PROPOSAL FOR SHARING RESOURCE REVENUES WITH LOCAL GOVERNMENTS

INTRODUCTION

This proposal is part of a broader general policy on revenue sharing in the UBCM report on *Financing Local Government*.

> "Many areas of the province are resource based, or single industry based. This can lead to a boom or bust economic cycle with high unemployment and reduced economic impact. This problem is compounded because many of these areas have provided revenues to the provincial government vastly in excess of benefits, which have been returned to the areas. This imbalance is impacting the region's balance of payments and is providing an unlevel playing field for improving the local economy by siphoning much needed revenue outside of the region."
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> - *extract from the 2001-2002 Policy and Positions Manual from the British Columbia Chamber of Commerce.*

This policy statement from the BC Chamber of Commerce was accompanied by the following recommendation:

The Provincial Government consider a revenue sharing program with the resource based regions based on a per cent of provincial revenues collected from the commodity similar to the Oil and Gas Revenue sharing agreement in Fort St. John to allow communities to set their own priorities (e.g. Infrastructure, road/highway maintenance, taxation or business growth opportunities.)[1]

The Chamber's position and accompanying recommendation succinctly conveys the longstanding policy position advocated by UBCM. Dating back to 1983, UBCM's Statement of General Policies addressed the issue of financial autonomy for local governments:

1.9 Local government should have access to a share of income and resource revenues which should be predictable as to the amount and timing of its announcement and the major portion of shared revenue should be in unconditional grants.

Throughout the years, UBCM has continued to reiterate the need for a stable, predictable revenue sharing program that would provide local governments with the financial resources necessary to meet their assigned responsibilities. Over the past decade, as local governments' share of the provincial revenue stream has eroded, UBCM policy statements have become more defined. Members have supported specific resolutions requesting a share of stumpage payments, land rent tax or other type of resource revenue that would be shared with local governments (2003, 2002, 1998). However, local governments have also recognized the provincial government's reticence in sharing new or existing revenues. This has lead to more recent requests for more control in the area of resource management in an effort to have some direction over the boom and bust cycles of resource activity and its accompanying impacts for communities.

This year, the Communities and Resources Committee determined that one of its priority activities would be to develop a policy paper to advance the local government position for the

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[1] The British Columbia Chamber of Commerce 2001-2002 Policy and Positions Manual, Provincial Revenue p. 122

establishment of a resource revenue sharing program with the provincial government that would see a share of resource revenues returned to the communities.

The purpose of this paper is to reinforce existing UBCM policy, not to prescribe a formula or means by which revenues would be shared. This paper highlights the resource wealth of our province, identifies examples of previous and existing revenue sharing programs and presents the case for a province-wide resource revenue sharing program that will assist communities to provide the necessary infrastructure and services to sustain their communities and facilitate resource development.

BC 'S RESOURCE WEALTH

British Columbia is a resource rich province. We possess an abundance of natural resources - forests, fish, water, oil, gas and other minerals, all of which contribute to the economic wealth of BC. In a recent presentation by the BC Business Council, it was estimated that $3.45 billion[2] in provincial government revenue comes directly from natural resources. This includes forestry and related processing; mining and related processing; natural gas (and oil), petroleum and coal products manufacturing; fishing/seafood products and processing; agriculture and related processing; as well as some parts of chemical manufacturing. This number does not include the taxation revenue from corporations and individuals directly or indirectly involved in the resource sector.

Based on the provincial government's three-year plan, natural resource revenues were estimated to be $3.416 billion of the total provincial revenues that were estimated to be $28.996 billion.[3] Broken down by resource area, provincial budget estimates for 2003-2004 identify the following:

• Forests	$1.109 billion
• Natural gas royalties	$1.289 billion
• Other minerals and energy	$ 477 million
• Water and other resources	$ 301 million
• Columbia River Treaty	$ 240 million

The financial return to the provincial government from natural resources is significant. And while it is the communities that provide the roads, water, sewer and other services that facilitate resource development, their economic return is generally marginal compared to their provincial counterparts. One region has undertaken a study that reveals their contribution to provincial revenues in the area of natural resources far outweighs the provincial expenditures within their region. The report entitled *Northern Revenue and Expenditure: A Fiscal Review of the Northern British Columbia Economy 1998/1999* was commissioned by the North Central Municipal Association in March 2002. The study found that while provincial government expenditures in the region were roughly proportional to population (8.9%), the northern economy contributed one and a half times more in provincial revenue than what it received in provincial government expenditures.[4]

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[2] From a presentation by Jock Finlayson, Business Council of BC on *BC's Resource Industries: Outlook and Implications for the Greater Vancouver Economy* presented to the Vancouver Real Estate Forum, April - extract from the BC Ministry of Finance, "British Columbia Financial and Economic Review 2003" (average of the 2000/01 - 2002/03 years)

[3] BC Ministry of Finance, provincial budget estimates 2003-2004.

[4] Northern Revenue and Expenditure: A Fiscal Review of the Northern British Columbia Economy 1998/1999 prepared by Leslie Lax, Strategic Management Consulting March 2002

HISTORICAL BACKGROUND TO REVENUE SHARING

The concept of the provincial government sharing resource revenues with local governments is not new. Established in 1978, the Revenue Sharing Act established a program that provided a legislated formula that transferred a predictable flow of provincial revenues to local governments each year in the form of conditional and unconditional grants. These revenues were comprised of 1 point personal income tax; 1 point of corporate income tax; 6% of social services sales tax and 6% of various natural resource revenues (gasoline and related fuel taxes, natural gas sales and royalties, mineral revenues, forest revenues, land rentals and fees and water rentals).

However in 1992, the provincial government made amendments to the Act that reduced the total unconditional grants to municipalities from $135 to $120 million. Then in 1993, the provincial government announced that it could not afford the existing Revenue Sharing Program. In 1995 the *Local Government Grants Act* was established and the original Revenue Sharing Program was abolished. While the *Local Government Grants Act* continues to provide both unconditional and conditional grants, the unconditional portion is limited to grants for small communities ($24.3 million) and regional districts ($2.2 million) along with some traffic fine revenues that the province shares with policing communities ($10 million)[5]. With respect to conditional grants, a limited number remain in place such as public library grants and planning grants for specific local government studies.

Since the end of the Revenue Sharing Program, local governments have continued to seek access to new revenue sources or new opportunities for revenue sharing with the provincial government. Also fueling this search for new revenues, is the fact that local governments have taken on new responsibilities and gained more autonomy with accompanying legislative changes. With these new responsibilities there are accompanying costs, costs that are ever increasing, surpassing any revenues presently shared or provided by the provincial government. Most recently, new revenue source options were discussed parallel to the *Community Charter* consultation process but none as yet have been incorporated into the *Charter*.

At the federal level, UBCM in cooperation with the provincial government is pursuing the New Deal for cities and communities. The New Deal would establish a revenue sharing program with local governments comprising a share of federal fuel taxes or an equivalent revenue source. As discussions continue on the New Deal, local governments continue their quest for new revenue sources with the provincial government. Resource revenue sharing continues to be one of the prime focuses for UBCM. Two groups that have been successful in achieving revenue sharing programs with the provincial government, are the Peace River Regional District and First Nations.

EXISTING REVENUE SHARING AGREEMENTS

Fair Share Agreement

In the Peace River region the Fair Share Memorandum of Understanding (MOU) returns revenues to the region accrued by the provincial government through a special tax levy known as the Peace River Local Government Infrastructure Tax as well as a grant from the provincial government's general revenue. The specifics of the MOU are unique to the situation in the Peace River area where the municipalities have limited access to the property tax revenues from the oil and gas industry. The MOU acknowledges that local governments should be compensated for the services and infrastructure costs associated with resource development activities. The principles within the MOU state:

[5] Local Government Transfers Annual Report to the UBCM Executive March 15, 2004

It is recognized that the regional district's member municipalities are the service centres to industry in the area and provide the necessary infrastructure which services industry and its workers, the majority for whom reside within the boundaries of the municipalities, and that recent industry growth has placed additional demands on local government infrastructure.

It is recognized that municipal infrastructure is currently inadequate and is deteriorating and that the Peace River Regional District municipalities need access to additional revenue to provide new facilities and the necessary improvements to existing infrastructure.

Under the terms of the existing MOU, the Peace River Regional District receives $12 million annually. Two million of the $12 million is raised by a provincial property tax, as noted above, on classes 2, 4 and 5 within the Peace River Regional District rural area, the remaining $10 million is a grant from general revenue. The Peace River Regional District then allocates 10% of those funds to the electoral areas with the remaining 90% returned to the municipalities within the regional district based on a specified distribution formula. The funds returned to the Peace River Regional District are not linked directly or indirectly to the resource revenues generated from the region. The agreement is set to expire in 2007/08 but negotiations are presently underway between the provincial government and the regional district on a new permanent program to replace the existing agreement. [6]

The Fair Share program is specific to the unique expansion of oil and gas development activity with the Peace River area, but the Fair Share program has set an important precedent. This agreement provides acknowledgement by the provincial government that resource development and its associated activities, has a financial impact on communities that requires adequate compensation.

Resource Revenue Sharing (RRS) Cost-Sharing Understanding for First Nations

On October 3, 2003 a Resource Revenue Sharing (RRS) Cost-Sharing Understanding between the federal and provincial governments was signed. The Cost-Sharing Understanding sets out the principles for how the governments will fund the costs of resource revenues with First Nations when RRS provisions are negotiated as part of a treaty.

Types of resource revenues eligible for federal-provincial cost-sharing under this Understanding include revenues from forestry, oil and natural gas, minerals and other natural resources. The Understanding identifies that BC and Canada will share the cost of revenue sharing in treaties on a 50:50 basis; and indicates that both parties will pay respective share of revenue sharing directly to First Nations at agreed-to intervals. [7] These resource revenue sharing agreements will be tripartite and form a component of the final settlement package. The specific details of these agreements will be unique and specific and determined through negotiations at individual treaty tables. Consequently, there is no model or formula that communities could draw upon for specific application to local governments.

While the RRS Understanding is an example to support the case for provincial - local government revenue sharing, like the Fair Share program, it is also very unique to the its recipients, the First Nations. First, the RRS is a cost-sharing arrangement between the provincial and federal governments due to the role the federal government must play in the treaty process with First Nations. What UBCM is seeking is a resource revenue sharing program specifically with the provincial government, while other revenue sharing discussions on tripartite programs like the New Deal are being pursued as well.

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[6] Memorandum of Understanding between Her Majesty the Queen in the Right of the Province of British Columbia represented by the Deputy Premier, Minister of Energy and Mines and Minister Responsible for Northern Development and by the Minister of Municipal Affairs and the Peace River Regional District.

[7] Indian and Northern Affairs Canada Backgrounder Resource Revenue Sharing Cost-Sharing Understanding

Secondly, the RRS is quite specific to the matter of First Nations and land / resource ownership. In a report by the Province-wide Treaty Advisory Group (PTAG) on the topic of resource revenues in February 2004, the definition of "resource revenues" was addressed. The working definition adopted by the PTAG was "*resource revenues are payments to the owner for the use or extraction of the resource."* [8] Use of the term 'owner' is what distinguishes the agreement with First Nations versus the request from local governments. Local governments are not seeking ownership of the land, but compensation and recognition for the role local government's play in facilitating resource extraction and supporting the industry and workers employed within the natural resource sector.

Also highlighted within the report was what form the revenues took when remitted to the provincial government. This provides local governments with some idea about what form their potential share of resource revenues could take:

- royalties for oil, natural gas, coal, coal bed methane, and sand and gravel;
- payment for stumpage;
- rental fees for the use of water for hydroelectricity; and
- taxes from minerals.

Due to the newness and unique ability to customize the Cost-Sharing Understanding to each set of First Nations negotiations, local governments with Treaty Advisory Committees (TACs) are still trying to determine what impact these agreements will have for their communities. Local government TACs have indicated that they would like more information and to be consulted before these agreements are undertaken. Some local governments, recognizing that resource revenue sharing is a matter supported by UBCM members, have asked the following pointed questions to the provincial government:

- *Is RRS being established strictly for treaties or will RRS be provided for northern rural resource communities? ; and*
- *will there be parity for local government?*[9]

The latter expresses the sentiments of many local governments that have continued to see their region's natural resources provide significant economic returns to the province while they struggle to meet the basic service needs of their residents. Resource based communities see the Fair Share Program and the RRS Cost-Sharing Understanding as an opportunity for local governments to seek a similar type of arrangement with the provincial government.

WHAT WOULD BE SHARED?

What might a resource revenue sharing program with local governments look like? The purpose of this paper is not to propose any specific model for revenue sharing but to strongly advocate that a share of that wealth should be provided to the local governments. Communities provide the roads, water, sewer and other services that provide the foundation for resource activity to take place. In exchange for those services they receive property taxes from industry and workers but nothing in terms of share of the resource wealth that is extracted from their regions.

While provincial budgets can assist in identifying specific resource dollar amounts, the key is determining what form the resource revenue sharing would take. The form of sharing would differ depending on the type of natural resource in question. In the case of forestry, UBCM members have already endorsed a policy recommending that a share of the stumpage payments or some type of land rent tax be implemented. With respect to the other natural resources, local governments have not identified any specific method but based on the report from PTAG perhaps the revenue shared with local governments could be a percentage of:

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[8] Report on Province-Wide Treaty Advisory Group Resource Revenue Sharing Discussion February 6, 2004

[9] Letter to the Hon. Geoff Plant from Prince George TAC Chair, Bonnie Hawley, June 28, 2004

- royalties for oil, natural gas, coal, coal bed methane, and sand and gravel;
- rental fees for the use of water for hydroelectricity; and / or
- taxes from minerals.

In the case of forestry, it has been estimated that between 900 million and 1 billion dollars are returned annually to the provincial government in the form of stumpage payments.[10] If local governments were to receive 1% of that revenue, 9 - 10 million dollars would be made available for revenue sharing. If communities were to receive 6% of that revenue, which would be comparable to previous revenue sharing programs, the forestry revenues available to communities would be closer to 60 million.

This example is merely for illustrative purposes to show the potential funds that could be available to local governments if a resource revenue sharing program were established. This example covers only forestry. It does not include the other potential resource revenues that could be shared such as royalties for gas, oil, coal, sand and gravel as well as mineral taxes and water rental fees from hydroelectric generation.

CONCLUDING REMARKS

This paper has presented the argument for the establishment of a resource revenue sharing program with local governments. UBCM has consistently supported financial certainty for local governments - revenue that would ensure a predictable and secure financial stream to allow communities to provide adequate infrastructure and services to the residents, businesses and resource industry located within their jurisdiction. We have also noted that this position is not a concept solely supported by local governments. Others such as the BC Chamber of Commerce have advocated the need for a program that would see a share of resource revenues returned to the regions by the provincial government. The provincial government as well, through the establishment of the Fair Share Program, has acknowledged that communities are impacted by resource development and as such, should be provided with funds to address the infrastructure and service needs required to support that industry.

Over the years, local government has taken on new duties and responsibilities as a result of legislative changes, but we have not seen accompanying financial resources from the provincial government. In fact, existing revenue sharing programs have been reduced and yet, local governments are still required to meet the basic service needs of their residents as well as finance their new responsibilities within the parameters of a balanced budget. The time has come to establish a provincial program that would financially acknowledge the services and other associated costs incurred by local governments to support the natural resource sector of this province.

RECOMMENDATION

That UBCM endorse the policy paper and the proposed direction to pursue the development of a resource revenue sharing agreement with the provincial government for BC local governments.

[10] Ministry of Forests Revenue Branch Summary of Stumpage Billings for the following quarters Jan 1, 2003-March 31, 2003; April 1, 2003-June 30, 2003; July 1, 2003 - September 30, 2003; and October 1, 2003 - December 31, 2003; as well as Province of British Columbia Budget and Fiscal Plan - 2004/05 to 2006/07.