

TO: UBCM Members
FROM: UBCM Executive
DATE: September 20, 1998
RE: **FINANCING LOCAL GOVERNMENT:
AN EXECUTIVE STRATEGY**

**POLICY
PAPER
#4a**

1998 Convention

1. DECISION REQUEST

To consider four recommendations that will provide a mandate for the UBCM Executive to pursue changes to local government financial arrangements in 1998/99.

2. BACKGROUND: FLG REPORT

Origins

The Financing Local Government study (FLG) was the result of a UBCM Executive proposal, endorsed at the 1997 Convention, with terms of reference proposed by UBCM and subsequently reflected under a Joint Council Sub-Agreement.

Distribution

Copies of the report have been distributed to all UBCM members for consideration at the 1998 UBCM Convention. The report is Policy Paper #4 of the green-covered Policy Papers book distributed in August.

Process

The report is the product of three working groups comprised of local government staff and provincial staff from various ministries, each chaired by one of the UBCM Vice Presidents. The working groups were facilitated by consultant Peter Adams and supported by Ministry and UBCM staff. The timeframe for the work was compressed: the first meetings were held on June 3-4, and the last on August 12.

Content

While the report addresses a wide range of local government financing issues, it was primarily motivated by the uncertain future of provincial transfers brought about by recent budget cutbacks.

The working group findings were consolidated into ten chapters for the report, under the following headings:

1. Introduction
2. Provincial-Local Transfers
3. Payments (Grants) in Lieu of Taxes
4. New Revenue Sources

5. Transfer of Property Tax Room
6. Removal of Restrictions on Existing Revenue Measures
7. Expenditure Mandates
8. Financial Management
9. Police Financing
10. Summary of Conclusions and Recommendations

See Appendix A for a summary of the report's findings.

3. THE CURRENT SITUATION AND WHY A STRATEGY IS NEEDED

In the context of significantly reduced or disappearing revenue transfers from the provincial government, the study focused on the related themes of restructuring grant programs; developing new, more diverse sources of revenue for local government; and fixing the problems with existing sources of revenue. The study also examined how provincial requirements and programs drive municipal expenditures in certain areas and how these can better be managed and financed. And finally, given that the advice-givers were primarily financially oriented, some preliminary observations were offered as to priorities and preferences for changes to the financial management framework of the *Municipal Act* (e.g., budget years, tax notices, tax collections, financial reporting).

The study is also overlain with the context of recent legislative changes which begin the process of empowering local government.

The report recommendations are in the nature of evaluations of certain aspects of the provincial-local financial relationship. In essence, these are observations of fruitful areas for further exploration. The report does not attempt to develop a package of revenue options for use as a basis for negotiation with government. It simply narrows the options to those that are most promising that decision makers might consider in developing such a package.

Report Evaluation

The report doesn't attempt to balance the relative merits or priorities of specific recommendations against other recommendations. The Working Groups did not have adequate time to start to take the recommended elements and construct a strategy out of the elements.

Clearly, all elements cannot have equal weight and importance and all cannot be implemented in a single year. This is why we need to have an Executive strategy endorsed by the membership which provides direction to the Executive with respect to goals and the preferred options according to a ranking, in order for the Executive to participate in a dialogue with the provincial government on the changes in our financial relationship which is likely to occur over the next number of months. Given the Province's current financial situation, the Executive feels it is unlikely that the status quo situation can be assumed to remain unchallenged.

A strategy is also needed to provide direction in areas that may reflect a lack of consensus in the report, such as dealing with payments-in-lieu of taxes.

4. TOWARDS A STRATEGY

A. TWIN GOALS

The UBCM should pursue in 1998/99:

Goal 1: Revenue Stability With Growth Potential

Secure a revenue source or sources that provide short term financial stability and the ability to provide longer term revenue growth to local government.

Goal 2: Flexibility and Freedom in Financial Management

Provide more flexibility and freedom for local government in managing its financial systems.

Recommendation 1

That the Convention adopt these two goals.

B. LOOKING TO FLG FOR MEANS TO REACH THESE GOALS

On Revenue Stability

The Financing Local Government study identifies some of the following options for local-provincial financial relationship:

- a) *Current Situation* – one alternative is to leave current arrangements in place and simply argue for a continuation of the “status quo”. This may be an option in the short term but is unlikely to be justifiable over the longer term.
- b) *New Unconditional Transfer System* – this alternative would see the replacement of the current “ad hoc” transfer system with something similar to what local government enjoyed previously.
- c) *Move to a Conditional Grant Relationship* – some senior provincial officials have said they would prefer a transfer system, not based on unconditional transfers, but transfers targeted for specific uses, such as economic development or infrastructure.
- d) *Transfer of Property Tax Room* – another alternative is to phase-out transfers while bringing in new revenue sources by way of additional property tax. This would involve the provincial government moving out of hospital and/or some school property tax with local government moving into the vacated areas.

- e) *Creation of New Tax Room* – the final alternative is to substitute current provincial transfers for new direct taxing authority in such areas as fuel tax. This reduces the dependence on property tax and moves the tax/collection/transfer function of the provincial government over to local government to tax and collect directly.

There will be discussion on revenue issues during study sessions on Monday and during the Urban Forum on Tuesday where participants will be asked to provide direction as to their preferences for these options. This direction is not intended to narrow the Executive's choice of options, but rather to inform the deliberations on a negotiating strategy.

In order to meet the goal of achieving revenue stability and growth in the revenue base, the following Recommendation is made:

Recommendation 2

To mandate the Executive to negotiate a stable, predictable alternative to the current ad hoc "equalization grants" and that the Executive be authorized to pursue transfers, new revenue sources, and/or new property tax room.

For reference, see Financing Local Government report chapters as follows:

2. Provincial-Local Transfers
4. New Revenue Sources
5. Transfer of Property Tax Room

Note: Small community grants would be maintained. Any proposed alternatives would be subject to a financial impact study at an individual municipal basis before it would proceed.

On Financial Management

In order to meet the goal of achieving more freedom and flexibility in financial management, the following Recommendation is made:

Recommendation 3

That the Convention adopt the recommendations in the following chapters of the Financing Local Government report:

6. Removal of Restrictions on Existing Revenue Measures
7. Expenditure Mandates
8. Financial Management

5. OTHER PROCESSES / OTHER ISSUES

There are several other related matters that are referred to in the Financing Local Government report. These include:

- payments (grants) in lieu of taxes (see report chapter 3)
- traffic fine revenue
- police financing (see report chapter 9)

With respect to payments in lieu of taxes, the following Recommendation is made:

Recommendation 4

That the Convention directs that Option 2 (as described on pages 17-18 of the report) be used as the foundation for further discussions with the provincial government regarding payments in lieu of taxes.

With respect to the sharing of traffic fine revenue, the Executive anticipates that the provincial government will be making an announcement shortly regarding its decision to share these revenues.

And lastly, the Executive agrees that the financing of police services is probably one of the single largest issues facing local governments at this time. Given the magnitude of the problem, a more comprehensive initiative is clearly required than could be accomplished through the Financing Local Government study.

Appendix A

Summary of the 1998 Financing Local Government Study's Conclusions

Among the useful insights provided by the report, the following are the primary conclusions and recommendations:

Provincial-Local Transfers

- continue unconditional grants to small communities and regional districts
- gradually replace equalization grant program with program that distributes funds in proportion to population. Program would be a rough compensation to local governments for impacts of provincial programs and legislation
- local government and province should negotiate a multi-year arrangement to provide greater certainty

Payments in Lieu of Taxes

- the report acknowledges that it will take some time to come to a mutually agreed on program. But the report sets out two variations on principles to guide discussions, and the groups favoured Option 2 (as described on pp. 17-18 of the report) as a starting point.

New Sources of Revenue

- enhance the range of local government taxing powers. New sources deemed most promising for further discussion with the province were fuel tax, real property transfer tax, and liquor tax). These would benefit a wide range of local governments and have a direct linkage to the services they provide.

Transfer of Property Tax Room

- The province currently partly occupies the property tax field (schools, health capital), the traditional primary source of local government revenue. If the province raised some of these revenues from other sources, then this tax room might become available to local government to help fund local services. The recommendation here was to ask the province to consider funding health capital from other sources.

Removing Restrictions on Existing Revenue Instruments

- recommends changes or improvements in these areas:
 - broaden the allowable uses of DCC revenue
 - use of hotel tax revenue
 - restrictions on business license fees
 - use of parcel taxes and flat taxes
 - taxation of telecommunications companies
 - revenue from municipal enterprises
 - collection of unpaid parking tickets
 - classification of properties for tax purposes
 - restrictions on the use of property tax rates/ratios
 - use of property taxation areas
 - library user fees
 - regional sharing of industrial tax base

Expenditure Mandates

- endorsed the approach of provincial-local government protocol agreements and processes in areas of shared responsibilities, as is currently used for joint environmental issues.
- recommends developing similar protocols in other shared areas, including justice and transportation.

Financial Management

- Of the many recommendations brought forward in this area, the ones with the most significant impact would be:
 - **Budget Preparation:** bring forward the final budget approval date for municipalities from May 15 to January 15 (with all the necessary complementary adjustments in other related activities such as the assessment cycle and regional district budgets). The dates for rates bylaws and adoption of the five-year capital plan would be moved to April 30 from May 15. These changes would encourage better multi-year planning by councils by separating the approval dates for the various budgets; would have the budget determined earlier in the fiscal year and unnecessary lag times between the provisional budget and the final budget; and would allow more time for preparation of tax bills and public information on tax changes.
 - **Financial Reporting:** local governments should adopt the financial reporting standards developed by the Public Sector Accounting and Auditing Board (PSAAB), to improve financial accountability to taxpayers. The study recognizes that implementation of this recommendations will require some training of staff, and suggests that it would be appropriate for the provincial government to share in these training and implementation costs.
- Recommendations relating to the operation of the tax collection system will be referred to the newly formed working groups given the task of reviewing these provisions of the *Municipal Act*.

Police Financing

- The study recognized the impact that police financing has on the local government financial burden, but was not able to develop any proposals in the time allotted. However, the study recommended that police financing be identified as a priority for further study given the impacts that the next census in 2002 will have on funding formulas. The study made some suggestions regarding principles that might be considered.