



Making Local Government Accountable

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***2017 Pre-Budget
Public Submission***

October 12, 2016
Meeting

Good afternoon Mayor Brocanier, Deputy Mayor Henderson and Councillors.

I'm Paul Pagnuelo and am presenting today on behalf of the Cobourg Taxpayers Association.

I want to begin my remarks by applauding Deputy Mayor Henderson for his continuous improvement efforts with the budget process.

If I look back to my first budget submission as a private citizen in late February 2014, I must sincerely say that the process has vastly improved.

You have championed initiatives such as more public involvement, defined timelines and better information that is appreciated.

There is one further improvement that we would like you to consider to take effect immediately.

That is for Council to set a target for the year over year change in the total municipal levy in order to provide parameters that staff departments must work within when developing their line by line submissions.

We stand with you in your goal to finalize the 2017 Budget by the end of December or early January.

It would be a wonderful Christmas present and would be a significant achievement that we can all be proud of.

There are numerous items that the CTA could comment on arising out of the September 23rd preliminary budget meeting, which two of our Directors attended.

However, given the 15-minute time allocation, our approach this year is to focus on one major item in today's oral submission.

If I look back to my first submission to Council on the 2014 Budget, one of the many recommendations I offered at that time was this.

"The \$109,000 proposal for physical enhancements to Downtown Revitalization should only be approved if the enhancements are to Town owned property. Enhancements to private property should be the responsibility of the building owner. The Town should not be in the business of funding grants or loans to private enterprise."

Fast forward to March of this year, when Council approved a Community Investment Plan or CIP, which would provide grants and loans for improvements to Downtown buildings under eight incentive programs.

There are several aspects of CIP that the CTA would like to address as it applies to the 2017 budget.

These are the Plan's fairness, performance measures, the funding source, credit assessment and an overall program ceiling.

Let's begin by first reviewing the objective of the CIP.

Objective

The stated objective of the CIP in the February 2016 Dillon Consulting report was to identify the key community improvement needs in Downtown Cobourg, establish a Community Improvement Project Area (Project Area), and outline public realm improvements and a toolbox of incentive programs that will stimulate private sector investment activity in the Project Area.

These financial incentive programs are designed to encourage private sector investment, rehabilitation, adaptive reuse, redevelopment, and construction activity in Downtown Cobourg.

Each CIP application that goes before Council makes reference to Objective 2 of the Strategic Plan, which is to support the preservation and enhancement of the Town's arts, culture and heritage.

In other words, the CIP objective is to incent downtown landlords to improve their properties by offering them "free" money from municipal coffers.

Fairness

One thing that does not appear to have received any discussion is the fairness of the CIP program to non-participating businesses in the downtown area and elsewhere in Town.

To be specific, how fair is it to those downtown landlords and residential property owners who have maintained and enhanced their properties through their own personal or business resources including traditional bank financing?

How fair is it that landlords and residential property owners who have neglected their properties be given grants or no-interest loans using public money?

How fair is it to businesses and residents who are located outside of the CIP area that others can use public money to fund maintenance and repairs while they are excluded?

How fair is it to business and residential taxpayers who are struggling to keep their businesses running or to balance their household budgets and put food on the table that public money is being used to essentially support "corporate" welfare instead of being used to reduce their tax bills?

And how fair is it to taxpayers that public money is being used to benefit a select few in the private sector and increase their wealth through property improvements instead of being directed to basic infrastructure or other capital projects which benefit everyone?

The answer quite simply is, it isn't fair.

Try explaining the fairness to the single mother of two whose rent includes property taxes or retired persons on fixed incomes who are increasingly finding it more difficult to keep, let alone maintain their homes, because of ever increasing property taxes.

Try explaining it to a young working family with children who are overwhelmed with mortgage, utility, insurance, car, child care expenses and trying to save for their children's college education and still be able to put food on the table.

It is interesting to note at the November 18, 2013 COW meeting when discussing the concept of CIVI that Mayor Brocanier was quoted by the media as saying "It's a better concept than offering grants. When you talk about grants, you are talking about taking taxpayers' money and giving it to somebody else."

Performance Measures

The Dillon Consulting Report sets out "monitoring variables" such as number of applications, the dollar amount of the grant or loan, increase in assessed value of the property and neighboring properties, the increase in municipal, County and education property taxes and the number and dollar amount of grant/loan defaults.

For the most part all these metrics do is measure the enhanced wealth of the property owner and the more they may pay in property taxes resulting from free municipal taxpayer money.

For 2017 Budget purposes does the number of grants and loans approved in 2016 and the fact that the 2016 Budget allocation has not only been exhausted but over-subscribed, justify the need for a larger pool of money?

There are few people that I have come across who won't gladly accept free money when it's offered to them if it means they don't have to spend their own.

What the CIP does not provide for are true measurements of whether it has had any impact on breathing new life into our downtown economy.

For example, for those who have taken advantage of the CIP, have vacancy rates improved, are new tenants staying, and have storefront businesses seen an increase in sales and number of employees?

Funding Source

As at the end of September five CIP Grant and four Loan applications have been approved totaling \$106,582.

The CIP Grants totaling \$54,724 are categorized as one Building, three Façade and one Residential.

This compares to the approved Grant budget of \$50,000.

All Grants are being funded through the Holdco Reserve.

In addition, four no-interest CIP loans have been approved totaling \$51,886.

There is no approved budget that we are aware of for CIP Loans.

The funding source for the loans is not stated but we presume it is also the Holdco Reserve.

The term of the loans is also not stated and in the case of the Residential Loan, if the loan applicant has not missed any loan payments, then loan forgiveness may be offered by the Town with the lump sum payment at the end of the loan term being forgiven, i.e., paid as a grant.

What percentage of the loan the lump sum payment represents is also unknown.

At the June 27, 2005 Council meeting the following motion was approved:

“That one-half of the annual investment from Town of Cobourg Holdings Inc.(TCHI) be designated for use in funding capital projects subject to Council approval during the normal budget process. The remaining funds will be left to accumulate in the reserve until such time as the total reserves of the municipality have reached a level equal to 40% of total annual municipal operating expenditures based on the most recently completed audited financial statements, with the 40% figure to be reviewed annually based on the “financial indicator review” performed by Municipal Affairs and Housing,”

The Mayor has also said on occasion that the Holdco reserve is used to fund capital projects.

This does not reconcile with proposals to use the Holdco reserve to fund the purchase of the Park Theatre, NMAI and the CIP.

The Mayor insists that the Holdco Reserve saves taxpayers money because it's source is the annual dividend paid by Holdco to the Town.

But surprisingly, it's largest revenue source is the 7.25% interest payment collected on the \$7 Million affiliate loan from the Town to Lakefront Utilities Inc., our Town owned electricity distributor, which yields \$507,500 annually.

Let's be clear.

The Holdco Reserve is the property of Cobourg residents and taxpayers.

Furthermore, both the annual dividend and exceptionally over-priced interest payments are an indirect tax that are derived from overcharging electric, water and sewer customers, who, for the most part, are also the Town's taxpayers.

Credit Assessment

Although the Town requires that security for a CIP Loan be registered against title of the property, no credit analysis of the borrower by a qualified lender is being conducted that we are aware of.

In other words, there is no determination of the creditworthiness of the business or organization.

A credit assessment looks at the ability of the company to honor its financial obligations by analyzing audited financial statements, the debt servicing ratio and assigning a risk rating, which estimates the probability of default by the borrower at a given confidence level over the life of the loan, and by estimating the amount of loss that the Town and taxpayers would suffer in the event of default.

The absence of a full credit analysis before lending money to a prospective borrower is unheard of in the commercial lending market and is a dereliction of proper due diligence.

Overall Program Ceiling

\$250,000 in CIP Grants is being proposed for the 2017 budget.

Again, no budget appears to be proposed for CIP Loans in 2017.

Is it reasonable to expect that 2017 CIP Loans will be capped at \$250,000 and that the approved CIP program of grants and loans will be \$500,000 for 2017?

The question that needs to be asked is how much Council is prepared to commit in Grants and Loans in total and how long it intends the program to continue with no objective analysis of its success in improving our downtown economy.

Recommendation

Based on the reasons outlined earlier in our presentation, the CTA recommends that Council discontinue the CIP program and that any consideration of replacing it sometime in the future with a CIVI program, which would be a CIP on steroids not be entertained.

The CTA supports local businesses and wants to see a sustainable, vibrant economy not just downtown but throughout all of Cobourg.

Handing out free public money as an incentive to select businesses will not accomplish that goal and is counterproductive.

The success of Downtown Vitalization is not dependent on government handouts.

The reasons for failure and the solutions are well known.

The key to a successful and thriving downtown is consistent store hours by merchants, meeting consumer needs in conjunction with various age demographics, ample parking, a highly visible merchant advertising program, cancellation of the provincially mandated 30% rebate on property taxes for vacant buildings and strict Town enforcement of building, fire and other code violations.

We thank you for the opportunity to present today and trust you will give serious consideration to our recommendation.