Chambre de commerce
du Montréal métropolitain
Board of Trade of Metropolitan Montreal

A budget allowing the metropolitan regions to fully contribute to Canada's wealth

Federal Pre-Budget Submission 2005-2006

Presented to

The Honourable Ralph Goodale

Minister of Finance

by

The Board of Trade of Metropolitan Montreal

January 2005

Table of Contents

Summary of Recommendations

Recommendation 1.1.1.:

- ***Increase efforts to actively encourage small and mid-sized exporters to participate in border security programs (C-TPAT, FAST-EXPRES);***
- ***Set up effective measures for small and mid-sized exporters grappling with the high cost of complying with the new customs standards;***
- ***Begin planning and executing the work to modernize the Lacolle border crossing, which combined with the major work to be carried out at the U.S. Champlain border, will make it a state-of-the-art transit station for the flow of people and goods between Eastern Canada and the U.S. East Coast.***

Recommendation 1.1.2.:

That the Government of Canada immediately and completely abolish the large corporations tax, or federal capital tax, a tax measure considered to be highly detrimental to business productivity, the competitiveness of financial institutions and job creation.

Recommendation 2:

That the Government of Canada undertake to make public the conclusions of the different reflection exercises launched on city financing – notably those of the External Advisory Committee on Cities and Communities – and apply them with a view to increasing and diversifying the revenue sources of Canadian cities.

Recommendation 2.1.1.:

That the governments of Quebec and Canada, in conjunction with municipal administrations, jointly and actively participate in setting up "public works, private capital" partnerships to finance value-added urban infrastructures.

Recommendation 2.1.2.:

That the governments of Quebec and Canada each contribute to the Montreal Harbourfront development project, notably, by placing a priority on the planned investments in the Harbourfront and in so doing, give the project real impetus.

Recommendation 2.2.1.:

That the Government of Canada share, as of 2005, a portion of the gasoline excise tax revenues with the country's large cities according to a sharing formula that acknowledges the importance of public transit in major urban centres. Moreover, the Board of Trade recommends that the government move up the transfer schedule to ensure that the objective of transferring over $2 billion per year is achieved before the five years originally planned.

Recommendation 2.2.2.:

That the compensation in lieu of taxes paid by the Government of Canada and its corporations to the municipalities equal 100% of the local taxes on the property values of all the buildings they own, as of the next budget year.

The Board of Trade of Metropolitan Montreal has some 7,000 members. Its primary mission is to represent the interests of the business community of Greater Montreal and to provide individuals, merchants and businesses of all sizes with a variety of specialized services to help them achieve their full potential in terms of innovation, productivity and competitiveness. The Board of Trade is Quebec's leading private economic development organization.

Introduction

Preparing a budget invariably involves making choices, often difficult ones, between a series of priorities and emergencies. Sensitive to this fact, the Board of Trade of Metropolitan Montreal took it into consideration while preparing this pre-budget submission it is presenting to the Minister of Finance on behalf of its members.

As such, the Board of Trade's first budget recommendation – which is also reflected in each of the specific recommendations presented hereafter – is that the government of Canada focus on the concept of the return on public funds allocated for the choices it is about to make. As a general rule, Canadians would like to see major public services maintained and indeed improved and would also appreciate some tax relief. Since the only way to reconcile these two objectives is to increase the collective wealth, we believe the next budget should focus on choices that will most contribute to the enrichment of Canadians.

In this context, the optimal development of the country's metropolitan regions becomes critically important.

Throughout the world, urban centres are increasingly at the heart of economic growth and wealth creation. Talent and investments are primarily concentrated in cities, hence the fierce competition in this regard. Canada's urban centres are no exception and indisputably drive the nation's economic growth.

The Government of Canada appears to be increasingly sensitive to this reality and over the past year has taken some promising action to give the metropolitan regions of the country the means to exploit their full potential. For example, the government has granted a full refund of the GST to municipalities, which has concretely helped improve municipal finances across the country. In fact, the Board of Trade had made this very request in its pre-budget submissions of previous years. That said, other commitments – still more substantial – remain to be fulfilled. Accordingly, it is through its 2005-2006 budget that the Government of Canada will confirm whether it is ready to translate into concrete measures its aspirations for the nation's major cities.

In this pre-budget submission, the Board of Trade first puts forward its main expectations with regards to the choices that will be made in the next budget. It then sets out, in greater detail, specific recommendations in keeping with these expectations. These recommendations are grouped under two themes: 1) improve the economic competitiveness of Canada and its metropolitan regions and 2) improve city financing.

I. The Board of Trade's expectations

a. A rigorously balanced budget

The Board of Trade expects the next **budget to be balanced.** The government must manage its budget responsibly because returning to a deficit during times of economic growth is neither desirable nor justified. As well, we expect the government to demonstrate exemplary **rigour and transparency** in its management of the public purse. If the population is to continue having faith in the government's ability to manage its finances, the government must present a budget free of creative accounting and combine caution and realism in its forecasts. For example, continuously presenting major budget surpluses, while better than deficits, unfortunately fuels suspicion as to how accurately Canadian public finances are being presented in the budget, which could lead to a let-up in the efforts to control spending. That said, the Board of Trade believes that economic growth estimates must remain reasonably conservative and, in this regard, supports the idea that the budget should contain a contingency fund.

b. Recognize the key role of urban centres

For the Board of Trade, it is paramount that in its next budget the government fully recognize the key role urban centres and their businesses play in the economic growth of Canada. This recognition should translate into concrete measures targeting the economic growth of urban centres, among them Greater Montreal, the economic engine of Quebec. Among these measures, providing cities with access to new, predictable, recurring and diversified revenue sources should be a priority. The same goes for making major investments that contribute directly to the competitiveness of urban centres of the 21st century, such as public transit, road and water systems, infrastructures, cultural activities and knowledge.

c. Train, attract and retain talent

In an era of added value and innovation, Canada's economic development and the creation of clusters of excellence must of course be backed by appropriate policies, but they must first and foremost be driven by highly talented workers. This is why the next budget must make it possible to deploy huge efforts to train, attract and retain a growing number of talented individuals.

This means giving our educational institutions the support they need to set themselves apart in the highly competitive world of education and university research. We must also do more to attract immigrants, business people and qualified workers and integrate them within Canadian society.

d. Towards reducing the tax burden

The Board of Trade considers it pertinent for the federal government to contemplate measures to reduce the tax burden of Canadians. The fiscal environment is an important element of competitiveness, and our tax system competes with that of other nations for workers and companies alike. The Board of Trade therefore endorses a reduction in the tax burden, provided however, that this reduction does not thwart the achievement of the other previously mentioned principles and objectives.

II. Specific recommendations

In this section, the Board of Trade presents concrete proposals aimed at more effectively responding to the budget principles and expectations presented in the previous section. These recommendations revolve around two main themes: 1) improving the economic competitiveness of Canada and its metropolitan regions 2) improving city financing.

1. The economic competitiveness of Canada and its metropolitan regions

Metropolitan Montreal has many assets just waiting to be further developed so as to allow the region to fully contribute to the economic vitality of Canada. The following is a series of recommendations formulated by the Board of Trade with a view to improving the competitiveness of the metropolitan regions and their businesses and, by extension, Canada as a whole.

1.1. Improve business competitiveness

For the Board of Trade, Montreal's economic competitiveness, is dependent on the access its businesses have to export markets and on their ability to invest in their own success. As such, the following measures seek to improve either one of these factors with a view to achieving the objective of making the Montreal economy – and by extension that of Canada – all the more competitive.

1.1.1. Facilitate the flow of Canadian exports across the U.S. border

The Greater Montreal area has over 5,000 exporting companies and accounts for 70% of all Quebec exports. The vitality of the export sector, which represents more than 55% of Quebec's GDP,[1] plays a major role in the economic growth of Quebec. In 2001, Quebec international exports generated over 667,000 jobs.[2] In 2003, Canadian exports amounted to $380 billion, of which over $327 billion or 86% headed south. The Champlain-Lacolle border crossing is the most frequently used point of entry into Quebec and the gateway to a large market comprising New York, Philadelphia and Washington, D.C. In 2002, 371,059 trucks and 1,039,135 cars passed through this crossing to the U.S., an average of more than 1,000 trucks and 2,850 cars per day.

In the aftermath of 9/11, the U.S. government implemented a series of strict security programs and measures aimed at the border in order to prevent terrorism. For Canadian exporters, tighter security and the requirements of the new programs create additional major challenges. We therefore believe it is of paramount importance for the governments of Quebec and Canada to implement complementary or joint initiatives to facilitate trade flow from Canada to the U.S.

The first of these initiatives is certainly to continue, and indeed increase representations before the U.S. government to impress upon it the importance of cross-border trade, and make it aware of the issues facing Canadian exporters.

Under the new control measures, exporters must henceforth demonstrate to the U.S. government that they are "low-risk" companies through security certification programs. This compliance is important because it ensures easy access across the border. C-TPAT (Customs-Trade Partnership Against Terrorism) is the U.S. government program whereby companies take a series of measures to assure U.S. customs officers of the integrity of their security practices as well as those of their trade partners for the entire supply chain. This certification helps speed up processing at the border and constitutes an eligibility criterion for the FAST-EXPRES (Free and Secure Trade) program, a joint Canada-U.S. initiative

---

[1] Government of Quebec, Ministère du Développement économique et régional, *Calepin : Le commerce extérieur du Québec*, December 2003.
[2] Government of Quebec, *Impact économique des exportations québécoises – 1990, 1997 and 2001,* October 2003.

that offers exporters, carriers and pre-authorized drivers faster clearance of pre-approved eligible goods through the use of dedicated lanes at the Champlain border crossing.

The benefits of these programs are therefore only available to companies that have completed the certification process. However, the complexity of the compliance process requires businesses to invest a lot of time and money to adapt their infrastructures to the U.S. security. Failure to comply carries even more dire consequences: a dramatic increase in waiting time at the border, administrative difficulties exporting and complications with carriers. The delays associated with the movement of goods belonging to companies that are not C-TPAT, combined with new hours of service rules for truckers, could pose almost insurmountable obstacles for Canadian carriers and exporters.

For small and mid-sized Canadian exporters, failure to make the necessary investments to meet the requirements presents a major stumbling block to developing export markets. Insofar as many Canadian exporters are SMEs and the U.S. is typically the first place small and mid-sized companies target in their first foray into international markets, the Board of Trade recommends that the draft budget include the following financing measures:

- We acknowledge the importance of the government's efforts to actively encourage small and mid-sized exporters to participate in the border security programs (C-TPAT, EXPRES-FAST) and would like to see them intensified so that all exporters understand the need to meet these requirements if they wish to do business in the U.S.;

- In conjunction with awareness activities, we would like to see the government quickly contemplate concrete measures to support small and mid-sized companies that undertake to comply with the new customs requirements since our concern is that the major costs involved in obtaining security certification will hamper the development of U.S. bound Canadian exports;

- In addition to initiatives aimed directly at exporting companies, the government should facilitate cross-border trade by improving and further developing the transport infrastructures leading to the U.S.

- Lastly, the Board of Trade recommends that the government transform the Lacolle-Champlain border crossing into a state-of-the-art transit station. This border crossing has unlimited potential given that there are absolutely no physical constraints with regards to its development and since it is the main gateway from Eastern Canada to the major cities of the U.S. East Coast. U.S. authorities are already about to start major work at the Champlain station, which will make it one of the best equipped to manage post 9/11 security requirements. The Canadian government should follow suit and immediately start planning and executing the necessary modernization work for the Canadian side. The combination of ultra-modern facilities on both sides of the border would allow, despite tighter controls, the metropolitan region of Montreal to remain a drawing card for companies that export primarily to the U.S. Since it is also the gateway to Montreal, modernizing the Lacolle side would also speed up the entry of East Coast tourists into the country and make the crossing a more pleasant experience.

Recommendation 1.1.1.:

That complementary or joint initiatives be quickly implemented by the governments of Quebec and Canada to increase the flow of trade between Canada and the U.S.:

- ***Increase efforts to actively encourage small and mid-sized exporters to participate in border security programs (C-TPAT, FAST-EXPRES);***

- ***Set up effective measures for small and mid-sized exporters grappling with the high cost of complying with the new customs standards;***
- ***Begin planning and executing the work to modernize the Lacolle border crossing, which combined with the major work to be carried out at the U.S. Champlain border, will make it a state-of-the-art transit station for the flow of people and goods between Eastern Canada and the U.S. East Coast.***

1.1.2. Eliminate the large corporations tax

The large corporations tax, also referred to as the capital tax, is aimed at large corporations and financial institutions and is levied on equity capital, debt capital and capital reserves. Capital is a mobile production factor that can be rapidly moved to those locations that offer the best conditions for profitability. Consequently, investment opportunities in Canada are rendered less attractive to foreign investors, who compare the business tax environments between countries and provinces.

Because it constitutes an additional fixed expense for businesses, capital tax stifles investment and labour productivity. It is also recognized in the business community that this additional expense dissuades innovation and the acquisition of new technology. This tax imposes a disproportionate burden on highly-capitalized companies such as those operating in manufacturing, natural resources, financial and high-tech sectors, which are strongly concentrated in urban centres. Lastly, this tax is levied without any regards to profitability and can therefore destabilize companies during periods of low earnings or losses.

As for financial institutions (deposit taking institutions, insurers, etc.), the impact of the capital tax is also significant since it imposes an onerous tax burden. As stated in the report of the Task Force on the Future of the Canadian Financial Services Sector of 1998, "Capital taxes render regulated financial institutions less competitive and create incentives that are inconsistent with sound prudential management."[3]

The Board of Trade was pleased to hear the federal government announce in February 2003 that it would abolish the large corporations tax over a five-year period. Although many companies were no longer required to pay this tax in 2004, for the remainder, this tax continues to discourage investments, hurt competitiveness, hamper productivity and, by extension, impede job creation. The Board of Trade therefore encourages the government to do whatever is necessary for Canada to quickly catch up to the other OECD nations, which apart from Germany and Japan, have already abolished this type of tax. As well, at a time when the Canadian dollar is appreciating in relation to the greenback and diminishing the competitiveness of Canadian exports, the immediate elimination of the federal capital tax will encourage corporate investments that would boost productivity.

Lastly, the increase in local and foreign investments that would result from the elimination of the capital tax would help boost GDP and in the medium term contribute to compensating the government for the loss of revenues currently derived from this tax. For example, the large corporations tax provided the federal government with annual revenues of $1.4 billion in 1999 while financial institutions contributed $143 million.[4]

[3] Task Force on the Future of the Canadian Financial Services Sector *Changes, Challenges and Possibilities. Task Force Report,* September 1998, p. 116.
[4] Conference Board of Canada, *The Case Against Capital Taxes*, 2001.

Recommendation 1.1.2.:

That the Government of Canada immediately and completely abolish the large corporations tax, or federal capital tax, a tax measure considered to be highly detrimental to business productivity, the competitiveness of financial institutions and job creation.

CAPITAL TAX
(For companies other than financial institutions)

	2003	2004	2005
Federal[1]	0.225%	0.2%	0.175%
Alberta	N/A	N/A	N/A
British Columbia	N/A	N/A	N/A
Prince Edward Island	N/A	N/A	N/A
Manitoba[2]	0.3%	0.3%	0.3%
New Brunswick[3]	0.3%	0.3%	0.3%
Nova Scotia[4]	0.25%	0.3%	0.3%
Nunavit	N/A	N/A	N/A
Ontario[5]	0.3%	0.3%	0.3%
Quebec[6]	0.6%	0.6%	0.6 %
Saskatchewan[7]	0.6%	0.6%	0.6 %
Newfoundland	N/A	N/A	N/A
Northwest Territories	N/A	N/A	N/A
Yukon	N/A	N/A	N/A

Source: Samson Bélair Deloitte & Touche

2. City financing

Several organizations,[5] including the Board of Trade, have noticed in the past few years that Canadian municipalities lack sufficient revenues and underscored that they are overly dependent on property tax revenues. In the last decade, not only have their revenues advanced at a slower pace than those of the upper levels of government (provincial and federal), municipalities have seen their responsibilities increase substantially, and the revenues have not always been adjusted accordingly. For example, between 1995 and 2001, while the Canadian economy grew 31 %, federal and provincial revenues advanced 38% and 30% respectively. During the same period, municipal revenues increased only 14%.[6]

The small revenue growth of municipalities, combined with their inability to diversify their income sources, have placed them in a particularly difficult situation. Following various municipal reforms in Quebec during the 1990s, over $1.1 billion in new responsibilities were transferred to the municipalities[7] (public transit, social housing, recreation, environmental standards, water quality, etc.). The municipalities of Quebec and Canada have therefore directly and substantially helped the upper levels of government achieve a zero deficit – so much so that according to the Organization for Economic Cooperation and Development (OECD) and the president of the Conference Board of Canada,[8] Canadian cities are also feeling the effects of the "fiscal imbalance."

Urban infrastructures are being especially hard hit by this financial context. Faced with a budgetary impasse, the municipalities chose to indefinitely postpone investment in their ageing infrastructures rather than slash services to citizens – what the Conference Board of Canada refers to as the "hidden deficit." For the City of Montreal, the value of investments needed for urban infrastructures (water management, road repair, bringing real estate properties up to standard, public transit) is estimated at $12 billion for the next ten years.[9] This figure does not include new construction but only what is required to upgrade existing infrastructures after 15 years of forced neglect.

For the Board of Trade, all these elements raise major concerns. On the one hand, the health of urban infrastructures, as pointed out in the study published by Statistics Canada,[10] is a major factor that can affect the operating and production costs of businesses and merchants, particularly in terms of merchandise flow and transportation. On the other hand, these same businesses and merchants, through business taxes and property tax on non-residential properties, are among the largest contributors to city financing. In the case of Montreal, property tax on non-residential properties for the 2005 budget equalled 41% of the taxes collected by the City – whereas this category of property represents only 28% of the taxable property value.

Rethink, increase and diversify

The over-dependence of cities on property tax revenues is the main reason for their financial difficulties. In 2005, 74% of Montreal's revenues were derived from properties: property taxes, taxes aimed at non-residential property owners and compensation in lieu of taxes.

The property tax is poorly adapted to the new and ever-expanding municipal responsibilities: it is a tax base that does not evolve at the same rate as economic growth and is a regressive form of taxation (the

---

[5] The TD Bank, the Conference Board of Canada, the Federation of Canadian Municipalities, the Round Table on Environment and the Economy and the Union des municipalités du Québec, to name just a few.

[6] TD Bank Financial Group, *A choice between investing in Canadian cities or disinvesting in Canada's future* (2002).

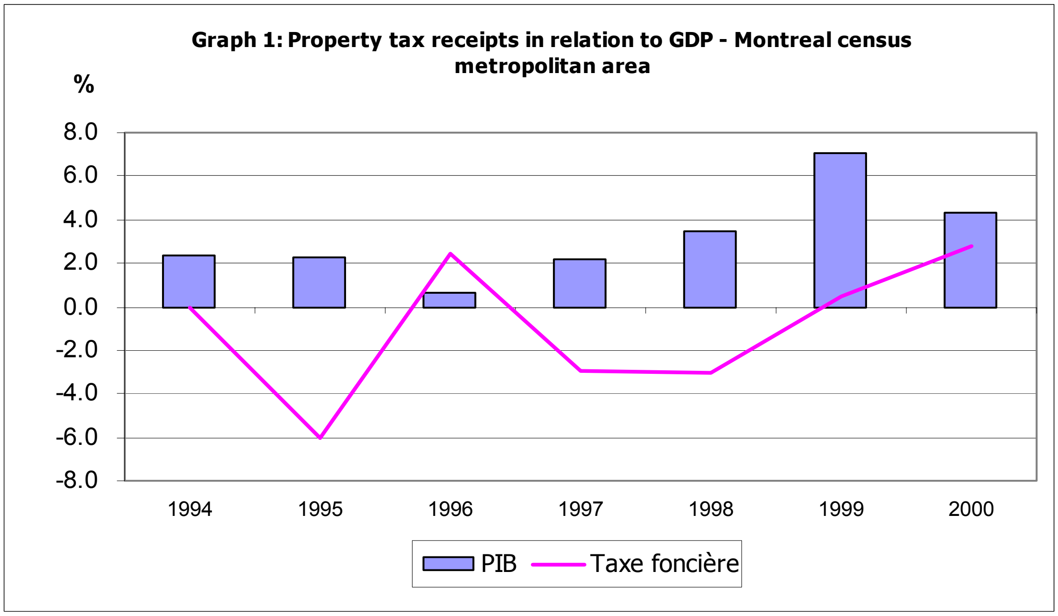
[7] Conference Board du Canada and the Union des municipalités du Québec: *La situation fiscale des municipalités québécoises*, May 2003.

[8] URBA, publication of the Union des municipalités du Québec, vol. 24, no. 2, April 2004.

[9] Presentation by Frank Zampino, chairman of the Executive Committee of the City of Montreal, to the Board of Trade, October 2004. The City estimates investments needed for water management at $20 billion over 20 years; at $3.8 billion over 10 years for roads; at $3.36 billion over 10 years for transit.

[10] Harchaoui, Tarek M. and Faoui Tarkhani, *Public Infrastructure in Canada,* Statistics Canada, November 2003.

proportion of personal income allocated to paying property tax drops as personal income increases). From 1994 to 2000, property tax receipts rose an average of 0.38% while the province's GDP grew 2.89% annually. This situation is all the more pronounced in cities of the Montreal census metropolitan area, where property tax revenues dropped an average of 0.91% annually while regional GDP expanded 3.18%. Graph 1 clearly shows this inequity in Montreal.



Source: Conference Board of Canada and the Union des municipalités du Québec.

A jump in property values – as has just occurred in Montreal – does not necessarily solve the problem. Based on market conditions in Montreal on July 1, 2002, the value of 411,550 residential and non-residential properties on the City's new valuation roll rose 22.7% on average over 2000. Unfortunately, this is only an increase "on paper." In fact, for the owners of these properties, the increase in their personal wealth remains theoretical: they do not necessarily have more money in their pockets. As such, the City cannot hope to see its revenues advance by the same proportion without radically increasing the burden of its taxpayers.

For the Board of Trade, it is therefore imperative that the Canadian Government take concrete action following the different reflection exercises launched on city financing – notably those of the External Advisory Committee on Cities and Communities – and implement the recommendations aimed at increasing and diversifying the revenues sources of Canadian cities.

Needless to say, the Board of Trade is not making this recommendation merely to see more public funds flow to municipalities for day-to-day operations. The Board of Trade is concerned about the rising cost of public services provided by Greater Montreal's cities and expects municipal administrations to make continuous efforts to reduce expenses. The reason it would like to see new, increased, diversified and predictable revenue sources for the municipalities is because there are needs, notably in the area of urban infrastructures, and these needs are best addressed by the cities directly concerned.

Recommendation 2:

> ***That the Government of Canada undertake to make public the conclusions of the different reflection exercises launched on city financing – notably those of the External Advisory Committee on Cities and Communities – and apply them with a view to increasing and diversifying the revenue sources of Canadian cities.***

While the Board of Trade would very much like to see profound, lasting changes in city financing, it also recognizes the need, in the short term, for new, predictable, recurring and diversified revenue sources. To this end, the Board of Trade proposes a series of measures that complement the previous recommendation and that in addition to meeting the need for increased financial resources can be implemented fairly rapidly. Needless to say, these proposals must not be viewed as individual, stand-alone solutions but rather as complementary approaches that can be implemented without increasing the burden of tax payers in the Greater Montreal area.

2.1. Finance major urban infrastructure projects

As stated earlier, municipalities require tremendous financial resources to maintain and renew their urban infrastructures. The City of Montreal alone needs $12 billion for its infrastructures over the next 10 years. For the Board of Trade, the sustainable economic development of Canada's urban centres hinges on an adequate and rapid response to these needs. First and foremost, efficient infrastructures reduce costs for the businesses and companies that rely on them.[11]

Moreover, infrastructure needs are a major burden on municipal administrations and even a threat to their financial equilibrium. In the medium term, the Board of Trade fears that cities will have no choice but to substantially hike taxes or significantly reduce services to citizens, merchants and entrepreneurs. Lastly, it is important to remember that adequate, efficient infrastructures contribute to a city's quality and environment which, in turn, adds to its competitiveness in terms of attracting investors and workers.

While it insists on the importance of immediately meeting the challenge of renewing the urban infrastructures of Canada's urban centres, the Board of Trade understands that it is difficult to finance major investments at a time when health care and education expenses are taking up a growing part of the public purse. In this context, the Board of Trade believes the time has come to innovate and implement new ways of financing urban infrastructures, beginning with close collaboration between all the levels of government – federal, provincial and municipal – and the private sector.

2.1.1. Set up innovative "public works, private capital" partnerships to finance urban infrastructures

The Board of Trade is inviting the three levels of government to examine the avenue of "public works, private capital" partnerships to execute value-added infrastructure projects. The Board of Trade drew its inspiration for this recommendation from the model used in Portland, Oregon, where, since the end of the 1950s, numerous housing and neighbourhood revitalization projects, as well as subsidy programs for new or expanding businesses, have seen the light of day.[12] The capital required for these projects is raised by the Portland Development Commission through the sale of bonds. Depending on the nature of the project, the expansion of the tax base (through the higher property values of the properties affected or built as part of the project) is used to repay the principal and interest on the bonds.

Besides making large scale projects financially possible, this approach is all the more interesting because it cannot be successfully implemented without the involvement of its public and private partners and beneficiaries. Moreover, in order to be approved, the investment must have demonstrable and measurable added value that will make it possible to repay the bondholders over subsequent years.

---

[11] According to a study published by Statistics Canada (Harchaoui, Tarek M. and Faouzi Tarkhani, *Public capital and its contribution to the productivity performance of the Canadian business sector,* November, 2003), the injection of public capital in transportation and public transit infrastructures, and water distribution and waste water systems saves companies (all sectors combined) $0.17 **per year** for each dollar of public capital invested.
[12] For more information in this regard, visit www.pdc.us.

Under this model, the government's contribution can take various forms: in addition to acting as project developers and implementers, they can also guarantee the bonds issued, making them even safer, and by extension, less costly.

Recommendation 2.1.1.:

That the governments of Quebec and Canada, in conjunction with municipal administrations, jointly and actively participate in setting up "public works, private capital" partnerships to finance value-added urban infrastructures.

2.1.2. The Société du Havre: a high-priority project conducive to the new ways of doing things

This way of doing things could be applied with great success to integrated urban development projects. Indeed, in the case of land use or revitalization projects for which private investments are planned, it is in fact possible to forecast the added property value at the end of the project and to finance the infrastructure work required based on anticipated new tax revenues.

Such is the case for the Montreal Harbourfront development project spearheaded by the Société du Havre, possibly the most ambitious urban development and planning project in Montreal's history. Perhaps because of the size of the territory being planned or the magnitude of the work, the investment required to exploit the immense potential of the Harbourfront is simply colossal. We believe that to ensure its top-quality development, a partnership with the private sector is inevitable.

In this particular case, we believe it important to mention the leadership the Quebec and Canadian governments can provide as catalysts of the project. Just like the Government of Quebec contributed to the construction of the head office of the Caisse de dépôt et placement du Québec, and the expansion of the Palais des Congrès to make the Quartier International a reality, its participation in this major project with Société du Havre would greatly speed up its execution. In this regard, we would like to see the governments of Quebec and Canada join forces and give priority to the following projects: modernize the Bonaventure Autoroute to access the shores of the Saint Lawrence; build a world-class exhibition centre; and create a public transit link between the Harbourfront and downtown as integral parts of the project to relocate the Casino near the Peel basin. As well, the Government of Canada should commit to supporting the new development phase put forward by the Société du Vieux-Port.

Recommendation 2.1.2.:

That the governments of Quebec and Canada each contribute to the Montreal Harbourfront development project, notably, by placing a priority on the planned investments in the Harbourfront and in so doing, give the project real impetus.

2.2. Improve the financial situation of cities

2.2.1. Transfer a portion of gasoline excise tax revenues

The Board of Trade expects the next budget to make good on the commitment of the Prime Minister of Canada, the Right Honourable Paul Martin, to set up a mechanism to share a part of the gasoline excise tax with the country's municipalities. The Prime Minister has on numerous occasions committed to begin making this transfer as of 2005 until the amount reaches, within the next five years, at least $2 billion – the equivalent of 5 cents per litre of gas. As well, the Board of Trade expects the Government of Quebec and the governments of the other provinces to work together with the Canadian government to implement this important measure as soon as possible.

Given that Canadian public finances are holding up well and the need to invest in the nation's urban infrastructures is urgent, the Board of Trade is urging the Government of Canada to not only honour its commitment to transfer the funds as of 2005 but to move up the schedule.

We also hope that an equitable way of redistributing these revenues is found that takes into account the specific needs of metropolitan regions and the public transit needs of their cities. In this regard, the Board of Trade fully endorses the principles presented on December 4 by the Federation of Canadian Municipalities, which should guide the sharing of the gasoline tax.

Recommendation 2.2.1.:

That the Government of Canada share, as of 2005, a portion of the gasoline excise tax revenues with the country's large cities according to a sharing formula that acknowledges the importance of public transit in major urban centres. Moreover, the Board of Trade recommends that the government move up the transfer schedule to ensure that the objective of transferring over $2 billion per year is achieved before the five years originally planned.

2.2.2. Compensation in lieu of taxes

Property tax, based on property assessments, has for some time been the method of choice of municipalities to finance the services they deliver to their citizens, merchants and entrepreneurs. In this respect, the Government of Canada, unlike private owners, has enjoyed a special status whereby it does not have to pay the full amount of property taxes, and as a result, the full cost of municipal services its properties nevertheless enjoy. Even if the Government of Canada is required to pay the rates and service charges incurred for services consumed directly by public buildings, in most cases, these charges are not enough to cover the entire cost of the municipal services. Compensation intended to address this shortfall is referred to as "compensation in lieu of taxes."

The compensation in lieu of taxes paid by the federal government does not equal 100% of the value of the property tax for two reasons: first because they are set based on accepted value rather than on the valuation roll (business tax for example). In 2005, the compensation in lieu of taxes that the Canadian Government and its corporations will pay the City of Montreal amount to $53.8 million.

The Board of Trade is therefore reiterating its recommendation with regards to compensations in lieu of taxes. In the interest of tax equity, the Board of Trade of Metropolitan Montreal supports the conclusion of the *Commission nationale sur les finances et la fiscalité locales* recommending that the Canadian government pay compensations in lieu of taxes equal to 100% of the local taxes on the property values of its own buildings. Such a measure would simplify the compensations in lieu of taxes and increase municipal revenues.

Recommendation 2.2.2.:

That the compensation in lieu of taxes paid by the Government of Canada and its corporations to the municipalities equal 100% of the local taxes on the property values of all the buildings they own, as of the next budget year.

Conclusion

As economic engines, the metropolitan regions of the country are contributing more than ever to Canada’s prosperity. In this global context where economies are based on knowledge and innovation, this role is apt to become even more pronounced.

Faced with this reality, the development of metropolitan regions must not be viewed in apposition to that of the other regions of the country. We must not think that the prosperity of one takes away resources from the development of the other. Quite the contrary; indeed, it is in Canada’s best interest to ensure that their economic engines run at full throttle and it should therefore equip them with the right tools to maximize their potential.

It is with this in mind that the Board of Trade has presented the budget expectations of its some 7,000 members in this brief and put forth constructive proposals apt to improve the economic performance of the metropolitan regions and, by extension, that of Quebec and Canada as a whole. In this same constructive spirit, the Board of Trade would also like to impress upon the government that it is available to work together on concrete, fundamental measures that will help grow the Montreal economy.