Submission to the Expert Panel on Tax from the Union of BC Municipalities
DATA SOURCES AND ACKNOWLEDGEMENT

**Property assessment and property tax data**: Province of British Columbia, Ministry of Community, Sport and Cultural Development and BC Assessment

**Provincial tax, resource royalties and charges**: Province of British Columbia, Audited Financial Statements, with the exception of Provincial School Property Tax data, which was obtained from the Ministry of Community Sport and Cultural Development

**Population data**: Province of British Columbia, Statistics BC

**Business metrics data**: Unaudited financial statement for the Company

UBCM wishes to acknowledge and thank the staff of BC Assessment and the Ministry of Community, Sport and Cultural Development for their response to these data requests.
EXECUTIVE SUMMARY

LOCAL GOVERNMENT AUTONOMY AND ACCOUNTABILITY
The local government system is built around empowerment and accountability, which provides flexibility to meet local needs. Autonomy to set tax rates is a key element of the system and one which international experience has shown enhances both the responsibility and accountability of the taxing authority.

BUSINESS PROPERTY TAXATION IN CONTEXT
The 2010 municipal property tax on business in BC was about $1.25 Billion. This is a relatively small portion of the overall tax load on business, as compared to provincial tax and charges such as corporate income tax ($1.66 B), natural resource charges ($2.73 B), school property tax ($77 B), and PST ($1.9 B est.).

A study of investment decisions of major industrial enterprises showed municipal property taxes were not a major competitive issues under typical operating conditions. A case study based on a single small business showed municipal property taxes in 2010 amounted to 1.6% of total operating costs.

RECENT LOCAL GOVERNMENT FINANCE TRENDS
Although local government expenses are up, some of the impact is mitigated by municipal decisions to decrease the proportion of revenues derived from property tax, and to shift some of the property tax load away from business.

SHARED INTERESTS
Local governments in BC have many interests in common with the business community, including building a strong economy and strong communities. Municipalities are key players in building liveable communities, with a quality of life that attracts and retains business, workers, and customers.

There are several significant cost drivers over which municipalities have limited control, including regulatory compliance, policing costs largely under the control of the federal government, and costs to deliver services locally when the federal or provincial government have discontinued or scaled back services.

CONCLUSIONS
Key elements in relation municipal property taxes and competitiveness are:

• **Perspective:** municipal property taxes represent a small proportion of the overall tax load on business and may not present a competitive disadvantage;

• **Build on the existing framework:** Municipalities are keenly involved in the economic recovery, and are using tools at their disposal. Highlighting best practices in relation to these tools (e.g., tax policy; revitalization exemptions) may support business interests and enhance competitiveness; and

• **Encourage inter-governmental dialogue and creative solutions:** Workable sustainable solutions need all of the federal, provincial and local governments working together to ensure: responsibilities and authorities are balanced; revenue tools, including taxes and inter-governmental transfers, are appropriate and efficient; and the regulatory framework balances benefits and costs.
BACKGROUND

In January, 2012, the Honourable Kevin Falcon, Minister of Finance, announced that the government appointed an Expert Panel on Tax.¹ “The expert panel will consider the competitiveness of British Columbia’s tax environment for business and develop recommendations about which taxes most influence competitiveness and economic growth.” A component of the review will also look at municipal property taxation of business.” The panel’s recommendations must respect the Province’s balanced-budget framework and the panel is expected to submit its report by August 31, 2012.

The terms of reference for the panel state that “the review will include an examination of municipal property taxation of business and its impact on business competitiveness and investment. Recommendations must address issues of affordability and sustainability for local governments within the framework of the Community Charter.”

UBCM was invited to make a presentation to the Panel, and this document supports that presentation. The following four key topics are addressed:

• **Local Government autonomy and accountability**, which describes the legislative framework for local government in BC, how that approach is based on the recognition of local governments as accountable orders of government, and the benefits of local autonomy with respect to decisions about what services to deliver, and how to pay for them, including autonomy to set tax rates in relation to revenue needs;

• **Business Property Taxation in Context**, which looks at the relative significance of municipal property tax on three levels:
  o at a provincial-wide scale, by comparing municipal property taxes to a selection of other taxes and charges payable by business;
  o at the scale of big business, by considering the effect municipal property taxes have on significant business decisions of major industrial enterprises; and
  o at the scale of small business, through a case study which compares municipal property tax with other business costs.

  This section also describes recent trends in municipal finance in BC, in relation to the proportion of total revenues derived by property tax, and the proportion of municipal property tax imposed on business;

• **Shared Interests**, which describes local government interests in building a strong and sustainable economy and in building strong, sustainable communities. A discussion of some of the significant factors driving local government expenses is also included; and

• **Conclusions**, which draws out some key considerations relating to municipal property taxation and business competitiveness.

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¹ Province of British Columbia, Media Release, January 10, 2012
LOCAL GOVERNMENT AUTONOMY AND ACCOUNTABILITY

In British Columbia, the term “local government” refers to both municipalities and regional districts (RD). Both forms of local government are created by provincial statute, and while a broad range of legislation affects local government, two are key: the Local Government Act and the Community Charter.

Both these acts recognize municipalities and regional districts as orders of government within their jurisdictions that are autonomous/independent, responsible and accountable.²

This recognition is key to understanding the legislative framework, which is based on empowerment and accountability. This, when coupled with accountability, support the needs of both citizens and business in communities.

The legislative framework recognizes that local governments require authority to determine the public interest in their communities, adequate powers to address community needs, access to sufficient financial and other resources to support those needs, authority to make decisions about the effective management and delivery of services, and authority to determine levels of expenditure and taxation.

The empowerment approach means that while local governments have a broad authority to provide services, there are very few services that are actually mandated. Regional districts are required to undertake a number of planning activities, such as regional growth strategies, and solid waste, liquid waste and water management planning, and municipalities are required to deliver police services. Beyond these mandated services, local governments can make local choices about what services to deliver and what service levels are appropriate to address their community’s needs and priorities.

Local governments can provide a broad range of services, including water, sewer, drainage, roads, transit, fire, police, flood protection, recreational and cultural services, and a range of social services such as affordable housing and programs for the homeless. This flexibility allows local governments to meet the needs of their individual communities – and it allows for diverse and dynamic communities.

² Community Charter, section 1; Local Government Act, section 2

SUBMISSION TO THE EXPERT PANEL ON TAX PAGE 5 OF 22
With this empowerment comes the recognition that local governments must also be accountable for their decisions. A number of provisions within the legislation provide a formalized structure for that accountability, including open and transparent decision making processes, disclosure requirements, ethical conduct provisions, and a range of financial planning and reporting requirements. Accountability for both servicing decisions and responsibility for decisions about how to finance these services, including autonomy to set tax rates, are critical elements of the system.

“Whatever tax or taxes are chosen at the local level, local governments need to be able to set their own tax rates. International experience tells us that the most responsible and accountable local governments are those who raise their own revenues and set their own tax rates. Unless local governments can alter tax rates, they will not achieve local autonomy or accountability. Moreover, local tax rate setting provides predictability for municipal governments and gives them the flexibility to change rates in response to different circumstance.” (Financing Canadian Cities in the Future?; Kitchen, Harry; May, 2004)

Another key element in relation to financial accountability and the ability to deliver economic, efficient and effective services relates to the design of the regional district (RD) system in BC. That system is based on a federation model, with members of the regional district being representatives from the unincorporated or rural areas, as well as from the municipalities within the boundaries of the RD.

Questions are often raised about whether there might be service and cost efficiencies by amalgamating several municipalities within a metropolitan area. Several studies of amalgamations over the last few decades have shown that such amalgamations do not always produce the cost savings anticipated (see, for example, Amalgamation vs. Inter-Municipal Cooperation: Financing Local and Infrastructure Services; ICURR Press, 2001, Sancton, James, Ramsay).

In BC, the RD system provides an opportunity to avoid amalgamations by allowing services to be delivered over boundaries that make sense. Regional or sub-regional service delivery by RDs is common throughout BC, and often occurs where there are economies of scale by delivering in a broader area, or where harmonization of local government regulations is particularly desirable.

The system provides a flexible approach where service boundaries can be individually custom designed to allow for maximum efficiency.

Unlike a “two tiered” local government system in some Canadian and US jurisdictions, the local government system in BC does not simply divide service responsibilities between the two types of local government. Rather, it provides a mechanism where the RD provides governance and service delivery in the rural areas, and allows for it to also deliver services on a regional or sub-regional basis.
BUSINESS PROPERTY TAXATION IN CONTEXT

PROVINCE-WIDE PROPERTY TAX DATA
Municipalities levy property taxes to collect tax revenue for themselves, as well as a number of other taxing jurisdictions. Municipalities also levy fees and charges for a range of services, but these are not included in this analysis, unless they are specifically mentioned.

Throughout this submission, when the term property taxes, is used, we refer to all property taxes levied on properties within municipalities, including those levied by the municipalities and those collected on behalf of other taxing jurisdictions, such as the Province, regional districts, regional hospital districts, transit authorities, and some minor taxing jurisdictions like BC Assessment and Municipal Finance Authority. The term “municipal property taxes” is used to distinguish that portion of the total property tax imposed on properties within municipalities for municipal purposes. Excluded from “municipal property taxes”, therefore are taxes collected on behalf of the other taxing jurisdictions (such as the Province, etc).

When we refer to the proportion of municipal property taxes imposed on businesses, we include taxes imposed on properties within assessment classes 4 (Major Industry), 5 (Light Industry), and 6 (Business and other).

Figure 1 depicts the breakdown of total 2010 property taxes levied on properties within municipalities.

Figure 1: 2010 Property Taxes Levied on Properties Within Municipalities

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>General Municipal</td>
<td>$3.21 B</td>
<td>54%</td>
</tr>
<tr>
<td>Provincial Services</td>
<td>$2.15 B</td>
<td>36%</td>
</tr>
<tr>
<td>RD, Transit, Minor</td>
<td>$.59 B</td>
<td>10%</td>
</tr>
</tbody>
</table>

Total property taxes imposed were just under $6 Billion, and of this, about $3.21B was for general municipal purposes. Other “local taxes” such as regional district and transit amount to a further $.59B, and the remaining $2.15B was levied on behalf of the Province for school purposes ($2.05B) and Regional Hospital Districts ($.1B) for hospital capital purposes.
**Figure 2** provides a breakdown of the $3.21B in municipal property taxes and it indicates a business burden of about **$1.25B**, or **39%** of the total general municipal property taxes.

![Figure 2: 2010 General Municipal Property Taxes by Taxpayer](image)

Comparing it to other taxes and charges imposed on businesses in BC can provide further context to the $1.25 B business pays in municipal property taxes.

**Figure 3** provides this comparison in relation to a limited range of taxes and charges, including 2010 school property taxes; 2010/11 corporate income tax and natural resource revenues, and an estimate of the cost of the return to PST (based on the reduced tax burden on business through the introduction of HST).³

![Figure 3: Comparison of Municipal Property Tax with Selected Taxes and Charges Levied on Business in BC](image)

It should be noted that the taxes and charges chosen are not all-inclusive, and so the figures should be considered to be illustrative only.⁴

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³ Kesselman, Jonathan R.; HST or PST? The Real Truth or Consequences.

⁴ Excluded from the graph are all federal taxes/charges (e.g., federal corporate income tax; payroll taxes), as well as provincial taxes/charges of general application (e.g., property transfer, fuel, carbon and corporation capital tax, licensing fees). In addition, the property taxes indicated in the graph relate only to those imposed within municipalities, and so exclude any provincial or local property taxes on properties in rural areas (e.g., provincial school and rural tax, RD tax).
As illustrated in Figure 3, even with only a selection of taxes and charges included for the comparison, municipal property taxes account for only about 15% of those selected. While we have not undertaken an analysis of the full extent of other taxes/charges payable by business, including these would reduce the relevance of municipal property taxes, and one could expect that they might be reduced to less than ½ of the 15% shown, particularly if federal taxes were to be included as well.

**BIG BUSINESS: INDUSTRIAL TAXATION**

The Province of BC and UBCM assessed the impact of property taxation on business decisions related to major industrial facilities. The study relied on case studies based on industry life cycles, commodity price cycles, financial returns and competitive factors, as well as extensive interviews with representatives of firms in each sector. The Executive Summary from that study said, in part:

“Analysis of industry costs at the national level confirms the relatively low contribution of property taxes to overall industry costs. Based on Statistics Canada data, the share of total costs attributable to indirect taxes (including municipal property taxes) averaged .54% from 2005 to 2009. Among the specific industry sectors analyzed for this study, the share ranged from .17% for the petroleum and coal sector to 1.19% for marine terminals. With the possible exception of marine terminals, our analysis of a sample of individual companies in BC did not indicate that property taxes account for a dramatically disproportionate share of costs relative to the national averages. Using the most prominent example, in 2009 Catalyst’s municipal property taxes of $23 million accounted for approximately 1.15% of estimated total operating costs. This is substantially higher than the national average of .22% for all indirect taxes for the paper industry, but still a small portion of total costs.”

The study then describes the following decision patterns, which were confirmed by interviews with company representatives:

- “Property taxes are not a major competitive issue under typical operating conditions.”;
- “Property taxes are not a significant factor in investments in major capital projects because anticipated costs are small relative to total operating costs and potential revenue over the economic life of the new investment”;
- “Property taxes do affect decisions on re-investment in existing facilities, which may affect the long term viability of operations.”; and
- “Property taxes become a major factor for firms in financial distress due to structural or cyclical factors, because property taxes may constitute a large portion of firms’ fixed costs.”

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5 Major Industrial Property Taxation Impacts, March 2011, Davies Transportation Consulting Inc., Wave Point Consulting Ltd, Land Property Advisors Inc, for the Union of BC Municipalities and BC Ministry of Community, Sport and Cultural Development
These findings suggest that property taxes are not generally a competitive issue for major industry, and that the circumstances where property taxes may become a competitive issue are relatively contained. As such, these could potentially be managed with existing tools. For example, the ability to offer a revitalization tax exemption may be well matched to the study’s findings of property taxes acting as a disincentive to reinvest in existing facilities.

**SMALL BUSINESS: A CASE STUDY**

Small Business Inc6 (SBI) is a Canadian Controlled Private Corporation, operating a small wholesale store from leased premises in a municipality in BC. The store generates annual revenues in the $1.5 to $2 million range, and it has 8 employees.

The store is located in a small building in a mixed industrial-commercial area, and it has been operating from that location since the late 70’s. Like many businesses, SBI is feeling the effects of the economic downturn and profits are down. But over the years, the owner has seen a reasonable return on his investment, and sees the equity he has built as an opportunity to invest in another business venture.

In essence, SBI is indicative of the many small, independent business driving the economy in all parts of BC. The business is a member of the Chamber of Commerce and the Canadian Federation of Independent Business (CFIB) and appreciates the support it gets from these organizations. SBI is making cost-benefit decisions every day, and like many businesses, it has something to say about taxes and government regulation.

The owner’s biggest tax complaint is about carbon tax. The business delivers product all over the city, so gas is a major expense. He also knows about complying with government regulation, having removed the store’s plumbed coffeemaker because the city required the installation of a $3,000 backflow valve.

The owner has agreed to let us compare the municipal property tax on the business’s location with other business costs. SBI underwent a period of expansion to a number of “satellite” locations in the late 80’s and early 90’s, but scaled back to operating solely out of its original location by 2004.

Since SBI’s financial statements don’t separately identify revenue and expenses from separate locations, data comparisons were only possible for 1985 and 2010, two years in which the business was operated from a single location.

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6 This case study is based on an actual corporation carrying on business in BC. Its name and certain details of its operations have been altered in order to protect the confidentiality of the business information provided. However, all assessment, tax, and other financial information are actual, and have not been adjusted for inflation.
PROPERTY ASSESSMENT AND PROPERTY TAX CALCULATIONS

SBI leases a portion of a building for its store. Lease payments are based on a 25% occupancy of the building, as is the business’s proportionate share of the property taxes imposed on the property. The property is assessed in Class 6 (Business and Other), with a net assessment for general municipal purposes of $463,050 in 1985, and $2,170,000 in 2010. Municipal property taxes, including municipal general and special purposes, regional district, transit and MFA levies, totalled $8,008 in 1985 and $33,432 in 2010. SBI’s 25% allocation of these taxes results in property taxes of $2,002 and $8,358 in 1985 and 2010, respectively.

PROPERTY TAXES COMPARED TO TOTAL OPERATING EXPENSES AND REVENUE

Figures 4 and 5 compare the municipal portion of the property tax with the business’s total operating expenses and total revenue in 1985 and 2010.

**Figure 4: 1985**

<table>
<thead>
<tr>
<th>Property Tax</th>
<th>Operating Expenses</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$2k</td>
<td>$316k</td>
<td>$1.3M</td>
</tr>
</tbody>
</table>

**Figure 5: 2010**

<table>
<thead>
<tr>
<th>Property Tax</th>
<th>Operating Expenses</th>
<th>Revenue</th>
</tr>
</thead>
<tbody>
<tr>
<td>$8k</td>
<td>$531k</td>
<td>$1.7M</td>
</tr>
</tbody>
</table>

Municipal property taxes amounted to .6% of operating costs and .15% of revenue in 1985. In the 25 intervening years, all expenses increased, with property taxes increasing at a faster speed than total operating costs, but they still represented a small percentage of total operating costs (1.6%).

From the owner’s perspective “*Municipal taxes weren’t a significant cost then, and they aren’t now*.”
**Comparison of Municipal Property Tax to Selected Operating Costs**

Figures 6 and 7 compare property taxes with selected cost categories.

**Figure 6: 1985**
- Telephone and Utilities $8k
- Property Tax $2k

**Figure 7: 2010**
- Payroll Taxes $19k
- Credit Card Discount $15k
- Telephone and Utilities $12k
- Property Tax $8k

**Bundling:**

It is common today for telecommunications and internet providers to speak of “bundling” of services – to get preferred pricing if you purchase telephone, cable and internet service from the same provider.

Municipalities bundle services also. In that bundle are utilities such as water and sewer, which require significant infrastructure investments, just as do telephone, internet and other utilities. So it is illustrative to compare the municipal bundle with private sector bundles.

In 1985, the municipal bundle amounted to 25% of the telephone and utility bundle, and in 2010, it represented 70% of the telephone and utility bundle.

So the municipal bundle is still substantially less than the telephone and utility bundle, but it is vastly more cost effective when one considers the range of services included in the municipal bundle as compared to the telephone and utilities bundle.

With telephone and utilities, the business is getting just that. With the municipal bundle, however, the business is getting not only utilities such as water and sewer, but also the roads system that brings its customers to the store and allows the business to deliver product, the transit system that reduces congestion so that product can be received and delivered more efficiently, and the police and fire protection that the business, its employees and its customers depend on. The municipal bundle also delivers services that benefit the business because they help to make the community a place where people want to live – “quality of life” services like public parks and recreation facilities – and the business knows that without those people, it has no market, and without a market there is no business.
**Credit Card Discounts and Payroll Taxes:**
Also specifically compared are credit card discounts and payroll taxes for 2010. Both are variable costs, which make comparisons to municipal property tax challenging, but these are provided to put the municipal property tax into context.

Vendor discount rates charged on credit card usage are a substantial cost to many small businesses, and CFIB has been successful in negotiating preferred rates for its members. Even with these preferred rates, credit card discounts payable by the business were almost twice the amount of the municipal property taxes.

Payroll taxes (CPP and EI) are significantly higher than municipal property taxes – almost 2 ½ times as much. This is provided simply as a way of illustrating that although it is clear that municipal property taxes are not a significant cost driver overall, they are not even very significant when compared with other taxes.

**COMPARISON OF MUNICIPAL PROPERTY TAX TO ALL OPERATING COSTS**
*Figures 8 and 9* compare municipal property taxes to all other operating costs for 1985 and 2010.

*Figure 8: 1985*
- Municipal Property Tax $2k
- Bank Charges and Interest $6k
- Telephone and Utilities $8k
- Advertising and Promotion $11k
- Data Proc/Prof Fees $16k
- Building Occupancy $22k
- Office/Misc $23k
- Automotive $31k
- Wages/Ben $197k

*Figure 9: 2010*
- Municipal Property Tax $8k
- Telephone and Utilities $12k
- Credit Card Discounts $15k
- Payroll Taxes $19k
- Automotive $25k
- Data Proc/Prof Fees $25k
- Office/Misc $26k
- Adv/Promotion $33k
- Building Occupancy $50k
- Wages/Ben (exclu taxes) $318k
TRENDS IN MUNICIPAL REVENUES IN BC

Municipal expenditures have risen significantly over the recent past, and a discussion about some of the major cost drivers is set out in the following sections. Given these cost pressures and given a significant municipal interest in a strong local, provincial and national economy and a competitive business climate, many Councils are making different tax policy choices than they might have a decade ago. This has resulted in two noticeable shifts.

The first is in relation to the proportionate share of total revenue needs that are being met by various revenue sources. Figure 10 illustrates the dynamic over a 25-year period from 1985 through to 2010.

As Figure 10 illustrates, the proportion of total revenue coming from federal and provincial transfers and other own source revenues, such as investment income or income from government business enterprises, has remained relatively consistent over the period. However, there is a noticeable decline in the proportion of revenue being derived from property taxation and a noticeable increase in the proportion of revenue derived from sale of services (i.e., fees and charges).

Municipal property tax as a proportion of total municipal revenue has declined from about 60% in the mid-1980’s to just over 45% in 2010, and revenue from sale of services has increased from about 15% to almost 31% over the same period.
The second dynamic is that this decline in the proportion of municipal revenues derived from property taxes is coupled with a very gradual reducing of the proportion of those property taxes that are imposed on business.

**Figure 11** shows a decline in the proportionate share of property taxes payable by business of about 4% from approximately 42% in 2000 to about 38% in 2010. The proportionate share borne by residential properties has increased by this same percentage, raising from about 56% in 2000 to about 60% in 2010. The proportion of property taxes payable by other property classes (such as utilities, farm, and recreational properties) has remained unchanged at 2%.

![Figure 11: Reducing Business Proportionate Share of Property Taxes](image)

While this dynamic is subtle, it, when combined with a reduced reliance on property taxes in general in favour of other available revenue sources, means that business is paying about $400 million less in 2010 than would have been the case if the proportions of tax revenue payable by business, and the overall proportion of tax revenue to total revenue had remained at 2000 levels.

In essence, these changes have served to “change the trajectory” with respect to municipal property tax on business properties.

There is a growing understanding that the taxation of business by all orders of government needs to consider how those taxes affect investment and the business climate, and municipalities in BC are responding.
SHARED INTERESTS

Local governments in BC understand the importance of the business sector to their local economies and to their communities, and they share a number of interests with that sector, including building both a strong sustainable economic base, and a strong, sustainable community.

BUSINESS INTERESTS ARE TOP OF MIND

The needs of the business community are considered at Council and Board tables across the province, and the recent economic downturn and ongoing recovery have created an even greater awareness of the importance of the business sector to our communities.

From our perspective it is not a matter of “us” and “them”, it is “we”. While this is a common philosophical perspective in local governments, it is quite a literal statement in many municipalities where locally elected officials are or were business leaders. For example, a 2010 survey by the Local Government Management Association indicated that, at that time, a full 47% of Municipal Mayors were business owners. Regardless of the composition of Councils though, local governments know that by working together, we are both stronger.

Most local governments have good working relations with the business community, both at the level of individual businesses and with the Chamber of Commerce and other local business organizations.

Through these relationships, as well as more formal opportunities such as pre-budget consultations, business is able to share their perspectives with local governments. Local governments do take these interests into consideration as they develop strategies to best meet their community’s needs.

Local governments are looking to service and expenditure reviews, independent cost/benefit analysis, taxation reviews, and the like to inform their decision-making, to the benefit of both the business sector and others in the community. In addition, many municipalities have policies in place to reduce business taxation over time (e.g., City of Vancouver).

ACTIVE PARTICIPANTS IN BUILDING LOCAL ECONOMIES

Local governments are engaged in economic development in a wide range of both formal and informal roles, including building and implementing municipal and regional economic development strategies. Perhaps as important, are the use of local government program and policy levers to support economic development and business retention within a community and a region.
A few examples in this regard are:

- land use planning and zoning bylaws, which help to ensure sufficient industrial and commercial land, in the right locations;
- maintenance of agricultural zones, at significantly reduced tax rates, to support that industry;
- significant investment in road and transit infrastructure, which helps to free up road capacity for efficient goods movement for all business and industry;
- tourism marketing and partnering with the community to provide tourist information services and facilities to support that specific business sector;
- partnerships with other orders of government to streamline permit and licensing processes for businesses, to help keep business on the move; and
- use of tools like revitalization tax exemptions to encourage reinvestment.

**Building Communities that Provide Workers and Markets**

Metro Vancouver hosted the International Regions Benchmarking Conference in 2011. The opening keynote, Gil Penalosa summed it up perfectly when he said *“Quality of Life is the most important tool of economic competitiveness”.*

Intellectual capital is free to roam the globe, and we need to be able to attract it here.

Another way that local governments support economic growth and retention of business in communities is to work hard at ensuring that our communities are places where people want to live and work, and that they are places in which businesses want to locate.

KPMG’s Competitive Alternatives 2012\(^7\) compares business costs and other competitiveness factors in more than 110 cities in 14 countries. While the report does compare direct business costs, including the cost of real property, labour, transportation, and taxes, it also recognizes that these are not the only relevant competitiveness factors.

The report states that: “While business cost comparisons are one important aspect of any site selection process, a wide variety of other factors also influence the competitiveness of different locations”.

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\(^7\) Competitive Alternatives KPMG’s Guide to International Business Location Costs 2012 Edition; 2012 KPMG LLP
The report illustrates and compares a range of other major factors that commonly influence the site location decision, several of which are influenced by local government activities, including both:

- business factors, such as: suitable land sites; expedited or “fast track” permitting; and road, port and airport infrastructure; and
- personal quality of life factors, such as: crime rates; and cultural and recreational opportunities.

Municipalities respond to community needs, and increasingly, both individuals and businesses are demanding more from their municipality.

Both citizens and business care about quality of life, and want communities that provide recreational and cultural opportunities, and where downtown cores are safe, and green and walkable. They want communities where people can afford to live and that are supportive to the poor, and they want communities that are tackling climate change.

All of these things help make our communities places where people want to live, and where businesses want to locate; but they all come at a cost. Like all public policy makers, local elected officials need to balance the community’s needs with its ability to pay for the services it delivers. This is even more critical in a legislated environment in which the local government cannot deficit finance, and it is a particular challenge in these uncertain economic times.

One aspect of capital spending by local governments that is sometimes overlooked is its ability to stimulate the economy. Metro Vancouver, for example, expects to invest $5 Billion in infrastructure over the next 10 years, a considerable contribution to employment.

Clearly, though the employment and economic benefits of such projects must also be balanced against other factors such as their short and long term cost to taxpayers. Consequently, local governments are increasing looking to innovative ways to fund services, including partnerships with both the public and private sectors where these make good business and public policy sense.
FACTORS DRIVING LOCAL GOVERNMENT EXPENDITURES

In their efforts to accountably meet the needs of their communities, local governments struggle with a few types of cost drivers, over which they have limited control.

Cost of regulatory compliance

Many local government services are highly regulated by the federal and/or provincial governments. Two examples are the provision of drinking water and the disposal of wastewater, which relate to two publically held core values: public health and environmental protection.

While local governments share these values, the cost of compliance with regulations to protect them is big.

Metro Vancouver will have incurred costs of $1.2 Billion, once construction is completed, for three facilities needed to meet higher provincial drinking water standards as determined by Provincial Health Officers. A further $1.8 Billion will be required for improvements or upgrades to three wastewater treatment plants needed to meet new federal sewer regulations, and to respond to population growth in parts of the region. These major projects are in addition to the more routine, on-going infrastructure requirements of the region. Smaller local government jurisdictions are also facing compliance costs that, while clearly less than the cost of improvements for Metro Vancouver, are significant relative to the size of their communities.

Just as in a business context, local governments believe that the benefit of a regulation should exceed its cost. The challenge for regulators in undertaking this cost/benefit analysis is that they are not the order of government paying to implement the regulation. Consequently, local governments are keenly interested in engaging with provincial and federal regulators to provide input and perspective into the cost/benefit analysis.

It is important, not just as a cost control measure, but also from the perspective of making accountable public policy choices, that an analysis be undertaken with a full understanding of both the benefits and costs of a new regulation. In essence, this will provide a framework for ensuring that the regulation is more economical, efficient, and effective; goals which are shared by all orders of government, the business community, and other taxpayers.
Police Services

A significant expense component for many local governments relates to protective services, including fire and police protection, with 2010 costs for protective services amounting to an average of 28% of municipal expenditures, net of amortization. For some municipalities, particularly in our more urbanized regions, this figure is significantly higher. For example, protective services in the City of Surrey account for over 37% of its total expenditures, net of amortization.

Policing is the only mandated service for BC municipalities, and the vast majority have chosen to deliver the service through RCMP forces. The arrangement is governed by a contract between the federal government and the provincial government and another between the provincial government and municipalities, an arrangement that has historically afforded local governments little influence over costs.

Services formerly delivered by the Federal or Provincial Government, and new initiatives to meet provincial or federal policy objectives

There is often considerable pressure on local governments to deliver services that were formerly delivered by either the federal or provincial governments. Both individuals and businesses in our communities exert pressure, and ironically, local governments are often pressured to deliver services by the very government that has chosen to discontinue or scale back its service delivery.

In these challenging fiscal times, with both the federal and provincial governments working hard to cut their expenditures and balance their budgets, local governments are increasingly being called on to fill the gap.

While technically, local governments have choices about whether or not to deliver these services, the service can be of such significance to the community that the local government feels it has little choice but to fill the void.

An ongoing municipal concern with these contract arrangements is the lack of municipal involvement or influence into matters of policing budgets. Municipalities have not previously been involved in setting officers’ salaries, nor do they have any role in determining officers’ benefit levels. We are hopeful that changes instituted in newly negotiated policing agreements will afford significantly more influence. Accountability for municipal expenses can only come with responsibility for making those expenditure decisions.
Sometimes the shift from federal or provincial delivery is obvious, such as the federal divestiture of ports and airports. Often, however, the shift in service deliverer is very subtle, sometimes even beginning with a partnership. Examples include:

- a highway upgrade needed for safety or congestion concerns, but for which sufficient funds are not available, becomes a priority project if the municipality wishes to become a funding partner;
- local government fire departments agreeing to become “first responders” for medical emergencies, which over time allow the province to cut-back or redirect resources;
- provincial government chooses to limit grants to support libraries, and local governments face increased pressure in their communities to fund the shortfall;
- social and affordable housing initiatives; and
- climate change mitigation strategies and actions.

While many of these services align well with local government priorities and the needs of individual communities, some do not align well with available revenue tools for local governments.

Many services such as social housing and libraries and literacy programs may be better suited to alternative taxes, such as income tax, which may be more representative of ability to pay than are property taxes. In addition, it may be time to engage in more fulsome inter-governmental discussions to ensure that the balance between responsibilities and accountabilities is right, that the right government is delivering the service, and that externalities are managed in ways that don’t put an inappropriate burden on local taxpayers.

**CONCLUSIONS**

Local governments in BC have many interests in common with the business community, including building strong communities and a strong economy. We recognize that ensuring business tax competitiveness is an important element if the goal of a strong, stable, and sustainable economy is to be achieved, but we see municipal property taxes as a small part of a much larger picture of competitiveness.

Key in this regard is to ensure that we don’t lose sight of the fact that competitiveness, including attracting and retaining business investment, depends on much more than a competitive tax environment. Local governments are key partners in building liveable communities – communities with “quality of life” that can attract investment and that can attract and retain workers.
While we are building these communities, local governments are also responding to businesses concerns, and recent trends show greater movement towards:

- expenditure management initiatives, including services reviews;
- increased use of user fees and charges, along with a declining proportion of revenues derived from property taxation; and
- a shifting of the tax load away from business, and towards residential.

The pace of change is slow, and perhaps slower than some in the business sector would want. However, rapid or revolutionary change could result in unintentional consequences, and would be likely, in some circumstances, to result in intolerable and unmanageable shifting of tax to individuals.

Consequently, local governments have taken a responsible approach of more manageable change, at a measured pace, where change is needed. Given the relative insignificance of municipal property tax relative to other business taxes, this approach is unlikely to create a significant competitiveness challenge.

**From a local government perspective, there are three key elements that must be considered in relation to municipal property taxation and business competitiveness:**

- **Perspective:** municipal property taxes represent a small proportion of the overall tax load on business; consequently, these taxes may not present a significant competitive disadvantage;

- **Build on the existing framework:** Municipalities are responding to concerns raised by the business community and are keenly involved in the economic recovery, so are increasingly taking advantage of the tools at their disposal to support business and the economy. Encouraging efficient and effective use of these tools is likely to increase the pace of change and speed the recovery (e.g., highlighting best tax policy practices and use of tools such as revitalization tax exemptions and economic development programs); and

- **Encourage inter-governmental dialogue and creative solutions:** The local government system is diverse and complex, and workable solutions will need to consider more than a single tax. Workable, sustainable solutions are likely to be found only if all orders of government, including federal, provincial and local, work together to ensure:
  - the system has the right balance of responsibilities and authorities;
  - local governments have the right range of tax and revenue tools in light of the range of services they now deliver;
  - taxing tools are appropriate, efficient, and sufficiently diversified;
  - inter-governmental transfers appropriately deal with both equalization and local service externalities; and
  - the benefits of improved federal and provincial regulations exceed their costs and local governments have the tools they need to implement these.