

# CONSTRUCTION MONITOR

The BC CONSTRUCTION MONITOR is an ICBA publication providing ahead-of-the-curve information and statistics on the BC construction industry and issues relevant to it.

The Monitor draws on analyses and outlooks from various sources, and provides current and substantive insight. This regular publication is intended for industry executives, government decision makers, journalists and other opinion leaders.

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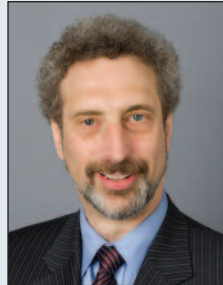
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## Runaway municipal salaries hit your wallet harder every year



Philip Hochstein

When British Columbians head to the polls for this November's municipal elections, the global economic storm could have an impact on how they vote. The economic volatility in Europe and the United States boils

down to a single problem – governments spending more than taxpayers can afford. It's a lesson BC's municipal politicians need to learn.

Transit is one of the best examples of municipal politicians' failure to live within their means in the Lower Mainland. The mayors suggest that taxes at the gas pump are the only

way to pay for expanded transit, and scoffed at finding the money inside their own budgets.

Mayors may scoff, but overburdened taxpayers can use this fall's election to send a message that now is the time for tax relief. Both ICBA and our friends at the Canadian Federation of Independent Business have done research showing where cities have fat to trim.

CFIB has found that municipal operating spending in BC grew by 9.7 per cent in 2008 over 2007. Inflation and population growth for the same period was four per cent.

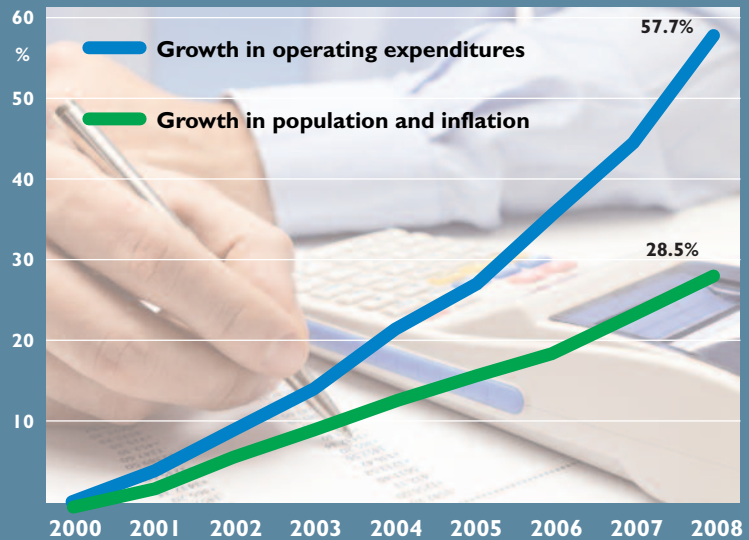
Why is spending growth so robust? Why do municipalities keep asking taxpayers for more? You don't need to look any further than their

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### The Spending Gap Grows

**M**unicipal spending in BC is increasing at an unsustainable rate, putting all taxpayers at risk. Between 2000 and 2008, the growth in operating spending by municipalities was more than twice inflation and population growth. And the gap between the two rates was its widest in 2008, the most recent year for which an analysis is available.

BC MUNICIPAL OPERATING SPENDING VS. POPULATION AND INFLATION GROWTH



Source: Canadian Federation of Independent Business

# Runaway spending

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badly out-of-proportion labour costs. A municipal worker in BC is paid 10 per cent more on average than a private-sector counterpart. With benefits they get 35 per cent more.

ICBA recently combed through of a number of collective agreements signed by BC municipalities (see page 3). We found gold-plated contract terms like gratuity days (time off on top of regular holidays and sick time, just for coming to work), defined benefit pensions, and bloated holiday provisions. While most taxpayers worried about losing their jobs through the worst recession in recent memory, many municipal workers were handed pay increases larger than the rate of inflation.

Unions are not to blame – they are there to grab as much as they can for members. It is municipal politicians who have forgotten how to say no to everything but tax increases. It's clear that municipalities need to refocus on cost reductions and take a good, hard look at their job-for-life unionized workforces.

Cities can cut costs and save. It's happening in Toronto, which is moving garbage collection away from city workers and towards independent contractors. Though it's only happening in select parts of the city, the expected savings are \$8 million or 17 per cent a year. South of the border the taxpayers of Phoenix, Arizona (see page 4) – are reaping the benefits of multi-faceted cost control programs.

## The Broader Cost Impact

Out-of-control municipal spending means more than rising property taxes. A vast number of municipal fees and charges are layered onto the cost of new homes and other buildings, driving up the cost of living.

Canada Mortgage and Housing Corporation recently found

that, on average among BC cities included in a national assessment, government imposed construction costs on a single-family unit in BC came to close to \$100,000. BC municipalities were typically on the higher end of the spectrum, and the municipal component of those costs had consistently jumped by at least a quarter between 2006 and 2009.

Anyone running for municipal office in BC this fall needs to answer some tough questions on your doorstep, or at the podium at all-candidates meetings:

- Why are municipal workers worth 35 per cent more than private sector workers? How can we restore balance?
- What are the essential services that must be delivered by the city? Can taxpayers afford to have the city paying for non-essential services with their tax dollars?
- How can private contractors, partnerships with neighbouring communities, or other service delivery alternatives reduce costs?
- How can public-private partnerships help meet future infrastructure needs?

*British Columbians deserve answers that offer tax relief*

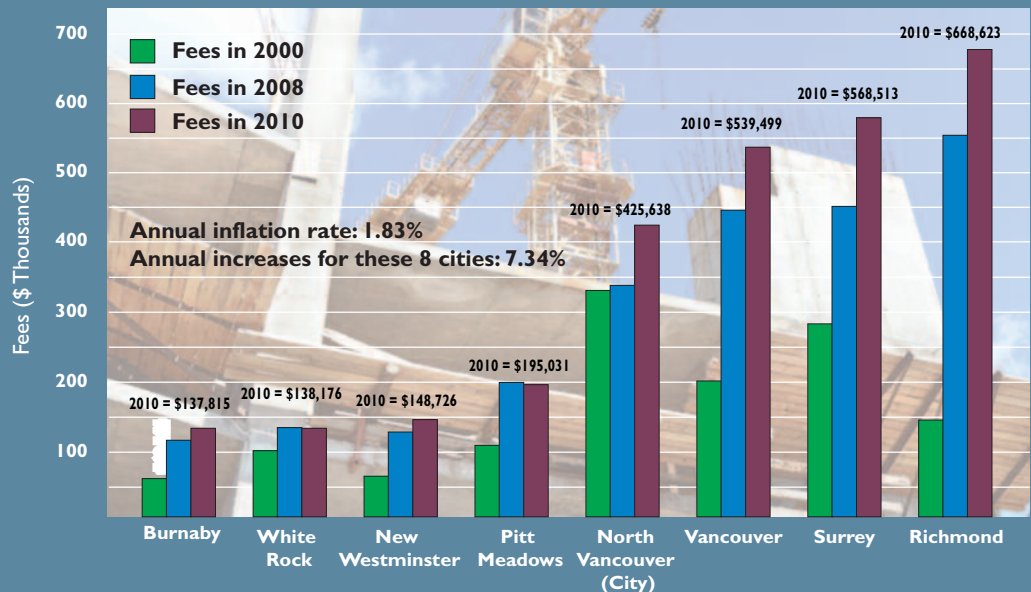
British Columbians deserve answers that offer tax relief over the next three years, and well into the future. And asking these questions might help avert a spending-driven disaster in BC's cities, towns, villages and regional districts.

Citizens can change the fiscal direction this November – by making spending an issue and voting for candidates who see the municipal budget, not the taxpayer, as the place to look for the money they need for services.

## Municipalities Drive Construction Costs Up

**M**unicipal spending drives up construction costs, and ultimately the cost of doing business and putting a roof over your head. This graph shows trends for the fees in a sample of BC municipalities on development of a typical two-story office building (the four highest-fee and lowest-fee municipalities for which figures are available). While there were two marginal decreases in 2010 from 2008, over the last decade all fees increased faster than inflation, and often significantly so.

MUNICIPAL FEES ON TYPICAL COMMERCIAL PROJECT

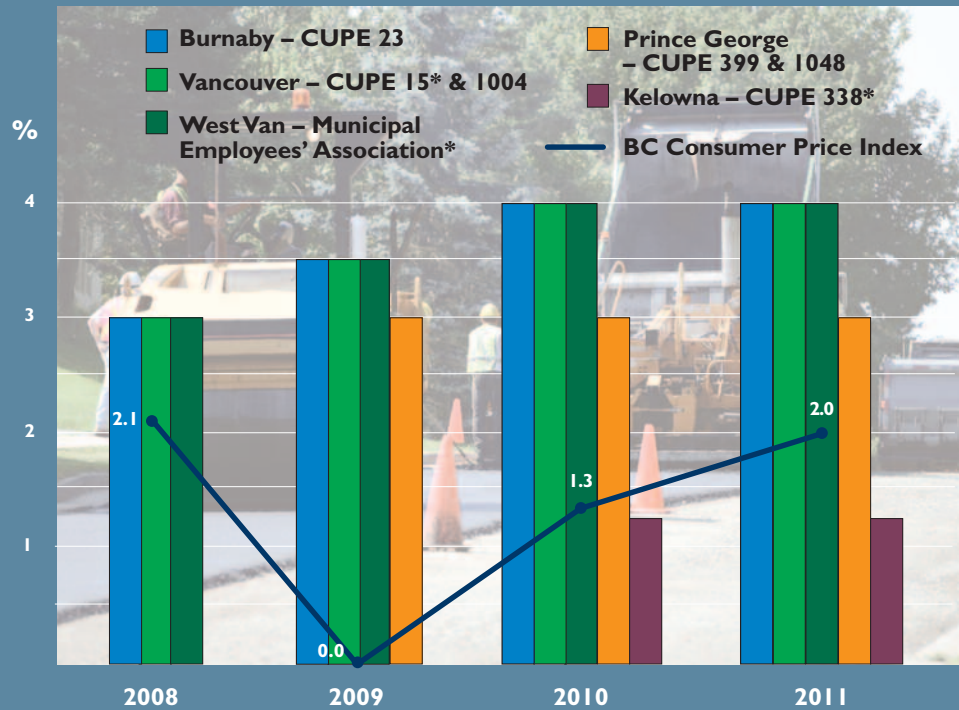


## The Collective Problem of Labour Costs

To get a better feel for labour costs within heavily unionized municipal work forces, ICBA took a detailed look at municipal collective agreements. They provide generous pensions and benefits, wage hikes typically higher than cost-of-living increases, and time-off provisions that depart dramatically from private sector norms. It's all paid for by taxpayers who don't get the same rich pay and benefits.



### TYPICAL WAGE RATE INCREASES



\*“Step” increases, based on how long an individual has been in a particular pay grade, result in additional raises at regular intervals for some employees.

Source: Collective agreement texts; BC Stats and BC Ministry of Finance for CPI

Vancouver inside workers, for example, get two extra stats, basic annual vacation entitlements that begin at three weeks, supplemental vacations for longer-term employees, an additional 18 “earned days off” per year by working an extra 30 minutes per day, and the potential for payouts based on unused sick days as outlined to the right.

*A BC municipal worker's wages and benefits are 35% higher on average than direct private-sector counterparts*

### TAKING SICK DAYS TO THE BANK

Municipality	How They're Earned	How They're Paid-out
Vancouver – CUPE 1004	Employees get one “gratuity day” for each four-month period that they aren't away sick, and can accumulate up to 120 days.	Employees can take their gratuity days as time off, and get paid out for unused ones when their employment ends.
Prince George – CUPE 399 & 1048	Employees get 1.25 sick days for each month worked, and can accumulate up to 172 unused days.	Employees get paid out for 50% of accumulated days on retirement (with minimum 10 years service) or 25% of accumulated days on termination.
Kamloops – CUPE 900	Employees get 1.5 sick days for each month worked, and can accumulate up to 150 unused days.	Employees get paid out for 80% of accumulated days on pensioned retirement or death.
West Van – Municipal Employees' Association	Employees get 1.5 sick days for each month worked, and can accumulate up to 250 unused days.	Employees can take either time off or pay out after five years of employment – equal to 5% of unused sick leave in their 2nd year of employment and 12% in subsequent years.

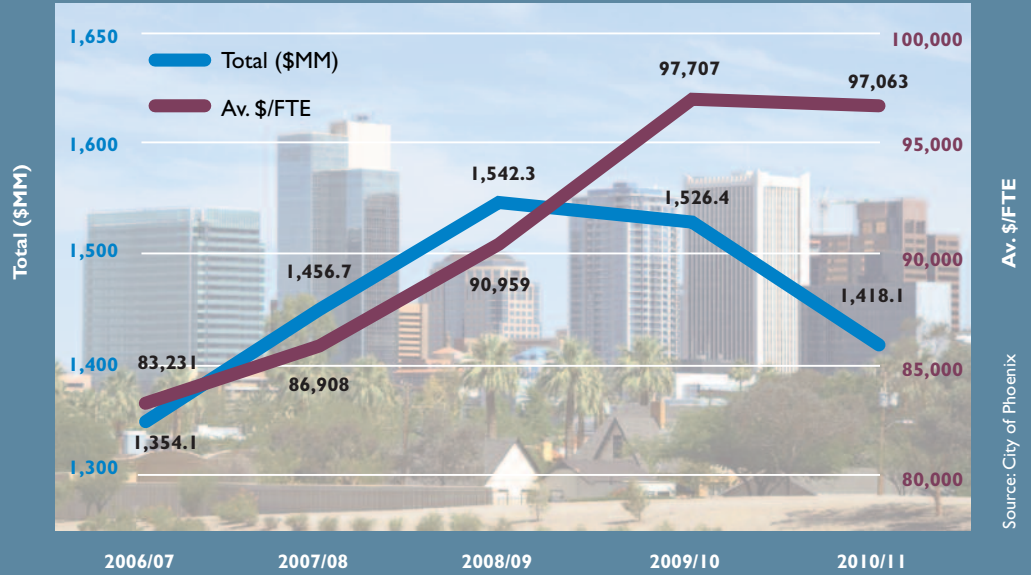
Source: Collective agreement texts

## City of Phoenix: Municipal Cost Control in Action

Phoenix, Arizona has shown what can be done when, as the mayor says, “doing more with less isn’t simply a cliché.” Through consolidations and efficiencies, voluntary pay and benefit reductions, and greater cost recovery, Phoenix exceeded its target of \$10 million in operating budget savings over two years and expects to save more than \$100 million over five years. At a time when property values have tanked and the financial viability of many US cities is in peril, Phoenix has maintained an enviable credit rating and high service-satisfaction ratings from its residents.



### EMPLOYEE COSTS



Total employee costs were down by seven per cent in 2010/11 from the previous year, and down by eight per cent from the peak cost year of 2008/09. The City of Phoenix also expected to reverse the upward trend in costs per employee (full-time equivalent) in 2010/11.

### GENERAL FUND TAXES



Budgeted taxes, fines and fees to support the City of Phoenix’s primary operating fund were down by seven per cent in 2010/11 from five years earlier – despite an almost six per cent population increase – and down by close to 10 per cent from the peak tax year of 2007/08.



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