

FYI

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# ROUGH ROAD TO REDEMPTION?

As Winnipeg's streets and other infrastructure crumble at an alarming rate, calls for an increase to the provincial sales tax are getting louder by the day

By: Mary Agnes Welch

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Ruth Bonneville / Winnipeg Free Press archives

2 "Atrocious."

"A death trap."



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JOE BRYKSA / WINNIPEG FREE PRESS archives As Winnipeg's streets and other infrastructure crumble at an alarming rate, calls for an increase to the provincial sales tax are getting louder by the day



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*Ruth Bonneville / Winnipeg Free Press archives City crews work to repair a huge sinkhole on Corydon Avenue just west of Wilton Avenue in April. The earth beneath the roadway had washed away after a broken line saturated the area surrounding it.*

### **"A Third World nation."**

Allow Manitobans to vent about the potholey-est road on their commute, and you get an earful. CAA Manitoba sure did during its tongue-in-cheek contest to name the worst road in Manitoba. More than 3,400 people cast votes and spewed a little vitriol about the state of the province's motorways. Know what else earns an earful? Any hint of a tax increase.

The last politician to be blunt about taxes was Judy Wasylycia-Leis, who proposed to end the city's long property-tax freeze with a modest hike to help fix roads. Her defeat in the 2010 civic election, while not solely due to that moment of candor, serves as a cautionary tale.

And when the provincial government hiked the gas tax by 2.5 cents, media outlets carried knee-jerk kvetching by motorists from the local self-serve station, even though the province's fuel levy is among the lowest in the country.

At some point, Manitoba is going to have to do what Quebec, Nova Scotia and New Brunswick have already done -- have a mature conversation about taxes, especially a one-point hike to the PST. That's how other provinces have sought to solve their deficits. In Manitoba, a PST hike is widely viewed as the simplest, most effective solution to the province's infrastructure woes.

Manitoba's PST is already lower than most and has been untouched for 25 years. Our economy is relatively good, with low unemployment and decent growth projections. The federal Tories just freed up room in the sales tax by shaving two points off the GST, and the province's NDP government has huge political capital it never seems to spend.

Meanwhile, Manitoba's infrastructure deficit gets worse every day. It now tops \$13 billion. That's the gross domestic product of Albania.

Now might be the perfect time, politically and economically, to broach a comprehensive debate about taxes. But what would that debate look like? From discussion with a dozen policy wonks, current and former politicians, political scientists and business leaders, it could have four key ingredients -- an end to sneaky tax hikes, a real commitment to innovative and accountable municipal spending, some political courage and the province's first referendum in 60 years.

It was 19 years ago this month the phrase "infrastructure deficit" first appeared in the Winnipeg Free Press, a phrase coined by then-city councillor Glen Murray.

"Chronic underfunding is creating what Murray calls the "infrastructure deficit, which will exceed \$250 million over the next five years," wrote city hall reporter Dan Lett.

Two hundred and 50 million.

These days, councillors would throw a "mission accomplished" kegger in the city hall courtyard if the infrastructure deficit was that low.

The annual infrastructure deficit now stands at \$740 million. That is to say we're short \$740 million every year compared to what's needed to bring roads, sewers, buses, community centres and parks up to a reasonably decent level.

Critics wonder whether any real solutions will be found before the annual shortfall reaches \$1 billion, an almost insurmountable number.

By now, the phrase "infrastructure deficit" has been repeated so often it has lost all meaning; a chronic problem no level of government seems able to solve.

It's not just potholes. It's community clubs with leaky roofs. It's transit service stuck in a time warp. It's 70-year-old water mains that crack and sewer lines that dump the city's toilet waste into the Red River. It's sidewalks and curbs that give the city a Detroit-like shabbiness.

The dollar figure attached to Winnipeg's backlog is beyond most people's fathoming, even if you assume the city's penchant for whining has inflated the number somewhat.

According to the city's last estimate, done in 2009, it will cost an extra \$7.4 billion in the coming decade to fix what's in crappy condition and to keep up with the city's growth and new provincial rules governing services such as sewage treatment.

The crazy part is, even if Winnipeg got a generous share of a new point of PST, it wouldn't solve the problem. It wouldn't even stop the problem from getting worse, according to city staff.

One point of PST raises about \$260 million. Based on population, Winnipeg's share would be about \$145 million. If the city got to keep the share of the PST generated in the city, say 70 per cent of a point, the amount would inch up to \$180 million.

In recent weeks, as the NDP geared up for its 13th provincial budget, there have been renewed calls to hike the PST by one point to help tackle the infrastructure deficit.

The province's top CEOs support the idea, as do various chambers of commerce, the Association of Manitoba Municipalities and CAA Manitoba. Report after report has recommended a PST hike as among the most reasonable solutions, one that makes economic sense in a province trying to sell itself as a transportation hub.

Still, it remains the third rail of provincial politics.

If you run on a tax hike, you risk getting thumped, as Wasylycia-Leis did.

If you don't run on it and, instead, float the idea after an election, you could get thumped even worse, as in the case of former British Columbia premier Gordon Campbell. His post-election plan to harmonize the sales tax killed his political career.

Jim Carr, president and CEO of the Business Council of Manitoba, said he and his CEOs pitched the idea of a PST hike to fix infrastructure a couple of years ago. Then-finance minister Rosann Wowchuk said 'no' within 10 seconds.

Both opposition leaders were a little more open-minded, said Carr. They waited 20 seconds before saying 'no.' The political fallout was the major reason.

"What troubles me is we have people in public life afraid to lead," said Carr. "Political leadership requires risk-taking."

That's never been the NDP's strong suit. The NDP government is among the most stable and consistently popular provincial regimes in Canada and faces little pushback from an opposition in disarray, but it has rarely spent any of that political capital to do anything bold.

Instead, the province tinkers around the edges, taking political flak for tax hikes without actually solving the infrastructure problem.

Right now, the NDP is getting pounded by the opposition Tories for breaking an election promise and hiking the gas tax, a decision that's adding less than \$50 million to provincial coffers. Like cash raised from adding PST to manicures or boosting vehicle registration fees, it's a pittance that will have no noticeable effect on the overall quality of roads, bridges, transit or community clubs.

"It won't solve the big problems," said University of Manitoba political scientist Richard Sigurdson.

When Bev Oda ordered a \$16 glass of orange juice at a swanky London hotel, Manitoba's roads got a little worse.

Petty spending scandals like the one dogging the international development minister breed a general mistrust of government.

In Manitoba, that mistrust has an even more specific focus. Voters have repeatedly heard every cent of some new tax or levy will be spent on roads, only to find out a shell game is afoot.

Last year, the city raised frontage levies, bringing in new revenue worth \$14 million. Mayor Sam Katz said every penny would be spent on road improvements, but the road budget never increased by \$14 million. More old money was shifted into general revenue than there was new money coming in from frontage levies.

Similarly, legitimate questions have been raised at the provincial level about the new roads budget. It's not clear \$49 million in additional gas tax revenue will actually mean \$49 million in additional spending on infrastructure.

"That breeds further distrust, dislike, disbelief, the association of dishonesty and lack of credibility with government," said Chris Lorenc, president of the Manitoba Heavy Construction Association and chairman of the latest municipal task force on infrastructure funding.

The real problem with the gas-tax hike was its sneakiness.

In last fall's election, Premier Greg Selinger repeatedly ruled out a tax hike and then raised the gas tax and expanded the PST's scope in his first post-election budget.

Winnipeg Mayor Sam Katz is guilty of a similar sin.

Katz always said the property-tax freeze couldn't last forever, but in the last civic election he used robocalls to attack Judy Wasylycia-Leis' plan for a modest property-tax increase. Then, just over a year later, he hiked taxes higher than she planned to.

And there is a credible argument to be made city hall's cash crunch is not nearly as dire as many mayors have claimed, that the city has a lot more wiggle room on taxes, debt and user fees. Property taxes have been largely frozen for more than a decade, the business tax has shrunk, there's more than \$200 million stashed in reserve funds and the city's self-imposed rule against new debt has eliminated a source of financing most other governments use.

The province is in a net debt position to the tune of \$4.5 billion. That means if the province sold off all its land, its hydro dams, its office furniture and other assets and paid off all its creditors, it would still be \$4.5 billion in the hole.

The city is in the exact opposite position. According to the latest figures, the city is \$4.5 billion in the black. If it sold off all its police stations, parks and parking garages and used the cash to pay off its debts, the city would still have \$4.5 billion left over. That number grows every year.

Provincial officials say the city could easily spend billions on roads and bridges, move itself into a net debt position like the province and still be a strong, stable civic government.

Winnipeg has for years worked to shrink its debt by paying cash for capital projects. The province argues the city's aversion to debt is a dumb policy, that debt-financing public assets over their long life is more effective, much like using a mortgage to buy a house.

And the city keeps spending on new infrastructure -- \$300 million earmarked for new freeways last week alone -- instead of fixing what's already crumbling.

"I wouldn't support a dime of new money going to Winnipeg from new taxes until it had a separate, capital-maintenance budget cycle, at a minimum, to prove that new money was actually going to the maintenance we've deferred for so long," said Brian Kelcey, a policy consultant and one of the mayor's former staffers.

For many, a series of internal improvements at city hall must come before a PST hike, in part to squeeze every dime out of existing tax dollars and in part to convince voters a PST hike is really the last-ditch option.

In-house fixes include far better long-term planning, a cost-benefit analysis for all new projects, smarter regional projects that serve more than one municipality and getting aggressive about new building technology that can extend the life of a project. Off the top of his head, municipal task force chairman Lorenc points to a new kind of carbon-fibre wrap that extends the life of bridge pilings. There are many more innovations that could save the city money.

To assuage the fear any tax hike will disappear into the black hole called general revenue, any PST hike would also need to come with strict rules that guarantee accountability. The hike would have to be finite, perhaps lasting a decade. Legislation would guarantee new revenue would be spent on infrastructure, over and above current provincial spending levels. An independent watchdog, perhaps the cranky Public Utilities Board, would have a mandate to oversee spending annually to ensure it was being done as efficiently and transparently as possible.

And once the groundwork is laid, the ultimate decision should rest with voters. Hiking the PST, or any tax rate, would require a provincial referendum, the first time the Filmon government's legislation has ever been used.

Bring it on, Carr says. He has already brainstormed a possible ballot question: "Do you support an increase to the PST dedicated by legislation to municipal infrastructure, reviewable by the PUB?" Politicians cringe at the thought of running on a tax hike, and a referendum is not much more politically palatable.

But Carr and several others say it could spark a genuine discussion about tax policy in the province and end the Chinese water torture that has become the go-nowhere debate over the infrastructure deficit. Manitobans would either agree to a PST hike or they would finally quite complaining about potholes.

"If its too risky for politicians to run on a tax increase, then run on a referendum," said Carr. "I don't have any worry in trusting the judgment of the province."

**[maryagnes.welch@freepress.mb.ca](mailto:maryagnes.welch@freepress.mb.ca)**

PST BY PROVINCE

Alberta0

Saskatchewan5%

Manitoba7%

British Columbia7%

Ontario8%

New Brunswick8%

Newfoundland8%

Quebec9.5%

Nova Scotia10%

Prince Edward Island10%

(No sales tax charged by the three territorial governments.)

## **THE POLLS**

-- In 2008, during the economic downturn, only one in five Manitobans favoured boosting the PST to fund infrastructure improvements. According to a Probe Research poll, half of Manitobans favoured waiting for an economic recovery and a balanced budget before spending big money on roads and bridges.

-- In January, an online survey done for the Association of Manitoba Municipalities found almost two out of three Manitobans supported a one per cent municipal sales tax if funds are guaranteed to be spent on infrastructure.

## **REFERENDUM RULES**

Manitoba hasn't had a provincial referendum since 1952, when farmers voted on grain marketing. But former premier Gary Filmon's Balanced Budget, Fiscal Management and Taxpayer Accountability Act says the province must call one if it wants to raise income, sales or payroll tax rates.

The thing is, the rules are very sketchy. The act contains only three paragraphs on how a referendum might work and most of those say "cabinet can decide."

The rules are so vague that, a few years back, Elections Manitoba asked the province for new legislation governing referendums. Many of the rules for general elections apply, but Elections Manitoba said it wanted clarity on who writes a referendum question, how long a campaign should last, how to regulate the spending and operations of the Yes and No committees, and a bunch of other questions.

Elections Manitoba chief operating officer Mary Skanderbeg said her agency could run a referendum pretty easily. Elections are what they do. They might have to do another door-to-door enumeration if the vote wasn't held at the same time as a general election, but the logistics of a referendum are simpler than a general election.

"Voting would be the easy part," said Skanderbeg. "It's the rules that would be hard."

It cost \$12 million to run last fall's general election, including office rentals, salaries for returning officers and phone bills. But because of new fixed election-day rules, that race was longer than a normal 33-day campaign.

A referendum would likely cost less than a general election, especially if online voting was available.

## **WHAT ABOUT THE INCOME TAX?**

In the United States, President Barack Obama is floating the Buffett Rule, a tax named for billionaire investor Warren Buffett, that would see millionaires pay higher taxes.

In Ontario, Premier Dalton McGuinty's minority Liberals just reached a deal with the NDP to levy a two per cent surtax on people making \$500,000 a year. The move, like the Buffett Rule, enjoys almost universal public support.

In Ontario, the new tax on the super-rich raises a nice chunk of change. In Manitoba, not so much. There are only 1,900 people who make more than \$500,000, and a surtax would generate only \$18 million a year.

Income taxes are widely seen as slightly fairer than consumption taxes, because income taxes can be tailored to exclude the working poor. But the Manitoba government has consistently trimmed income-tax revenue by raising the basic personal exemption. Hiking income tax rates now would mean backtracking on years of NDP policy and would also necessitate a referendum.

## **ROAD RAGE**

Selected feedback from Manitobans from CAA Manitoba's Worst Roads contest:

"There are more potholes than drivable strips, and this follows a complete repaving of part of it in the last year or so. Just one of many in this city."

-- 5th Street SE in Brandon

"Lanes are no longer marked. A death trap for all who travel towards St. Vital."

-- Kenaston Boulevard at Wilkes Avenue (site of the new IKEA store).

There are no "good" roads in Manitoba... unless it is brand new... and then that only lasts for a few years. A province of Third World nation highways and roads!

-- All roads

The shoulders are very narrow, the ditches are very deep and the pavement is cracked and very rough. It needs repairs badly, especially dangerous in winter!

-- Highway 215 just west of Beausejour

"I travel approx. 70,000 km a year on Manitoba roads. It is atrocious for the amount of traffic that uses this road."

-- Highway 10 south of Brandon

"Repaired over, repaired over, repaired and needs more repairs."

-- McGillivray Boulevard

-- Source: CAA Manitoba

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