

Employer Health Tax Impact on Local Governments

Survey Results and Analysis

Union of BC Municipalities

May 2018

Introduction

The Province of British Columbia's 2018/19 – 2020/21 Budget and Fiscal Plan includes a commitment to eliminate Medical Services Plan (MSP) premiums and fund this change through the implementation of an employer health tax (EHT). Since local governments are subject to this proposed tax, the Union of BC Municipalities (UBCM), with support from the British Columbia Government Finance Officers Association, surveyed local government financial officers in April of 2018 to better understand the impact of the EHT on local government finance. The data from the survey provided the basis for this report.

Local Government Finance

Local governments have a limited revenue base that relies heavily on property taxation¹. While the property tax provides revenue stability and predictability, it does not fairly distribute costs across income levels, placing an undue share on lower and middle income British Columbians. Local governments are also subject to significant external cost drivers due to decisions made by other orders of government. In recognition of both current and projected stresses, BC local governments have called for a joint review of the local government finance system.² One of the objectives of such a review is to prevent the property tax becoming unaffordable for a greater number of British Columbians.

UBCM Employer Health Tax Survey

77 respondents participated in the UBCM survey, representing just over 40% of local governments in British Columbia. Respondents varied in population from 107 (Village of Zeballos) to 631,406 (City of Vancouver). The survey solicited information on local government costs for employee MSP premiums and estimated EHT costs for the period 2017-2020. This data is provided in the Appendix to this report.

Employer Health Tax and Local Government

In 2017, all but one of the 77 survey respondents paid some portion of employee MSP premiums. For unionized employees, employer-paid MSP contributions are a negotiated benefit and vary from contract to contract. Local governments may

¹ Union of BC Municipalities, *Strong Fiscal Futures: A Blueprint for Strengthening BC Local Governments' Finance System* (2013), 18.

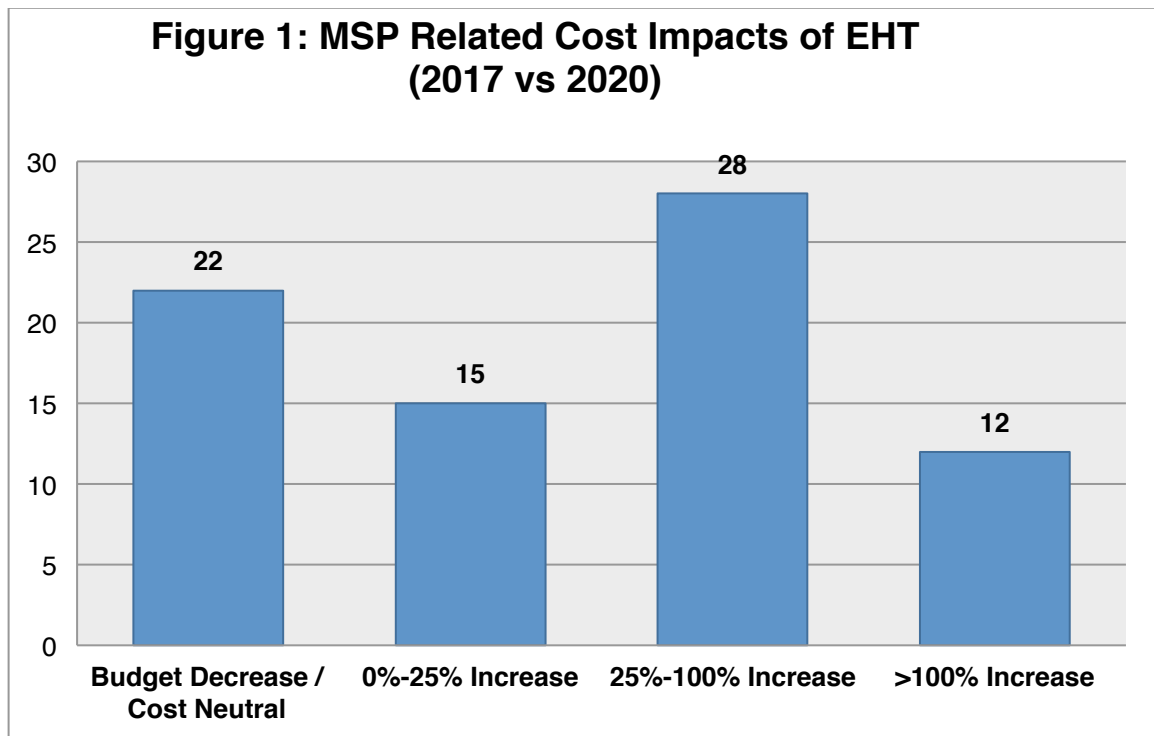
² Union of BC Municipalities, *Local Government Finance Policy Paper* (2013).

also pay a portion of MSP premiums for exempt staff, although this too is a matter of local determination.

The employer health tax will be imposed upon businesses and organizations in accordance with the size of their payroll. Businesses and organizations with payrolls less than \$500,000 will be exempt from the EHT. The tax rate will start at 0.98 percent for annual payrolls in excess of \$500,000 and will gradually increase to 1.95 percent for payrolls greater than \$1,500,000 per year.

Due to differences such as population served, the degree of contracting out, and levels of service, local government payrolls vary in size from hundreds of thousands to hundreds of millions. As a result, the impact of EHT implementation on local governments varies considerably (Figure 1).

Taking into account the elimination of MSP premiums effective January 1, 2020, 29% of respondents indicated cost reductions or cost neutrality as a result of EHT implementation relative to 2017 MSP premium costs. Correspondingly, 71% respondents indicated increased costs in relation to EHT implementation in comparison to 2017, with 36% of respondents indicating increases of 25-100% and 15% indicating increases greater than 100%.

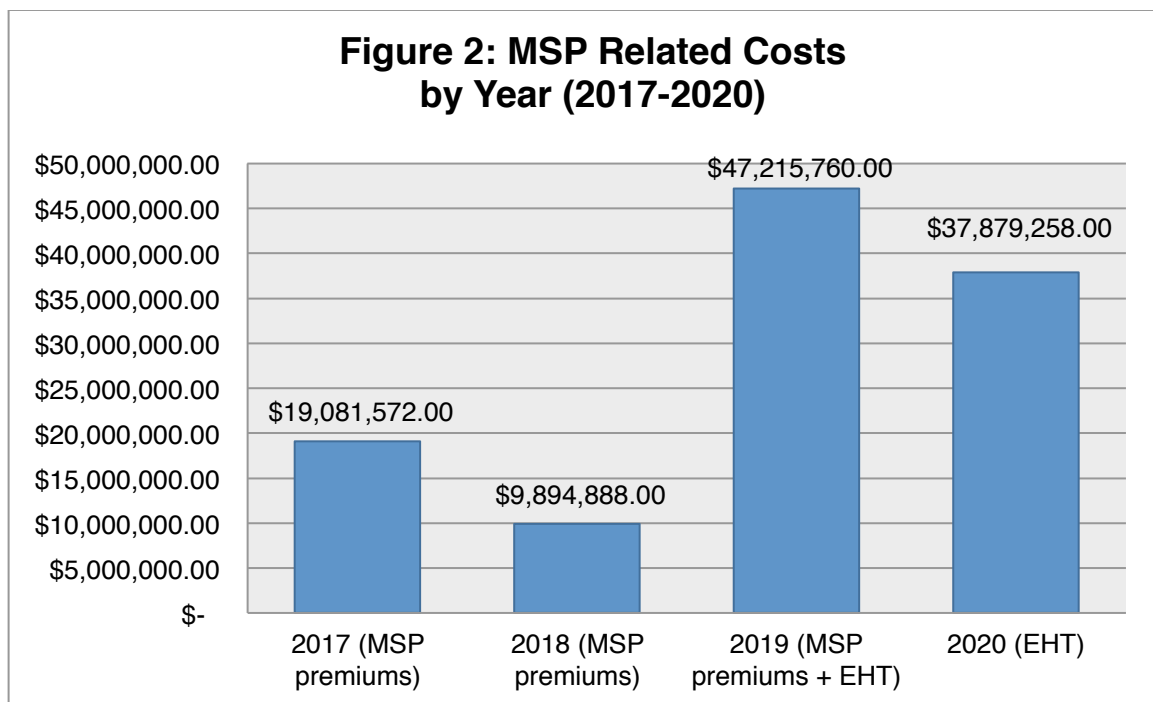


Source: UBCM survey (77 of 189 local governments)

Another way of analyzing the survey data is to consider the impact on local government as a sector. As a group, the 77 communities that contributed to the survey will see its MSP related costs double between 2017 and 2020 as a result of the EHT (Figure 2).

The survey responses also demonstrate that the provincial government decision to reduce MSP premiums by 50% effective 2018 provided significant cost savings for local governments that paid some portion of employee MSP premiums. This relief was effectively eliminated by the introduction of EHT. The transition year of 2019, in which MSP premiums are retained while the EHT is phased in, will also create an extraordinary single year increase in which MSP related costs will more than quadruple for the respondents.

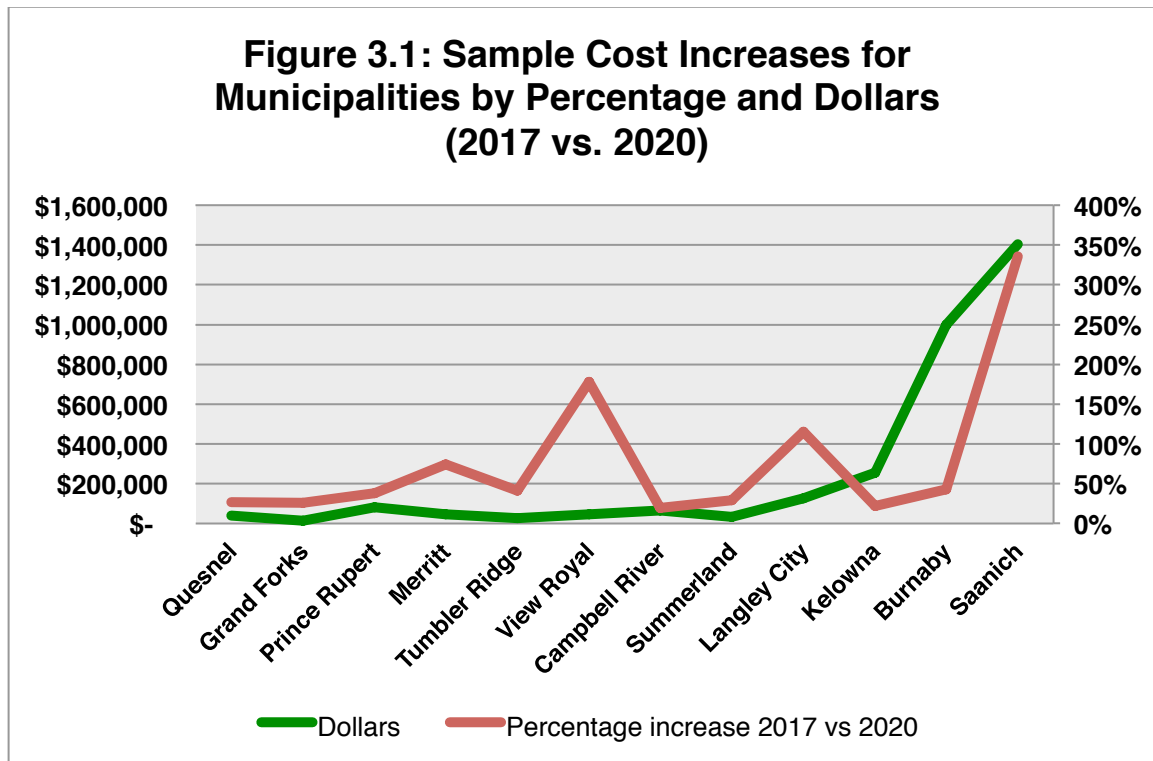
Given that UBCM’s survey data reflects information for 40% of BC local governments, the actual increase in for the entire local government sector in 2019 and beyond resulting from EHT implementation are greater than indicated by our survey.



Source: UBCM survey (77 of 189 local governments)

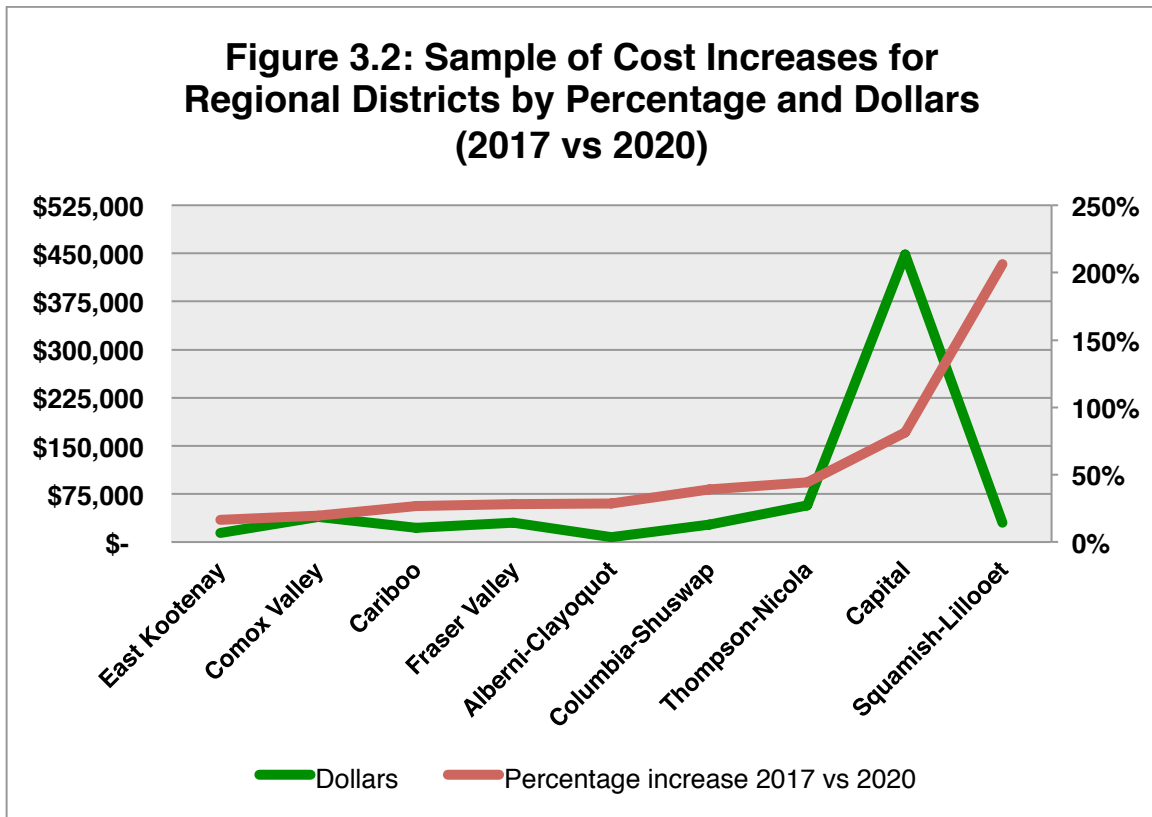
While 21 respondents will see a net cost savings by 2020 through the implementation of EHT, the savings will be modest for most of this group. Conversely, for communities facing cost increases due to EHT implementation, the increases are dramatic. Increased employee MSP related costs for

communities like Vancouver, Saanich, Victoria, and Burnaby will run into the millions. Excluding these four communities, the majority of local governments with populations greater than 50,000 will also see significant impacts, with an average MSP related cost increase of \$631,500, or a budget increase of 92% from 2017 to 2020. Figure 3.1 demonstrates the range of cost increases due to the EHT for a sample of municipalities based on a comparison of 2017 and 2020 MSP related costs.



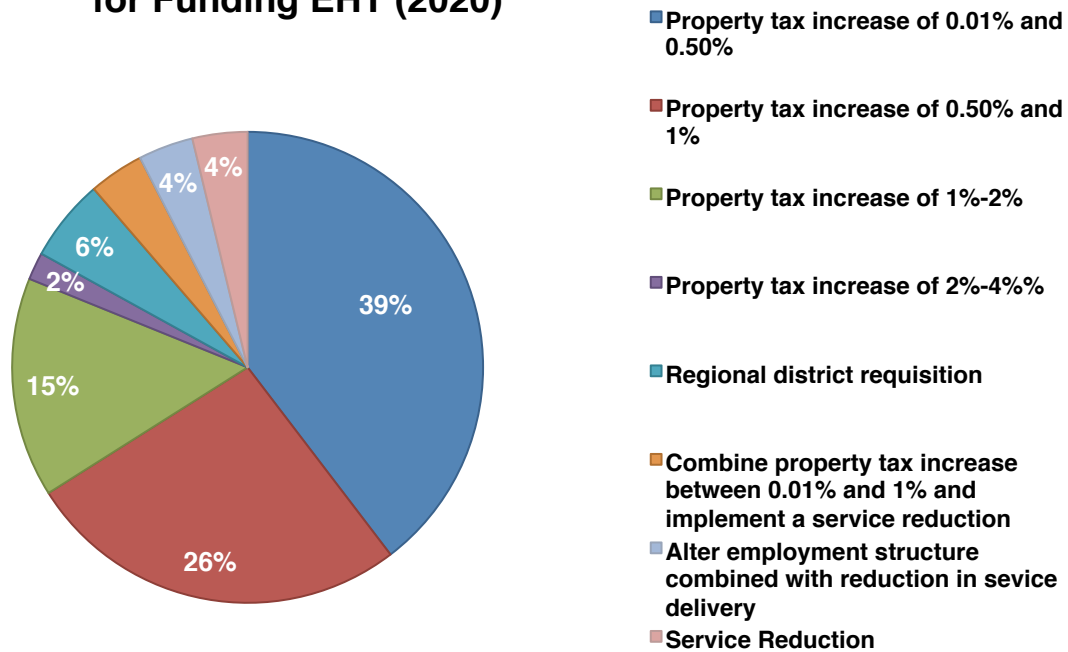
Local government costs will be further increased when the effect of regional districts is factored in (Figure 3.2). Regional districts cannot collect taxes directly from residents, and instead rely on a requisition that is submitted to the Ministry of Municipal Affairs and Housing and direct billing of municipalities. Regional districts that see a net increase in costs as a result of EHT implementation may choose to fund this increase through its requisition, thus further increasing the impact of the EHT on taxpayers in municipalities and electoral areas within the regional district.

Figure 3.2: Sample of Cost Increases for Regional Districts by Percentage and Dollars (2017 vs 2020)



Local governments that have a MSP related cost increase due to the EHT will need to consider how best to fund the change. As indicated in Figure 4, these Councils and Boards will face a choice of reducing services, increasing property taxation, or a mixture of both. The majority of respondents have indicated that these options involve some form of property tax increase, with 15% indicating that such increases are likely in the range of 1-2%.

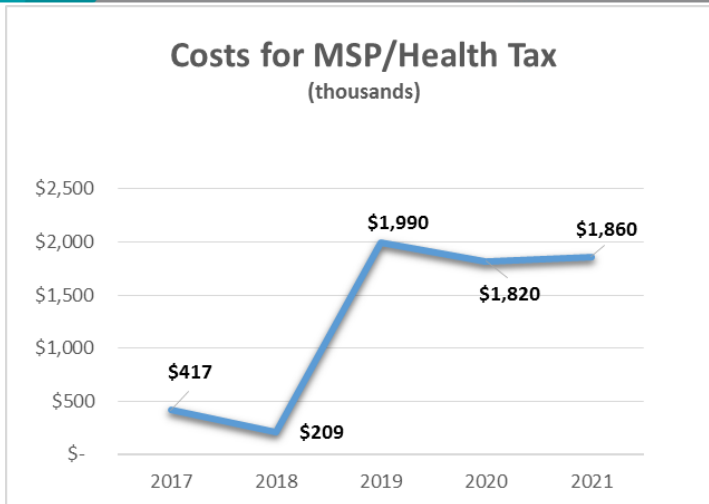
Figure 4: Local Government Options for Funding EHT (2020)



Case Study: District of Saanich

The proposed employer health tax will have significant budget implications for the District of Saanich. The estimated cost for Saanich in 2019 during the transitional year of EHT implementation is \$1.78 million for the new tax plus \$209,000 for employee MSP premiums. These costs will be distributed between the general fund (property taxation) and the sewer and water utilities (user fees). The general fund portion equates to a 1.3% property tax increase. In subsequent years, the tax will rise in step with collective agreement settlements that are currently 2% to 2.5%. Saanich Council will be faced with a choice of increasing taxes, reducing services, or a combination of the two. Budget reductions implemented after the 2008 economic downturn have left few options remaining.

If the assumption is that the increase should be managed through operating budget reductions, the impact translates into a reduction of at least 15 positions and therefore impactful reductions in service levels. Alternately, capital funding could be reduced moving backwards on a decade of Council commitment to achieve sustainable funding levels for infrastructure replacement.



“Saanich cannot manage a 1.3% property tax increase from this additional expense through simple ‘belt tightening’. We would have to amputate a limb.”
Paul Thorkelsson, CAO

The impact on Saanich property owners could be compounded with increased levies for the Capital Regional District and Hospital District, BC Assessment, and BC Transit who would also be subject to the employer health tax and facing the same challenges to fund it.

The impact on Saanich’s medium to large business property owners is twofold as they face paying the EHT directly on top of any property taxation increases that may be implemented. An option is to put the burden solely on residential properties, but this is likely to meet strong resistance as 92% of Saanich’s assessment base is residential and due to low non-market revenue in recent years, annual tax increases are trending over 3%.

Employer-paid MSP premiums are a negotiated benefit. Implementation of this tax applied will remove the ability for Saanich to negotiate this benefit as part of collective bargaining. Where property tax currently funds only a small portion of the premiums for some staff, a shift to the health tax confers a considerable benefit without any bargaining and passes the cost on to Saanich property owners.

Conclusion

The introduction of the employer health tax will lead to increased Medical Services Plan related costs for a considerable portion of the local government sector. While a small portion of local governments will see reduced MSP related costs once the EHT is implemented, the savings for most of these communities are negligible. Conversely, the cost impacts for some larger communities are considerable. Based on the survey information provided to UBCM, Medical Services Plan related costs for respondents would double between 2017 and 2020. On a one-time basis, due to implementation of the EHT while MSP

premiums are still in place, MSP related costs for respondents would quadruple between 2018 and 2019.

Given that the communities most impacted tend to be larger population centres, it is safe to conclude that the implementation of the EHT will lead to property tax increases for the majority of British Columbia's population. This will have a particular impact on the private sector, since businesses that are already paying the EHT directly will likely face increased property taxes as well.

Due to the extent of these impacts, many local governments are questioning a tax policy that results in the funding of a provincial service (healthcare) through property taxation.

Appendix A – Survey Results: Medical Services Plan (MSP) Related Costs by Year

Local Government	2017 (MSP Premiums)	2018 (MSP Premiums)	2019 (MSP Premiums + Employer Health Tax)	2020 (Employer Health Tax)
Alberni-Clayoquot RD	\$26,625.00	\$19,000.00	\$52,600.00	\$34,300.00
Anmore	\$16,050.00	\$8,100.00	\$17,500.00	\$9,400.00
Ashcroft	\$19,912.00	\$10,000.00	\$20,000.00	\$10,000.00
Belcarra	\$10,502.00	\$5,252.00	\$11,421.00	\$6,169.00
Burnaby	\$2,302,000.00	\$1,086,000.00	\$4,400,000.00	\$3,300,000.00
Campbell River	\$336,211.00	\$340,000.00	\$562,300.00	\$400,800.00
Capital RD	\$552,000.00	\$271,000.00	\$1,271,000.00	\$1,000,000.00
Cariboo RD	\$83,000.00	\$41,500.00	\$141,500.00	\$105,000.00
Chase	\$14,550.00	\$8,550.00	\$24,462.00	\$15,912.00
Columbia-Shuswap RD	\$69,746.00	\$35,000.00	\$130,000.00	\$96,900.00
Colwood	\$78,225.00	\$39,113.00	\$170,000.00	\$130,000.00
Comox Valley RD	\$202,282.00	\$220,000.00	\$337,900.00	\$241,500.00
Courtenay	\$188,000.00	\$92,250.00	\$317,250.00	\$225,000.00
Creston	\$45,000.00	\$22,500.00	\$75,500.00	\$54,000.00
Dawson Creek	\$195,825.00	\$100,850.00	\$352,315.00	\$259,009.00
Duncan	\$45,600.00	\$22,500.00	\$75,577.00	\$54,000.00
East Kootenay RD	\$84,038.00	\$42,018.00	\$139,919.00	\$97,901.00
Elkford	\$40,472.00	\$20,250.00	\$79,868.00	\$60,810.00
Enderby	\$15,075.00	\$7,500.00	\$22,575.00	\$15,075.00
Fort St. John	\$265,266.00	\$127,800.00	\$524,366.00	\$406,480.00
Fraser Valley	\$106,500.00	\$53,000.00	\$189,500.00	\$136,500.00
Gold River	\$24,500.00	\$14,000.00	\$45,200.00	\$31,200.00
Grand Forks	\$52,000.00	\$26,000.00	\$64,000.00	\$65,500.00
Harrison Hot Springs	\$20,775.00	\$12,060.00	\$25,000.00	\$12,500.00
Invermere	\$34,875.00	\$17,100.00	\$53,560.00	\$36,460.00
Kaslo	\$12,150.00	\$6,300.00	\$12,500.00	\$6,301.00
Kelowna	\$1,151,000.00	\$575,520.00	\$1,955,520.00	\$1,407,600.00
Kent	\$33,750.00	\$16,875.00	\$88,407.00	\$71,532.00
Keremeos	\$14,400.00	\$7,200.00	\$18,600.00	\$11,600.00
Ladysmith	\$85,397.00	\$42,683.00	\$150,331.00	\$107,648.00
Lake Country	\$97,875.00	\$55,350.00	\$163,400.00	\$107,648.00
Langley District	\$630,500.00	\$386,000.00	\$1,666,000.00	\$1,300,000.00
Langley City	\$110,000.00	\$55,000.00	\$291,000.00	\$236,000.00
Lantzville	\$21,150.00	\$11,250.00	\$31,996.00	\$21,161.00
Logan Lake	\$24,300.00	\$12,150.00	\$42,650.00	\$31,000.00
Lytton	\$8,100.00	\$4,050.00	\$9,048.00	\$4,998.00

Maple Ridge	\$350,000.00	\$175,000.00	\$875,000.00	\$700,000.00
McBride	\$6,390.00	\$6,300.00	\$6,300.00	-
Merritt	\$62,452.00	\$31,225.00	\$138,027.00	\$108,938.00
Metchosin	\$13,320.00	\$6,660.00	\$21,012.00	\$14,636.00
Mission	\$268,000.00	\$134,000.00	\$499,650.00	\$365,650.00
Nakusp	\$25,200.00	\$12,600.00	\$27,600.00	\$15,225.00
New Denver	\$3,600.00	\$1,800.00	\$7,427.00	\$5,739.00
New Hazelton	\$9,000.00	\$4,500.00	\$10,311.00	\$6,012.00
New Westminster	\$706,200.00	\$363,150.00	\$1,817,450.00	\$1,483,400.00
North Cowichan	\$222,500.00	\$112,500.00	\$405,000.00	\$298,350.00
Oak Bay	\$167,099.00	\$83,550.00	\$451,004.00	\$367,454.00
Okanagan-Similkameen RD	\$125,000.00	\$65,000.00	\$180,000.00	\$120,000.00
Oliver	\$42,000.00	\$22,000.00	\$61,000.00	\$41,000.00
Peace River RD	\$52,885.00	\$30,000.00	\$74,709.00	\$48,165.00
Penticton	\$380,704.00	\$190,352.00	\$594,853.00	\$404,501.00
Port Alice	\$13,538.00	\$6,770.00	\$13,026.00	\$6,381.00
Port Coquitlam	\$340,000.00	\$170,000.00	\$785,000.00	\$630,000.00
Port McNeill	\$9,900.00	\$4,950.00	\$15,453.00	\$10,503.00
Port Moody	\$254,480.00	\$130,000.00	\$715,000.00	\$600,000.00
Prince George	\$667,358.00	\$333,679.00	\$1,678,291.00	\$1,371,504.00
Prince Rupert	\$213,000.00	\$107,000.00	\$394,000.00	\$293,000.00
Quesnel	\$152,000.00	\$76,000.00	\$268,660.00	\$192,660.00
Radium Hot Springs	\$12,600.00	\$6,300.00	\$13,300.00	\$7,000.00
Saanich	\$417,420.00	\$208,710.00	\$1,989,410.00	\$1,820,000.00
Sidney	\$90,990.00	\$47,970.00	\$142,970.00	\$97,000.00
Sooke	\$54,975.00	\$36,000.00	\$114,000.00	\$78,000.00
Squamish	\$237,033.00	\$121,000.00	\$440,828.00	\$326,548.00
Squamish-Lillooet RD	\$14,659.00	\$7,500.00	\$51,293.00	\$44,888.00
Summerland	\$111,450.00	\$55,700.00	\$197,200.00	\$144,300.00
Sunshine Coast RD	\$334,000.00	\$160,096.00	\$415,856.00	\$255,760.00
Thompson-Nicola RD	\$129,150.00	\$65,000.00	\$251,405.00	\$186,405.00
Trail	\$87,600.00	\$43,800.00	\$76,200.00	\$32,450.00
Tumbler Ridge	\$63,923.00	\$44,775.00	\$133,509.00	\$90,198.00
Ucluelet	\$38,301.00	\$21,600.00	\$57,395.00	\$36,511.00
Vancouver	\$5,000,000.00	\$2,500,000.00	\$17,500,000.00	\$15,000,000.00
Vernon	\$436,635.00	\$220,000.00	\$668,500.00	\$448,500.00
Victoria	\$800,000.00	\$400,000.00	\$2,300,000.00	\$1,900,000.00
View Royal	\$25,200.00	\$13,000.00	\$81,000.00	\$70,000.00
Warfield	\$6,900.00	\$3,450.00	\$8,950.00	\$5,500.00
Williams Lake	\$113,059.00	\$56,530.00	\$199,706.00	\$143,176.00
Zeballos	\$5,400.00	\$2,700.00	\$2,700.00	-