

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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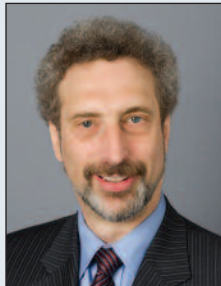
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Time to Tackle the Public-Sector Premium



Philip Hochstein

Your city taxes are due and in all likelihood they're going up. You'll hear lots of excuses from local politicians. Inflation. Growth. Higher demand for services.

But they aren't filling you in on one of the biggest reasons why they're picking more money from your pocket every year – compensation packages for municipal workers that are between 30 and 40 per cent higher than people doing the same jobs in the private sector. With more than 50 per cent of typical municipal budgets going to wage and benefit costs, it's the biggest driver of your tax bills.

In this *Monitor* we take a broad look at municipal wages, and the spending and taxation pressures they create. It's a timely look, and not just because it's tax time. A number of contracts with municipal unions, including ones covering some of the province's largest municipalities, recently expired and will need to be re-negotiated.

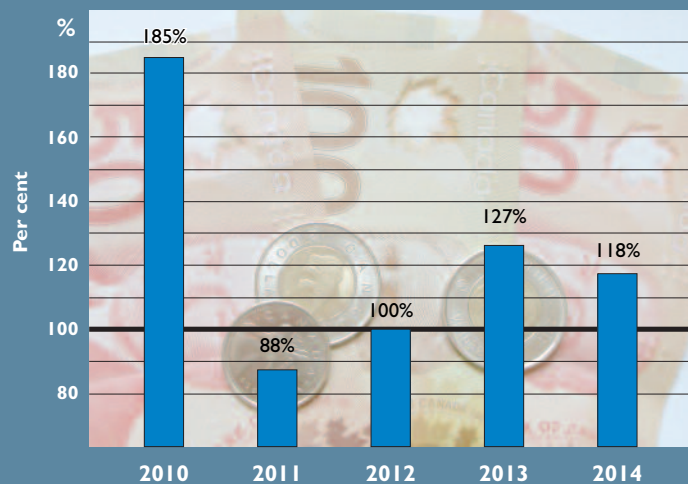
Municipal workers are heavily unionized. While people are choosing not to join unions in the private sector, public sector unions have a monopoly bankrolled by your tax dollars. So to get a clearer picture of this public-sector premium we expanded a previous assessment of a sample of current collective agreements with municipal workers in communities around the province.

See **Public Sector Premium** p. 2

A Big and Growing Gap

Municipal workers in BC are starting out with a big compensation advantage, and doing very well at staying ahead of inflation. Average wage increases across 10 union agreements were a healthy 3.25% in 2009, for example, a year with zero increase in the BC Consumer Price Index. In 2010, increases outstripped inflation by close to two-to-one, and these employees will only lose a little ground once in the first half of this decade.

MUNICIPAL WAGE INCREASES AS PER CENT OF INFLATION



Averages wage increases in 10 agreements (Courtenay/CUPE 556, Fraser Valley Regional District/ CUPE 458, Kamloops/CUPE 900, Kelowna/CUPE 338, Prince George/CUPE 399 & 1048, Quesnel/CUPE 1050, Revelstoke/CUPE 363, Summerland/CUPE 1136, Victoria/CUPE 50, West Vancouver/WVMECA) divided by actual or projected increase in BC Consumer Price Increase.

Public-Sector Premium

Continued from p. 1

Wage-increase data is shown below and on page 1, and not surprisingly the increases are generous and typically outstrip inflation. And since municipal workers are already ahead of the private sector on pay and benefits, even modest increases further widen their lead.

Wages of course are only part of the compensation picture, and other commonly encountered terms include:

- health, dental and life insurance benefits that in some cases employees make no contribution to the cost of;
- vacation entitlements that ramp up over time to six weeks or more;
- protection from layoff resulting from contracting out; and
- payout of unused sick time – a feature of half the agreements we looked at – which can result in as many as 80-120 un-worked but paid days.

As well, all of these employees participate in the Municipal Pension Plan. Entitlements under this plan kick in after two years, and provide lifetime benefits based on the highest five years of salary. And since it's a defined benefit plan, public workers don't have to worry about the value of their investments. Taxpayers will help cover any losses.

With a labour-cost structure like this, it's not surprising that municipal spending in this province is growing at a rate that's increasingly divorced from both the cost-of-living and the number of people receiving services. Recently updated research on page 3, from the Canadian Federation of Independent

Business, shows by just how much.

As spending increases, so must revenues (fortunately, BC municipalities are not allowed to use debt to fund day-to-day operations). And that has an impact on tax bills. You'll see some illustrative and alarming trends on page 4.

The municipal appetite for more revenue also has an impact beyond property taxes, and this is where the bite is most directly felt by the construction industry. Recently updated research found on page 4 demonstrates a sharp upward trend in municipal fees on a typical commercial project.

This drives up the cost of construction – impacting new home prices, prices in stores (which have to cover higher rents), and residential rental costs. All this cuts into budgets and quality of life. And none of this, recent polling suggests, sits well with British Columbians.

One answer – promoted by the Canadian Taxpayers' Federation and ICBA – is a *Private-Public Compensation Equity Act* to make it mandatory for all levels of government to bring pay and benefits for their employees in line with the private sector. It would be a powerful tool in restoring balance to the compensation equation in BC.

So while you get ready to write that growing tax cheque, make sure you also let your MLA know that a *Compensation Equity Act* is urgently needed to stop the never-ending tax increases from city hall.

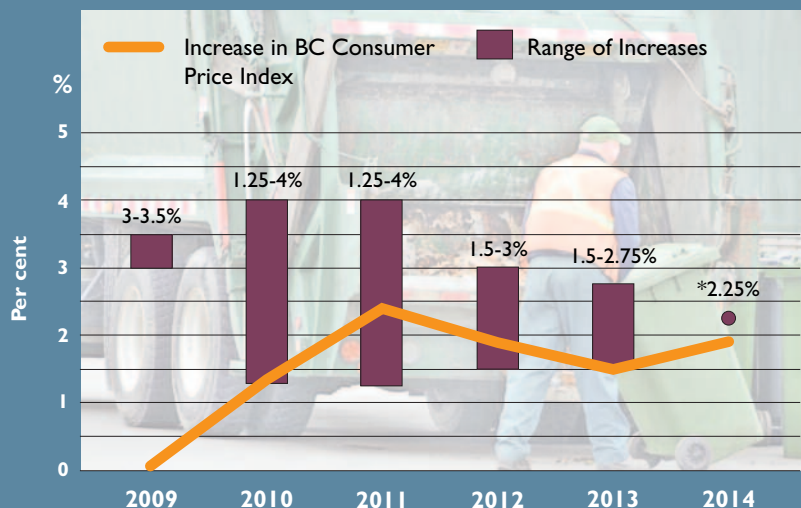
A Compensation Equity Act is urgently needed to stop the never-ending tax increases from city hall.

Labour Settlements Push Wage Costs Up

Average wage increases understate just how well some specific groups of municipal workers have done in recent year. Increases were as high as 4% in 2010 and 2011, a period when inflation averaged less than 2%. And “step” or pay-grade entitlements in half of these agreements result in additional increases for some employees. Many Kelowna employees, for example, get step increases of 3-4% at regular intervals over their first four years of employment.



RANGE OF MUNICIPAL WAGE INCREASES



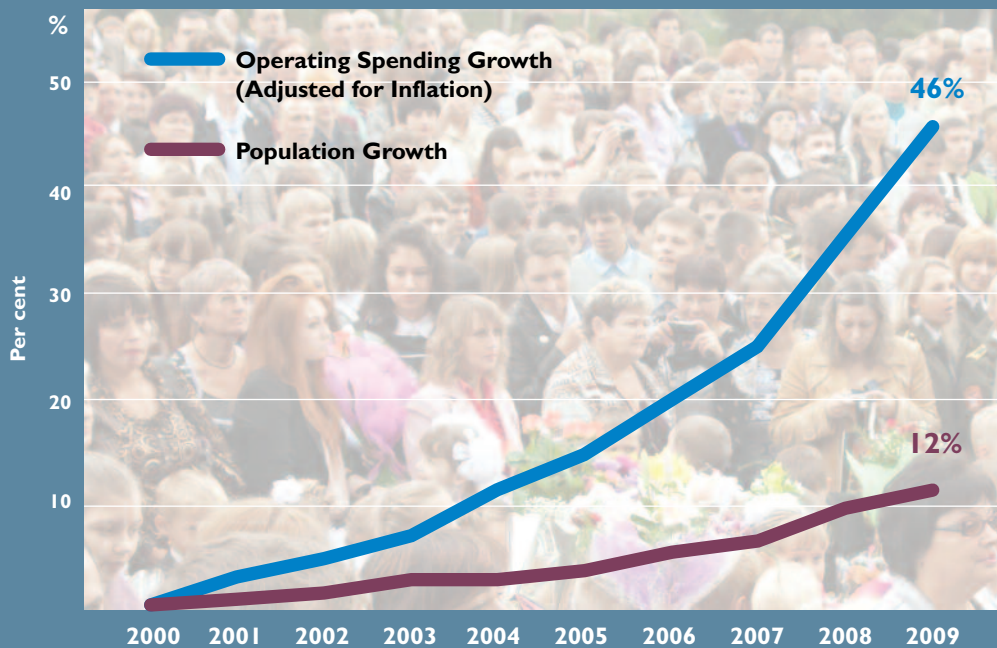
Agreements include: Courtenay/CUPE 556, Fraser-Valley Regional District/CUPE 458, Kamloops/CUPE 900, Kelowna/CUPE 338, Prince George/CUPE 399 & 1048, Quesnel/CUPE 1050, Revelstoke/CUPE 363, Summerland/CUPE 1136, Victoria/CUPE 50, West Vancouver/WWVMEA; * only one agreement (Courtenay) extends to 2014; CPI increases and projections from BC Ministry of Finance

The Spending Gap Keeps Growing

From 2000 to 2009, inflation-adjusted municipal operating spending in BC increased by nearly four times as much as population growth justified. And spending increased the most in the last two years of that decade – taking a \$339 million jump in 2009 alone. If spending had stayed level with inflation and population over the decade, it would have left more than \$4 billion in British Columbians' pockets.



BC MUNICIPAL OPERATING SPENDING AND POPULATION GROWTH, 2000-2009



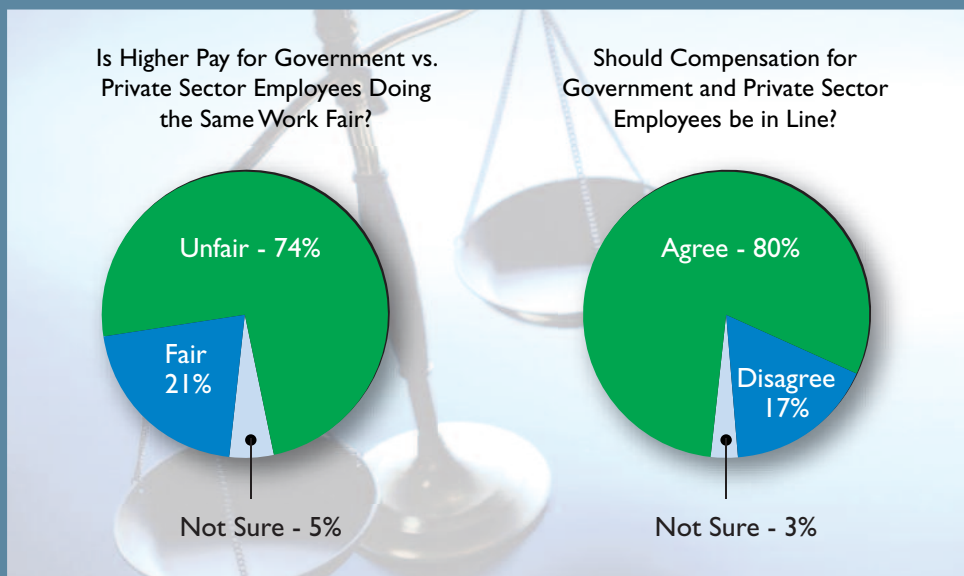
Source: Canadian Federation of Independent Business, BC Municipal Spending Watch, November 2011

“Spending level with inflation and population growth would have left \$4 billion in British Columbians’ pockets.”

British Columbians Support Compensation Fairness

A Canadian Taxpayers' Federation survey earlier this year confirmed that most British Columbians know public sector employees are handed higher compensation than people in the private sector doing the same jobs, and that they don't approve. In addition to the numbers noted at right, there was also more than 70% support for legislative action to level the compensation playing field.

OPINIONS ON THE PUBLIC-SECTOR PREMIUM

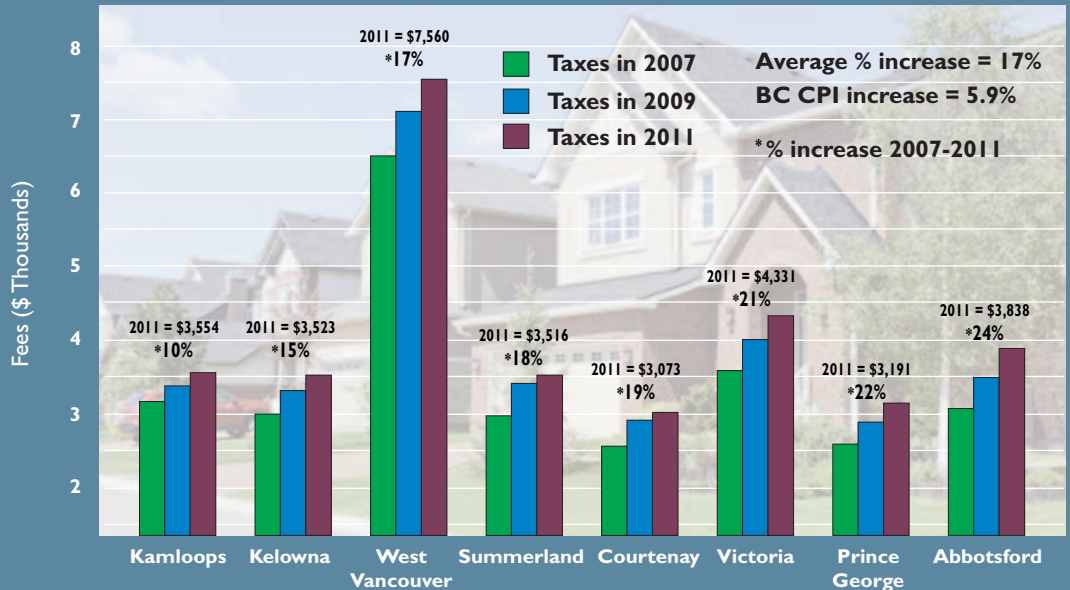


Source: Angus Reid Public Opinion Poll (804 randomly selected BC adults), commissioned by Canadian Taxpayers Federation, March 2012

The Tax Bite on Residents

The typical trend for residential property taxes and charges is clear and dramatic. And since labour costs usually make up more than half of municipal operating budgets, there's a direct connection between the unionized wage increases shown on pages 1-2 and the upward pressure on taxes seen here. Whether property owners or tenants, residents ultimately pick up these costs.

TOTAL RESIDENTIAL PROPERTY TAXES AND CHARGES (REPRESENTATIVE HOUSE)



Source: Ministry of Community, Sport & Cultural Development; Local Government Statistics

The Rising Cost of Development

The same pressures and trends are impacting development fees, which are another significant revenue stream for municipalities. Shown here are recent trends for the four lowest- and four highest-cost Lower Mainland municipalities, based on fees to develop a typical industrial warehouse distribution building. These costs filter down to everyone who lives and does business within these municipalities.

MUNICIPAL FEES ON TYPICAL COMMERCIAL PROJECT



Source: NAIOP Metro Vancouver Chapter, Annual Development Cost Survey, Fall 2011



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