

TO: UBCM Members  
FROM: Mayor John Ranta, UBCM President  
DATE: September 29, 1999  
RE: **FINANCING LOCAL GOVERNMENT  
REPORT - NEXT STEPS**

**POLICY  
PAPER  
#3**

*1999 Convention*

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## 1. PURPOSE

This is a status report for UBCM members on activities of the provincial government and UBCM since last year's convention with respect to issues involving Financing Local Government.

## 2. BACKGROUND

### **Mandate**

Former Minister of Municipal Affairs, the Hon. Jenny Kwan, and Union of British Columbia Municipalities (UBCM) President, Mayor John Ranta agreed on March 30th, 1999 to re-establish discussion of the recommendations of the Financing Local Government Report (FLGR). They also instructed staff to explore options beyond the recommendations of the FLGR.

### **Terms of Reference**

In 1998, the UBCM and the Ministry of Municipal Affairs (MMA) agreed to undertake a joint review of issues associated with financing local government. This review was precipitated in part because of:

- a reduction in local government transfer payments from the Province; and
- other changes to the financial situation of local government prompted by provincial actions including devolution of secondary and arterial highways, downloading of courts, etc.

The basic themes of the review, and the directions of its focus, were:

- the revenue capacity of local government to do the job of meeting community needs; and
- the provincial-local financial relationship as defined by legislation, regulations, policies and programs.

**Key Dates**

August 1998	FLGR completed.
September 1998	UBCM Convention reviews FLGR and adopts recommendations with amendments.
December 18, 1998	Minister of Municipal Affairs announced financing strategy for local government grants. The strategy included a commitment to continue to review the opportunities identified by the FLGR.
March, 1999	Minister and the UBCM President agree to continue discussions on the recommendations put forward in the FLGR and to explore other opportunities that may exist.

**3. DISPOSITION OF FLGR AT 1998 UBCM CONVENTION**

The FLGR was extensively considered at the 1998 UBCM Convention. It was considered at pre-convention study sessions and the large urban forum. The recommendations were considered, and adopted with amendments. The final approved recommendations are appended. (Appendix A).

**4. CHANGED CIRCUMSTANCES**

The following table summarizes the components of the December 18, 1999 financing strategy, the current status of the FLGR recommendations and other developments/opportunities that could affect municipal finances.

<b>Issue</b>	<b>Comments / Status</b>
<b>A. Financing Strategy Components (announced December 18, 1998)</b>	
Municipal Equalization Grant	<ul style="list-style-type: none"> <li>Eliminated in 1999</li> <li>Transitional assistance provided for 1999.</li> </ul>
Small Community Protection (SCP) Grant	<ul style="list-style-type: none"> <li>Enhanced program to protect communities that cross the 5000 population threshold. Distribution formula established in regulation.</li> <li>Funding level protected through 2001.</li> </ul>
Traffic Fine Revenue Sharing	<ul style="list-style-type: none"> <li>New program with funding established at \$13.2 million in 1999.</li> <li>Distribution established in regulation.</li> <li>Timing: Update fine revenue data by September 1999.</li> </ul>
Regional District Basic Grant	<ul style="list-style-type: none"> <li>Grant restructured. Larger grant provided to the smaller regional districts. Established in regulation.</li> </ul>
Renewed Infrastructure Program	<ul style="list-style-type: none"> <li>New commitments of \$50 million annually for three years. Includes funding for planning and growth strategies.</li> </ul>
BC Rail Payments in Lieu	<ul style="list-style-type: none"> <li>Established at \$2 million annually with program parameters to be reviewed every five years. Review intended for 2000.</li> </ul>
<b>Issue</b>	<b>Comments / Status</b>

<b>B. FLGR Recommendations</b>	
Stability in Provincial-Local Transfers	<p><i>Provincial Response:</i></p> <ul style="list-style-type: none"> <li>• Financing strategy fully protects unconditional grants to communities with populations less than 5,000.</li> <li>• SCP grant funding level protected through 2001.</li> </ul>
Payments in Lieu (PiL) of Property Taxes	<p><i>Provincial Response:</i></p> <ul style="list-style-type: none"> <li>• MMA has had preliminary discussions with lead ministries on PiLs. Potential for there to be winners and losers in the application of a policy framework.</li> </ul>
New Revenue Sources – FLGR had suggested that sales, fuel and property transfer taxes were promising sources of revenue	<p><i>Provincial Response:</i></p> <ul style="list-style-type: none"> <li>• Additional taxes in these areas are unlikely in the current economy or while the tax freeze remains in effect.</li> <li>• Further consideration is required of possible revenue sources that could be locally imposed and administered.</li> <li>• Suggested timing: Identify options for further review by late September.</li> </ul>
Transfer Existing Property Tax Room	<ul style="list-style-type: none"> <li>• The potential of transferring existing property tax room is probably not consistent with the provincial requirement that initiatives need to be revenue neutral to the province. Likely to be accomplished only with local government assuming new responsibilities.</li> </ul>
Remove Restrictions on Existing Revenue Measures	<ul style="list-style-type: none"> <li>• Bill 88 includes more flexible authority to impose parcel taxes, fees and charges. Business license fee cap removed but fees must relate to costs of regulatory scheme.</li> <li>• June 1999 - moratorium lifted on additional two percent hotel tax. Richmond approved; Proposals are being considered from Chilliwack and Parksville/Qualicum. No changes to give local governments more discretion or flexibility.</li> <li>• Multi-stakeholder Development Finance Review Committee looks at all areas of municipal finance associated with development including development cost charges (DCCs). "Choices" guide planned on alternatives to DCCs. No changes in allowable uses for DCCs.</li> <li>• Bill 88 included amendment to allow interest to be included in calculating development cost charges.</li> <li>• No progress in removing other identified restrictions (e.g., telecommunications taxation, municipal enterprises, unpaid parking tickets, property tax areas)</li> </ul>
Expenditure Mandates	<ul style="list-style-type: none"> <li>• Continue with protocol agreements where appropriate. No new policy areas being developed, though, as suggested (e.g., transportation, justice)</li> </ul>
Financial Management	<ul style="list-style-type: none"> <li>• Bill 88 includes provisions for financial planning, reporting and auditing in accordance with Generally Accepted Accounting Principles (GAAP) and provides for equal treatment between public/private partnership liability and traditional debt. Also provides for alternative property tax collection methods.</li> <li>• Still to be done: tax collection (penalties, arrears, tax sales, tax notice) and related issues (HOG); debt and borrowing, investment</li> </ul>
Police Finance	<ul style="list-style-type: none"> <li>• No changes to report, but police finance issues are the subject of study session on Mon., Sept. 27/99</li> </ul>

<b>C. Other Issues (Non-FLGR)</b>	
<b>Municipal Act Reform</b> • 1998 (Bill 31)	• Reforms included corporate powers and public/private partnerships.
• 1999 (Bill 88)	• Introduced June 29. • Reforms include broad powers for business regulation and licensing; flexibility to impose parcel taxes, fees and charges; financial reporting in accordance with GAAP; and, alternative property tax collection methods.
<b>GVTA agreement</b>	• The management and financing strategies developed for transit operations in the lower mainland may offer some innovative solutions which may be applicable in other communities.
<b>Local Cost Saving Opportunities</b> • Joint and Several Liability	<i>Provincial Response:</i> • Fundamental principle of negligence law and consumer protection, that is applied consistently across Canada. Prospect for change is poor. • Provisions in the <i>Homeowner Protection Act</i> are expected to reduce liability in future. These include mandatory new home warranties, licensing of builders and education.
<b>Federal Infrastructure Funding</b>	• Provincial governments across the country continue to request a renewed Infrastructure Works Program.
<b>Gaming</b>	• Memorandum of Agreement on Gaming Policy which affirms local government authority to determine the scope and type of gaming permitted within municipal boundaries, and provides new revenue source for host communities.

## 5. CHALLENGES (PROVINCIAL PERSPECTIVE)

In dealing with the Financing Local Government Report, the provincial government tells us that it is constrained by the following considerations:

- options developed need to be both practical to implement and revenue neutral to the provincial government;
- process – involves internal consultation with lead ministries. (Competing priorities in these ministries will impact time lines for this work, as well as the process for provincial approvals through Treasury Board and Cabinet, and possibly the legislative agenda);
- staff resources are a limiting factor for the number of issues that can be reviewed; and
- differences between the provincial and local budget cycles.

## 6. FLG – WHERE TO FROM HERE?

- A “Next Steps” work program for FLG was agreed to at the July, 1999 UBCM Executive meeting. It had these elements:
  - a. The Ministry of Municipal Affairs was to continue consultations with lead ministries with regard to the development of payment-in-lieu principles and the prospects for new or expanded revenue sources; and clarify outstanding questions with respect to formulas for calculating traffic fine revenue sharing.
  - b. UBCM would continue further technical work to identify other specific proposals possibly relating to cost saving opportunities at the local level and police financing.
- *Municipal Act* reform would continue as a parallel process (with linkages) to FLG “Next Steps”.

## 7. 1999 CONVENTION ACTIVITIES

Activities at the 1999 UBCM Convention pertaining to Financing Local Government include:

- a. Pre-conference study session (Monday) on police financing;
- b. Parallel consideration of Municipal Act Reform priorities; and
- c. Pre-conference study session (Monday) on Financing Local Government which includes:
  - a report on traffic fine revenue sharing from the Ministry of Municipal Affairs;
  - a report on payments in lieu of taxes from the Ministry of Municipal Affairs;
  - a FLG status update (activities since last year’s convention);
  - an overview of provincial-local financial relations in other provinces;
  - report from consultant Peter Adams on available options to consider; and most importantly
  - consideration of future UBCM direction on financing issues using participant questionnaire.

A report on future UBCM direction will be presented to the convention at the Wednesday morning policy session.

## Appendix A

### APPROVED RECOMMENDATIONS (AS AMENDED) FROM THE 1998 FINANCING LOCAL GOVERNMENT STUDY

#### 1.0 Provincial-Local Transfers

The Group recommends that a stable program of provincial government transfer payments continue to be an element of the fiscal relationship between the province and local government. The structure of such a relationship should include:

- Continuation of the Small Community Protection Grant and the Regional District Grant both of which are designed to assist communities with the provision of the core institutions of local governance;
- Gradual replacement of the current Municipal Equalization Grant program with a program that compensates municipalities for the impacts of provincial programs and legislation, but which are not amenable to a more precise form of compensation. Transfers under this program would be distributed in proportion to the population of each municipality;
- A program of transfers that would allow the province to respond to special or exceptional circumstances in individual municipalities or regional districts.

The Group recommends that the province provide greater certainty over the future of provincial transfers than there is today. It suggests that the province and local government negotiate a multi-year fiscal arrangement that defines the fiscal relationship among governments in British Columbia, and that such an agreement be backed up by supporting legislation.

#### 2.0 Payments (Grants) in Lieu of Taxes

Given the importance of the property tax base to local government, the Group recognises the value of a jointly developed and agreed framework for payments (grants) in lieu of taxes. It recommends that discussions continue, on a priority basis, between the province and local government to see whether such a framework can be developed.<sup>1</sup>

The Group has developed two sets of principles that may be used as the basis for the proposed framework. While neither of these alternatives is considered ideal, the Group concluded that Option 2 (as defined in Chapter Three, section 3.3) provides the better foundation for further discussion and refinement.

The Group noted that an agreed set of principles would not fully resolve all issues and would leave room for disagreement on the interpretation of those principles. Therefore, the Group suggested that, in addition, an agreed ongoing process be developed for resolving such differences.

#### 3.0 New Revenue Sources

The Group recognises that local government's ability to function as an independent order of government would be greatly enhanced by the addition of new sources of revenue.

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<sup>1</sup> The Group noted that such a foundation has been developed for payments in lieu by the federal government.

Therefore, the Group recommends that the province and local government examine various ways of enhancing the range of local government taxing powers. It has identified three areas of taxation (fuel tax, the real property transfer tax and liquor tax) as the most promising areas for discussion because they would benefit a wide range of municipalities and have a direct linkage to the services provided by local government.

#### **4.0 Transfer of Property Tax Room**

The Group recognises that the transfer of property taxes may be a useful way to supplement the revenue raising capacity of local governments. It recommends that consideration be given to the option that would see the province taking over responsibility for the financing of all health capital. Local governments would be able to use the funds currently raised for this purpose through property taxes to help finance local services.

#### **5.0 Removal of Restrictions on Existing Revenue Measures**

##### **5.1 Broaden the Allowable Uses of DCC Revenue**

The Group recommends that the range of investments that can be funded through DCCs be extended to include fire halls, police stations and recreation facilities where it can be shown that the need for these investments is clearly prompted by new development.

##### **5.2 Use of Hotel Tax Revenue**

The Group recommends that:

- The opportunity to raise funds through a local tax be retained;
- The limit on the local tax rate be retained but be modified to include a provision that would allow a local government to request a higher rate from the province;
- Local governments be given full discretion over use of the funds raised through the local tax.

The Group recommends that the limits be removed on the maximum fees that can be charged. Provincial authority to set maximum licence fees should be removed from the *Municipal Act* and replaced with language about the criteria to be considered by municipalities in setting licence fees.

The Group recognises the legal requirement that business licence fees be set in relation to the cost of regulating businesses.

##### **5.4 Use of Parcel Taxes and Flat Taxes**

The Group agrees that local government should have more discretion over the way it can tax real property and that the decision on when to use such powers should be made by local government.

The Group recommends that the province:

- Remove the current restrictions on the use of parcel taxes so that parcel taxes can be used as a cost recovery method for any municipal service.
- Provide greater flexibility in the design of parcel taxes (e.g., variation by type of property).

- Allow municipalities the option of using a flat tax to finance any municipal service, without limits or conditions.
- Prepare a guide on the recommended use of various taxation options.

### **5.5 Taxation of Telecommunications Companies**

The Group provided the following advice and recommendations:

- The tax should continue to be based on, or in lieu of, a property tax rather than an excise tax on all telecommunications services.
- Further research should be conducted on the distributional impact of replacing the 1% tax in lieu with an ad valorem tax on linear property (including telecommunications, cable and pipelines). Such a change would allow municipalities to tax all telecommunications infrastructure and other linear property. It would not, however, generate additional revenue from that segment of the market that uses ‘wireless’ technology.
- Recommends review of the current system of franchise fees with a view to eliminating restrictions and possibly bringing some consistency to these two related forms of revenue operation and to end geographic discrimination.

### **5.6 Revenue from Municipal Enterprises**

The Group recommends that the identified impediments to increase revenue through municipal enterprises be removed. While, in general, it is not the role of government to be in competition with the private corporations, municipalities should be able to use opportunities to generate revenue from municipal enterprises, where this is understood and is acceptable to the local community. However, these enterprises should be accounted for separately from regular municipal services.

Because of the wide variation in the size and resources of municipalities, not all will have the expertise to establish municipal corporations. It would be useful, therefore, if the province were to provide guidelines for the establishment of such enterprises.

### **5.7 Collection of Unpaid Parking Tickets**

The Group recommends that the provincial practice of not allowing drivers to renew their annual vehicle license unless they have paid all outstanding fines be extended to cover unpaid municipal parking tickets. The Group also agreed that less costly and more timely methods of enforcement and collection are needed. They suggested investigating use of local courts and greater use of technology within the provincial court system (e.g., appearance by video).

### **5.8 Classification of Properties for Tax Purposes**

The Group has identified a number of weaknesses in the way properties are classified for tax purposes. It recommends that further investigation be undertaken into each of these issues to better define the problems, to review the criteria used to assign properties to assessment classes, and to determine the likely impact on tax revenue of any change that would result.

### **5.9 Restrictions on the Use of Tax Rates/Ratios**

The Group recommends that, in keeping with one of the stated principles of *Municipal Act* reform (i.e., appropriate provincial government involvement), the provincial government more narrowly define its power to regulate local government tax rates/ratios to reflect a demonstrated and clearly articulated provincial interest.

The Group recommends also that the province give consideration to variable tax rates/ratios for regional districts.

### **5.10 Use of Property Taxation Areas**

The Group recommends that within municipalities, municipalities be given the power to create distinct geographic areas that can be taxed at different rates for general municipal services. This would allow municipalities to respond to perceived inequities in the current situation where there is a disparity in service levels (e.g., between the urban and rural areas of a large municipality) and would give municipalities more options for use in responding to restructure issues.

### **5.11 Regional Sharing of the Industrial Tax Base**

The Group suggests that local governments be encouraged to pursue industrial tax sharing agreements where this is a useful and viable option given the local circumstances. The Group did not feel that a uniform province-wide program is either necessary or appropriate.

## **6.0 Expenditure Mandates**

The Group endorses the recent approach taken in the area of shared environmental responsibilities. In particular, it supports:

- The concept of a protocol agreement that establishes the foundation for the relationship between the province and local government;
- Establishment of a protocol committee that can exchange information on topics of joint interest and can serve as the ‘first point of contact’ for emerging issues;
- Genuine and extensive consultation on issues before they are implemented, including discussion of the financial implications of any proposed measure; and,
- Flexibility in provincial regulations that allow local governments to design ways to achieve provincially defined objectives in a way that is responsive to local circumstances.

The Group recommends that similar protocols be developed to cover other areas of provincial-local interaction (e.g., justice and transportation).

## **7.0 Financial Management**

### **7.1 Budget Preparation**

The Group recommends the following changes to improve the process of budget preparation:

- Bring forward the statutory (final) budget approval date to January 15. Make complementary changes to the assessment cycle to ensure Councils have sufficient, reliable information on growth in the assessment base.<sup>2</sup>
- Drop the legislated requirement for an approved provisional budget. Allow local governments to decide whether they wish to prepare a provisional (or projected) budget for future years.
- Allow changes to the approved budget without an explicit amendment to the budget bylaw where such changes are consistent with a budget reallocation policy approved by Council. Such a policy would still be subject to the legislated requirement to balance the budget.
- Bring forward the final date for the rates bylaw to April 30. This would provide more time for preparation of tax bills and public information on tax rate changes. This recommendation would require complementary changes to the *School Act* to ensure that school tax rates are set by the province before April 1.
- Change the statutory date for adoption of the 5 year Capital Expenditure Plan to April 30.

The Group believes these changes would also facilitate and encourage multi-year financial planning by municipal councils.

## **7.2 Financial Reporting**

The Group recommends that, in order to improve financial accountability to taxpayers, municipalities and regional districts be required to adopt the financial reporting standards established by the PSAAB. The Group recognises that implementation of this recommendation will require some training of staff and that the province may wish to share the cost of this training.

Adoption of the PSAAB accounting standards would require municipalities to record certain liabilities that exist today but are not shown on the financial statements (e.g., unrecorded sick time or severance liabilities). Recognising these items on the financial statements would put additional pressure on municipal budgets. The Group recognises that this may lead to some reluctance on the part of some councils to implement the standards. However, the Group notes that current practice of not recognising these items does not make them any less real – the liability exists whether it is recorded or not.

## **7.3 Fiscal Year End**

The Group recommends that the calendar year be retained as the fiscal year of local government. The expected benefits from change do not outweigh the disadvantages of change. The Group recommends that, instead, local government seek more predictability in provincial transfers and earlier announcement of the exact amount of those transfers.

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<sup>2</sup> Input on this issue to be sought from BC Assessment. Also, complementary changes may be appropriate for regional districts.

#### **7.4 Definition of a Deficit**

The Group recommends that the statutory requirement that local government not incur an operating deficit be retained. However, the Group suggests that the precise definition of a deficit be reviewed as part of the review of the *Municipal Act*.

#### **7.5 Financial and Statistical Reports to the Province**

The Group recommends that:

- The current reporting requirements be replaced with the PSAAB financial statements and a requirement for more detailed information, following the PSAAB format, as is necessary to provide the needed statistical and other information; and,
- That a review be done of what constitutes the ‘needed statistical and other information’.

#### **7.6 Tax Penalties and Interest**

While the general direction of proposed changes to the *Municipal Act* will be to provide greater authority and discretion to local government, the Group recognises the merits of consistent penalty and interest rate provisions and recommends that they continue to be set through the *Municipal Act*.

#### **7.7 Tax Prepayment and Tax Installments**

The Group recommends that:

- For tax prepayment schemes, the Home Owner Grant (HOG) regulations be changed to allow the full grant to be claimed regardless of the amount actually outstanding on the tax account.
- Either the current installment option in the *Municipal Act* be replaced with an option that would make installments mandatory or the current provisions be repealed.

#### **7.8 Tax Notice Design**

The Group suggests that, if the HOG is retained, then the province should work with local government to seek ways to simplify the program and thereby, simplify the information that has to be provided. The Group suggests that much of the work and many of the complications are attributable to the HOG paid in special circumstances (e.g., disabled and veterans). The Group recommends that other ways be found to simplify identification of the beneficiaries or alternative ways be used to deliver support payments to these people.

The Group recommends that, in the interest of clear accountability to taxpayers, the MFA tax rate continue to be shown separately on the tax bill.

### **8. Police Financing**

In the time available, the Group has not been able to develop a detailed proposal on police financing. However, given the importance and complexity of the issue, it is recommended that police financing be identified as a priority item for further study.

The Group recommends that any new system of police finance give consideration to the following three suggestions: all areas, including small incorporated communities, contribute to the financing of policing costs; the amount paid by a community reflect the ability of that community to pay, including consideration of the assessment base of the community; and, the amount paid by residents of unincorporated areas toward the cost of policing be more clearly identified than it is now as part of the rural tax rate.

The Group suggests that a new police financing formula be developed and implemented before the results of the next census become available in 2002 (which may take some municipalities over the current financing thresholds).