business owners indicated that regu-

lations were a major concern compared to taxes, red tape remains an important issue. Regulations tend to hit businesses far more selectively than taxes. Zoning regulations, for example, chiefly affect businesses engaged in construction and property development. These businesses also have the greatest degree of problems with permits

and inspections.

Combining the issues of zoning by-laws, the myriad of municipal controls, licenses and permits, and the extra charges for local services showed that concerns were most evident in Kingston, Belleville, Peterborough and Ottawa-Carleton. More than 40 per cent of business owners in these cities had major problems with their local regulatory environments. At the other end of the scale, problems with regulatory issues were less severe in York Region and Metro Toronto (see Figure 3 and Table 2).

Regulations tend to place the greatest hardship on small firms which do not have the administrative structure to deal with a lot of paperwork. Instead, it is the business owner that must take time from his or her productive duties to deal with the range of requests and demands from government. Although individually such demands may seem small, together they can add up to a significant time burden. Bureaucratic delays within governments also pose real problems for small firms. A larger business may easily be able to handle a delay in the issuing of approvals and permits. A small firm with a less stable cash flow, on the other hand, may die waiting.

To date, very few municipalities have recognized the need to link the economic development issue with tax and regulatory policy. Development attention is usually limited to efforts aimed at trying to lure large businesses into their boundaries. Meanwhile, the existing business base is milked as much as possible for tax revenues. This strategy, if widely pursued, is a wasteful zero-sum game because it does not help create "new jobs". It also belies true development motives because it skims the most from the sector that can provide the most benefit. The vast majority of new jobs are created by small, growing companies. Development strategies that focus on freeing up the entrepreneurial potential of the community and removing barriers to business activity are the most fruitful. Job creation will be the reward of balanced tax policies, sensible regulations and serious attempts to limit the size and spending of local governments, boards and agencies. □

¹ Statistics Canada, "Public Sector Employment and Remuneration 1991-92", Catalogue 72-209.

² Canadian Federation of Independent Business, "Wage Watchers: Measuring the Excess in Municipal Government Salaries and Benefits", (Toronto: November 1992).