UBCM

Obstacles to Opportunities
UBCM 2021

POLICY PAPERS TO BE CONSIDERED AT THE 2021 UBCM CONVENTION

AUGUST 2021

POLICY BOOK #1

TO: **UBCM MEMBERS**

FROM: Councillor Brian Frenkel, UBCM President

DATE: August 12, 2021

RE: **POLICY PAPERS TO BE CONSIDERED AT THE 2021 UBCM CONVENTION**

Introduction to UBCM Policy Development Process

UBCM is a policy-driven organization. Policy established at the annual UBCM Convention provides direction to the Executive and Secretariat.

Policy is established through two main routes:

- **Resolutions** on specific issues or concerns submitted by member are considered at the annual Convention. Members submitted 170 resolutions this year for consideration.
- **Policy papers** developed and presented to Convention by the UBCM Executive are brough forward when a broader comprehensive policy approach may be warranted.

Policy papers may be drafted at a number of levels of specificity:

- Overarching policies (UBCM General Policies)
- General themes (e.g. local government finance)
- Topic specific (e.g. packaging and printed paper product stewardship)

UBCM Policy in Totality

UBCM policy is comprised of both policy papers and resolutions.

Making changes to legislation or provincial policy is a process that can take many years. For this reason, resolutions and policies adopted at Convention but not accepted by government are recorded as standing UBCM policy.

This package—Book 1—contains two papers:

- ***Ensuring Local Government Finance Resiliency – Today's Recovery and Tomorrow's New Economy***
- ***Primer on Climate Action and the Municipal Pension Plan***

Consideration of policy papers will occur during the Resolutions Policy sessions held on Wednesday and Thursday mornings during Convention.

TO: UBCM Members

FROM: UBCM Executive

DATE: August 12, 2021

RE: **ENSURING LOCAL GOVERNMENT FINANCIAL RESILIENCY ~ TODAY'S RECOVERY AND TOMORROW'S NEW ECONOMY**
Report of the Select Committee on Local Government Finance

POLICY PAPER #1

2021 CONVENTION

1. DECISION REQUEST

That the UBCM membership endorse the August 2021 ***Ensuring Local Government Financial Resiliency ~ Today's Recovery and Tomorrow's New Economy*** report of the Select Committee on Local Government Finance, which identifies and addresses immediate local government cost drivers, financial impacts of the New Economy and seeks a partnership with the provincial government in order to work towards fiscal sustainability for local governments in BC.

2. BACKGROUND

The UBCM Executive struck a Select Committee on Local Government Finance in 2019 and tasked it with a review of the 2013 Strong Fiscal Futures report (2013 SFF). While the pandemic initially impacted the ability to complete the Committee's work, it ultimately was required to report to Executive prior to the 2021 Convention so that Executive could consider bringing forward a Policy Paper to the membership at that Convention.

The Committee met from December 2019 to February 2020 and January 2021 to July 2021. The Committee's report is attached. Executive wish to acknowledge and thank the members of the Committee for their hard work and diligence in carrying out the Committee's mandate.

3. EXECUTIVE CONSIDERATIONS

Members have consistently endorsed resolutions and policy papers calling on financial reform, and the Committee's report is in keeping with this long-standing policy direction, including the 2013 SFF. Members have also consistently endorsed resolutions and policy papers focused on resolving housing, community safety and climate change issues – all having significant financial implications for local governments.

The Committee, and this report, recognize the importance and significance of the 2013 SFF. However, the Committee also recognized that the 2013 SFF has received no traction from the provincial government. Early in the Select Committee's deliberations, two key strategic decisions were made:

1. Do not revise the 2013 SFF report. It remains a relevant/viable document, reflecting the challenges within the local government financial system and continues to represent a blueprint for change.
2. New work will focus on addressing local government cost drivers – identified as a priority 'next step' in the 2013 SFF.

In addition, the Select Committee established strategic goals and objectives to guide the work which included establishing a strong partnership with the Province, recognizing that solutions to the identified issues cannot be achieved by an individual level of government and solutions must be anchored in shared provincial/local government goals, objectives and priorities.

The report identifies 20 recommendations which:

1. Address 3 major cost drivers faced by local government – Housing, Community Safety and Climate Change – all shared priorities of local government and the Province,
2. Identify the impacts of the 'New Economy' on the local government financial and property tax system and the need to make it fairer, sustainable and adaptable, and
3. Identify the need for an effective partnership with the provincial government in order to work towards solutions.

Executive is of the view that the framework set out in the report has the potential to provide improvements to the overall local government finance system, and that it will, if fully implemented, provide a benefit to all local governments.

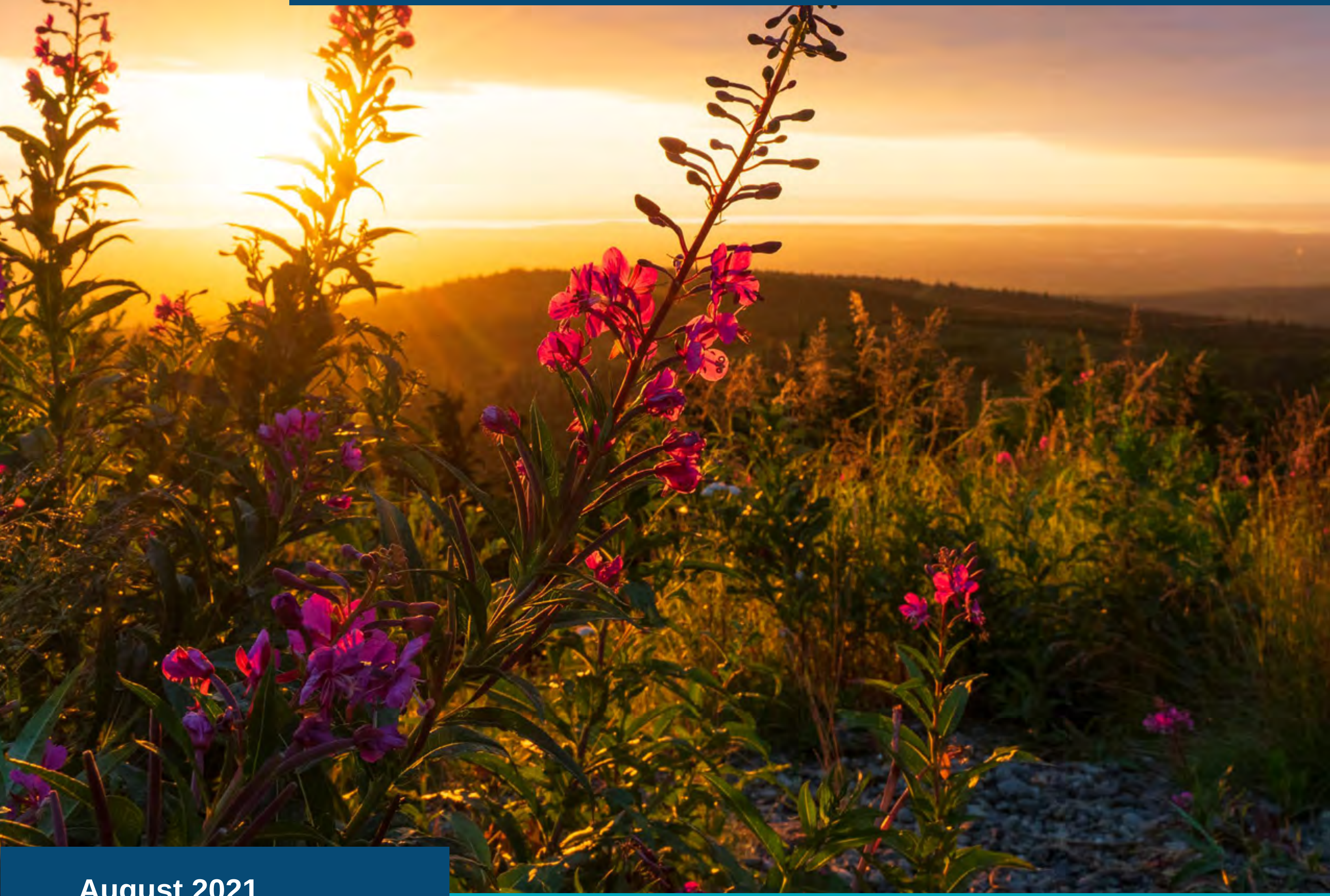
Executive considered and endorsed the proposed recommendations set out in the report, and are committed to moving forward on those priorities, as well as other key directions as opportunities arise, should the membership endorse the report.

4. RECOMMENDATION

That the membership endorse August 2021 ***Ensuring Local Government Financial Resiliency ~ Today's Recovery and Tomorrow's New Economy*** report.

Ensuring Local Government Financial Resiliency

Today’s Recovery and Tomorrow’s New Economy



August 2021

UBCM

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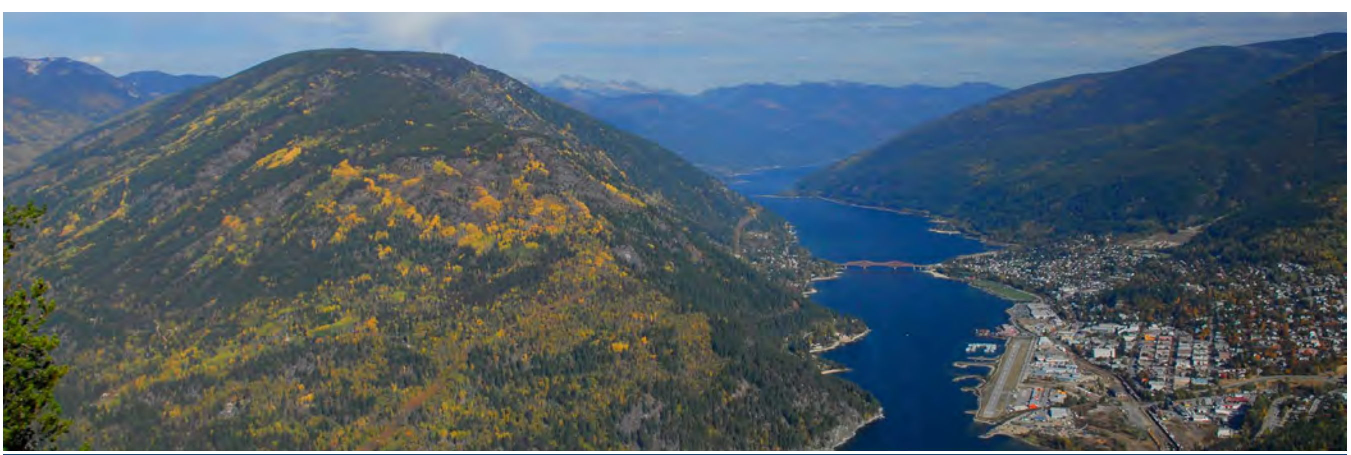
1. MESSAGE FROM THE COMMITTEE

The *Select Committee on Local Government Finance* first met on December 17, 2019. At that time, little did we know of the challenging times ahead. Our March 2020 meeting was cancelled and direction came from UBCM Executive that the work of the Select Committee would be put on hold. We re-convened in January 2021, with an aggressive schedule in order to complete our work and present to the UBCM membership at the September 2021 UBCM Annual Convention.

Very early in our work, there was agreement to focus on the cost-drivers for three key areas: Attainable Housing; Community Safety; and Climate Change. We felt that not only were we addressing the three biggest cost-drivers for local governments, we were identifying potential solutions to priority issues that were common to both local governments and the Province.

We realized that to be successful, our work must be anchored in shared provincial/local government goals and objectives, creating the opportunity for 'win-win' outcomes. We recognized the importance of being solution focused, and that led to recommendations that not only identify potential new revenue sources for local governments, but also propose legislative and policy changes; implementation of best practices; and uploading of services traditionally delivered by the provincial government. We also wanted to focus on solutions where local governments can help achieve the outcomes more effectively than the Province.

In retrospect, living through the pandemic and having the nine month 'lay-off' from Select Committee work provided an opportunity to reflect on local government financial challenges. The pandemic experience identified some strengths and weaknesses in the financial system, but it also provided a preview of the 'New' or emerging economy and its potential impacts to local and provincial government revenues. While this was not considered early in our deliberations, as a committee, we quickly realized how the New Economy has the potential to magnify the current challenges faced by the local government finance system.



We were very pleased when the Province offered to actively participate in the Committee. We hope that this is an indication of their interest and commitment to continue the work. As is noted in the report, in order to address these common challenges, and ultimately address local government financial challenges, solutions can only be achieved through an effective partnership with the provincial government.

The financial sustainability of BC local governments continues to be a priority issue. In particular, the expansion of services, often the result of services being downloaded by the provincial and federal governments, has placed an increased pressure on a local government financial system that is already stressed. We see the release of this report as a critical opportunity to establish a working partnership with the Province. Working together, we will find solutions that will help achieve our mandates while also strengthening the local government finance system.

UBCM is prepared to work with the Province. There is much work to do.

Lyn Hall, Mayor,
City of Prince George
(Committee Co-Chair)

Malcolm Brodie, Mayor,
City of Richmond

Mike Buda, Executive Director,
TransLink/Mayors' Council

Genelle Davidson, Divisional Director,
Finance Services, City of Kelowna

Brian Frenkel, Councillor,
District of Vanderhoof

Rob Gay, Chair,
East Kootenay Regional District

Al Richmond, Director,
Cariboo Regional District
(Committee Co-Chair)

Noreen Kassam, Director of Finance,
City of Burnaby (committee member in 2021)

Blair Lekstrom, Councillor,
City of Dawson Creek
(committee member in 2019-2020)

Leanne McCarthy, CAO,
City of North Vancouver

Maja Tait, Mayor,
District of Sooke

2013 Strong Fiscal Futures Report

*The Strong Fiscal Futures Report – A Blueprint for Strengthening BC Local Governments' Finance System*1 (SFF) was developed in 2013, and presented to UBCM membership and the provincial government as a blueprint for change to the British Columbia local government financial system. The SFF evaluated strengths and challenges inherent in the existing system of local government finance in BC.

The SFF included an analysis of potential revenue tools that was supported by a framework, or blueprint, that established an agenda for change and necessitated a partnership between the Province and local government to grow the economy. It focused on five key directions – Resiliency, Value, Responsiveness, Fairness, and Excellence. It also identified initial priorities, which included addressing cost-drivers.

> ***Local governments want to be part of the solution, and we need to engage in meaningful dialogue with the Province in relation to expenditure pressures that are largely outside of our direct control, as well as drive change from within by highlighting excellence, and by developing tools and resources to enhance the local decision making framework.***
> ***– SFF 2013***

Underpinning SFF's proposed agenda for change was the desire to establish a partnership and an ongoing dialogue with the provincial government. It was understood that in order to address local government financial challenges effectively, solutions could only be achieved through partnership with the provincial government. Unfortunately, at the time, the SFF received little to no traction at the provincial level, and as such, has remained largely unimplemented.

UBCM Select Committee on Local Government Finance (2019-21)

The UBCM Executive and UBCM membership continued to strongly support the principles, goals and objectives captured in the SFF. This was highlighted at the 2019 UBCM Annual Convention where Resolution B21 – Strong Fiscal Futures was endorsed by the membership, and stated:

> ***Therefore be it resolved that the Province commit to pursuing the Strong Fiscal Futures report as a flexible blueprint for a diversified local government finance system that is both fairer and more sustainable.***

In 2019, the UBCM Executive provided direction to review and 'refresh' the SFF, re-establishing the UBCM Select Committee on Local Government Finance (Select Committee) with a renewed Terms of Reference[2]. The Select Committee began its work in December 2019. Unfortunately, with the onset of the pandemic, the Select Committee's work was put on hold, re-starting in January 2021.

Early in the Select Committee's deliberations, two key strategic decisions were made:

1. Do not revise the 2013 SFF report. It remains a relevant/viable document, reflecting the challenges within the local government financial system and continues to represent a blueprint for change.
2. New work will focus on addressing local government cost-drivers.

In addition, the Select Committee established strategic goals and objectives to guide the work which included:

- Establish a strong partnership with the Province, recognizing that solutions to the identified issues cannot be achieved by an individual level of government.
- Solutions/outcomes must be anchored in common or shared provincial/local government goals, objectives and/or priorities.
- Solutions must be considered as a 'win-win'.
- Focus on solutions/outcomes where local governments can help achieve the outcome more effectively than the Province.
- Build awareness as to why changes are needed to provide local governments with new sources of revenue.

Finally, the Select Committee's approach was inclusive to all local governments; urban and rural, large and small, municipal and regional district, identifying issues, challenges and solutions that impact all local governments in BC.

The New Economy

The Select Committee placed a lens on the impacts of the pandemic on both provincial and local governments, and the impacts that the new (emerging) economy will have on government taxation and finance. As identified by BC's Emerging Economy Task Force[3], the new economy will have the following characteristics: rapidly evolving; innovation-driven; diverse and inclusive; and low carbon, circular and sustainable.

There will be a continued shift from tangible to intangible assets. There are several implications on local government finance including increasing pressures on residential property tax. This trend re-emphasizes the need to review the local government property tax system to make it fairer, sustainable, and adaptable to the changing economy.

Addressing Cost-Drivers

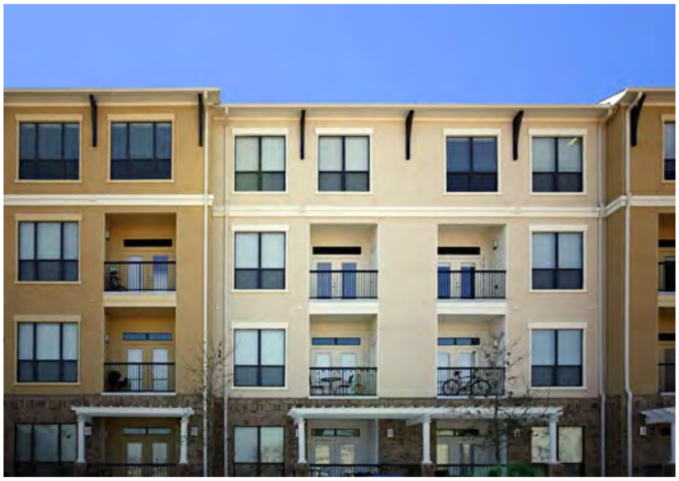
The focus of the Select Committee and this report is on addressing local government cost-drivers. Three key areas are identified that all have strong alignment with both provincial and local government priorities as highlighted by provincial and UBCM strategy reports, policy and minister mandate letters.

The report describes the cost-drivers for each key area, and highlights their financial impacts and challenges. Additional analysis will be needed to quantify these impacts on a regional or provincial level.

The three key areas are:

Attainable Housing

There is a growing expectation for local governments to financially support attainable housing (market and non-market) through land contributions, servicing costs, Development Cost Charge (DCC) exemptions, waivers or reductions, and property tax exemptions.



Community Safety

There are a broad range of emerging and/or provincially downloaded service requirements that have significant financial implications for local governments. These include emergency management and protective services (policing, justice, fire and ambulance services), cannabis legislation, and cybercrime (protection and response).

Climate Change

Mitigation and adaptation supports (significant capital and operating expenses) are required by local governments to reduce emissions and create weather resilient communities. These include supports for emergency management, housing and buildings, transportation/transit, and solid waste management.

Recommendations

The recommendations outlined in this report are solution-focused, with the understanding that solutions to these issues may include both financial and non-financial tools, including legislation, regulation, policy and/or best practices. By being solution focused, the recommendations provide an opportunity to achieve positive outcomes for both provincial and local government.

Finally, this report and its recommendations acknowledge that in order to achieve outcomes, it is essential for the Province to commit to work with UBCM – not only in addressing these key priority areas, but establishing a provincial commitment to partner and have an open dialogue about fiscal sustainability for local governments in BC.

Financial Impacts of the Pandemic

Before the COVID-19 pandemic, BC's economy was among the strongest in the country.

In 2019, in BC:

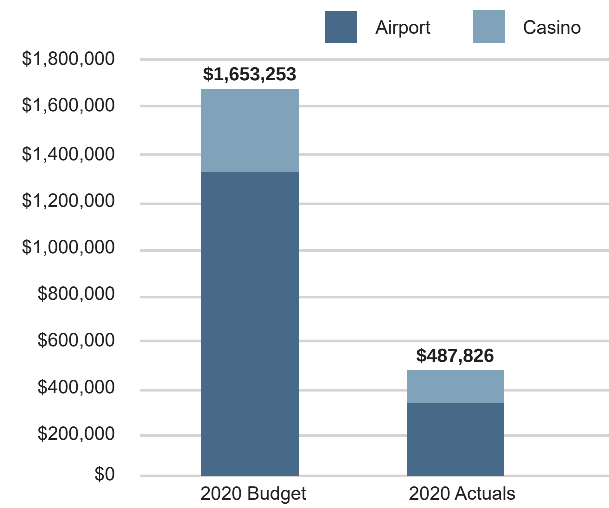
Real GDP growth was 2.8%, better than the Canadian average of 1.7%	**The unemployment rate was 4.7% – the best in Canada**
Employment grew by 2.6%, with an increase of 65,400 net new jobs	**Wages and salaries grew by 5.6%, following growth of 6.0% in 2018, well above the long-term historical average of 4.7%**

However, in 2020, the pandemic caused major impacts to both provincial and local government finances. The Province, in its response to the pandemic, provided supports to various sectors negatively impacted – health care, education, business, local governments, and individuals. The Stronger BC for Everyone – BC's Economic Recovery Plan[4] included $4.1 billion in recovery and safe restart allocations.

The provincial financial impact is captured in the 2021/22 BC Provincial Budget, where a $8.1 billion deficit is projected[5]. This is lower than previous projections, but the projections include deficit budgets for at least the following two years. Provincial 2021/22 revenues are expected to be below 2020/21 levels, before increasing in future years[6].

Local governments were also significantly impacted by the pandemic. Many traditional revenue sources and services were suspended. The impacts varied from local government to local government, but were felt by most. Many local governments were forced to slash budgets[7]. This resulted in service reductions, service elimination, deferral of capital projects, reducing/ eliminating tax increases, depletion of reserves, and other negative impacts. The full impact of this is likely to be felt in future years. Unlike the Province, local governments, by legislation, are not permitted to have a deficit budget.

The City of Cranbrook relies heavily on 2 major revenue sources – their regional airport and casino revenue through their Gaming Center Host Agreement. 2020 budget identified revenues of $1,305,850 (Airport) and $347,403 (Casino). Actual 2020 revenues were $387,403 (Airport) and $100,423 (Casino) for a total 2020 revenue loss of $1,288,024. To put it in context for the City, the 2020 $1,288,024 loss in revenues is equivalent to a 16% property tax loss (across all tax classes).



Financial Impacts of the New Economy

As global, national and regional economies rebound from the pandemic, the post pandemic economy will continue to shift from a base of tangible assets to intangible assets. Arguably, the pandemic, and government response to the pandemic, has accelerated this shift.

In 1975, 83% of the assets in the Standard & Poor's 500 Index were tangible. Today that percentage has dropped to only 9%, with 91% of the Index's value now represented by intangible assets.

BC's Emerging Economy Task Force gave the new economy the following characteristics:

- **Rapidly Evolving:** The economy of the future will experience regular disruption and uncertainty, creating a need for nimble, adaptive and flexible business practices and policy, as well as continuous learning in order to remain globally relevant and competitive.

- **Innovation-driven:** The economy of the future, where people increasingly trade in ideas and services, will be progressively information-based and underpinned by digital technology, with ingenuity required for developing and harnessing intangible capital, intellectual property and to enhance productivity.

- **Diverse and Inclusive:** The economy of the future will be one that embraces diversity and inclusion, recognizing the value of social capital, creativity and problem-solving, enabling purpose-based leadership and harnessing the full economic potential of people in this province through increased workforce participation.

- **Low-carbon, Circular and Sustainable:** The economy of the future is one where society exists within its ecological means, avoiding the excessive depletion of natural resources while extracting their maximum value and minimizing pollution and environmental degradation in all its forms[8].

Overarching global economic trends will impact all levels of government in Canada. There will likely be growing tension between globalization, rising international competition, and supply-chain security. Innovation will be driven by both technology change and the need to reduce climate change, as well as strong growth out of Asia Pacific economies.

Population movement (immigation) will likely increase due to ongoing global economic inequality, the impacts of climate change, as well as a decrease in birthrates in richer countries. There will also be a continued expansion in urbanization. A continuing challenge will be managing post-COVID debt in the context of continuing economic and social challenges[9].

What does this mean for government finance? Post-COVID debt will drive a search for new revenues. National governments will be constrained by the relative competitiveness of their economies and will likely focus on global entities and allocation of corporate income. In the short-term, carbon taxes will likely form a larger portion of revenue, but this will decline as carbon emissions decline.

In BC, forestry and mining (which generated over half of the 2020 export value) will continue to be important, but these industries will have to adapt to the changing economy. A significant factor for BC will be the transition from fossil fuels to electric fuelled transportation.

> ***Impacts of climate change are affecting communities throughout BC and having major impacts on local economies, whether it be from timber die-off due to pine beetle infestations, increasing damage from forest fires, extreme weather events, or coastal erosion from spring tides and sea level rise. The BC Ministry of Environment and Climate Change Strategy released the Preliminary Strategic Climate Risk Assessment for British Columbia in July 2019, an important tool to monitor and prepare for the risk impacts of climate change now and in the years ahead. Other impacts of climate change include the global shift to a low-carbon economy, driving new government regulations, changing capital allocations, evolving customer expectations and emerging technologies.***
>
> ***– Emerging Economy Task Force***

From a business perspective, commerce will increasingly be conducted using digital technology. The same trend will be seen at the workplace, where work-from-home and satellite office options will increase. This technology driven trend will result in the rethinking of building and space requirements. There will be added stress on income inequality as the new economy will require high paying knowledge jobs and lower paying service jobs. This will hollow out the middle class. The demand for housing will continue to increase, as well as the need for attainable housing.

The implications for local government finance include:

- commercial property value will fall relative to residential, flattening commercial property tax growth;
- high housing prices and resulting high mortgage costs will constrain residential property tax room;
- revenues from gasoline taxes will fall over time with electrification of vehicles, requiring a rethink of transit finance;
- inter-jurisdictional competitiveness, post-COVID debt, and demands to address issues such as seniors care and child care will constrain senior governments' capacity to share revenue; and
- for local governments, a status quo policy most likely means substantial and increasing pressure on residential property taxes.

The way in which municipal governments collect revenues, particularly for non-residential property taxes and development charges, is based on a set of assumptions around physical space required for employment. However, as the nature of work changes and thus the physical space required transforms, these assumptions will be challenged.[10]

Options to consider include:

- improve the local government property tax system and user fees/charges by making them fair and sustainable;
- consider new revenue tools to strengthen the transit funding model;
- examine province-wide revenue sharing focused on income and consumption taxation (an example of regional revenue sharing is the Columbia Basin Trust);
- build inter-local government collaboration to reduce costs and increase efficiency (regional dispatch, centralized specialized police services, standardized on-line permitting, and standardized process for development approvals); and
- uploading of services through a review of historical, current and future jurisdictional responsibilities.

RECOMMENDATION 1

UBCM and the Province work together in reviewing the current local government property tax system and the impacts of the 'New Economy' in order to:

- *develop a fairer, more responsive property tax;*
- *monitor impacts of the New Economy on taxation; and*
- *identify emerging sources, and opportunities to share taxation/revenues that may result from the New Economy.*

Strong Fiscal Futures – Moving Forward

The Strong Fiscal Futures Report – A Blueprint for Strengthening BC Local Governments' Finance System was developed in 2013, and presented to UBCM membership and the provincial government as a blueprint for change to the British Columbia local government financial system. The SFF evaluated strengths and challenges inherent in the existing system of local government finance in BC.

The SFF included an analysis of potential revenue tools that was supported by a framework, or blueprint, that established an agenda for change and a partnership between the Province and local government to grow the economy. It focused on five key directions:

1. Resiliency – *Improve the resiliency of the existing local government finance system by maintaining and building on its strongest features.*
2. Value – *Improve value to taxpayers by tightening the management of shared provincial-local mandates and ensuring that regulatory requirements imposed on local governments achieve value for money.*
3. Responsiveness – *Advance a local government agenda to both grow the economy and to have local governments share in the benefits of that growth through an Infrastructure Development and Community Building Bank.*
4. Fairness – *Work to expand local government revenue tools to make the distribution of local government costs both fairer and more responsive to economic growth.*
5. Excellence – *Building the Local Government Partnership.*

Key weaknesses of the property tax are:

- ***a base that is slow to respond to economic growth;***
- ***a distribution that tends to decline as income grows, placing an unfair amount of the tax on lower- and middle-income groups; and***
- ***only modest tracking of the consumption of local government services.***

– SFF 2013

Underpinning SFF's proposed agenda for change was the desire to establish a partnership and an ongoing dialogue with the provincial government. It was understood that in order to address local government financial challenges effectively, solutions could only be achieved through partnership with the provincial government. Unfortunately, at the time, the SFF received little to no traction at the provincial level, and as such, has remained largely un-implemented.

In recognizing that the 2013 Strong Fiscal Futures Report continues to be relevant and supported by UBCM membership, the Select Committee recommends the following:

RECOMMENDATION 2

The Province to commit to meaningful engagement through a working partnership with UBCM in order to meet the respective mandates of strengthening the local government finance system.

RECOMMENDATION 3

The Province continue to advocate with the federal government in the continuation of federal/provincial infrastructure cost-share agreements at the current or greater level and ensure:

- *the renewal of the Canada Community-Building Fund (formally the Gas Tax Fund) with the federal government in 2024; and*
- *by working with the federal government, and input from TransLink and BC Transit communities, a federal/provincial agreement in the federal Permanent Transit Fund is implemented for BC by 2026 as confirmed in the 2021 federal budget.*

RECOMMENDATION 4

BC local governments, with the support of the Province and UBCM, continue to develop and implement asset management best practices in order to deliver services, and manage infrastructure, in a sustainable, cost-effective way.

Common Challenges and Priorities

The focus of the Select Committee and this report is addressing priority issues that represent significant financial challenges for all local governments – small and large; rural and urban, municipalities and regional districts. These fiscal challenges, or cost-drivers, impact the ability of local governments to effectively resolve these priority issues. The three key cost-drivers identified in this report have strong alignment with both provincial and local government priorities. They are:

Attainable Housing
There is a growing expectation for local governments to financially support attainable housing (market and non-market) through land contributions, servicing costs, Development Cost Charge (DCC) exemptions, waivers or reductions, and property tax exemptions.

Community Safety
There are a broad range of emerging and/or provincially downloaded service requirements that have significant financial implications for local governments. These include emergency management and protective services (policing, justice, fire and ambulance services), cannabis legislation, and cybercrime (protection and response).

Climate Change
Mitigation and adaptation supports (significant capital and operating expenses) are required by local governments to reduce emissions and create weather resilient communities. These include supports for emergency management, housing and buildings, transportation/transit, and solid waste management.

The Select Committee, recognizing that a solution-focused approach would lead to effective outcomes, established strategic goals and objectives to guide their work that included:

- Establish a strong partnership with the Province, recognizing that solutions to the identified issues cannot be achieved by an individual level of government.
- Solutions/outcomes must be anchored in common or shared provincial/local government goals, objectives and/or priorities.
- Solutions must be considered as a 'win-win'.
- Focus on solutions/outcomes where local governments can help achieve the outcome more effectively than the Province.
- Build awareness as to why changes are needed to provide local governments with new sources of revenue.

The three key areas reflect common challenges and shared priorities between the Province and local governments. From a provincial perspective, this can be illustrated through the 2020 Minister Mandate Letters.

> ***Lead government's efforts to address homelessness by implementing a homelessness strategy***
> *– Attorney General*

> ***Support the work of the Attorney General and Minister responsible for Housing to address the needs of people experiencing homelessness, including those living in encampments***
> *– Minister of Finance*

> ***Accelerate the move toward a net-zero emission bus fleet powered by electrification, hydrogen fuel cell technologies, and other zero-emissions technologies, including supporting TransLink's "aggressive" level plan***
> *– Minister of Environment and Climate Change Strategy*

> ***Support the work of the Minister of Municipal Affairs to bring down the cost of housing for people by streamlining and modernizing housing construction and approvals***
> *– Minister of Finance*

> ***Complete and coordinate implementation of a provincial Climate Preparedness and Adaptation Strategy***
> *– Minister of Environment and Climate Change Strategy*

> ***Work with UBCM and local government elected leaders to support their communities through the COVID-19 pandemic response and recovery***
> *– Minister of Municipal Affairs*

Recent reports from both the Province and UBCM identify commonality in priorities and mandates. In 2018, UBCM published A *Home for Everyone: A Housing Strategy for British Columbians*[11]. The same year, the provincial government released *Homes for BC: A 30-Point Plan for Housing Affordability in British Columbia*[12]. In both, recommendations are strongly aligned. Another example of alignment is seen with the *CleanBC: Our Nature. Our Power. Our Future*[13] report and the recent recommendations coming from UBCM's Special Committee on Climate Action[14].

Through the UBCM resolution process, local governments continue to identify these three key issues as priorities.

Resolution B30 (2019) Property Transfer Tax Redistribution for Affordable Housing

Therefore be it resolved the UBCM petition the Province of British Columbia to provide an annual redistribution of the Property Transfer Tax to local governments across the Province for the specific purpose of addressing affordable housing.

Resolution SR1 (2020) New Emergency Management Legislation

Therefore be it resolved that the provincial government, as part of the process to modernize BC's emergency management legislation, implement the following measures:

- *Develop an ongoing sustainable funding framework for local governments to address emergency management responsibilities;*
- *Confirm adequate provincial support services for local governments to address emergency management capacity issues; and,*
- *Consult with UBCM and local governments in the development of these and other necessary measures to address challenges resulting from new emergency management legislation.*

Resolution SR8 (2020) Mental Health, Addictions and Poisoned Drug Supply

Therefore be it resolved that UBCM urge the provincial government to introduce a comprehensive strategy for the provision of protective and health services that includes:

- *Ongoing, sustained funding to address the overdose public health emergency;*
- *Implementing a province-wide agreement between police and mental health officials on the management of mental health patients in emergency wards;*
- *Developing integrated teams of health, police, and other officials on a twenty-four (24) hour basis to manage individuals with mental health issues; and*
- *Introducing additional long-term care beds to deal specifically with mental illness cases.*

The Select Committee formed sub-committees to review each of the three focus areas. For each area, the Select Committee identified the cost-drivers and highlighted the financial impacts and challenges. This section of the report provides a brief issue description, highlights some local government examples, and identifies the accompanying recommendation(s). A more fulsome description of each focus area's cost-drivers and detailed policy options to address the issues can be found in the appendices to this report.

It is recognized that additional analysis will be needed to quantify these impacts on a regional or provincial level, a task that should be done in collaboration with the Province.

Focus Area: ATTAINABLE HOUSING

Local Government Funding of Attainable Housing

Housing was historically the preserve of the Federal Government through to the 1990s at which time a progressive withdrawal of federal funding resulted in a downloading of responsibilities to the Province[15]. The primary role of local governments within the British Columbia housing policy framework is to plan for communities that are socially, economically and environmentally healthy and that make efficient use of public facilities and services, land and other resources. They do this through proactive community planning and the regulation of land use. In this role they act within the constraints of a narrow tax base and defined legislative authority.

In recent years, however, there has been a growing expectation for local governments to financially support attainable housing (market and non-market), through:

- ***Land contributions*** **–** granting, leasing or otherwise. In some cases, if local governments don't own land, they incur costs to acquire and then contribute it to social housing projects.

The City of North Vancouver has allocated a significant portion of its overall community benefits through development to achieve housing objectives. In 2020, this has amounted to a contribution to housing, in the form of securing net new rental homes, with a value of as much as $30 million.

- ***Servicing costs –*** higher expectations exist now, spanning hard infrastructure, sidewalks, playgrounds, health – and these need to be paid for through municipal taxes. With growth, water and sewer services are reaching capacity thresholds, resulting in further capital costs for new infrastructure, as well as higher ongoing operating costs. Local governments have relied on the "growth to pay for growth" principle, but this does not work for non-market housing, and in some cases does not work for market housing.
- ***DCC exemptions, waivers or reductions, and property tax exemptions –*** there is growing pressure to exempt affordable housing from development cost charges or property taxes, which also effectively increases servicing costs for local governments.

In 2021, the City of Vancouver allocated operating funds totalling $29 million to support housing affordability, in addition to $276 million of active housing projects/programs funded in the City's capital budget. Over the past 10 years, the City has allocated an average of $120 million per year in secured community amenity contributions and development cost levies and provided an average of $7 million per year in DCL waivers to support the development of non-market and rental housing.

RECOMMENDATION 5

The Province commit to working with UBCM on a comprehensive review of funding mechanisms for financing growth-related infrastructure services including Development Cost Charges and Amenity Agreements to:

- *Better capture growth related capital costs that are increasingly strained as a result of pressure for local governments to incentivize attainable housing;*
- *Provide local governments with flexibility to better reflect community circumstances and community objectives; and*
- *Create a consistent approach to land value capture and amenity charges that reduces the uncertainty associated with negotiated agreements.*

RECOMMENDATION 6

The Province commit to work with UBCM to identify the appropriate revenue source(s) that may both increase funding available for attainable housing and incentivize the use of residential property for housing. Potential sources include, but are not limited to:

- *New taxation powers, such as vacancy taxation, to be granted to local governments for use at their discretion;*
- *Returning funds from existing revenue sources such as the speculation tax, to the jurisdiction in which they are collected, for provision of attainable housing;*
- *Modifications to the property transfer tax to make it more progressive and/or disincentivize rapid resale ('flipping'); and*
- *Short-term rental taxation.*

New Provincial Requirements for Planning Approvals

Recent changes to the building code to include higher energy standards in accordance with the Energy Step Code have resulted in a number of challenges for local governments, and particularly those in rural, remote and northern regions, due to:

- Lack of local training opportunities for the building community;
- Lack of qualified Energy Advisors, and the possibility that some small and remote communities will not have an adequate workload to entice an Energy Advisor to do business in the area;
- Lower availability of materials and higher material costs in rural communities leading to concerns of affordability among residents;
- Additional costs of energy consultants and mandated energy solutions; and,
- Lower capacity within small local governments.

These issues have been raised through UBCM member endorsed resolutions (2020-EB87, 2020-NR73), and also via the Development Approvals Process Review.[16]

RECOMMENDATION 7

The Province, in partnership with UBCM and other stakeholders, commit to improving the effectiveness and efficiency of the development approval processes for which each stakeholder, including the development industry and Province, is responsible.

Costs of Homelessness

Closely related to the broader affordability crisis, local governments have been faced with a growing challenge of housing and providing services to address homelessness. This is a challenge faced by communities in all regions of the Province. For example, in their 2020 homeless counts, the Homelessness Services Association of BC identified homeless individuals in:

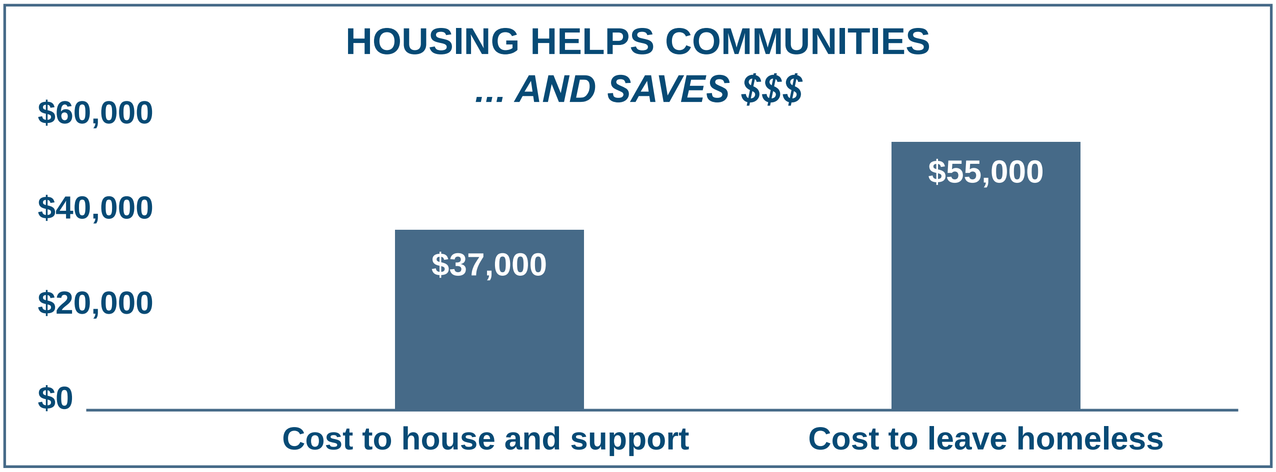
Comox Valley	132
Cranbrook	63
Fort St. John	76
Quesnel	121

A 2018 report on homeless counts across the Province identified 7,655 individuals experiencing homelessness in 24 communities, while noting that all point in time counts are an undercount and do not capture the hidden homeless and those at risk of homelessness.

Local governments bear wide ranging costs associated with homelessness, including community service, legal and policing costs related to homeless encampments and homelessness more broadly. They incur costs to address public safety, such as security costs for complex needs or social housing because of onsite drug use. Municipalities also often need to hire new bylaw officers to address issues arising in homeless camps, and additional parks workers to clean up parks each morning where there is overnight camping.

The Oppenheimer Park tent city cost the City of Vancouver upwards of $3.5 million over an 18-month period including policing costs, decampment efforts and park restoration costs.[17]

Several studies have pointed towards the high costs associated with homelessness, including a Simon Fraser University study estimating that it costs $55,000 per person per year to leave someone with mental health issues homeless in British Columbia versus a housing and support cost of $37,000.[18]



For local governments specifically, costs are highly context specific, but for example:

> ***The City of Victoria estimates that in 2020, it spent $1.4 million managing encampments.[19]***

RECOMMENDATION 8

The Province to commit to partner with UBCM and local governments, recognizing and reversing the historic downloading of jurisdictional responsibility on housing, in the development and implementation of a province-wide homelessness strategy.

Focus Area: COMMUNITY SAFETY

Emergency Management – Long-Standing Issues and Cost-Drivers, including those Related to Climate Change.

As climate change increasingly impacts BC's environment, emergency management is becoming an even more important and costlier local government responsibility. Local government responsibilities include provincial requirements to prepare an emergency plan and maintain an emergency management organization. The Province, through EMBC, acts as the lead coordinating agency for emergency management activities; and, works in collaboration with stakeholders to address larger-scale emergencies.

While there is a seemingly endless list of long-standing issues and cost-drivers impacting local governments, the Community Safety Sub-Committee has discussed and focused on the following:

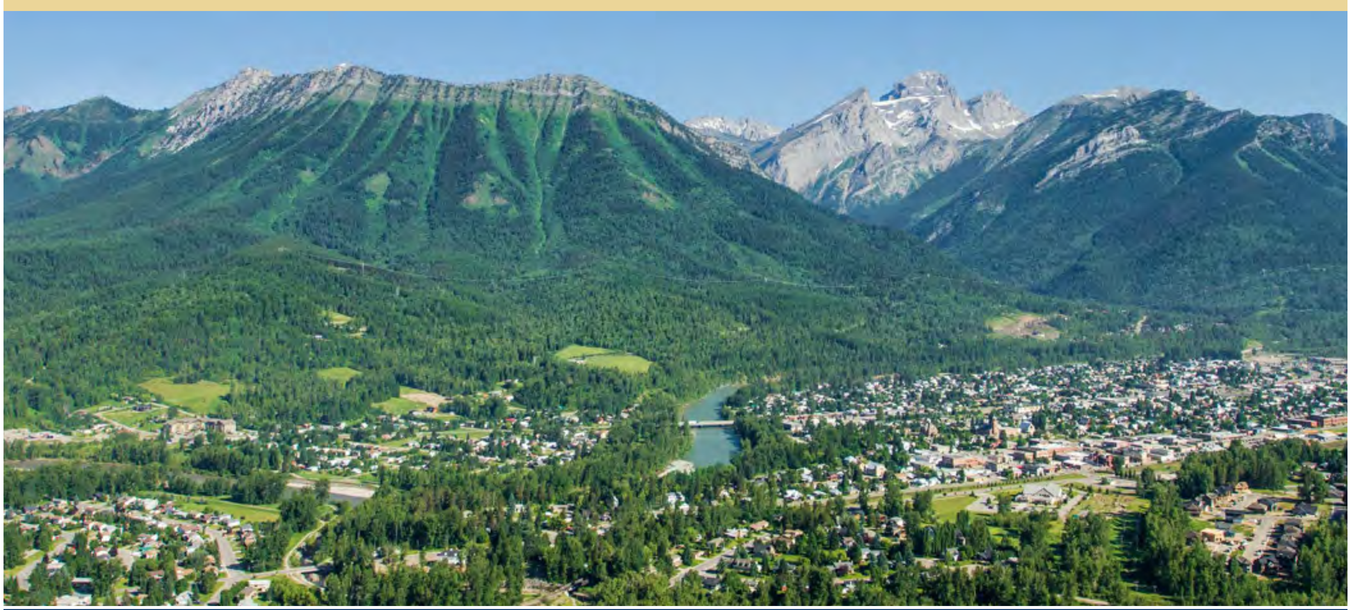
- Impacts related to climate change, including:
    - More wildfires leading to higher firefighting costs and firefighters being deployed outside their local areas;
    - The relation between increased flooding and slope stability;
    - Floodplain issues; and
    - Higher diking costs.
- General responsibilities under the four key pillars of emergency management (mitigation, preparedness, response and recovery); and
- Emergency management costs being downloaded (e.g., finding volunteers to manage emergency support services).

The Province is currently working to modernize BC's emergency management legislation. This process is likely to add additional costs and responsibilities for local governments as the Province works to incorporate the Sendai Framework on Disaster Risk Reduction, and focus more effort on mitigation and recovery pillars. As part of this work, the Province released a 2019 discussion paper containing numerous recommendations, including 29 key policy shifts for consideration. UBCM summarized feedback submitted by local governments, and made several broad recommendations including the need for a sustainable funding framework for local governments to address emergency management responsibilities; and additional provincial support services to help address local government emergency management capacity issues.[20]

In 2020, the East Kootenay Regional District spent $905,872 in staff costs, materials and other expenses related to responding to emergencies and disasters within its boundaries. Even after deducting COVID-19 related expenses ($66,565), the total cost represents more than was spent during the previous three years combined ($827,862).

RECOMMENDATION 9

Work with the Province on the development of a local government funding and support framework to address new and ongoing emergency management costs.



Protective Services – Cost-Drivers Related to Policing and Justice

Public safety is a core service directly provided by many local governments, and policing is a highly expensive component. Under the BC Police Act, the Province is responsible for the provision of policing services to local governments under 5,000 in population and unincorporated areas. Local governments over 5,000 in population assume responsibility for providing, and bearing the necessary expenses of, policing within their boundaries. The current structure of police funding has left local governments paying two-thirds of the costs of policing in British Columbia, which in 2019 amounted to over $1.35 billion.[21]

In June 2020, Mike Farnworth, Minister of Public Safety and Solicitor General, announced the Province's intent to review the Police Act, with particular focus on ensuring legislation adequately addresses issues such as harm reduction, mental health and systemic racism. The review and UBCM's submission have helped draw attention to many broad areas where both local governments and the Province are impacted (e.g., mental health and policing, governance, efficiency/effectiveness).

Members of the Select Committee on Local Government Finance have raised many important local government concerns and cost-drivers related to policing and the justice system:

- Addictions and mental health issues falling to local police;
- Escalating salaries;
- Lack of provincial investment (e.g., front-line officers, mental health, training, etc.);
- Vacancies and lack of front-line resources leading to staffing concerns and higher bylaw enforcement costs;
- Overburdened court system that is leading to more individuals (e.g., repeat/prolific offenders) being released;
- Restorative justice costs;
- Cost of police-based victim services;
- Gang violence;

- 911 emergency communication service delivery;
- Increased costs resulting from the Surrey Policing Transition (e.g., shared services, divisional administration);
- The impacts of new daytime bail hearings (resulting from COVID-19), including additional staffing and technology requirements;
- Cost-share for integrated teams; and
- Cost of new equipment (e.g., carbine rifles, body worn cameras, etc.).

The overall policing operating and capital costs are rising at much higher rate than other sectors, to the point where the affordability and sustainability of police services are in question. Increasing operating costs for policing was also noted in the Strong Fiscal Futures report, as one of the most important financial concerns expressed by local government officials.

In 2019/20, RCMP officers spent an estimated 4,300 hours in Kelowna hospital waiting rooms, with their time valued at approximately 1% of the annual police budget. This is one of many factors that has contributed to the City's annual RCMP budget increasing from $18.1 million in 2010 to $37.5 million for the current year.

RECOMMENDATION 10

Work with the Province and with other key stakeholders, recognizing and reversing the historic downloading of jurisdictional responsibility for mental health and addiction services on local governments and locally-funded police, to develop a comprehensive strategy to address mental health and addictions patients.

Protective Services – Cost-Drivers Related to Fire and Ambulance Services

In British Columbia, BC Emergency Health Services (BCEHS) oversees the BC Ambulance Service, which provides public ambulance services to people throughout the Province. Local fire departments and societies also play a role in pre-hospital emergency services, providing rescue services (e.g., road rescue) in support of the provincial system. The system can have a significant effect on local fire departments, which can become overburdened if there are insufficient ambulance services. The lack of provincial ambulance services was evident during the late-June 2021 heat emergency, with increased demand resulting in many individuals having to wait multiple hours for an ambulance to arrive. Preliminary findings from the BC Coroners Service indicate that 580 individuals died as a result of this heat wave.[22]

Local fire services are provided by local governments, who provide a number of emergency services in addition to fire suppression. Some of the primary cost-drivers identified through the Special Committee on Local Government Finance include excessive fire department operational requests/costs (e.g., new pumpers, tankers); training requirements (e.g., medical response); liability and insurance costs; and volunteer firefighters performing duties outside their core competencies (e.g., accident and cold water rescue).

In 2020, only 34% of calls to fire departments within the Cariboo Regional District were fire related.

UBCM's members have endorsed resolutions requesting additional provincial funding for highway and other rescue services (e.g., fire response); signed agreements outlining responsibilities of BCEHS and fire departments (e.g., mutual aid agreements); and provincial funding support for fire department staffing, compliance with standards, and capital costs. The Province has historically resisted providing additional compensation to local government fire departments for first responder services, often noting that participation is voluntary.

At the City of Kelowna, First Medical Response calls represent approximately 70% of the total annual responses from the Kelowna Fire Department. The Fire Department's medical response program, including certification, training, medical supplies and other necessities, costs the City approximately $75,000 per year.

RECOMMENDATION 11

Seek a new protocol with the provincial government, recognizing each level of government's jurisdictional responsibility, in order to govern the provision of first responder services and address inefficiencies related to provincial emergency health services and the current response model.

Cannabis Legalization – Associated Costs and Responsibilities

In June 2018, federal legislation to legalize and regulate non-medical cannabis received Royal Assent. Legislation placed provinces and territories in charge of issues such as distribution, retail, public consumption and enforcement. The Province was also provided the ability to impose additional restrictions in areas such as minimum age, personal cultivation and personal possession.[23]

British Columbia subsequently introduced its own legislation to address new responsibilities, leaving local governments responsible in traditional areas (e.g., policing and bylaw enforcement, land use management and business licensing). Another key local government responsibility is the ability to control and manage the retail sale of non-medical cannabis. It has been difficult for many local governments to project/quantify financial impacts as the cannabis framework is still developing (e.g., new policies regarding consumption lounges, farm-to-gate sales, and direct delivery are all under development). Findings from UBCM's 2019 cannabis cost survey provide a clear example of this challenge.

Despite the federal government's expectation that cannabis taxation revenue be shared with local governments, provinces and territories are under no legal obligation to do so (through the Federal-Provincial-Territorial Agreement on Cannabis Taxation).[24]

In 2019, UBCM developed a survey for local governments to quantify their incremental expenditures associated with the legalization of non-medical cannabis. Respondents were asked to provide information covering the first three years of legalization, including projected costs for 2020. An extrapolation of the three-year total reported incremental costs of $15.2 million (covering 44% of the BC population) equated to $34.6 million for an average of approximately $11.5 million per year in incremental costs to BC local governments. At the time, this represented 29.8% of the Province's cannabis excise tax revenue projection for the first three years of legalization.

RECOMMENDATION 12

Seek a targeted consumption tax that provides local governments a share of provincial cannabis taxation revenue.

Cybercrime – Protection and Response

Cybercrime is an emerging cost-driver for all orders of government, who are increasingly becoming the targets of online criminals. Provincial and local governments are facing rising costs to protect themselves and their employees, including those working from home. There are also costs associated with service disruptions and responding to attacks (e.g., overtime, productivity loss, IT costs), including attempted extortion through the use of ransomware – software used to block the access of data.

Improved security is becoming more costly, especially as the RCMP and law enforcement have been unable to adequately address these threats. This may be of particular concern for smaller local governments that may not have the resources to adequately protect themselves.

The City of Richmond spent approximately $750,000 to set up its cyber protection system, and perform necessary system upgrades. Ongoing cyber protection costs amount to an additional $305,000 per year.

RECOMMENDATION 13

Seek the establishment of a provincial program that provides local governments with expertise (e.g., systems and programs) and shared skills to protect and respond to cyber threats.

The Municipal Insurance Association of BC has noted that ransomware attacks targeting local governments have gone up by 60% since 2018.

Focus Area: CLIMATE CHANGE

Carbon Tax

In 2008, British Columbia implemented North America's first broad-based carbon tax of $10 per tonne of carbon dioxide. The tax applies to the purchase and use of fossil fuels burned for transportation, home heating, and electricity, and covers approximately seventy (70) percent of provincial greenhouse gas emissions. The tax was 'revenue neutral' as the Province reduced personal income taxes and corporate taxes by the equivalent amount applied to and collected during the purchase and use of fossil fuels. By 2013, the Province was collecting approximately $1 billion per year.

In 2017, the Province amended the Carbon Tax Act and eliminated the requirement that revenue measures be introduced to offset carbon tax revenues. This means that the provincial government is permitted to spend carbon tax revenues on emission reduction measures and other green initiatives, rather than having to return carbon tax revenues to taxpayers. As such, the carbon tax is no longer 'revenue neutral.'

On April 1, 2020, BC's carbon tax rate rose from $40 to $45 per tonne of carbon dioxide. It is scheduled to increase to $50 per tonne in April 2022. Revenues generated from the carbon tax are used to:

- provide carbon tax relief (e.g., Climate Action Tax Credit for low-income earners);
- maintain industry competitiveness by providing incentives for cleaner industrial operations (e.g., CleanBC Industrial Incentive); and
- encourage new green initiatives through supporting the provincial climate action strategy, CleanBC.

Since 2020, the Province has operated the Climate Action Revenue Incentive Program (CARIP). CARIP is a conditional grant program that provides funding to local governments equal to 100% of the carbon taxes they pay to directly support local government climate action if they sign the Climate Action Charter.

Local governments have used the grant funding to support a wide range of climate action initiatives including developing policies and action plans, capital purchases, and leveraging for cost-sharing projects with other orders of government.

In May 2021, the Province announced that it would end the $8.4 million CARIP program. A new one-time allocation of $11 million was announced in the provincial budget for developing and funding a new program for local governments to plan for compact, energy efficient communities.

The Province estimates that the carbon tax will generate:	***$1.64 billion***	***2020/21***
The revenue is projected to increase to:	***$1.99 billion***	***2021/22***
	$2.21 billion	***2022/23***
	$2.11 billion	***2023/24***

As the carbon tax is no longer revenue-neutral, there is the opportunity to request a percentage of the revenue that exceeds the amount rebated to local governments through the CARIP program.

Based on current year revenues, every one (1) percent of the carbon tax (on an annual basis) yields $16.4 million.

A portion of the carbon tax could be modelled at the Province's approach to industry, in which carbon tax above a certain threshold is directed back to industry to support their switch to cleaner fuels.

In particular, the Province launched the CleanBC Program for Industry in 2019, which rebates a portion of the carbon tax paid by industry through the CleanBC Industrial Incentive Program and the CleanBC Industry Fund. The program is funded by the incremental carbon tax above $30 per tonne as paid by industry. The Industrial Incentive Program reduces carbon-tax costs for operations meeting world leading emissions benchmarks, while the Industry Fund invests some industrial carbon tax revenue directly into emission reduction projects. The 2021 provincial budget allocated $96 million to the CleanBC Program For Industry.

Allocating a portion of the carbon tax to local governments provides a revenue stream for local governments to address the increased expectations, desire, need and costs of responding to climate change. It would allow an investment in both mitigation and adaptation projects, support policy development and planning, and act as seed capital to leverage provincial and federal dollars. In doing so, it holds the potential to advance the shared goal of reducing emissions and creating weather resilient communities.

RECOMMENDATION 14

UBCM request the Province to direct a percentage of the Carbon Tax, on an annual basis, to local governments, to support mitigation and adaptation actions.

Mitigation & Adaptation Supports: Adaptation, Buildings, Transportation, Solid Waste

In July 2019, UBCM struck a Special Committee on Climate Action to generate new ideas, explore opportunities and barriers to local government action, and identify avenues for further partnership work in mitigating, and adapting to, the effects of climate change. The Committee considered the state of climate action, local government approaches and best practices in mitigation and adaptation, and the roles and responsibilities of the orders of government and external stakeholders in supporting local action. It reviewed opportunities and barriers to taking climate action to the next level, and considered options that are sensitive to local conditions, autonomy, and resources.

After consultation with the membership, the Committee released its recommendations in December 2020 that focused on buildings, transportation, solid waste, resilience, land-use planning, social mobilization and governance. The recommendations are a roadmap for a low-carbon future, and are designed to take climate action to the next level in reducing emissions and creating weather resilient communities. They function as a suite of options to that can help advance local and provincial climate action agendas. Numerous member resolutions broadly supported the spectrum of Committee recommendations.

The Select Committee on Local Government Finance identified a series of costs drivers associated with reducing emissions and creating weather resilient communities. These costs include:

Adaptation Infrastructure & Emergency Management

The costs of adapting to, and addressing, the increase in wildfires, drought and flooding arising from climate change which includes operational response costs and mitigating infrastructure costs. It is estimated that an average annual investment in municipal infrastructure adaptation measures of $5.3 billion is needed to adapt to climate change in Canada.[25]

The Regional District of East Kootenay has spent $1.8 million in payroll, materials and emergency expenses over the past four years responding to weather related emergencies.

Housing & Buildings

The costs of creating zero emission and low carbon housing stock in communities, and the need for financial incentives to support building retrofits and energy efficiency upgrades.

The City of Campbell River tops up the provincial incentive for home energy evaluations by $150 and the $3,000 central source heat pump incentive by $350 to support energy efficiency upgrades.

Transportation

The shift to zero emission and low carbon transit and local government fleets holds significant cost pressures, as unit replacement costs are higher than 'like for like' replacement.

The electrification of TransLink's fleet in Metro Vancouver is projected to cost $473 million more than baseline costs, or an average of $15.8 million more per year over the next thirty years.

Solid Waste

Infrastructure investments are required for waste management initiatives such as organics diversion and landfill gas capture, and replacement revenue streams are required for a shift to zero waste economy (i.e., loss of tipping fees).

The Regional District of Nanaimo's organic waste diversion strategy required a $5.5 million dollar upgrade to its transfer station to handle food waste.

The Select Committee on Local Government Finance endorsed the Climate Action Committee's recommendations on new funding, policies, and capacity building tools as solutions that could be used to address these costs drivers. These include:

RECOMMENDATION 15

Consistent with the UBCM Climate Action Committee recommendations on Buildings, call for new provincial building retrofit incentive programs.

RECOMMENDATION 16

Consistent with the UBCM Climate Action Committee recommendations on Transportation, call for new provincial funding for active transportation infrastructure – which supports the implementation of community active transportation plans, active transportation corridors, and end of trip active transportation facilities at transfer points.

RECOMMENDATION 17

Consistent with the UBCM Climate Action Committee recommendations on Transportation, call for investments in green fleet conversions for local government and community fleets.

RECOMMENDATION 18

Consistent with the UBCM Climate Action Committee recommendations on Transportation, create new revenue tools for local governments to strengthen the transit funding model and reduce reliance on transit fares.

RECOMMENDATION 19

Consistent with the UBCM Climate Action Committee recommendations on Solid Waste Management, call for new investments in solid waste management initiatives – including organics diversion, extended producer responsibility programs, and deriving energy from waste products.

RECOMMENDATION 20

Consistent with the UBCM Climate Action Committee recommendations on Resiliency, call for a provincial funding stream dedicated to supporting the development and implementation of local adaptation plans.

Moving Forward: Building on Strong Fiscal Futures and Preparing for the New Economy

RECOMMENDATION 1

UBCM and the Province work together in reviewing the current local government property tax system and the impacts of the 'New Economy' in order to:

- *develop a fairer, more responsive property tax;*
- *monitor impacts of the New Economy on taxation; and*
- *identify emerging sources, and opportunities to share taxation/revenues that may result from the New Economy.*

RECOMMENDATION 2

The Province to commit to meaningful engagement through a working partnership with UBCM in order to meet the respective mandates of strengthening the local government finance system.

RECOMMENDATION 3

The Province continue to advocate with the federal government in the continuation of federal/ provincial infrastructure cost-share agreements at the current or greater level and ensure:

- *the renewal of the Canada Community-Building Fund (formally the Gas Tax fund) with the federal government in 2024; and*
- *by working with the federal government, and input from TransLink and BC Transit communities, a federal/provincial agreement in the federal Permanent Transit Fund is implemented for BC by 2026 as confirmed in the 2021 federal budget.*

RECOMMENDATION 4

BC local governments, with the support of the Province and UBCM, continue to develop and implement asset management best practices in order to deliver services, and manage infrastructure, in a sustainable, cost-effective way.

Addressing Cost-Drivers

Attainable Housing

RECOMMENDATION 5

The Province commit to working with UBCM on a comprehensive review of funding mechanisms for financing growth-related infrastructure services including Development Cost Charges and Amenity Agreements, to:

- *Better capture growth related capital costs that are increasingly strained as a result of pressure for local governments to incentivize attainable housing;*
- *Provide local governments with flexibility to better reflect community circumstances and community objectives; and*
- *Create a consistent approach to land value capture and amenity charges that reduces the uncertainty associated with negotiated agreements.*

RECOMMENDATION 6

The Province commit to work with UBCM to identify the appropriate revenue source(s) that may both increase funding available for attainable housing and incentivize the use of residential property for housing. Potential sources include, but are not limited to:

- *New taxation powers, such as vacancy taxation, to be granted to local governments for use at their discretion;*
- *Returning funds from existing revenue sources such as the speculation tax, to the jurisdiction in which they are collected, for provision of attainable housing;*
- *Modifications to the property transfer tax to make it more progressive and/or disincentivize rapid resale ('flipping'); and*
- *Short-term rental taxation.*

RECOMMENDATION 7

The Province, in partnership with UBCM and other stakeholders, commit to improving the effectiveness and efficiency of the development approval processes for which each stakeholder, including the development industry and Province, is responsible.

RECOMMENDATION 8

The Province to commit to partner with UBCM and local governments, recognizing and reversing the historic downloading of jurisdictional responsibility on housing, in the development and implementation of a province-wide homelessness strategy.

Community Safety

RECOMMENDATION 9

Work with the Province on the development of a local government funding and support framework to address new and ongoing emergency management costs.

RECOMMENDATION 10

Work with the Province and with other key stakeholders, recognizing and reversing the historic downloading of jurisdictional responsibility for mental health and addiction services on local governments and locally-funded police, to develop a comprehensive strategy to address mental health and addictions patients.

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Seek a new protocol with the provincial government, recognizing each level of government's jurisdictional responsibility, in order to govern the provision of first responder services and address inefficiencies related to provincial emergency health services and the current response model.

RECOMMENDATION 12

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RECOMMENDATION 13

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Climate Change

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7. APPENDICES

FOCUS AREA: Attainable Housing

ISSUE: Local Government Funding of Attainable Housing

CATEGORY: Downloaded

BACKGROUND:

Housing was historically the preserve of the Federal Government through to the 1990s at which time a progressive withdrawal of federal funding resulted in a downloading of responsibilities to the Province[1]. The primary role of local governments within the British Columbia housing policy framework is to plan for communities that are socially, economically and environmentally healthy and that make efficient use of public facilities and services, land and other resources. They do this through proactive community planning and the regulation of land use. In this role they act within the constraints of a narrow tax base and defined legislative authority.

In recent years, however, there has been a growing expectation for local governments to financially support attainable housing (market and non-market), through:

- ***Land contributions –*** granting, leasing or otherwise. In some cases, if local governments don't own land, they incur costs to acquire and then contribute it to social housing projects.
- ***Servicing costs –*** higher expectations exist now, spanning hard infrastructure, sidewalks, playgrounds, health – and these need to be paid for through municipal taxes. With growth, water and sewer services are reaching capacity thresholds, resulting in further capital costs for new infrastructure, as well as higher ongoing operating costs. Local governments have relied on the "growth to pay for growth" principle, but this does not work for non-market housing, and in some cases does not work for market housing.
- ***DCC exemptions, waivers or reductions, and property tax exemptions –*** there is growing pressure to exempt affordable housing from development cost charges or property taxes, which also effectively increases servicing costs for local governments.

1 E.g.: http://www.urbancentre.utoronto.ca/pdfs/researchbulletins/CUCSRB38Hulchanski.pdf

For example, the City of North Vancouver has allocated a significant portion of its overall community benefits through development to achieve housing objectives. In 2020, this has amounted to a contribution to housing, in the form of securing net new rental homes, with a value of as much as $30 million.

OPTIONS:

Option 1: Development Finance Reform

Development Cost Charges, which are designed to help pay for the cost of off-site infrastructure required to deliver community services that are needed to accommodate growth, are currently restricted by the *Local Government Act* to areas of sewage, water, drainage, roads and parks. Current Development Cost Charge structure does not support the flexibility local governments require to make effective off-site infrastructure investments to deliver community services needed to accommodate growth, or reflect other important infrastructure services delivered by local governments impacted by growth.

A comprehensive review of existing funding mechanisms for financing growth-related infrastructure services, including Development Cost Charges and Amenity Agreements, should be undertaken to identify approaches to:

- Capture growth related capital costs, including, but not limited to infrastructure needed to support: emergency services, solid waste, cultural services, transit, recreation, affordable housing and the expansion of sport-related park services;
- Provide local government with the flexibility to ensure that financing growth-related infrastructure services better reflects community circumstances and community objectives; and
- Create a consistent approach to land value capture and amenity charges that reduces the uncertainty associated with negotiated agreements.

Such a review is supported by UBCM policy (resolution 2019-SR2) and was addressed in UBCM's 2018 Housing Strategy, 'A Home for Everyone'. This strategy specifically noted that a broadening of DCCs to support additional growth-related costs would replace the uncertainty associated with re-zoning and a range of negotiated agreements with a clear, certain process that is regulated by the Province while also providing local governments a legislated way to pay for the cost of growth.

Modernizing development financing has been a longstanding interest of local governments and the 2013 Strong Fiscal Futures Report also identified the need to achieve greater flexibility in design of development cost charges including greater scope for use of funds for parkland development. Following endorsement of resolution 2019-SR2, the Province acknowledged that a review of development finance tools is a key component of improving the entire development approvals system, and indicated that a Development Finance review would be considered.

Option 2: New Revenue Sources

UBCM membership has identified a range of potential revenue sources that may both increase funding available for attainable housing and incentivize the use of residential property for housing. These include:

- *New taxation powers to be granted to local governments for use at their discretion:* Potential options include vacancy taxation and brownfield taxation. The City of Vancouver is currently the only local government with the ability to levy a vacancy tax, through the Vancouver Charter. UBCM resolutions have sought local government authority to impose a vacancy tax on taxable residential properties, to encourage occupancy and use of vacant land for housing with the requirement that funds collected be invested in non-market housing. Brownfield taxation has similar aims in that it is intended to spur development of unused properties. UBCM membership has called for the ability to tax brownfields in a separate property class.
- *Modifications to the property transfer tax:* Options including scaling the PTT to penalize rapid re-sale, making it more progressive and dedicating the revenue towards affordable housing. UBCM's housing strategy recommends that the Province consider scaling the property transfer tax to penalize rapid speculative re-sale ('flipping'). Such a modification would see a declining tax rate over time so as not to negatively impact long term residents selling their property. UBCM's housing strategy also suggests that the Property Transfer Tax could be reviewed to make it more progressive, by approximately maintaining current revenue levels from the tax while introducing a sliding scale of rates according to transaction cost. Finally, the strategy recommends dedicating revenues from the tax towards affordable housing.
- *Short-term rental taxation:* UBCM policy calls for property classification of short-term rentals that reflects their commercial use (2017-B20, 2019-B34).

Other Options:

UBCM membership has also identified several policies that would assist with local government provision of attainable housing by either lowering costs for local governments or creating incentives for the private sector to develop affordable rental market housing. These include:

- *Review of rezoning / public hearing requirements:* Streamlining development approvals was both identified in mandate letters for Finance and Municipal Affairs and recommended in UBCM Housing Report. A review of public hearing requirements could potentially reduce local government administration and housing costs by enabling local governments to expedite applications for attainable housing.
- *Reducing GST on rental housing:* Reducing GST on rental housing could strongly incentivize private investment in the supply of affordable rental housing stock. This is supported by UBCM Policy (2007-A7), and noted in UBCM's 2020 Submission to the Expert Panel on Housing Supply and Affordability as an approach that is broadly supported in the real estate sector[2].
- *Tools to assist with short-term rental regulation:* UBCM's Housing Report also calls for 'platform accountability', whereby the Province would negotiate a province-wide agreement with Airbnb and other regionally-active short-term rental platforms to assist local governments with compliance checks. This would substantially lower the regulatory costs for local governments. The Province and UBCM convened a joint advisory group on short-term rentals that has also considered such approaches.
- *Additional funding for affordable housing:* The UBCM Housing Report supports the Province's goal of building 114,000 units of affordable housing. This was originally introduced as part of the Province's 30-point plan to address housing, and is currently referenced in the Minister of Housing's mandate letter. UBCM further supports funding for new zero emissions housing and low carbon retrofits. This overlaps with recommendations of the climate change sub-committee; is consistent with mandate letters for Housing as well as Energy, Mines and Low Carbon Innovation; and was identified in UBCM's Housing Report and Special Committee on Climate Action recommendations. Finally, UBCM supports the promotion/funding of mass-timber and other low-cost wood frame developments: consistent with Forests, Lands, Natural Resource Operations and Rural Development mandate letter. This is supported by UBCM's Housing Report and Special Committee on Climate Action recommendations.

2 https://www.bcrea.bc.ca/wp-content/uploads/2019-10-02-BC-Real-Estate-Sector-Urges-Federal-Parties-to-Act-on-Affordability-Recommendations.pdf

FOCUS AREA: Attainable Housing

ISSUE: New Provincial Requirements for Planning Approvals

CATEGORY: New, Emerging

BACKGROUND:

Recent changes to the building code to include higher energy standards in accordance with the Energy Step Code have resulted in a number of challenges for local governments, and particularly those in rural, remote and northern regions, due to:

- Lack of local training opportunities for the building community;
- Lack of qualified Energy Advisors, and the possibility that some small and remote communities will not have an adequate workload to entice an Energy Advisor to do business in the area;
- Lower availability of materials and higher material costs in rural communities leading to concerns of affordability among residents;
- Additional costs of energy consultants and mandated energy solutions; and,
- Lower capacity within small local governments.

These issues have been raised through UBCM member endorsed resolutions (2020-EB87, 2020-NR73), and also via the Development Approvals Process Review (DAPR)[3]. For example, the September 2019 final DAPR report noted the need for a Provincial review of policy for building code changes including opportunities to provide in-stream protection, provision of earlier notice of upcoming changes, and increased education on upcoming changes.

OPTIONS:

The Select Committee recommends that the Province provide additional resources to support communities with Energy Step Code implementation in an equitable way by working with communities to address barriers. In order to ensure that housing costs are not unduly impacted, the Committee also recommends that the Province:

- assess regional financial disparities,
- provide greater flexibility in building code requirements by providing incentives rather than punitive or prescriptive measures, and
- provide earlier notice of upcoming changes and increased education to accompany changes.

3 https://www2.gov.bc.ca/assets/gov/british-columbians-our-governments/local-governments/planning-land-use/dapr_2019_report.pdf Table 6, Topic 6.6

FOCUS AREA: Attainable Housing

ISSUE: Costs of Homelessness

CATEGORY: Emerging

BACKGROUND:

Closely related to the broader affordability crisis, local governments have been faced with a growing challenge of housing and providing services to address homelessness. This is a challenge faced by communities in all regions of BC. For example, in their 2020 homeless counts, the Homelessness Services Association of BC identified: 76 homeless individuals in Fort St. John, 121 in Quesnel, 63 in Cranbrook, and 132 in the Comox Valley. A 2018 report on homeless counts across the Province identified 7,655 individuals experiencing homelessness in 24 communities, while noting that all point in time counts are an undercount and do not capture the hidden homeless and those at risk of homelessness.

Local governments bear wide ranging costs associated with homelessness, including community service, legal and policing costs related to homeless encampments and homelessness more broadly. They incur costs to address public safety, such as security costs for complex needs/social housing because of onsite drug use. Municipalities also often need to hire new bylaw officers to address issues arising in homeless camps, and additional parks workers to clean up parks each morning where there is overnight camping.

Several studies have pointed towards the high costs associated with homelessness, including a Simon Fraser University study estimating that it costs $55,000 per person per year to leave someone with mental health issues homeless in British Columbia versus a housing and support cost of $37,000[4]. For local governments specifically, costs are highly context specific, but for example:

- The Oppenheimer Park tent city cost the City of Vancouver upwards of $3.5 million over an 18-month period including policing costs, decampment costs and park restoration costs[5].
- The City of Victoria estimates that in 2020, it spent $1.4 million managing encampments[6].

4 Housing and Support for Adults with Severe Addictions and/or Mental Illness in British Columbia, Michelle Patterson, Julian M. Somers, Karen McIntosh, Alan Shiell, Charles James Frankish; Centre For Applied Research in Mental Health and Addiction, Faculty of Health Sciences, Simon Fraser University, 2008

5 https://globalnews.ca/news/7846922/vancouver-taxpayers-on-hook-for-at-least-3-5m-for-oppenheimer-park-tent-city/

6 https://vancouverisland.ctvnews.ca/victoria-to-move-all-homeless-inside-end-all-day-camping-by-march-2021-1.5181219

OPTIONS:

The Select Committee has not identified specific funding mechanisms to address the costs of homelessness, but notes that funding solutions to homelessness has been identified in the Minister of Housing's mandate letter and is also supported in the UBCM Housing Strategy and resolutions calling on the Province to fund costs related to homelessness, including supportive housing for complex needs (e.g., 2020-EB80, 2019-B183). It is further anticipated that new revenue sources and other supports for attainable housing will help to reduce the costs of homelessness for local governments by reducing the number of people who are made homeless as a result of high housing costs.

FOCUS AREA: Community Safety

ISSUE: Emergency Management – Long-Standing Issues and Cost-Drivers, including those Related to Climate Change.

CATEGORY: Emerging, Downloaded

BACKGROUND:

As climate change increasingly impacts BC's environment, emergency management is becoming an even more important and costlier local government responsibility. Local government responsibilities include provincial requirements to prepare an emergency plan and maintain an emergency management organization. The Province, through EMBC, acts as the lead coordinating agency for emergency management activities; and, works in collaboration with stakeholders to address larger-scale emergencies.

While there is a seemingly endless list of long-standing issues and cost-drivers impacting local governments, the Community Safety Sub-Committee has discussed and focused on the following:

- Impacts related to climate change, including:
  - More wildfires leading to higher firefighting costs and firefighters being deployed outside their local areas;
  - The relation between increased flooding and slope stability;
  - Floodplain issues;
  - Higher diking costs;
- General responsibilities under the four key pillars of emergency management (mitigation, preparedness, response and recovery); and
- Emergency management costs being downloaded (e.g. finding volunteers to manage emergency support services).

The Province is currently working to modernize BC's emergency management legislation. This process is likely to add additional costs and responsibilities for local governments as the Province seeks to incorporate the Sendai Framework on Disaster Risk Reduction, and focus more effort on mitigation and recovery pillars. As part of this work, the Province released a 2019 discussion paper containing more than 60 recommendations, including 29 key policy shifts for consideration. UBCM summarized feedback submitted by local governments, and made several broad recommendations including the need for a sustainable funding framework for local governments to address emergency management responsibilities; and additional provincial support services to help address local government emergency management capacity issues.

RISKS / CHALLENGES:

- Vast field, difficult to narrow down the list of concerns and solutions.
- Due to climate change and the resulting increase in frequency and intensity of disasters, the Province and local governments are likely to assume greater responsibility as part of an all-of-society approach to disaster risk reduction.
- Province has already committed to examining support to assist local governments in addressing new legislative responsibilities, but the level of support that will be provided is still unknown.

APPLICABLE CASE STUDIES / LOCAL EXAMPLES:

In 2020, the East Kootenay Regional District spent $905,872 in staff costs, materials and other expenses related to responding to emergencies and disasters within its boundaries. Even after deducting COVID-19 related expenses ($66,565), the total cost ($827,862) represents more than was spent during the previous three years combined.

EXISTING OPTIONS:

The UBCM membership has endorsed numerous resolutions seeking support and ongoing funding to address costs and responsibilities (e.g., climate change mitigation) from new emergency management legislation; and, for other orders of government to discontinue the practice of downloading emergency management costs and responsibilities onto local governments.

Other resolutions related to issues raised by the Select Committee include requesting:

- That the Province increase efforts to mitigate wildfire risk.
- Incentives for property owners to carry out mitigation activities.
- That provincial and federal governments discontinue the practice of downloading wildfire mitigation costs and responsibilities onto local governments, and take responsibility for mitigation costs on Crown lands.

- That the Province allocate funding to support proactive risk management of geo-hazards; more specifically, members have also called for the Province to commit resources to slope stabilization projects across BC.
- Provincial funding for dike upgrades.
- Clarity regarding the roles and responsibilities of local governments in relation to dike upgrades and climate change.

NEW / OTHER OPTIONS:

The Community Safety Sub-Committee has discussed the need for sales tax exemptions for infrastructure projects, fire protection equipment and supplies, and other life-saving equipment. This option is supported by UBCM policy.

Additionally, revenue generated through targeted consumption taxes (e.g., liquor tax, lottery tax, e-commerce tax) could be used to offset new and ongoing (e.g., downloaded) emergency management costs and responsibilities.

RECOMMENDED OPTION:

The recommended option is to work with the Province on the development of a local government funding and support framework to address new and ongoing emergency management costs. This option is supported by UBCM policy, Select Committee on Local Government Finance discussion, and local government feedback to the 2019 EMBC discussion paper, Modernizing BC's Emergency Management Legislation. UBCM members have previously suggested moving away from grant-based funding models to a more reliable and sustainable funding model.

PROS:

- Given the number of new and ongoing/downloaded emergency management costs and responsibilities, a broad sustainable funding framework could ensure that many cost-drivers are captured under one umbrella.
- The Province has acknowledged that funding and support for local governments is a necessary component of the process to introduce new emergency management legislation.

    - Solutions have not yet been finalized.
    - BC local governments will need funding and support to effectively implement new provincial emergency management legislation.
- BC includes a large, diverse geographic area, where the emergency management needs of one region can differ significantly from the needs of another. A broad framework can help address each region's unique costs and responsibilities.
    - Some of the other policy solutions are aimed at specific aspects of emergency management that may not be priorities in all regions of BC.
- Research suggests that investments into mitigation and preparedness can provide a better cost-benefit return for all stakeholders, notably the provincial government, rather than increased funding towards recovery and response activities.

CONS:

- A broad funding and support framework could make addressing climate change seem like less of an urgent need/priority.

REFERENCES:

UBCM Overview of Local Government Feedback to the EMBC Discussion Paper: Modernizing BC's Emergency Management Legislation
https://www.ubcm.ca/assets/Resolutions~and~Policy/Policy/Community~Safety/Emergency~Program~Act~Review/2020-02-18%20UBCM%20Overview%20of%20LG%20Feedback%20Re%20EPA%20Modernization%20FINAL.pdf

FOCUS AREA: Community Safety

ISSUE: Protective Services – Cost-Drivers Related to Policing and Justice

CATEGORY: New, Emerging and Downloaded

BACKGROUND:

Public safety is a core service directly provided by many local governments, and policing is a highly expensive component. Under the BC Police Act, the Province is responsible for the provision of policing services to local governments under 5,000 in population and unincorporated areas. Local governments over 5,000 in population assume responsibility for providing, and bearing the necessary expenses of, policing within their boundaries. The current structure of police funding has left local governments paying two-thirds of the costs of policing in British Columbia, which in 2019 amounted to over $1.35 billion.

In June 2020, Mike Farnworth, Minister of Public Safety and Solicitor General, announced the Province's intent to review the Police Act, with particular focus on ensuring legislation adequately addresses issues such as harm reduction, mental health and systemic racism. The review and UBCM's submission have helped draw attention to many broad areas where both local governments and the Province are impacted (e.g., mental health and policing, governance, efficiency/effectiveness).

Members of the Select Committee on Local Government Finance have raised many important local government concerns and cost-drivers related to policing and the justice system:

- Addictions and mental health issues falling to local police;
- Escalating salaries;
- Lack of provincial investment (e.g., front-line officers, mental health, training, etc.);
- Vacancies and lack of front-line resources leading to staffing concerns and higher bylaw enforcement costs;
- Overburdened court system that is leading to more individuals (e.g., repeat/prolific offenders) being released;
- Restorative justice costs;
- Cost of police-based victim services;

- Gang violence;
- 911 emergency communication service delivery;
- Increased costs resulting from the Surrey Policing Transition (e.g., shared services, divisional administration);
- The impacts of new daytime bail hearings (resulting from COVID-19), including additional staffing and technology requirements;
- Cost-share for integrated teams; and,
- Cost of new equipment (e.g., carbine rifles, body worn cameras, etc.).

The overall policing operating and capital costs are rising at much higher rate than other sectors, to the point where the affordability and sustainability of police services are in question. Increasing operating costs for policing was also noted in the Strong Fiscal Futures report, as one of the most important financial concerns expressed by local government officials.

RISKS / CHALLENGES:

- Another vast field, with many different concerns, cost-drivers and challenges.
- Many of the new cost-drivers have still not been finalized (e.g., RCMP salary increases, cost of body worn cameras, impacts of the Surrey Police Transition).
- Cost-base for RCMP-policed local governments is formalized through the Municipal Police Unit Agreement, which is not up for re-negotiation until 2032.

APPLICABLE CASE STUDIES / LOCAL EXAMPLES:

In 2019/20, RCMP officers spent an estimated 4,300 hours in Kelowna hospital waiting rooms, with their time valued at approximately 1% of the City's annual police budget. This is one of many factors that has contributed to Kelowna's annual RCMP budget increasing from $18.1 million in 2010 to $37.5 million for the current year.

UBCM has conducted work regarding impacts of several high-profile cost-drivers:

- <u>Police salaries (RCMP):</u> UBCM has examined available data regarding police salaries throughout British Columbia and Canada in anticipation of increased RCMP police officer salaries. Key findings include:

- The starting salary at most of the police agencies included in the review was greater than $70,000 per year, which is over 30% more than what is initially offered by the RCMP ($53,144 for the first 6 months of service);
- The salary for a first class constable at most of the police agencies included in the review was greater than $100,000 per year, which is over 15% more than what is offered by the RCMP ($86,110).

- Provincial policing resources: UBCM has found that over the past 15 years where data is available (2004-2019), BC local governments have added 1,029 front-line policing positions, while the Province has only added 67. Provincial representatives have verbally acknowledged that the Province has not sufficiently invested in front-line policing.
- Body worn cameras: According to the federal government's 2020 fall economic statement, the initial cost will be approximately $238.5 million over six years to support the implementation of body worn cameras. An additional $50 million per year is earmarked to maintain the new system. Costs will be phased in for the first two years after implementation, after which local governments will be expected to assume all costs.
- Surrey policing transition: Through work with the Local Government Contract Management Committee, UBCM has identified potential local government cost-drivers associated with the City of Surrey's transition to an independent police agency:
    - Financial liabilities (e.g., retroactive pay, ongoing investigations/court cases, training, E-Division headquarters building costs);
    - Shared services (e.g., integrated teams, divisional administration and national programs);
    - Additional considerations (e.g., vacancies/recruitment, future costs such as unused vacation and overtime, governance, and emergency management);

EXISTING OPTIONS:

UBCM members have consistently endorsed resolutions related to this category, including those that seek a comprehensive strategy to address mental health patients; additional provincial policing resources (e.g., front-line officers); and funding to address key cost-drivers (e.g., restorative justice, police-based victim services).

UBCM's recommendations to the Special Committee on Reforming the Police Act largely request that the Special Committee conduct additional research and analysis of key aspects of policing impacting local governments (e.g. preventative and proactive investments; coordination and availability of resources in key service areas; accountability through improved data, oversight and consultation; responsibility and resourcing for services; governance; efficiency and effectiveness in service delivery; and consultation with local governments).

The Strong Fiscal Futures report raises the need for ongoing dialogue between UBCM and the Province to better manage shared services such as policing, and to ensure that the framework is providing value for money.

NEW / OTHER OPTIONS:

Revenue generated through targeted consumption taxes (e.g., liquor tax, lottery tax, e-commerce tax) could be used to offset new and ongoing (e.g., downloaded) policing costs and responsibilities. In particular, the Strong Fiscal Futures report suggests the suitability of local governments receiving a portion of liquor revenue, as liquor consumption and availability impact policing costs.

Another option raised by the Select Committee is the recovery of civil forfeiture revenue. Significant local policing resources are often used for large-scale police cases, and any resulting forfeitures are not shared with local governments (outside of a small grant program).

The Strong Fiscal Futures report proposes that traffic fine revenue be defined as a local revenue source to remove payments from the Province.

RECOMMENDED OPTION:

The recommended option is to work with the Province, recognizing each level of government's jurisdictional responsibility, and other stakeholders as needed, to develop a comprehensive strategy to address mental health and addictions patients. A starting point for this strategy is found in endorsed resolution 2020-SR8, Mental Health, Addictions and Poisoned Drug Supply, which suggests including the following components:

- *Ongoing, sustained funding to address the overdose public health emergency.*
- *Implementing a province-wide agreement between police and mental health officials on the management of mental health patients in emergency wards.*
- *Developing integrated teams of health, police, and other officials on a twenty-four (24) hour basis to manage individuals with mental health issues.*

- *Introducing additional long-term care beds to deal specifically with mental illness cases.*

This proposed strategy is consistent with UBCM's Police Act submission, which recommends that the Province ensure necessary resources are available in all relevant service areas (e.g., policing, healthcare, housing, etc.) to address mental health and policing issues.

PROS:

- Prioritized in provincial mandate letters.
- An area under examination by the Special Committee on Reforming the Police Act.
- Has been a long-standing UBCM priority.
- Widely acknowledged that a new approach is needed to manage mental health and addictions issues.
- Prioritizing this issue could serve to address multiple key issues at once (e.g., policing resources, healthcare, housing, opioid crisis, etc.).

CONS:

- There are other key cost-drivers that may be overlooked (e.g., police salaries, the need for more front-line policing resources, new operational costs).

REFERENCES:

UBCM submission to the Special Committee on Reforming the Police Act
https://www.ubcm.ca/assets/Resolutions~and~Policy/Policy/Community~Safety/Police~Services/1-UBCM%20Police%20Act%20Submission%20-%20Jan%202021.pdf

UBCM Compass Article – Anticipating RCMP Unionization Costs
https://www.ubcm.ca/EN/meta/news/news-archive/2021-archive/anticipating-rcmp-unionization-costs.html#:~:text=The%20starting%20salary%20at%20most,6%20months%20of%20service)%3B

UBCM to Minister Mike Farnworth re: Policing Transition Evaluation Framework
https://www.ubcm.ca/assets/Resolutions~and~Policy/Policy/Community~Safety/Police~Services/2019-08-22%20UBCM%20to%20Min.%20Farnworth%20Re%20Transition%20Evaluation%20Framework.pdf

FOCUS AREA: Community Safety

ISSUE: Protective Services – Cost-Drivers Related to Fire and Ambulance Services

CATEGORY: Emerging, Downloaded

BACKGROUND:

In British Columbia, BC Emergency Health Services (BCEHS) oversees the BC Ambulance Service, which provides public ambulance services to people throughout BC. Local fire departments and societies also play a role in pre-hospital emergency services, providing rescue services (e.g., road rescue) in support of the provincial system. The system can have a significant effect on local fire departments, which can become overburdened if there are insufficient ambulance services. The lack of provincial ambulance services was evident during the late-June 2021 heat emergency, with increased demand resulting in many individuals having to wait multiple hours for an ambulance to arrive. Preliminary findings from the BC Coroners Service indicate that 580 individuals died as a result of this heat wave.

Local fire services are provided by local governments, who provide a number of emergency services in addition to fire suppression. Some of the primary cost-drivers identified through the Select Committee on Local Government Finance include excessive fire department operational requests/costs (e.g., new pumpers, tankers); training requirements (e.g., medical response); liability and insurance costs; and volunteer firefighters performing duties outside their core competencies (e.g., accident and cold water rescue).

RISKS / CHALLENGES:

- The Province has historically resisted providing additional compensation to local government fire departments for first responder services, often noting that participation is voluntary.
- The controversial 2018 Clinical Response Model for dispatching first responders has led to fewer calls to volunteer fire departments and subsequent local government concerns regarding access to emergency services.
- Additional funding and support for emergency services, including fire protection, is a long-standing request that remains unaddressed to a sufficient level.
    - The Province has recently contributed funding to the Community Emergency Preparedness Fund to address training and equipment.

APPLICABLE CASE STUDIES / LOCAL EXAMPLES:

In 2020, only 34% of calls to fire departments within the Cariboo Regional District were fire related.

At the City of Kelowna, First Medical Response calls represent approximately 70% of the total annual responses from the Kelowna Fire Department. The Fire Department's medical response program, including certification, training, medical supplies and other necessities, costs the City approximately $75,000 per year.

EXISTING OPTIONS:

UBCM's members have endorsed resolutions requesting additional provincial funding for highway and other rescue services (e.g., fire response); signed agreements outlining responsibilities of BCEHS and fire departments (e.g., mutual aid agreements); and provincial funding support for fire department staffing, compliance with standards, and capital costs.

The Strong Fiscal Futures report has outlined the need to "negotiate an improved protocol with the provincial government to govern the provision of first response emergency paramedical services" as a means to improve taxpayer value for money.

NEW / OTHER OPTIONS:

The Community Safety Sub-Committee has identified two related options:

- 911 Call Answer Levy: UBCM's members have consistently endorsed resolutions requesting that the Province introduce legislation that would provide for the implementation of a province-wide cellular phone levy to contribute to the costs of delivering the 911 emergency service. The UBCM Executive has formally conveyed support for enabling legislation to create a new 911 CAL for cellular devices, as well as the establishment of an independent body to manage revenue. This is also viewed as a potential new revenue source for local governments, and an opportunity to fund necessary public safety costs and upgrades (e.g., 911 infrastructure). This Province has previously expressed support for this framework.

- Sales Tax Exemptions: The UBCM membership has previously endorsed resolutions seeking a PST exemption for the purchase of fire protection equipment and supplies (e.g., trucks) and other life-saving equipment, as well as local government infrastructure projects. UBCM has also called on the Province to provide full sales tax rebates for all purchases, without any reduction in other revenue sharing programs.

Revenue generated through targeted consumption taxes (e.g., liquor tax, lottery tax, e-commerce tax) could also be used to offset fire services and local first responder costs.

RECOMMENDED OPTION:

The recommended option is to seek a new protocol with the provincial government, recognizing each level of government's jurisdictional responsibility, in order to govern the provision of first responder services and address inefficiencies related to provincial emergency health services and the current response model.

PROS:

- Consistent with UBCM policy seeking agreements for the provision of first responder services.

CONS:

- May not be as easy to negotiate and implement as other options, such as a 911 call answer levy on cellular devices.
- Legislation may be required to enable particular approaches.

FOCUS AREA: Community Safety

ISSUE: Cannabis Legalization – Associated Costs and Responsibilities

CATEGORY: New

BACKGROUND:

In June 2018, federal legislation to legalize and regulate non-medical cannabis received Royal Assent. Legislation placed provinces and territories in charge of issues such as distribution, retail, public consumption and enforcement. The Province was also provided the ability to impose additional restrictions in areas such as minimum age, personal cultivation and personal possession.

British Columbia subsequently introduced its own legislation to address new responsibilities, leaving local governments responsible in traditional areas (e.g., policing and bylaw enforcement, land use management and business licensing). Another key local government responsibility is the ability to control and manage the retail sale of non-medical cannabis.

Federal legislation came into force on October 17, 2018.

RISKS / CHALLENGES:

- It has been difficult for many local governments to project/quantify financial impacts as the cannabis framework is still developing (e.g., new policies regarding consumption lounges, farm-to-gate sales, and direct delivery are all under development).
- Despite the federal government's expectation that cannabis taxation revenue be shared with local governments, provinces and territories are under no legal obligation to do so (through the Federal-Provincial-Territorial Agreement on Cannabis Taxation).
- Taxation derived from similar products (e.g., liquor) has not historically been shared with BC local governments.

APPLICABLE CASE STUDIES / LOCAL EXAMPLES:

In 2019, UBCM developed a survey for local governments to quantify their incremental expenditures associated with the legalization of non-medical cannabis. Respondents were asked to provide information covering the first three years of legalization, including projected costs for 2020. An extrapolation of the three-year total reported incremental costs of $15.2 million (covering 44% of the BC population) equated to $34.6 million for an average of approximately $11.5 million per year in incremental costs to BC local governments. At the time, this represented 29.8% of the Province's cannabis excise tax revenue projection for the first three years of legalization.

EXISTING OPTIONS:

The two-year Federal-Provincial-Territorial Agreement on Cannabis Taxation (FPTACT) sees the federal government retain 25% of excise tax revenue (up to $100 million per year), with 75% or more going to provinces and territories. This reflects a federal share that was reduced by 25% in recognition of the costs and responsibilities assumed by local governments. The federal government declined to directly provide local governments a share of excise tax revenue, leaving that responsibility to provinces. The Province of British Columbia has thus far declined to share taxation revenue. Furthermore, the FPTACT is up for renewal and stronger language may be considered regarding the sharing of excise tax revenue with local governments.

UBCM has historically sought for the Province to share cannabis taxation revenue, including federal excise tax revenue and a 15% provincial mark-up charged towards the landed cost of cannabis. In 2018, UBCM's members unanimously endorsed a resolution seeking short- and long-term strategies for cannabis excise tax revenue in British Columbia. Based on this resolution, UBCM has sought a cannabis revenue sharing framework that, among other things, would see the Province provide local governments with 40% of projected provincial cannabis excise tax revenue. This strategy is supported by the results of UBCM's 2019 cannabis cost survey, and is based in part on an existing revenue sharing agreement concluded in Ontario.

This type of targeted consumption tax is consistent with options referenced in the Strong Fiscal Futures report.

NEW / OTHER OPTIONS:

Given that the provincial cannabis framework is new, and that many of the new responsibilities (e.g., control over retail operations) were requested by local governments, there is difficulty in finding non-financial solutions. Other solutions, as identified by the Community Safety Sub-Committee, that could be used to address cannabis costs and responsibilities include a liquor tax, lottery tax, and/or e-commerce tax.

RECOMMENDED OPTION:

The recommended option is to seek a targeted consumption tax that provides local governments a share of provincial cannabis taxation revenue. In 2018, UBCM members endorsed a framework for a cannabis taxation revenue sharing agreement that included the following components:

- 40% of the projected provincial excise tax revenue to be distributed to BC local governments as a short-term solution;
- 50% of the local share to be provided up-front upon formalization of an agreement;
- Any revenue in excess of provincial projected revenue to be shared 50-50 between the Province and BC local governments;
- The inability for revenue to be clawed back by the Province;
- Revenue to be distributed to BC local governments on a per-capita basis, with a minimum of $10,000 to each municipality and regional district; and,
- Development of a long-term solution that either maintained the above framework or provided a portion of provincial sales tax on cannabis to local governments.

PROS:

- Meets the intent of the federal government's decision to reduce its share of excise tax revenue from 50% to 25% that reflects the financial impact on local governments.
- Provides incentive for local governments to help the Province in its duties (e.g., enforcement) and grow the provincial cannabis framework, which is still relatively new.
- Province has often said it could not share cannabis taxation revenue due to costs exceeding revenue. Information received by UBCM suggests that revenue will soon exceed costs by a fair margin.

- Consistent with the cannabis taxation sharing framework implemented in Ontario.
- Administration would be fairly simple.
- Provides stable revenue source for local governments (as long as the FPTACT remains).
- Addresses all new costs.

CONS:

- Provincial government (general) revenues will be reduced, in a fiscal environment where other revenue sources have, or are being reduced.
- May reduce ability for Province to conduct other cannabis-related activities that assist local governments (e.g., enforcement through Community Safety Unit).

REFERENCES:

Backgrounder: Federal-Provincial-Territorial Agreement on Cannabis Taxation, Department of Finance, Canada.
https://www.canada.ca/en/department-finance/news/2017/12/backgrounder_federal-provincial-territorialagreementoncannabista.html

Cannabis Legalization in Your Community- A Primer for BC Local Governments, UBCM, November 2018
https://www.ubcm.ca/assets/Resolutions~and~Policy/Policy/Community~Safety/Marijuana~Regulation/2018-10-17%20Cannabis%20Legalization%20in%20Your%20Community.pdf

Cannabis Taxation Revenue in British Columbia – Findings with Regard to Local Government Costs, UBCM, October 2019
https://www.ubcm.ca/assets/Resolutions~and~Policy/Policy/Community~Safety/Marijuana~Regulation/2019-09-20%20UBCM%20Report%20to%20Minister%20James%20Re%20Cannabis%20Tax%20Revenue.pdf

Endorsed Resolution 2018-SR1 (includes proposed taxation revenue sharing framework)
https://www.ubcm.ca/assets/Resolutions~and~Policy/Policy/Community~Safety/Marijuana~Regulation/01-SR1%20FINAL%20Aug%207.pdf

FOCUS AREA: Community Safety

ISSUE: Cybercrime – Protection and Response

CATEGORY: Emerging

BACKGROUND:

Cybercrime is an emerging cost-driver for all orders of government, who are increasingly becoming the targets of online criminals. Provincial and local governments are facing rising costs to protect themselves and their employees, including those working from home. There are also costs associated with service disruptions and responding to attacks (e.g., overtime, productivity loss, IT costs), including attempted extortion through the use of ransomware – software used to block the access of data.

Improved security is becoming more costly, especially as the RCMP and law enforcement have been unable to adequately address these threats. This may be of particular concern for smaller local governments that may not have the resources to adequately protect themselves.

RISKS / CHALLENGES:

- Unclear whether all local governments share the same level of concern.
- A constantly evolving/changing cost-driver – costs and challenges can be impacted by the ability of criminals to adapt and create new cybercrime strategies.
- Lack of fulsome information regarding current challenges and solutions for provincial, federal and local governments.
  - Likely a patchwork of solutions being implemented by local governments.
  - Some local governments preferring to keep ransom/attack information private.
- No widely accepted protocols for dealing with cyberattacks.

APPLICABLE CASE STUDIES / LOCAL EXAMPLES:

The City of Richmond spent approximately $750,000 to set up its cyber protection system, and perform necessary system upgrades. Ongoing cyber protection costs amount to an additional $305,000 per year.

The Municipal Insurance Association of BC has noted that ransomware attacks targeting local governments have gone up by 60% since 2018.

EXISTING OPTIONS:

UBCM's membership has called on the Province to establish a program that supports local governments through providing grants for information technology security audits and system upgrades. In 2019, the Province indicated a desire to work with UBCM and local governments to assess these concerns and examine options.

The Strong Fiscal Futures report identifies expenditure management/shared services as a potential solution; this option may be suitable for this particular situation, where all local and provincial governments are likely dealing with similar cyber threats.

NEW / OTHER OPTIONS:

Other solutions, as identified by the Community Safety Sub-Committee, that could be applied to address cybersecurity costs include a liquor tax, lottery tax, and/or e-commerce tax. Sales tax exemptions could also be used for certain IT-related costs.

RECOMMENDED OPTION:

The recommended option is to seek the establishment of a provincial program that provides local governments with expertise (e.g., systems and programs) and shared skills to protect and respond to cyber threats.

PROS:

- Likely a lower cost to the Province to share its existing software, systems, etc. than a grant program.
    - Savings and efficiencies will be achieved in comparison to a system where all local governments are on their own.
- A provincial shared service structure could facilitate the development of high efficiency systems through contracts with top end service providers.
- Reduces cost and risk for local governments, especially smaller local governments with financial constraints.

CONS:

- Reduction in local control over cybersecurity.
- Legislation may be required to enable particular approaches.

FOCUS AREA: Climate Change

ISSUE: Carbon Tax

CATEGORY: New, Emerging

BACKGROUND:

In 2008, British Columbia implemented North America's first broad-based carbon tax of $10 per tonne of carbon dioxide. The tax applies to the purchase and use of fossil fuels burned for transportation, home heating, and electricity, and covers approximately seventy (70) percent of provincial greenhouse gas emissions. The tax was 'revenue neutral' as the Province reduced personal income taxes and corporate taxes by the equivalent amount applied to and collected during the purchase and use of fossil fuels. By 2013, the Province was collecting approximately $1 billion per year.

In 2017, the Province amended the Carbon Tax Act and eliminated the requirement that revenue measures be introduced to offset carbon tax revenues. This means that the provincial government is permitted to spend carbon tax revenues on emission reduction measures and other green initiatives, rather than having to return carbon tax revenues to taxpayers. As such, the carbon tax is no longer 'revenue neutral.'

On April 1, 2020, BC's carbon tax rate rose from $40 to $45 per tonne of carbon dioxide. It is scheduled to increase to $50 per tonne in April 2022. Revenues generated from the carbon tax are used to:

- provide carbon tax relief (e.g., Climate Action Tax Credit for low-income earners);
- maintain industry competitiveness by providing incentives for cleaner industrial operations (e.g., CleanBC Industrial Incentive); and
- encourage new green initiatives through supporting the provincial climate action strategy, CleanBC.

Since 2020, the Province has operated the Climate Action Revenue Incentive Program (CARIP). CARIP is a conditional grant program that provides funding to local governments equal to 100% of the carbon taxes they pay to directly support local government climate action if they sign the Climate Action Charter. Local governments have used the grant funding to support a wide range of climate action initiatives including developing policies and action plans, capital purchases, and leveraging for cost-sharing projects with the senior orders of government.

In May 2021, the Province announced that it would end the $8.4 million CARIP program. A new one-time allocation of $11 million was announced in the provincial budget for developing and funding a new program for local governments to plan for compact, energy efficient communities.

DISCUSSION:

The Province estimates that the carbon tax will generate $1.64 billion in 2020/21. The revenue is projected to increase to $1.99 billion in 2021/22; $2.21 billion in 2022/23 and $2.11 billion in 2023/24.

As the carbon tax is no longer revenue-neutral, there is the opportunity to request a percentage of the revenue that exceeds the amount rebated to local governments through the CARIP program. Requesting one (1) percent of the carbon tax on an annual basis would yield $16.4 million in the current year, nearly double the funding that local governments receive(d) through the CARIP program.

Alternatively, a portion of the carbon tax could be modelled at the Province's approach to industry, in which carbon tax above a certain threshold is directed back to industry to support their switch to cleaner fuels.

In particular, the Province launched the CleanBC Program for Industry in 2019, that rebates a portion of the carbon tax paid by industry through the CleanBC Industrial Incentive Program and the CleanBC Industry Fund. The program is funded by the incremental carbon tax above $30 per tonne as paid by industry. The Industrial Incentive Program reduces carbon-tax costs for operations meeting world leading emissions benchmarks, while the Industry Fund invests some industrial carbon tax revenue directly into emission reduction projects. The 2021 provincial budget allocated $96 million to the CleanBC Program For Industry.

Allocating a portion of the carbon tax to local governments provides a revenue stream for local governments to address the increased expectations, desire, need, and costs of responding to climate change. It would allow an investment in both mitigation and adaptation projects, support policy development and planning, and act as seed capital to leverage provincial and federal dollars. In doing so, it holds the potential to advance the shared goal of reducing emissions and creating weather resilient communities.

PROS:

- Sustainable revenue stream in the short to medium term, only declining once the full impact of provincial clean energy initiatives is accounted for in years ahead.
- Provides flexibility for local governments to invest in climate action options that meet the unique needs of their community.

CONS:

- Potential claw back or displacement of CleanBC funding targeting initiatives benefitting communities.

FOCUS AREA: Climate Action

ISSUE: Mitigation & Adaptation Supports: Adaptation, Buildings, Transportation, Solid Waste

CATEGORY: New, Emerging

BACKGROUND:

In July 2019, UBCM struck a Special Committee on Climate Action to generate new ideas, explore opportunities and barriers to local government action, and identify avenues for further partnership work in mitigating, and adapting to, the effects of climate change. The Committee considered the state of climate action, local government approaches and best practices in mitigation and adaptation, and the roles and responsibilities of the orders of government and external stakeholders in supporting local action. It reviewed opportunities and barriers to taking climate action to the next level, and considered options that are sensitive to local conditions, autonomy, and resources.

After consultation with the membership, the Committee released its recommendations in December 2020 that focused on buildings, transportation, solid waste, resilience, land-use planning, social mobilization and governance. The recommendations are a roadmap for a low-carbon future, and are designed to take climate action to the next level in reducing emissions and creating weather resilient communities. They function as a suite of options that can help advance local and provincial climate action agendas. Numerous member resolutions broadly supported the spectrum of Committee recommendations.

DISCUSSION:

The Select Committee on Local Government Finance identified a series of cost-drivers associated with reducing emissions and creating weather resilient communities. These costs include:

Adaptation Infrastructure & Emergency Management

The costs of adapting to, and addressing, the increase in wildfires, drought and flooding arising from climate change that includes operational response costs and mitigating infrastructure costs. For instance, the Regional District of East Kootenay has spent $1.8 million in payroll, materials and emergency expenses over the past four years responding to weather related emergencies. It is estimated that an average annual investment in municipal infrastructure adaptation measures of $5.3 billion is needed to adapt to climate change in Canada[1].

Housing & Buildings

The costs of creating zero emission and low carbon housing stock in communities, and the need for financial incentives to support building retrofits and energy efficiency upgrades. For example, the City of Campbell River tops up the provincial incentive for home energy evaluations by $150 and the $3,000 central source heat pump incentive by $350 to support energy efficiency upgrades.

Transportation

The shift to zero emission and low carbon transit and local government fleets holds significant cost pressures, as unit replacement costs are higher than 'like for like' replacement. For example, the electrification of TransLink's fleet in Metro Vancouver is projected to cost $473 million more than baseline costs, or an average of $15.8 million more per year over the next thirty years.

Solid Waste

Infrastructure investments are required for waste management initiatives such as organics diversion and landfill gas capture, and replacement revenue streams are required for a shift to zero waste economy (i.e., loss of tipping fees). For example, the Regional District of Nanaimo's organic waste diversion strategy required a $5.5 million dollar upgrade to its transfer station to handle food waste.

FINANCIAL OPTIONS:

The Select Committee on Local Government Finance endorsed the Climate Action Committee's recommendations on new funding, policies, and capacity building tools as solutions that could be used to address these costs drivers.

Adaptation (Resiliency)

- Develop regional climate risk assessment.
- Create a dedicated funding stream to support the development and implementation of adaptation plans.

Buildings

- Create new provincial building retrofit incentive programs.
- Develop a low carbon building retrofit step code that sets standards for low carbon buildings.

1 The Federation of Canadian Municipalities and the Insurance Bureau of Canada, The Cost of Climate Change at the Local Level, 2020.

- Partner to create 100,000 zero emission, wood-constructed new housing units and 500,000 low carbon building retrofits over the next ten years.

Transportation

- Invest in green fleet conversions for local government and community fleets.
- Provide new funding for active infrastructure – that support the implementation of community active transportation plans, active transportation corridors, and end of trip active transportation facilities at transfer points.
- Develop new revenue tools for local governments to strengthen the transit funding model and reduce the reliance on transit fares.

Solid Waste

- New investments in solid waste management initiatives including organics diversion, extended producer responsibility programs, and deriving energy from waste products.
- Collaboration on best practices for deriving both energy and value from waste products through converting landfill gas, drawing heat from sewerage, and creating energy from biosolids.

PROS:

- The recommendations strongly align with the Province's climate action strategy, CleanBC, with CleanBC already funding a number of solutions.
- The recommendations can address the spectrum of mitigation and adaptation costs incurred by local governments.

CONS:

- The recommendations focus on provincial funding, policy, and capacity building tools rather than specific new revenue streams.

REFERENCES:

The full list of Climate Action Committee recommendations with signature initiatives and supporting actions can be found at:

https://www.ubcm.ca/assets/Resolutions~and~Policy/Policy/Environment/SCCA%20Recommendations%20Nov%202020%20FV.pdf

UBCM Select Committee on Local Government Finance
Terms of Reference

Background:

The Strong Fiscal Futures report (SFF) was released at the 2013 UBCM Convention and advocacy continued in 2014. It is considered an excellent thought piece on local government finance and revenues. The purpose of the SFF was to set out a realistic, practical agenda for reforming British Columbia's system of local government finance. The SFF identified 5 key directions:

1. Resiliency - *Improve the resiliency of the existing local government finance system by maintaining and building on its strongest features.*
2. Value - *Improve value to taxpayers by tightening the management of shared provincial-local mandates and ensuring that regulatory requirements imposed on local governments achieve value for money.*
3. Responsiveness - *Advance a local government agenda to both grow the economy and to have local governments share in the benefits of that growth through an Infrastructure Development and Community Building Bank.*
4. Fairness - *Work to expand local government revenue tools to make the distribution of local government costs both fairer and more responsive to economic growth.*
5. Excellence - *Build the Local Government Partnership.*

Despite the strength of the SFF, it received little to no traction from the government of the time. However, UBCM membership has repeatedly and continuously supported continued advocacy in this area.

Purpose:

The Select Committee will undertake a comprehensive review of the SFF. Within the Select Committee's comprehensive review, it is expected that the review will include, but not be limited to, the following:

- local government services, including service benefits and cost-drivers;
- existing and potential local government own source revenues, including fees and charges, and property and other taxes;

- existing and potential inter-governmental transfers, including grants and sharing of revenues, as well as considerations relating to methods of delivery and distribution;
- the degree of alignment between local government revenues and servicing responsibilities and demands; and
- local government and taxpayer capacity, including economic, fiscal or other circumstances which may affect that capacity.

Further, it is anticipated that the Select Committee, through the comprehensive review of the SFF, will:

- Review all of the Options captured in the SFF;
- Develop a 'short-list' of Options that best represent current issues/challenges and can be supported by a practical/realistic implementation strategy;
- Build on the 'short-listed' Options, as applicable, developing additional documentation and rational for their support; and
- Utilize the 'short-listed' Options as the basis for a committee report that identifies renewed priority Options recommended for future advocacy and ultimate implementation.

Members and Support:

- UBCM Executive will appoint Select Committee members composed of:
  - One (1) member from the UBCM Executive;
  - Two (2) members from the BC Mayor's Caucus;
  - At least 2 other members from amongst local government elected officials, who may or may not be members of the UBCM Executive or the Mayor's Caucus;
  - Up to 5 other members, who may or may not be elected officials, but who are either partners in the local government system or possess specific relevant expertise;
- UBCM Executive will appoint two of the members as the Co-Chairs; and
- UBCM staff will support the Select Committee.

Products/Deliverables:

The Select Committee will prepare a report of its findings for the UBCM Executive, and may prepare interim reports as it considers appropriate. The final report will be provided by June 30, 2021, unless the term of the committee is extended.

If the term of the Select Committee is extended, it shall provide an interim (update) report to UBCM Executive by June 30 in each year of its mandate.

Resources:

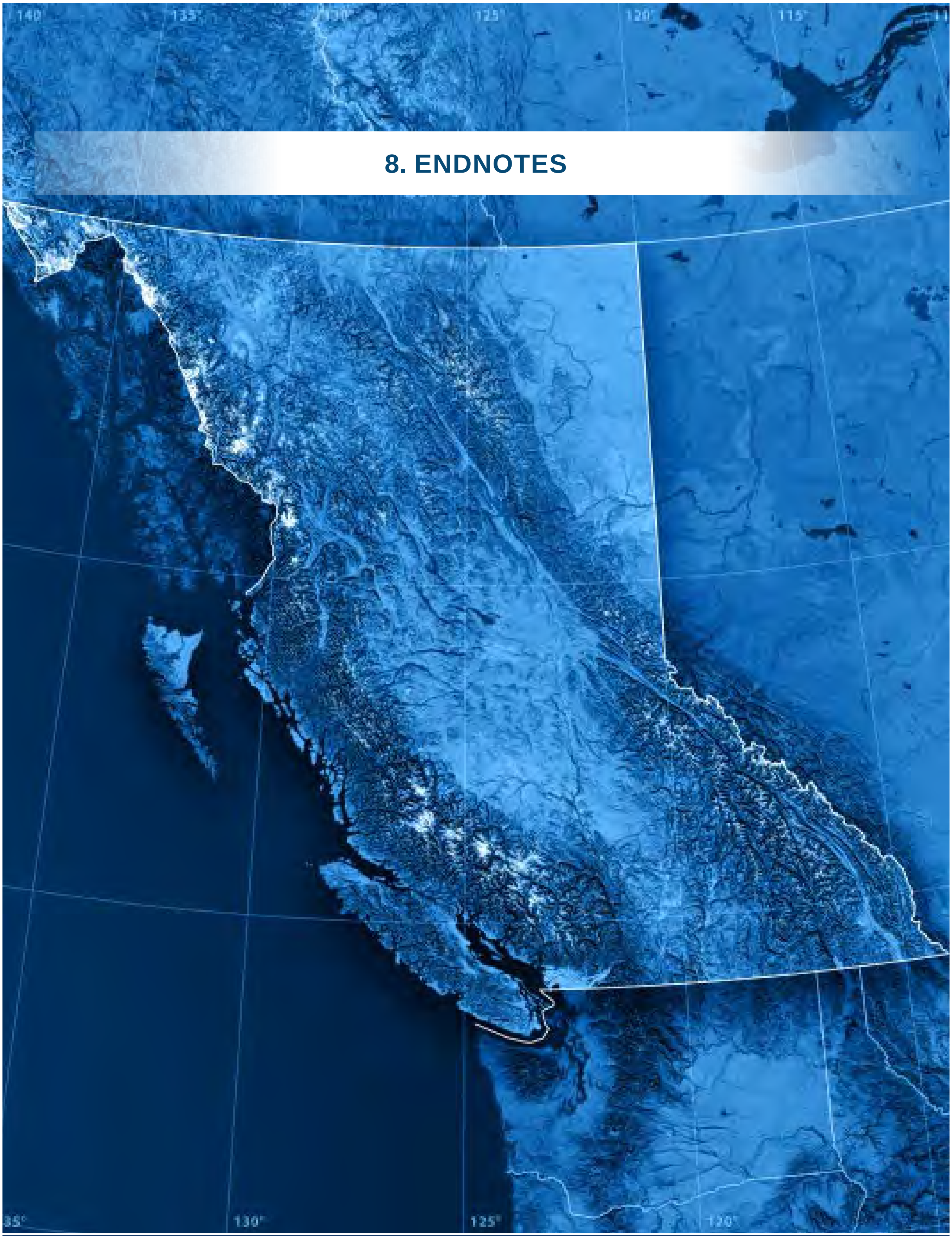
UBCM will pay costs of the Select Committee, up to the maximum budget allocation, including:

- travel and per diem expenses for committee members at the same rates as UBCM Executive policies;
- meeting and other operating expenses of the committee;
- consultant fees and expenses;
- any other expenses specifically approved, in advance, by the Executive Director.

Term:

The Select Committee will meet from October, 2019 through to June 30, 2021, at the call of the Chair. It is anticipated that there will monthly meetings. The UBCM Executive may consider extensions to this term on an annual basis.

8. ENDNOTES



8. ENDNOTES

1. Strong Fiscal Futures – A Blueprint for Strengthening BC Local Governments' Finance System (2013), Union of BC Municipalities
2. Terms of Reference – UBCM Select Committee on Local Government Finance (2020)
3. Emerging Economy Task Force – Final Report (March 2020), Province of British Columbia
4. Stronger BC for Everyone: BC's Economic Recovery Plan (2020), Government of BC
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10. Rethinking Municipal Finance for the New Economy. https://www.ubcm.ca/assets/Resolutions%7Eand%7EPolicy/Policy/Environment/SCCA%20Recommendations%20Nov%202020%20FV.pdf
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13. CleanBC: Our Nature. Our Power. Our Future (2019). https://www2.gov.bc.ca/assets/gov/environment/climate-change/action/cleanbc/cleanbc_2018-bc-climate-strategy.pdf
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19. https://vancouverisland.ctvnews.ca/victoria-to-move-all-homeless-inside-end-all-day-camping-by-march-2021-1.5181219
20. Modernizing BC's Emergency Management Legislation. https://engage.gov.bc.ca/app/uploads/sites/121/2019/10/modernizing_bcs_emergencymanagement_legislation.pdf
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23. Cannabis Act https://laws-lois.justice.gc.ca/PDF/C-24.5.pdf
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25. The Federation of Canadian Municipalities and the Insurance Bureau of Canada, The Cost of Climate Change at the Local Level, 2020. https://data.fcm.ca/documents/reports/investing-in-canadas-future-the-cost-of-climate-adaptation.pdf

This report has been amended to include updated information from the City of Vancouver on its support of housing affordability. The revised information is now included on page 20 of this report.

UBCM

UNION OF BC MUNICIPALITIES

The Voice of B.C. Local Government

Ensuring Local Government Financial Resiliency - Today's Recovery and Tomorrow's New Economy

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TO: UBCM Members

FROM: UBCM Executive

DATE: August 12, 2021

RE: **PRIMER ON CLIMATE ACTION AND THE MUNICIPAL PENSION PLAN**

POLICY PAPER #2

2021 CONVENTION

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1. DECISION REQUEST

That the UBCM membership endorse the 2021 ***Primer on Climate Action and the Municipal Pension Plan*** including the specific advocacy actions to be undertaken by UBCM, as noted within the Primer's recommendations.

2. BACKGROUND

In 2015, UBCM members considered resolution B120 which sought information on fossil fuel related investments held by the Municipal Pension Plan (MPP) and the implications of divesting from these holdings. Resolution B120, due to its technical nature, was referred to the UBCM Executive to allow additional research and work to be done that could then be shared and reported out to the broader membership. In August, 2016, UBCM released its ***Primer on Fossil Fuel Divestment*** that provided the range of fossil fuel related investments held by the MPP over several years, along with background information on the MPP's governance, administration and investment management. The 2016 Primer also introduced the potential for a Climate Action Plan as an alternative to divestment.

In 2020, resolution EB42 was brought forward for member consideration. It was endorsed as follows:

Therefore be it resolved that UBCM re-examine and update its 2016 Primer on Fossil Fuel Divestment and the Municipal Pension Plan report in light of globally changing investment and divestment strategies and inform BC Investment Management Corporation, as the provider of investment management services for BC's Municipal Pension Plan, of the concerns regarding the growing financial risks related to investing in fossil fuels and its support for a plan, built on leading practices related to fossil fuel-free investment portfolios, to fully divest Municipal Pension Plan funds from fossil fuels.

In response to the endorsement of EB42, the Executive acted by commissioning the development of this updated Primer. The purpose of this 2021 Primer is to provide an overview of the current context, highlight what was changed since the 2016 Primer in terms of the MPP and its investments and share current status of actions and activities since 2016.

3. EXECUTIVE CONSIDERATIONS

Climate change is one of the most significant social and economic risks the world faces today. UBCM, and its local government members have a long history as advocates for, and leadership in, climate action. Last year, UBCM released its recommendations on how BC local governments can transition to a low-carbon future. These recommendations highlight concrete actions with regard to buildings, transportation, solid waste and more.

In the 2016 Primer, UBCM called for a Climate Action Plan for the MPP, which has since been developed and continues to be implemented. The MPP's Climate Action Plan provides for the management of risks, integration of climate considerations, seeks opportunities, as well as engagement and advocacy. With its investment manager, the BC Investment Management Corporation (BCI), MPP has adopted a clear position regarding divestment: divestment reduces BCI's influence and ability to drive more sustainable outcomes. This position is in line with its overall approach to long-term capital stewardship, and in line with the guidelines and directions provided by MPP.

The 2021 Primer begins by highlighting the governance framework for the MPP, and in particular, the fiduciary duty of those responsible for the Plan to act in the best financial interests of the plan's beneficiaries. Given that 75% of the benefits paid out to retirees are provided by investment earnings, there is a lot at stake for both employees and employers in the event that the MPP fails to achieve its targets for investment returns.

Climate change presents both opportunities and systemic risk over the long term. BCI integrates environmental, social and governance (ESG) analysis into all investment processes from supporting client asset allocation decisions to specific investment considerations, and actively seeks opportunities to invest in ESG-themed investments that contribute to improved long-term outcomes for clients. Additionally, BCI measures and reports its portfolio carbon footprint for all asset classes.

The UBCM Executive has brought forward this 2021 Primer in response to EB42 to update and inform the membership of the changes which have occurred since 2016 with respect to how the MPP, with its service providers, have been proactively working to address climate action. Rather than full divestment, a nuanced approach to investment has been taken. The MPP Board Trustees and its service providers are actively working to understand and manage the risks and opportunities posed by climate change; while also taking a long-term view of investment opportunities and risks to ensure it can meet its pension liabilities into the future.

4. RECOMMENDATION

That the UBCM membership endorse the 2021 ***Primer on Climate Action and the Municipal Pension Plan*** including the specific advocacy actions to be undertaken by UBCM, as noted within the Primer's recommendations.

PRIMER ON CLIMATE ACTION AND THE MUNICIPAL PENSION PLAN

August 2021

Union of BC Municipalities

Union of BC Municipalities
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Acknowledgements

Thanks to the following organizations that identified and supplied the principal source information:

- Municipal Pension Board (MPP)
- British Columbia Investment Management Corporation (BCI)

Getting Started - Top Ten Abbreviations – More at Appendix A

MPP	Municipal Pension Plan
BCI	British Columbia Investment Management Corporation
ESG	Environmental, Social and Governance
GHG	Greenhouse Gas
SIPP	Statement of Investment Policies and Procedures
UN PRI	UN Principles of Responsible Investment
AUM	Assets Under Management
ALM	Asset Liability Modelling
SASB	Sustainability Accounting Standards Board
TCFD	Task Force on Climate-related Financial Disclosure

Table of Contents

MESSAGE FROM
UBCM PRESIDENT

On behalf of the Union of BC Municipalities (UBCM), I am pleased to convey this updated Primer on Climate Action and the Municipal Pension Plan (MPP).

The report has been prepared at the direction of the UBCM Executive following the referral of a resolution from the 2020 Convention. The resolution sought information on fossil fuel related investments held by the MPP and the anticipated effects of a plan to divest those assets. Our Primer goes considerably beyond the scope of the request to provide a range for the MPP's fossil fuel related investments over multiple years, as well as information on matters of governance and investment management pertaining to divestment.

This report builds on an earlier Primer that was developed and presented to our membership in 2016. As we developed the 2021 Primer, we used this opportunity to evaluate the progress made on climate related investments over the past five years. Real progress has been made and additional opportunities lie ahead.

In our last Primer, we also called for a Climate Action Plan for the Municipal Pension Plan (MPP). This has now been developed and is being implemented. However, much has changed since 2016, so in this report we will highlight UBCM's climate action leadership in conjunction with the MPP and the BC Investment Management Corporation (BCI).

The Primer provides an overview of the importance of the Municipal Pension Plan and the governance structure in place, including the fiduciary duty of the Board of Trustees. We provide an overview of the plan design and service providers. The Primer revisits the importance of investments in the pension plan, and references that about 75 cents of every pension dollar comes from investment returns.

Chapter 7 delves into the MPP’s progress as a responsible investor. I would refer your attention to Chapter 8 where the report provides a breakdown of the MPP’s energy related investments as a percentage of the total portfolio as well as a breakdown of energy investments in each asset class. Also, in Chapter 8 the Primer reaffirms the preferred approach of engagement compared to a divestment approach.

The final chapter sets out future actions for UBCM as we continue to build on the governance, policies and priorities of the Municipal Pension Plan.

I recommend the reading of the Primer to all UBCM members to further our shared understanding of the MPP and the service it provides to its 945 employers and almost 400,000 plan members.

Sincerely,

B. Frenkel

Brian Frenkel, President, Union of BC Municipalities

1. PURPOSE OF THE
MUNICIPAL PENSION PLAN

As far back as 1921, legislation was put in place to provide income security in retirement for municipal employees in British Columbia. Today, over 100 years later, the Municipal Pension Plan (MPP) provides a key component of the three potential sources of retirement income: Canada Pension Plan and Old Age Security; a workplace pension; and individual savings.

The local government workplace pension is viewed as deferred employer compensation. A public policy benefit of workplace pensions is to reduce reliance in retirement on taxpayer-supported income supplements.

Trustees, who are responsible for the plan, have a fiduciary duty to act in the best financial interests of plan members who have contributed to their plan [along with their employers] so that members have a secure income in retirement. This is the “pension promise” against which any change to the governance, policy, benefits or investments must be measured.

The Municipal Pension Plan promise is comprised of:

- a basic guaranteed pension based on salary and length of service;
- sustainable indexing; and
- access to group health benefits in retirement (subject to available funds).

What is new? Effective Jan 1, 2022 there will be new rules for the MPP that improve equity for members, align benefits with how members use those benefits, maintain a strong foundation for the sustainability of the plan and stay within the current costs to run the plan. Employers will experience a modest rate reduction.

The Municipal Pension Board of Trustees (MPBT) has approved the changes. The changes also include establishing a new health benefit trust that will help fund access to group health benefits for retired members.

The plan design changes are separate considerations and are not part of this Primer. This Primer is part of the UBCM policy process.

2. PURPOSE OF

THIS UPDATED AND REVISED PRIMER

At the 2015 UBCM Convention, a resolution was presented recommending that UBCM request a report on a potential divestment from fossil fuel related investments.

In keeping with previous practice, when complex issues are considered, the UBCM Resolutions Committee recommended, and the UBCM Executive agreed, that a policy paper or, in this case, a "primer", be prepared for the membership. A pension is an important component of local government employee compensation but the details of the governance and oversight of the MPP and its investments rests with the Municipal Pension Board of Trustees, not local government. Local government's main role is to enroll new hires and remit the employee and employer contributions.

A lot has happened since the 2015 resolution. While the 2015 resolution was not supported, it was the catalyst for UBCM and MPP advocacy for a Climate Action Plan – which BCI developed in 2018. BCI's Climate Action Plan sets out their approach to managing the opportunities and long-term risks presented by climate change and the transition to a lower carbon economy. Climate change is one of the most significant social and economic risks the world faces today. UBCM, MPP and BCI recognize the role institutional investors around the world play in promoting sustainable, inclusive and long-term growth.

This Updated and Revised Primer will explain the current context and the key points related to the plan and its investments. A "Key Points" summary concludes chapters 4-8 and sets the stage for chapter 9 – Primer Synthesis.

The resolution that prompted this updated and revised Primer was tabled in September 2020. In most cases there would have been little change affecting the 2020 resolution before 2021 consideration. This is not the case. Climate change, its discussions and initiatives are "daily fare" for consideration and reaction where warranted.

The goal is to provide the information to accept the updated Primer:

EB42	Re-Examining Municipal Pension Plan Divestment	Vancouver

Whereas since 2016, when the UBCM report, Primer on Fossil Fuel Divestment and the Municipal Pension Plan noted that "Divestment may compromise our investment strategy, increase risks and costs, and negatively affect our clients' investment returns", there have been major shifts in global climate science and investment strategies;

And whereas evidence is growing that fossil fuel-free funds are outperforming fossil fuel investments. The 2019 return on the BC Government Employees Union's fossil fuel-free investments, for example, was 21.7 percent:

Therefore be it resolved that UBCM re-examine and update its 2016 Primer on Fossil Fuel Divestment and the Municipal Pension Plan report in light of globally changing investment and divestment strategies and inform BC Investment Management Corporation, as the provider of investment management services for BC's Municipal Pension Plan, of the concerns regarding the growing financial risks related to investing in fossil fuels and its support for a plan, built on leading practices related to fossil fuel-free investment portfolios, to fully divest Municipal Pension Plan funds from fossil fuels.

3. MUNICIPAL PENSION
PLAN IN BRIEF

The Municipal Pension Plan (MPP) is the largest pension plan in Western Canada and among the largest in the country. It began as the “municipal” plan, and over time many other sectors, including health, non-teaching school and college workers, community social services and dozens of small organizations have joined.

Here are some of the key metrics based on the 2020 MPP Annual Report:

- The total assets of the plan increased from $43.7 billion at the end of 2015 to approximately $66.5 billion by the end of 2020.
- Over this five-year period, the investment portfolio earned 8.6 per cent on an annualized basis, exceeding the benchmark of 8.2 per cent; the return also exceeded the actuarial return assumption of 6.25 per cent.
- The plan has almost 400,000 members, including more than:
  - 111,000 retired members,
  - 220,000 active members and
  - 47,000 inactive members.
- MPP is a very large multi-employer pension plan with 945 employers. This includes 195 local government employers comprising 41,600 active members. In addition to local governments, which are mandated to participate in the MPP, several other smaller organizations also participate, such as the Municipal Finance Authority, Municipal Insurance Association and UBCM itself.
- Employers and employees contribute to the pension fund; once contributions are deposited in the fund, they essentially become the beneficiaries’ assets. The plan is structured so each generation pays in advance for its own benefits.

Retirement Security for Members

Members may be on pension for decades: in 2020, the oldest retired member had been receiving a pension for 51 years!

Members can be confident their pension will be there when they retire and throughout retirement. The plan’s sustainability is monitored and managed through its valuation process. At the last valuation (December 31, 2018), the plan was fully funded on the basis that current contributions continue and had a strong rate stabilization account balance.

- The plan collected $2.4 billion in annual contributions from members and employers in 2020. This included $349 million[1] from local government employers and $306 million[2] from local government employees. These contributions are pooled and invested in a diversified portfolio that follows a disciplined long-term investment approach. About 75 cents of every pension dollar paid out comes from investment returns.

[1] Employers’ contributions include regular plan contributions, special agreements contributions, purchases, and retired member group benefits

[2] Members’ contributions include regular plan contributions, special agreements contributions, and purchases

- The plan paid out $2.2 billion in pension and benefit payments in 2020, and the average annual pension in pay at the end of December 2020 was $18,380.
- Ninety-five per cent of the plan's 111,000 retirees live in British Columbia, spending their income and paying taxes in their local communities.
- Cost-of-living adjustments (COLAs) are granted by the board on a sustainable basis, currently capped at 2.1 per cent. Future COLAs are not guaranteed.
- Retired members have access to group coverage for extended health care (EHC) and dental benefits. EHC benefits are subsidized based on years of service.
- The plan's sustainability is monitored and managed through its valuation process. At the last valuation (December 31, 2018), the plan was fully funded on the basis that current contributions continue, and had a strong rate stabilization account balance.

4.PLAN GOVERNANCE

LEGISLATIVE FRAMEWORK

The *Public Sector Pensions Plan Act* (PSPPA) provides a unique structure that enables public sector employers and employees to take responsibility for their pension plans and share in the risks, rewards and governance of their plans. The PSPPA allowed for the development of joint trust agreements for the College, Municipal, Public Service and Teachers' pension plans.

The plan partners are the sponsors of the MPP. Together with HEABC, they are signatories to the JTA. The employer plan partner is the Province of BC and the UBCM, acting as one. The member plan partner is the MEPC.

JOINT TRUSTEESHIP

In April 2001, the MPP joint trust agreement (JTA) was signed by the provincial government, Union of BC Municipalities (UBCM), Health Employers Association of BC (HEABC) and the Municipal Employees Pension Committee (MEPC). Under the JTA, trusteeship of the MPP moved from being a sole government-appointed trustee to trustees being jointly appointed by the plan partners and key stakeholders.

The JTA includes:

- appointment of trustees;
- powers, functions and duties of the board;
- responsibilities;
- plan administration and investment;
- trustees' fiduciary responsibilities; and
- board operations, which include customized voting and quorum rules (e.g., UBCM must be present to constitute a quorum and have one of its appointed trustees support a motion for it to pass).

MUNICIPAL PENSION BOARD OF TRUSTEES

The MPP board has 16 primary and 16 alternate trustees appointed by the following groups:

Employer Appointing Authorities

- Government (2 primary and 2 alternate trustees)
- Union of BC Municipalities(2 primary and 2 alternate trustees)
- Health Employers'Association of BC (2 primary and 2 alternate trustees)
- BC Public School Employers' Association (1 primary and 1 alternate trustee)
- Plan Employer Partner (1 primary and 1 alternate trustee, who must be "excluded" plan members)

Member Appointing Authorities

- British Columbia Police Association & BC Professional Fire Fighters' Association (1 primary and 1 alternate trustee)
- BC Nurses' Union (1 primary and 1 alternate trustee)
- Hospital Employee's Union (1 primary and 1 alternate trustee)
- Health Sciences Association of BC (1 primary and 1 alternate trustee)
- Canadian Union of Public Employees, BC Division (1 primary and 1 alternate trustee)
- Council of Joint Organizations and Unions (1 primary and 1 alternate trustee)
- Plan Member Partner (2 primary and 2 alternate trustees, including 1 primary and 1 alternate who must be retired plan members)

BOARD OF TRUSTEES

The board's roles and responsibilities include:

- investing and managing pension funds prudently and in the best financial interests of plan members and beneficiaries;
- administering the plan;
- monitoring performance of the administrative and investment agents against benchmarks;
- ensuring plan rules and fund investments are in accordance with applicable laws;
- adopting the annual budget, preparing an annual report including audited financial statements; and
- obtaining an actuarial valuation every three years.

Trustees do not represent their appointing body. They have the fiduciary duty to act in the best financial interest of the plan beneficiaries. More specifically, trustees are required to set aside their own personal views and interests in favour of an undivided loyalty to the MPP's beneficiaries. Trustees' legal and fiduciary duties come from legislation, the JTA and the common law, and include:

1. Duty to be loyal to the beneficiaries: Act honestly, in good faith and in the best financial interests of all plan members, former plan members and any other person to whom a fiduciary duty is owed.
2. Duty to be careful and prudent: Exercise the care, diligence and skill that a person of ordinary prudence would exercise in dealing with the property of another.
3. Duty to deal impartially, fairly and in good faith: Treat all members fairly ("even-handed rule").
4. Duty to disclose.
5. Duty to act personally ("no delegation rule").

Plan Design

At the end of 2020, after almost a decade of negotiations, the plan partners reached agreement on a fundamental set of plan design changes.

Subsequently, the board approved rule changes to implement the agreement. The redesign ensures that the plan is more equitable and sustainable without increasing overall costs.

You can learn more about the changes on the plan's website at www.mpp.pensionsbc.ca. The changes will be implemented in 2022. They build on previous plan partner agreements that incrementally redesigned the plan, including:

- Introducing a sustainable method of granting cost-of-living adjustments to ensure they are available to current and future retirees
- Simplifying employer contribution rates and eliminating age and gender differentials
- Establishing a rate stabilization account to mitigate the risk of future contribution rate volatility for members and employers

Employer MPP Costs

Employer pension plan expenses are limited to required pension contributions.

With the changes, the gender and the age differentials for employees were eliminated. This provided more stable contribution rates for employers, supporting more accurate budgeted pension expenses.

With the 2022 plan design changes, all employers will see their contribution rates decrease.

PLANNING & POLICIES

The board has a robust planning and policy framework. Of particular interest are the board's strategic plan and the Statement of Investment Policies and Procedures (SIPP).

Strategic Plan

The Municipal Pension Plan is guided by the board's strategic plan. The board's strategic planning process ensures that every three years the board reviews its vision, mission and guiding principles, refines its long-term goals and articulates new short-term priorities. The result of the process is a new strategic plan. The plan ensures that the board remains focused on delivering on the pension promise over the long term and helps the board determine what it should do today to be ready for tomorrow.

The board's 2020–2023 strategic plan sets out the long-term direction and objectives for the plan, along with short-term priorities. The board's top pension security goals remain unchanged:

- to meet the pension promise,
- to provide sustainable cost-of-living adjustments, and
- to provide retired members with access to group benefits.

The strategic plan notes the *unparalleled risks and opportunities posed by climate change* and identifies *addressing climate risk to the investment portfolio* as one of five strategic priorities. As part of its strategic plan, the board makes a number of commitments on this priority, including:

1. Provide ongoing education to trustees regarding climate change concepts and associated investment risks and opportunities;
2. Continue as a Climate Action 100+ supporter signatory, and encourage BCI to continue its engagements with companies as a participant signatory;
3. Explore investing in a manner compatible with the Paris Agreement goal of keeping global average temperature to well below 2°C above pre-industrial levels;
4. Study potential impacts of a sudden significant policy response by governments through regulatory stress testing of the investment portfolio;
5. Ensure climate risk is addressed on an ongoing basis in key plan investment documents, including the SIPP and the Funds Investment and Management Agreement (FIMA) between MPP and BCI; and
6. Strengthen communications on the plan website regarding the board's approach to climate change, and monitor developments in voluntary and regulatory climate reporting.

Statement of Investment Policies and Procedures (SIPP)

The SIPP outlines the board's investment beliefs, goals, strategic asset allocation, and approach to responsible investment generally, and climate change specifically.

It also articulates specific delegated functions, permitted investments and limits on those functions (e.g., use of leverage, derivatives, securities lending, delegation of voting rights, etc.). The SIPP is reviewed annually as required by the Pension Benefits Standards Act.

The key investment decision of the board is setting the plan's long-term strategic asset mix, which is the most significant factor in determining investment returns. After extensive due diligence and modelling through an asset-liability review, the board approves a long-term asset mix policy with the goal of increasing the likelihood that the plan will meet its key investment objectives. The SIPP sets out the target allocations of funds to different asset classes.

The investment beliefs articulate the board's views on the most important drivers of investment returns and decisions. These beliefs serve as a lens for the board's investment agent on how to add value to and navigate the financial markets.

MPP INVESTMENT COMMITTEE

Briefly, some of the committee's over 20 specific responsibilities include:

1. Review quarterly BCI's activities and investment performance.
2. Review the SIPP and recommend amendments.
3. Monitor the implementation of investment policies and goals.
4. Coordinate periodic asset allocation studies with reference to the actuarial valuation as a basis for investment policy.
5. Fulfil the board's responsibilities as a signatory to the PRI.
6. Recommend an independent investment consultant to assist in considering investment policy matters.
7. Fulfil the board's responsibility for climate-related financial disclosure under the Taskforce on Climate-related Financial Disclosure (TCFD).

The board updated its investment beliefs in 2019. Four of the new beliefs are particularly relevant here. Section 4.4 of the SIPP reads as follows:

4.4.1 Companies and other entities in which we invest that take environmental, social and governance (ESG) matters into account have less risk and generate long-term value for investors compared to those with less robust practices.

4.4.2 Social, environmental and economic sustainability help the plan fulfill its financial obligations to members and beneficiaries. A cohesive society, healthy environment, sustainable economy and fair financial markets are necessary to generate adequate long-term returns across the portfolio.

4.4.3 It is consistent with the Plan's fiduciary duty to act in the best financial interest of members and beneficiaries that investment decisions consider wider stakeholder views and good corporate citizenship.

4.4.4 Climate change is an investment opportunity and a long-term material systemic risk to the Plan. Although the timing and extent of the effects of climate change are uncertain, actions to reduce greenhouse gas emissions through investor stewardship, the selection of assets and advocating for appropriate public policies directly and indirectly benefit the Plan.

The SIPP also refers to the board's support of the Principles for Responsible Investment (PRI). Other beliefs are important, too, including those that acknowledge the plan's long-term investment horizon (4.1.3), the importance of diversification (4.3.1), and the effectiveness of engagement in seeking to change corporate behavior (13.7).

As the plan's portfolio is almost exclusively invested in pooled funds and the board has delegated the management of investment risk and asset selection to BCI, the SIPP is the primary means of the board's involvement in investment decisions. BCI must invest the fund in a manner consistent with the board's policies and relevant legislation. For example, the board expects BCI to give favourable consideration to investment opportunities that exceed environmental regulations and aspire to reduce the impact on the environment.

It is important to understand that the board does not make actual "buy or sell" decisions. The board's role, after setting the policy, is the ongoing monitoring of the investment manager and the portfolio.

These roles and responsibilities are important, but the relationship between the board and BCI is equally important and is covered more fully in chapter 7.

EDUCATION, DISCLOSURE & COLLABORATION

The board and BCI see value in trustee education, disclosure of climate-related financial information and collaboration among like-minded investors.

Trustee Education

The board views trustee education as a key tool to support the board in meeting its fiduciary duties. Investment literacy and responsible investment education are key features of the trustee education road map. As global understanding of the physical, social, economic and public policy impacts of climate change continues to evolve, the board is committed to ongoing learning in this area.

In addition to core trustee education, the board has participated in various climate education sessions designed to develop a deeper understanding of climate science, how climate change may impact the portfolio, and the relationship between fiduciary duty and climate risk. With delegated responsibility to address climate risk, the investment committee has also delved deeper with its own learning, such as considering the impact of an inevitable policy response to climate change.

Disclosure

The board completed its first-ever climate-related financial disclosure with its *2019 Annual Report*, disclosing the value of climate-related investment opportunities ($1 billion) and the plan's carbon footprint for public equities, fixed income and domestic real estate holdings. The board noted that BCI will continue to evaluate and expand the plan's carbon footprint of the assets as data availability and methodological issues are improved.

As a large institutional investor, the board also encourages transparency in climate-related disclosures supporting better climate-related data for asset owners and investors. The board and BCI signed the 2021 Global Investor Statement to Governments on the Climate Crisis, which includes a call for governments to commit to implementing mandatory climate risk disclosure requirements aligned with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)recommendations.

Collaboration

Collaboration is a powerful tool for addressing collective action challenges in financial markets. BCI has been engaging with investee companies for more than a decade on the subject of climate change. The board and BCI are signatories to Climate Action 100+, where BCI's lead in several North American engagements is helping to ensure the world's largest corporate emitters take necessary action on climate change.

The board and BCI are also signatories to the Principles for Responsible Investment (PRI), an international network of investors supported by the UN, that share the goal of incorporating ESG elements into the processes and activities of institutional investors. BCI was a founding signatory, and the board became a signatory the following year.

Leaving direct engagement with investee companies to BCI, the board is active with other asset owners. To that end, the board is an associate member of the Shareholder Association for Research and Education (SHARE), a leading not-for-profit responsible investing organization that also provides the board with independent advice. In addition, trustees participate in a number of trustee networks, including the Western North America Principles for Responsible Investing and the Committee on Workers' Capital – all with a view to advancing responsible investment principles.

As an asset owner, the board considers signing on to joint investor statements or letters where it sees benefits to the plan of collaborating with other investors to present a single voice to policy makers, industry associations, companies or wider society as a whole. For example, in 2017, the board and BCI signed the letter from global investors to governments of the G7 and G20 nations on climate action; the letter calls for the implementation of the Paris Agreement, policies to drive investment in the low-carbon transition and green investment, and implementation of the TCFD recommendations.

In summary, the board sets strategic direction, investment policy and expectations. It relies on service providers, including BCI as the board's investment agent and BC Pension Corporation as the board's administrative agent, to execute the directions. The service providers that support the board are described briefly in the next section.

KEY POINTS

- Any changes to the JTA require the agreement of all plan partners and HEABC.
- Decisions of trustees must meet voting conditions to be successful.
- Trustees have legal duties to plan members that override their personal interests or the interests of their appointing organizations.
- Investment returns are important to meeting the pension promise. Approximately 75 cents of every pension dollar paid comes from investment returns.
- There is a robust planning and policy framework regarding MPP investment, including a dedicated committee of the board.
- The board takes a long-term view to managing the plan.
- The board recognizes that climate changes results in both an investment opportunity and long-term material systemic risk to the plan, and has prioritized addressing climate risk.
- Together with BCI, the board takes a multi-pronged approach to managing the risks and opportunities of climate change and values engagement (e.g., collaboration and disclosure) and education.

5.SERVICE PROVIDERS

A principle underlying the 1999 pension governance legislative transformation was that there are economies of scale for the four public sector pension plans through the sharing of a common plan administrator and investment manager.

To realize the economies of scale, two independent entities were established:

- British Columbia Pension Corporation (BCPC)
- British Columbia Investment Management Corporation (BCI)

The board uses a number of other service providers (legal, actuarial, external audit) that are not central to this Primer other than to highlight that the plan actuary has certain interactions with BCI on forecasting assumptions for investment returns over the long term. The plan also has engaged independent investment advisors over the years, including advisors that specialize in responsible investment to support its work in this area.

BC Pension Corporation is the designated provider for administrative services. The board and the corporation have a service agreement that sets out the services and service standards—from enrolling new members to, perhaps 30 to 35 years later, beginning to pay their pension. The MPP board appoints two directors to the Pension Corporation Board of Directors.

British Columbia Investment Management Corporation (BCI) is the key service provider in the context of this Primer. Based in Victoria, BCI is one of Canada's largest institutional investors within the global capital markets. With $199.4 billion[3] of managed net assets, it invests in all major asset classes, including infrastructure and other strategic investments. BCI's 30 institutional clients include several public sector pension plans.

BCI's mandate is to invest the funds not currently required by clients to pay pensions. As an investment manager, BCI is responsible for growing long-term client wealth while also protecting the value of their funds.

MPP is BCI's largest client, with assets representing approximately a third of BCI's assets under management. Investment activities help to finance the retirement benefits of more than 675,000 pension plan members[4] including almost 400,000 MPP members.

BC's four public sector pension plans have a unique arrangement with BCI. BCI also has a role that goes beyond that of a typical fund manager, effectively functioning as the boards' internal investment staff. In addition, pursuant to the *Public Sector Pension Plans Act* (PSPPA), the boards each appoint a trustee to BCI's corporate board and receive regular reports on the investment of their fund by BCI's CEO/CIO.

[3] As at March 31, 2021

[4] Includes active, inactive and retired members

In large measure due to this special relationship, while the BC public sector pension plans are not required to use the services of BCI, all have chosen to continue with BCI since their inception. Each plan has a negotiated investment management agreement with BCI that—together with the SIPP—governs the relationship between the two organizations. It defines roles and responsibilities, specifies standards of care, and describes fee allocation and billing.

The PSPPA defines BCI's chief investment officer for day-to-day operations. The CEO/CIO is accountable to the BCI board for the efficiency and effectiveness of the corporation in carrying out its mandate. The CEO/CIO is also accountable to each client, including the MPP board, regarding its investment policy, fund performance and SIPP compliance.

In all cases, BCI and their external investment managers must comply with the board's SIPP, BCI's internal policies, and the relevant laws and regulations governing pension fund management in the respective jurisdiction.

The board is legally responsible for the management of the fund and the establishment of the investment policies. As noted in chapter 4, the board has a legal obligation to act in the best financial interest of the beneficiaries of the trust and exercise a high standard of care in protecting the fund and its assets. This must override all other considerations.

KEY POINTS

- The MPP board uses service providers rather than its own staff to support virtually all of its activities; the board has one employee.
- BCI, a large institutional investor of public sector funds, provides investment services to the board.
- The board and BCI have a unique relationship due to the governance structure and size of the plan, resulting in BCI having a role beyond that of a traditional investment manager.
- The MPP board has one seat on the BCI board, and that MPP director owes their own duty to BCI while sitting as a corporate director.
- The BCI CEO/CIO is accountable to the MPP board for investing the plan's fund and is required to report on overall performance and in relation to approved benchmarks.

6. IMPORTANCE OF INVESTMENTS

As noted earlier, the MPP board approves the plan's long-term strategic asset allocation mix that it believes will best achieve its primary pension objective: to secure the basic pension for every member. The choice of investment asset mix is the largest determinant of the plan's return. The plan's portfolio is well diversified with public and private market investments in assets from around the world.

Investment portfolio
as at December 31, 2020

Holding	**Market Value** ($ millions)	**Asset Mix** (% market value)
Short-term	1,626	2.5
Mortgages	2,509	3.8
Bonds	12,531	18.9
Private Debt	2,206	3.3
Canadian Equities	3,600	5.4
Global Equities	11,375	17.1
Emerging Markets	6,513	9.8
Private Equity	8,237	12.4
Real Estate	9,967	15.0
Infrastructure and Renewable Resources	7,797	11.7
Cash and unsettled trades	66	0.1
Total Investments	**$ 66,427**	**100.0**

Taking a long-term investment perspective, the strategic asset mix includes real assets such as infrastructure and real estate. These assets are tangible physical investments that are ideally suited for the long-term financial objectives of the plan; and typically provide capital appreciation, income, and inflation protection, while reducing the short-term volatility associated with public markets. Through significant equity investments in direct portfolio holdings, BCI can secure governance positions on the boards of the companies it invests in to influence the strategic direction of these companies.

Since joint trusteeship was established in 2001, the board has experienced several market cycles and events, including the "Tech Bubble" in 2000/2001 the "Global Financial Crisis" in 2008/2009 and the "COVID-19 crisis" in 2020. Despite these periods of volatility, performance continues to exceed the target investment return of 6.5 per cent, as demonstrated in MPP's returns below. The return target is set by the MPP board in consultation with its actuary.

1 Year: 11.6%
5 Year: 8.6%
10 Year: 9.1%
15 Year: 7.7%

** Returns to December 31, 2020*

The MPP board and the Investment Committee regularly review performance at meetings. As a long term investor, the MPP board focuses on performance returns over extended time-periods rather than short-term results or market events.

Approximately every three years, the board undertakes an asset liability modelling (ALM) review and reports on the financial health of the plan. The purpose of an ALM is to determine the asset mix most likely to meet the investment objectives of the plan going forward. The review presents an opportunity for the board to understand the key drivers of a successful investment strategy: plan characteristics and circumstances, investment objectives and risks, and market expectations. There are many factors that are considered during the ALM process including climate change scenarios. The board has an opportunity to reassess the current asset mix and compare it to potential alternative asset mixes. From this process, the board, with support from the Investment Committee, chooses the long-term target allocations for each asset class that will best achieve the plan's objectives.

Using Climate Scenarios in Asset Liability Modelling

In 2018, the MPP board updated the long-term policy asset mix intended to support the best financial interests and the overall investment risk profile of the plan. The updated long-term policy asset mix was revised in line with the recommendation stemming from an **asset-liability modelling review** prepared by BCI for the board. This review included assessment of potential impact on long-term investment performance under multiple climate scenarios using a model based on Mercer's Climate Change Risk Assessment Research Package. This climate change work was developed based on the board's desire to undertake this work, and its endorsement to have BCI conduct climate change scenario analysis. In 2021, the board is undertaking another asset-liability review which will again use climate scenarios.

With the 2018 ALM review, the board reduced the target allocation of Canadian equities from 11% to 5%. The primary reason to reduce the allocation was to benefit from better diversification. Some of the key factors considered were 1) global and emerging market equities have higher expected returns and better sector/regional diversification, and 2) Canadian equities represent a small portion of the world equity market and are heavily weighted in just a few sectors (e.g., energy, financials, and materials). The 2018 strategic asset allocation decision resulted in a reduction in the portfolio's Energy holdings, because – as previously noted - Canadian energy equities made up a significant portion of the Canadian equity market.

Based on the most recent actuarial valuation in 2018, the plan was fully funded with a strong rate stabilization account balance.

Within index strategies, which are designed to mimic the composition and performance of indices, this asset allocation shift was further magnified by a decrease in the weight of the energy sector within the S&P/TSX composite over that time. At the time of the 2018 ALM review, energy represented approximately 19% of the S&P/TSX Composite; however, between December 2015 and December 2020, the weight of the Energy sector in the S&P/TSX Capped Composite Index declined from 18.1% to 11.3%, as shown in the chart below. Some of the decline is due to the growth in other sectors such as Information Technology which grew from 2.8% of the index in December 2016 to 10.3% in 2020.

In a pooled fund structure, the MPP board owns units in the pooled fund, not individual securities. The pooled funds in which the MPP board has approved to invest in are listed in the SIPP (available on the MPP website). Like a mutual fund, a pooled fund combines participating clients' contributions and invests in securities and other assets. Pooled portfolios reduce costs through economies of scale, allowing clients to obtain a more diversified portfolio at a lower cost than investing individually. They also ensure that the clients are treated fairly and share in the best investment opportunities.

BCI has the discretion to buy or sell securities and may invest in passively managed index funds that invest in stocks by replicating indices such as the S&P/TSX Capped Composite Index or the S&P 500. Additionally, BCI may invest in the funds of external managers who have expertise in specific geographies or sectors and therefore BCI does not own the investment decisions of which assets to own. BCI does, however, screen managers prior to selection based in part on their ESG practices.

BCI has a role that goes beyond that of a typical fund manager, effectively functioning as the board's internal investment staff. For example, the board believes that BCI is in the best position to make the decision on the weightings between active and passive strategies and has delegated this decision to BCI.

In keeping with the MPP board's fiduciary responsibilities and framework, the board believes that ESG issues affect investment performance to varying degrees across companies, sectors, regions, asset classes and through time. The board and BCI are signatories to the UN-supported Principles for Responsible Investment (PRI) and are committed to ensuring that ESG issues are incorporated into investment analysis and decision-making processes and into ownership policies and practices.

KEY POINTS

- The board establishes the target rate of return and the asset allocations that guide investment decisions.
- The board doesn't select stocks or any other specific investments.
- The board does not directly own individual securities such as publicly-traded stocks. It owns units in pooled funds. It does not tell BCI to buy or sell specific securities.
- Consistent with board direction, BCI integrates ESG analysis and risk management in all investment processes, including the use of climate change scenarios in asset liability modelling reviews.
- BCI may have passively managed or "indexed funds" that replicate the investible universe of the index and these are not screened out for individual securities.
- BCI may use external managers for certain funds to gain access to expertise in specific sectors or geographies. These managers make their own decisions on which assets to hold, but BCI does screen managers prior to selection based in part on their ESG practices.

7. RESPONSIBLE INVESTING:
BCI'S AND MPP'S PROGRESS AS A RESPONSIBLE INVESTOR

Institutional investors around the world are increasingly integrating ESG factors into investment decisions. This approach has grown significantly in recent years with assets under management (AUM) in this category now representing around a quarter of all professionally managed assets.[5] Adoption of ESG integration has been an outcome of events such as the ratification of the Paris Agreement in 2015, which resulted in governments and corporations setting climate reductions, advancement in disclosure frameworks, and increased demand from global stakeholders for accelerated action.

Large institutional investors have called on companies to publish ESG-related disclosure in line with best practice frameworks such as the Task Force on Climate-related Financial Disclosure (TCFD) and the Sustainability Accounting Standards Board (SASB).

BCI's ESG Approach

BCI always works in the best financial interests of its clients. As a long-term investor, incorporating ESG considerations into their approach is an essential part of who BCI is and what it does. With a mandate to grow the value of clients' funds, assessing and managing investment opportunity and risk, including ESG risk, is an integral part of meeting that responsibility.

BCI has incorporated responsibility for ESG oversight, evaluation, and integration into multiple levels of the corporation through their ESG Policy. In addition, BCI's corporate-wide ESG strategy provides a unified approach to guide every stage of the investment process. In practice this has led to detailed ESG risk and opportunity reviews being conducted on investments across all asset classes. The ESG strategy outlines four key components that represent all ESG activities taking place at BCI:

Intergrate

BCI integrates ESG analysis and risk management in all investment processes, from supporting clients' asset allocation decisions to individual investment decisions within its portfolios.

Influence

Through engagement and advocacy, BCI applies influence on companies in which they invest, their partners, and other participants in the capital markets.

Invest

BCI actively seeks opportunities to invest in ESG-themed investments that contribute to improved long-term outcomes for clients and reinforce its investment beliefs.

Insight

BCI uses its learnings across all ESG activities, as well as its understanding of emerging trends, to generate insights that help them continuously adapt and improve their strategies, processes, and approaches.

[5] See: https://www.bloomberg.com/professional/blog/esg-assets-may-hit-53-trillion-by-2025-a-third-of-global-aum/

All aspects of the ESG Strategy are guided by BCI's investment beliefs which reference the importance ESG:

BCI's Investment Beliefs: ESG matters make a difference

- Taking environmental, social, and governance (ESG) matters into account enables investors to better understand, manage and mitigate risks and take advantage of opportunities associated with long-term investments.
- Companies that employ robust ESG practices are better positioned to generate long-term value for investors than similar companies with less favourable practices.

Improving the sustainability and integrity of global capital markets creates favorable economic conditions that benefit investors over the long term.

Case Studies: ESG Strategy in Action

Chevron: Proxy Voting Success

In 2020, BCI supported a climate lobbying proposal at Chevron Corporation (NYSE: CVX), which asked for a report on the company's lobbying efforts and if or how they align with the Paris Agreement's goal of limiting average global warming to below 2 degrees Celsius. BCI believes that such an evaluation would help investors to assess related risks and opportunities. The proposal passed with 53.5% support.

Portfolio Carbon Exposure: ESG Integration Success

BCI began disclosing the carbon exposure of its public equity program using the TCFD recommended Weighted Average Carbon Intensity calculation in 2020. BCI's investment strategy and focus on integrating ESG in its active investment approach has allowed BCI to reduce the carbon exposure of the public equity program by 13 per cent in 2020. The continuation of this strategy is expected to result in a 30 per cent reduction by 2025, from a 2019 baseline.

Teck Resources: Engagement Success

BCI has jointly led the Climate Action 100+ engagement with Teck Resources, Canada's largest diversified mining company, since 2017. Through this initiative BCI has participated in meetings with the company's senior management team and independent board directors. Teck has made notable progress: committing to net-zero emission by 2050 for its operations (achieving its alternative energy target ahead of schedule) and releasing TCFD-aligned disclosure.

To learn more about BCI's ESG activities and performance visit: www.bci.ca/approach/esg/

BCI AND MPP: RESPONSIBLE INVESTING TIMELINE

For a number of years, the MPP board and BCI have been actively working to understand and manage the risks and opportunities posed by climate change. The long time horizon of pension liabilities means that trustees must also take a long-term view for investment opportunities and risks. The following timeline provides a summary of MPP's and BCI's activity in this space since 2016 and demonstrates the shared commitment to continuous advancement.

2016

The board and BCI sign the Global Statement on Investor Obligations and Duties, acknowledging that investors must pay attention to long-term investment value drivers, including ESG issues in their investment processes.

The board co-founds the Western-North America (WNA) PRI network, providing PRI signatories and other like-minded investors in British Columbia, Alberta, Saskatchewan, California and Washington with opportunities to share information and best practices about ESG integration, discuss issues of regional concern, and to move the responsible investment conversation forward.

2017

The board approves a new three-year strategic plan, including the priority to understand the issues, risks and opportunities posed by climate change – and update the SIPP as appropriate - to support informed decision-making regarding investment policy and procedures.

The board and BCI sign the Letter from Global Investors to Governments of the G7 and G20 Nations on Climate Action, calling for global leaders to continue to support and implement the Paris Agreement, align policies to drive investment in the low-carbon transition and phase-out fossil fuel subsidies, and implement climate-related financial reporting frameworks including supporting the TCFD recommendations.

The board and BCI become signatories to Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. The MPP board and BCI continue to support the initiative's goals. BCI's does this through participation and direct engagement with focus companies individually and collectively with other signatories.

2018

BCI integrates climate scenarios in MPP's asset-liability modelling (ALM) review.

The board updates the long-term policy asset mix intended to support the best financial interest and the overall investment risk profile of the plan, following an asset-liability review that incorporated a review of the types of investment risk taken by the plan and climate change scenario analysis.

With encouragement from MPP and other clients, BCI develops and releases its first Climate Action Plan. The plan positions BCI to capitalize on investment opportunities from the long-term transition to a low carbon economy, while protecting the plan's portfolio from undue physical and transition risks. Together with the Action Plan, BCI releases its first TCFD disclosure.

2019

The board updates its investment beliefs, adopting a new investment belief related to climate change:

> *Climate change is an investment opportunity and a long-term material systemic risk to the plan. Although the timing and extent of the effects of climate change are uncertain, actions to reduce GHG emissions through investor stewardship, the selection of assets and advocating for appropriate public policies directly and indirectly benefit the plan.*

The board completes its first ever climate-related financial disclosure, in line with the TCFD recommendations, within its 2019 annual report, reporting the value of climate-related investment opportunities ($1 billion) and its carbon footprint for public equities, fixed income and domestic real estate holdings. The board noted that BCI will continue to evaluate and expand the plan's carbon footprint of the assets as data availability and methodological issues are improved.

Following the success of the WNA PRI network, the UN PRI forms the Western North America Advisory Committee, appointing the plan's executive director as co-chair. The WNA PRI network is continued under the leadership of the new advisory committee, who provide advice to the PRI executive team.

2020

The board approves a new three-year strategic plan, prioritizing addressing climate risk to the investment portfolio. More specifically, the board commits to exploring investing in a manner compatible with the Paris Agreement goal of keeping global average temperature to well below two degrees Celsius above pre-industrial levels and to study the potential impacts of a sudden significant policy response.

As part of the board's ongoing commitment to learning in the area, the board receives education sessions on the science of climate change, fiduciary duty and climate change, and the impact of climate change on plan investments.

Case Study: QuadReal

BCI's real estate and real estate debt program manager, QuadReal is committed to building stronger communities and is dedicated to integrating ESG into their core activities. QuadReal continues to champion energy efficiency and low carbon intensity within its portfolio and for all new development projects.

On average, QuadReal office buildings are using 25% less energy than a decade ago; and QuadReal is aiming for more than 25% energy savings on residential buildings this decade.

One way in which QuadReal is held accountable is through the annual GRESB assessment, an investor driven global ESG benchmark for real estate assets. GRESB was established in 2009 by pension funds that wanted to benchmark investments across portfolios to understand the opportunities and risks that need to be made as the industry transitions to a more sustainable future.

GRESB measures ESG categories, and within the social category, health and wellness is taking on an increasingly significant role. For the second year in a row, QuadReal earned top rankings in the 2020 GRESB assessment. It ranked first in both North America and Canada and second globally.

BCI increases its cumulative historical participation in sustainable bonds to $888 million, an increase of $532 million from 2019. The continuation of BCI's fixed income strategies is expected to lead to an estimated cumulative participation of $5 billion in sustainable bonds by 2025.

BCI launches the US$1 trillion Sustainable Development Investments Asset Owner Platform (SDI-AOP) alongside three global partners to provide a globally consistent framework and standard for identifying and measuring the impact of investments on the UN Sustainable Development Goals (SDG).

QuadReal, BCI's real estate and real estate debt program manager, attains top rankings in GRESB, the Global ESG Benchmark for Real Estate Assets (see Case Study).

QuadReal releases its Green Bond Framework paving the way for investors to support solutions to further reduce energy consumption, carbon emissions, pollution, and waste at QuadReal properties. Under the framework, 100 per cent of the net green bond proceeds can be used for eligible green projects. QuadReal is one of the top three Canadian issuers of green bonds.

QuadReal achieves an 80 per cent carbon reduction from its 2007 baseline, meeting its 2050 emissions reduction target almost thirty years early. QuadReal was able to achieve this climate-related target, as it began purchasing renewable energy credits for its Alberta portfolio in 2019, and carbon offsets for all natural gas used in the Canadian portfolio in 2020.

2021

BCI begins disclosing the carbon exposure of the public equity program using the TCFD recommended Weighted Average Carbon Intensity calculation. Its investment strategy and focus on integrating ESG allowed BCI to reduce the carbon exposure of the public equity program by 13 per cent in 2020. The continuation of this strategy is expected to result in a 30 per cent reduction by 2025, from the 2019 baseline.

BCI increases its cumulative historical participation in sustainable bonds to $888 million, an increase of $532 million from 2019. The continuation of BCI's fixed income strategies is expected to lead to an estimated cumulative participation of $5 billion in sustainable bonds by 2025.

BCI releases new proxy voting guidelines detailing increased expectations for climate risk management and disclosure.

As an active member of Climate Action 100+, BCI continues to lead or co-lead engagements with four North American companies in the fossil fuel and mining sectors and supports engagement with six other companies in the oil and gas industry and utility sector. Through the global Climate Action 100+ initiative nearly half (43%) of the 167 focus companies have now set a net-zero by 2050 target or ambition.

KEY POINTS

- Responsible Investment is a shared belief of MPP and BCI.
- Both were early adopters of PRI and are active participants.
- MPP and BCI joined Climate Action 100+ the year it launched in 2017.
- Reporting on responsible investing is an MPP requirement of BCI.
- QuadReal, BCI's real estate and real estate debt manager, champions energy efficiency and low carbon intensity within its portfolio and at all new development projects.
- The continuation of BCI's public equity and fixed income strategies are expected to result in cumulative participation of $5 billion in sustainable bonds by 2025; and a 30 per cent reduction in the carbon exposure in its public equity program by 2025, from a 2019 baseline.

8. FOSSIL FUEL INVESTMENT IN THE ENERGY SECTOR

8.1 What are defines as Fossil Fuels?

BCI's investment approach is diversified across assets in fixed income, public equities, and private markets. This section identifies energy-related investments in all asset classes and provides selected case studies on investments within the sector.

	Core Fossil Fuels		
	Energy Investment Sector		
	Coal*	Oil	Gas**
exploration	x	x	x
drilling		x	x
equipment/services	x	x	x
production	x	x	x
refining/marketing	x	x	x
storage/transport	x	x	x

Source: Global Industry Classification Standard

*and combustibles
**includes natural gas
Does not include kerosene, propane; petro chemical producers; Plastics industry, other products and users

8.2 What is Divestment?

In this case, it is to sell all the assets of a company that are engaged in fossil fuel activities (see 8.1 chart)

8.3 What organizations in Canada support Divestment?

In 2016, the Primer reported that there were 16 institutional organizations. Since then there has been muted growth in numbers but not in their concerns.

The three largest groups are philanthropic, faith-based and post-secondary education. A common theme is these have smaller amount of assets under management (for instance, endowment funds under $100 million)

8.4 What is this position of the largest Pension Plans in Canada?

The eight largest Pension Plans in Canada include the Canada Pension Plan, Caisse de depot in Quebec; one each in BC and Alberta and the rest in Ontario. Together they represent $1.6 trillion assets under management.

For the 2016 Primer they all reported they were not pursuing divestment. This has not changed. Recently, they have been active in their advocacy.

In November 2020, the CEO's of AIMCo, BCI, Caisse de dépôt et placement du Québec, CPP Investments, HOOPP, OMERS, Ontario Teachers' Pension Plan, and PSP Investments released a joint statement calling on companies and investors to provide consistent and complete environmental, social, and governance (ESG) information, and further commit to strengthening ESG disclosure within their own organizations by adopting the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) framework.

The signatories, including BCI, recognize that while companies face a myriad of disclosure frameworks and requests, it is vital that they report relevant ESG data in a standardized way to provide clarity and improve data flow.

8.5 In The Trustee's Chair

In thinking about divestment, it may be useful to put yourself in the shoes of a trustee of a small independent pension plan.

- **Divest or Engage Scenario** -Companies that are climate laggards can be divested selectively. But what about a multi-activity company? It is not uncommon for a modern energy company to produce energy from oil and gas (i.e., fossil fuels) and also increasingly from wind farms, hydro-electric and other activities (i.e., renewables.) Do you divest, because it is an all or nothing choice? Or do you engage the company around their strategic plan and ensure they are planning for a low-carbon economy? Do you consider withholding capital investment from a skilled organization that has the capability, technical knowledge and will to innovate and support the path to a low carbon economy?
- **A Divestment Scenario** - You are a new trustee, and the board is reviewing a recent decision. The board had $5 million invested in a "fossil fuel" company and decided, in keeping with its policy, to divest. The current value was $25 per share. The board tendered all its shares and successfully achieved its divestment price. Concurrently, Pension board #2 purchases the same amount of shares at $25 per share. Did the "divestment" have any impact on climate action and reducing carbon? Did the Company appreciate there was a divestment? Or do they see their market value is unchanged and so it is business as usual? Did your Pension Plan make a difference in carbon reduction?

Arguably, divestment is a blunt tool for a complex problem. It is a straight line to conclude that selective divestment makes sense for the climate laggards. But it is less clear for some of today's modern energy companies who appear to be a critical part of the solution.

8.6 What is BCI's Position on Fossil Fuel Divestment?

The MPP board and BCI are long-term investors. Buying and selling of assets is a normal process that occurs every working day for a large plan like the MPP. This may be done to optimize value or exit an underperforming asset; and takes place in the normal course of business by the investment managers within the framework of the board's approved SIPP.

Divestment is a term that refers to the selling or avoiding investment in certain companies, sectors, or countries. By definition, divestment is the action of selling assets, however, when applied in the context of ESG strategy it is often used to refer to the action to sell or avoid assets based on moral, social or political motivations.

For example, "divestment" which has often been appropriated as the term to challenge an asset owner to divest (sell) certain types of assets such as tobacco, munitions, or fossil fuels on what has been termed as a "values-based criterion". Some commentators have used the term "disinvestment" to distinguish this activity.

There have been calls to large asset owners around the world to divest from companies involved in fossil fuels (e.g. coal, oil, natural gas). Arguments in favour of fossil fuel divestment typically point to environmental concerns and an urgent need to act on the climate crisis; as well as concerns over the long-term value of such companies because of an energy transition moving away from fossil fuels.

BCI believes that divestment is not an effective strategy for addressing long-term and persistent risks to clients' portfolios. Divestment reduces an investor's ability to influence and to drive more sustainable outcomes; and does not encourage companies to amend their policies and practices. This position is in line with BCI's overall approach to long-term capital stewardship, and with the guidelines and directions provided by MPP.

Consequences of Divestment

Divesting from fossil fuel investments might limit the carbon emissions in a portfolio but it does not actually change the amount of carbon emitted into the environment, as it passes the assets from one investor to another. In BCI's view, divestment has several significant disadvantages. These include:

- Divestment eliminates rights as a shareholder to engage with management, raise awareness of long-term risks and potential opportunities, and influence change of business practices. For example, divestment reduces the ability to influence companies whose transition is central to achieving the goals of the Paris Agreement.
- While divestment may serve the purpose of reducing exposure to fossil fuels to varying degrees, it does so in a manner that does not consider the unique risk or return potential of the companies being removed.
- Divestment does not encourage companies to amend their policies and practices.
- Divestment may compromise the investment strategy, increase risks and costs, and affect clients' investment returns.
- Divestment reduces MPP's investable universe. MPP's Statement of Investment Policies and Procedures (SIPP) notes that maintaining a well-diversified portfolio is the cornerstone of the Fund's risk management program.

- Excluding fossil fuel companies would not insulate the plan from the risks associated with climate change or rapid climate action. Climate change scenario analysis shows much wider portions of the market are impacted in one way or another, and it emphasizes the need to appropriately manage these risks holistically whereas excluding a portion of the investment universe may give a false sense of heightened resilience.

Influencing Sustainable Change through Investor Engagement

The MPP board shares BCI's belief that engagement is a more effective approach than divestment to addressing climate-related risks. Therefore, engagement is the preferred approach to managing climate-related risks. Each year, BCI sets engagement priorities in consultation with the board and its other clients, and climate change is a key priority. BCI encourages transparency in climate-related disclosures, and consideration of the physical, regulatory, and transition risks related to climate risk in business strategy.

Engagement involves constructive conversations between companies and investors, where investors can share views and input on corporate governance and management practices. Engagement on ESG factors has been a focus area for BCI for many years. BCI sets corporate ESG Influence Priorities that are aligned with the issues most material to its clients to guide its engagement activities. These priorities include climate change. In conversations, BCI encourages companies to be transparent about ESG risks and to adopt good corporate governance and operational practices.

The MPP board aligns with this belief through its SIPP, which states:

> *"The board believes that in most cases engagement is a more effective tool for seeking to initiate change to and influence corporate practices than exclusion. The board expects BCI, as an active and engaged investor, to encourage the companies within its portfolio to apply good corporate governance practices, effectively manage their business relationships, and be responsible in their operations and treatment of employees. The board further expects that BCI's engagement activities are based on strategic ESG priorities and, as a result, ESG matters are addressed to the extent that they influence risk and return of the Fund."*

Climate Action 100+

In Chapter 7, we highlighted BCI and MPP's participation with Climate Action 100+, an investor-led initiative to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change. It brings together 545 signatories in 32 countries representing US$52 trillion in assets under management. Of the 167 companies engaged through the initiative, almost half the companies have now set net-zero targets, 51 per cent have short-term (2020-2025) emissions reduction targets, and 38 per cent have a medium-term (2026-2035) emissions reduction target. These public commitments reinforce BCI's belief that engagement is a more effective strategy for managing climate risk than divesting.

As part of Climate Action 100+, BCI leads or co-leads engagements with four North American companies in the oil and gas, and mining industries, and supports engagements with six other companies in the oil and gas industry and utilities sector.

In 2020, the Climate Action 100+ initiative developed the Net-Zero Company Benchmark. It is designed to clarify specific disclosures and targets for companies and be a useful tool for investors to assess and compare company performance. Disclosure indicators include:

- ➢ Net-zero by 2050 ambition
- ➢ Targets and goals for GHG emissions reduction in the short, medium, and long term and whether targets align with 1.5 degrees Celsius climate scenario

- Decarbonization strategy
- Capital allocation alignment
- Climate policy engagement
- Governance, including executive remuneration linked to climate targets
- Just transition (impacts on workers and communities)
- TCFD reporting, including scenario analysis

The first company scorecards were released in 2021.

Maple 8

In November 2020, BCI joined seven of the largest pension investment managers, colloquially referred to as the 'Maple 8', to issue a joint statement calling for companies to put sustainability and inclusive growth at the centre of the economic recovery from the COVID-19 pandemic. The Maple 8 asked that companies measure and disclose their performance on material, industry-relevant ESG factors by leveraging the Sustainability Accounting Standards Board (SASB) standards and the Task Force on Climate-related Financial Disclosures (TCFD) framework to further standardize ESG-related reporting.

Increasing transparency on ESG issues, especially climate-related issues, enables targeted engagement on specific issues, facilitating our engagement with companies. Standardization would be a strong step forward in reducing the barriers to deepening the integration of ESG issues into investment decision making.

Shareholder Voting

As an active owner, BCI uses proxy voting as another form of engagement. MPP delegates its voting rights to BCI and instructs BCI to act in the best financial interests of the Plan. BCI provides the board with copies of its voting guidelines and at least once a year the board reviews BCI's voting record.

BCI updated its Proxy Voting Guidelines in 2021 to raise its expectations on climate change risk disclosure and strategies. BCI believes companies that do not carefully consider issues of environmental and social responsibility risk failing to create shareholder value. Updated every two years, the guidelines advise public companies of their expectations related to ESG matters.

BCI will consider supporting more prescriptive shareholder proposals on climate change to publicly signal their expectation that companies must act immediately and will escalate the targeting of directors for weak responses to climate change risk. BCI has supported an average of 55 per cent of all ESG-related shareholder proposals over the past five years. Generally, proposals that seek enhanced disclosure of climate-related information are supported. BCI has a policy to vote against appropriate board directors at companies that fail to disclose adequate climate-related data.

Further information on BCI's proxy voting can be found at: www.bci.ca/approach/esg/proxy-voting/

BCI also advocates for policy changes that will improve the investing environment for long-term investors. Since 2014, BCI has submitted at least 18 climate-related policy submissions or statements to provincial, federal, and international regulators and policymakers.

For additional information and transparency, BCI publishes an annual report of portfolio holdings. For a full list of BCI's positions at March 31, 2020, please refer to **BCI's Investment Inventory List** at **www.bci.ca/publications**.

8.7 What is MPP's exposure to Fossil Fuels?

As of December 31, 2020, MPP's energy-related investments were approximately 2.2% of the total portfolio.

MPP's portfolio has evolved since the publication of the 2016 Primer as a result of normal course investment decisions and outcomes of the 2018 ALM review. From December 31, 2015 to December 31, 2020, the plan's total assets increased by $22.8 billion, from $43.7 billion to approximately $66.5 billion. As MPP's portfolio grew during this time, the asset allocation shifted toward a more diversified, global portfolio.

At December 31, 2020 the plan had exposure to $1.2 billion in climate-related opportunities, including investments such as, green bonds, private market renewable energy assets, and exposure to companies that generate revenue that contribute to the UN's Sustainable Development Goals, as defined by the SDI-AOP classifications.

PUBLIC EQUITIES

The public equities portfolio is BCI's second largest asset class and contains thousands of publicly traded companies in Canada and around the world. As at December 31, 2020, MPP had $21.5 billion in public equities.

MPP is invested in energy through Canadian, global and emerging market public equities. Between 2010 and 2015, MPP's public equities energy holdings ranged from approximately 3.8% to 7.3% of total plan investments. In the period since the publication of the 2016 Primer, MPP's public equity energy holdings declined from approximately 5.1% of total plan assets in 2016 to approximately 1.3% in 2020, based on values at each calendar year end. To provide context, the roughly 1.3% energy exposure across the Canadian, global and emerging equities portfolios combined is only 0.4% more than the per cent invested in the top five Canadian banks. As mentioned in Section 6, Canadian equities now account for only 5.4% of the portfolio.

Additionally, the Global Quantitative ESG Equity Fund was 1.4% of total portfolio holdings at December 31, 2020. Launched in November 2019, the Fund holds a diversified portfolio of stocks with exposure to desirable ESG characteristics.

Over the past six years, BCI has focused on bringing the investment decisions for public equities in-house, reducing the reliance on indexing strategies for the Canadian, global, and emerging markets, while redeploying its clients' capital into active mandates. Unlike indexing, active mandates enable the integration of ESG considerations throughout the investment process and allows BCI to have more discretion over which companies to include in the portfolios, as well as having the ability to overweight companies with favourable ESG characteristics while underweighting companies that present additional risk to clients.

Top 25 MPP Public Equity Investments

MPP provides a list of its Top 25 public equity holdings in its annual report. Consistent with what was shared in the 2016 Primer, the table for 2020 is included.

MMP's Top 25 Public Equity Investments

Rank	Long Company Name	% of portfolio	% of public equities	Total exposure ($M)
1	Taiwan Semiconductor Manufacturing Co Ltd	0.7%	2.1%	442.9
2	Samsung Electronics Co Ltd	0.6%	1.8%	382.4
3	Apple Inc	0.5%	1.7%	357.5
4	Tencent Holdings Ltd	0.5%	1.6%	335.5
5	Microsoft Corp	0.5%	1.4%	305.5
6	Alibaba Group Holding Ltd	0.4%	1.4%	294.8
7	Amazon.com Inc	0.4%	1.1%	246.1
8	Royal Bank of Canada	0.4%	1.1%	235.3
9	Alphabet Inc	0.3%	1.0%	208.8
10	Shopify Inc	0.3%	0.9%	185.0
11	Toronto-Dominion Bank/The	0.3%	0.8%	182.2
12	Brookfield Asset Management Inc	0.2%	0.7%	141.0
13	Fraport AG Frankfurt Airport Services Worldwide	0.2%	0.6%	137.2
14	Canadian Pacific Railway Ltd	0.2%	0.6%	124.8
15	Mastercard Inc	0.2%	0.6%	121.2
16	UnitedHealth Group Inc	0.2%	0.5%	117.4
17	Facebook Inc	0.2%	0.5%	114.4
18	Ping An Insurance Group Co of China Ltd	0.2%	0.5%	112.1
19	Canadian National Railway Co	0.2%	0.5%	108.6
20	Housing Development Finance Corp Ltd	0.1%	0.4%	95.3
21	Kweichow Moutai Co Ltd	0.1%	0.4%	90.8
22	Visa Inc	0.1%	0.4%	87.5
23	TC Energy Corp	0.1%	0.4%	85.0
24	Tesla Inc	0.1%	0.4%	83.1
25	Constellation Software Inc/Canada	0.1%	0.4%	82.7

*client specific values are approximate and unaudited

The 2016 Primer reported that four energy holdings, representing 1.1% of MPP's total portfolio, were included in the Top 25 as at December 31, 2015. This declined to only one energy-related company in the Top 25 at December 31, 2020 - TC Energy, which represented 0.1% of MPP's portfolio. The tables below outline a comparison of the two reported time periods.

December 31, 2015			
Company	**Rank in Top 25**	**% of MPP's Portfolio**	**Total Exposure ($millions)**
Suncor Energy Inc.	7	0.4	171
Enbridge Inc.	19	0.3	115
Exxon Mobil	21	0.2	103
Canadian Natural Resources Ltd.	22	0.2	101

December 31, 2020			
Company	**Rank in Top 25**	**% of MPP's Portfolio**	**Total Exposure ($millions)**
TC Energy	23	0.1	85

Top 25 Energy Holdings	December 31, 2015		December 31, 2020	
	% of MPP's Portfolio	Total Exposure ($millions)	% of MPP's Portfolio	Total Exposure ($millions)
Total (MPP's Portfolio)	1.1	490	0.1	85
Total Public Equities	2.3	21,276	0.4	21,488
Total Investment Portfolio		43,540		66,427

**client specific values are approximate and unaudited*

Looking specifically at the energy related holdings in public equities, the table below shows the Top 10, based on investment value as at December 31, 2020. These investments collectively represented approximately 0.6% of MPP's total portfolio and 1.9% of MPP's public equities portfolio.

Top 10 Public Equity Energy Investments (as at December 31, 2020)

Company	Total Exposure ($ millions)	% of MPP's Public Equities Portfolio
TC Energy Corp	85.0	0.4
Reliance Industries Ltd	60.2	0.3
Enbridge Inc	56.1	0.3
Canadian Natural Resources Ltd	44.2	0.2
Suncor Energy Inc	41.3	0.2
Lukoil PJSC	28.3	0.1
Petroleo Brasileiro SA	27.2	0.1
Parkland Corp/Canada	26.3	0.1
Exxon Mobil Corp	25.4	0.1
Chevron	23.0	0.1

**client specific values are approximate and unaudited*

Featured Public Equity Investments

Below are descriptions of fossil fuel related companies held in MPP's public equity portfolio.

TC Energy

TC Energy is a leading energy infrastructure company with natural gas and liquids pipelines, power generation and natural gas storage facilities. They are committed to responsible and sustainable development. Headquartered in Calgary, Alberta, the company operates in Canada, the United States and Mexico.

To learn more about TC Energy visit: www.tcenergy.com

Teck Resources

Teck is a diversified resource company committed to responsible mining and mineral development with business units focused on copper, zinc, steelmaking coal, and energy. Headquartered in Vancouver, Teck owns or has an interest in 13 mines across Canada, the United States, Chile and Peru, as well as one large metallurgical complex in Canada. Teck's major operations in British Columbia are: Highland Valley Copper, steelmaking coal in the Elk Valley and Trail's zinc operations plus the SunMine solar panel farm in Kimberley. Teck has committed to net-zero emissions by 2050 in its operations.

To learn more about Teck Resources visit: www.teck.com

Canadian Natural Resources

Canadian Natural Resources is one of the largest independent crude oil and natural gas producers in the world. The company has a diversified portfolio of assets in North America, the UK North Sea and offshore Africa. Canadian Natural Resources uses a multi-disciplinary risk management process, which considers climate change risks and opportunities as part of their business evaluation. The company has a GHG reduction program which includes innovation, emissions reduction, and CO2 capture, storage, and utilization.

To learn more about Canadian Natural Resources visit: www.cnrl.com

Suncor

Suncor is a leading Canadian energy company with integrated operations including hydrocarbon production, refineries, retail and renewable energy. Suncor aims to reduce GHG emissions by 30 per cent by 2030 through harnessing technology and innovation and has committed to net-zero by 2050. Suncor publicly declared support for TCFD in 2018.

To learn more about Suncor visit: www.suncor.com

FIXED INCOME

BCI's fixed income program invests in public and private market debt including government and corporate bonds and private credit. As at December 31, 2020, MPP had $25.1 billion in fixed income investments. The fixed income portfolio's energy holdings totaled approximately $648 million at year end 2020.

MPP's Top 25 Fixed Income Investments

Rank	Issuer	% of portfolio	% of fixed income	Total exposure ($M)
1	Canadian Government	3.6	9.7	2,424.5
2	Province of Ontario Canada	2.1	5.6	1,403.4
3	Province of Quebec Canada	1.4	3.7	920.7
4	Canada Housing Trust No 1	0.6	1.6	401.3
5	United States Treasury	0.4	1.0	255.5
6	Royal Bank of Canada	0.3	0.9	214.0
7	Province of Manitoba Canada	0.3	0.8	188.9
8	Province of British Columbia Canada	0.3	0.7	179.3
9	Bell Canada	0.2	0.6	157.0
10	Parkland Corp/Canada	0.2	0.6	144.4
11	TELUS Corp	0.2	0.5	131.3
12	Hydro Quebec	0.2	0.5	126.0
13	Toronto-Dominion Bank/The	0.2	0.5	125.9
14	Bank of Montreal	0.2	0.5	120.6
15	Videotron Ltd	0.2	0.5	115.6
16	T-Mobile USA Inc	0.2	0.5	115.0
17	Level 3 Financing Inc	0.2	0.4	106.6
18	Province of Saskatchewan Canada	0.2	0.4	105.6
19	Canadian Pacific Railway Co	0.1	0.4	97.9
20	CCO Holdings LLC / CCO Holdings Capital Corp	0.1	0.4	94.0
21	Nasdaq Inc	0.1	0.4	92.4
22	Michaels Stores Inc	0.1	0.4	91.5
23	XHR LP	0.1	0.4	91.1
24	Morgan Stanley	0.1	0.4	90.5
25	Walt Disney Co/The	0.1	0.3	81.3

**client specific values are approximate and unaudited*

The Top 10 energy-related fixed income holdings, as at December 31, 2020, are shown in the table below. These investments collectively represented approximately 0.7% of MPP's total portfolio and 1.9% of MPP's fixed income portfolio. Of these holdings, there is only one energy-related holding with a market value over $100 million.

Top 10 Fixed Income Energy Holdings (as at December 1, 2020)

Company	MPP's Investment ($ millions)	% of MPP's Fixed Income Portfolio
Parkland Corp/Canada	144.4	0.6
TransCanada PipeLines Ltd	58.5	0.2
North West Redwater Partnership / NWR Financing Co Ltd	53.7	0.2
Teine Energy Ltd	46.7	0.2
Transocean Phoenix 2 Ltd.	41.6	0.2
Precision Drilling Corp	28.1	0.1
Ontario Power Generation Inc.	26.8	0.1
Cheniere Energy Partners LP	25.2	0.1
Transocean Proteus Ltd.	24.0	0.1
Vermillion Energy Inc.	19.2	0.1

**client specific values are approximate and unaudited*

Featured Fixed Income Investments

Below are descriptions of fossil fuel related companies held in MPP's fixed income portfolio.

Enbridge

Enbridge is a leading energy delivery company with a network of crude oil and natural gas pipelines and storage facilities across North America. It also invests in renewable energy with a growing offshore wind portfolio. Enbridge has a 2030 target to reduce GHG emission intensity from operations by 35% and to achieve net zero emissions by 2050. Their pathway to achieving the goal is through innovation, emissions intensity reductions, investing in renewables and lower carbon energy, and purchase of carbon credits and offsets.

To learn more about Enbridge visit: www.enbridge.com

Parkland

Parkland is a Canadian supplier and marketer of fuel and petroleum products with a network of 1,860 retail gas stations in Canada. Their 19 subsidiary brands operate across North and South America. The Burnaby Refinery was acquired by Parkland in 2017. Parkland intends to measure and report progress on Scope 1 and 2 GHG emissions routinely in future Sustainability Reports, having released their inaugural report in Fall 2020. Climate Change is one of Parkland's 5 Key Strategic ESG Issues for 2019.

To learn more about Parkland visit: www.parkland.ca

Within the fixed income program, sustainable bonds provide clients with further opportunities to generate returns aligned with their investment requirements by financing fixed-income instruments that have positive environmental and social benefits. Sustainable bonds include green, social, sustainable, and sustainability-linked bonds. Green bonds are earmarked to raise capital for new and existing projects with environmental benefits.

BCI has historically subscribed to 26 sustainable bonds, representing $888 million in initial participation in support of 20 issuing entities (as at Dec. 31, 2020). As BCI is actively sourcing new opportunities in this space, continuation of these strategies is expected to lead to $5 billion in cumulative historical participation in sustainable bonds by 2025.

Translink's Green Bond which was issued in 2019 is one example of a green bond BCI is invested in.

Translink Green Bond (2019)

TransLink's Green Bond Program helps finance capital spending with a focus on clean transportation, energy efficiency and conservation, and renewable energy. Capital raised has been used to fund portions of the Millennium Line Evergreen extension, SkyTrain station, and rail network upgrades, new higher-capacity rail cars, new battery electric buses, and more.

To learn more about Translink visit: www.translink.ca

PRIVATE MARKETS

BCI's private market programs include infrastructure and renewable resources, private equity, real estate and real estate debt. Since the 2016 Primer, BCI has increased its focus on private market investments. Direct ownership allows BCI to use its position as a shareholder to influence a company's strategic direction, appoint executive management, and align operations and practices with its expectations and interests. Many of BCI's direct investments also bring governance rights and a board seat that allow BCI to actively manage investments through board representation. At December 31, 2020, MPP had $30.7 billion in private markets assets.

As part of BCI's ESG Framework all direct investments undergo an environmental risk and stakeholder impact assessment and ESG key performance indicators are monitored. When looking at new investments, BCI engages ESG and climate change advisors. Additionally, the ALM review has been customized for private market investments to better reflect the unique geographic and sector exposures of those portfolios.

Private Equity

MPP's Private Equity portfolio was valued at $8.2 billion at December 31, 2020, representing 12.4% of the total portfolio. Of this, approximately only $110 million, or 1.4% of the portfolio would be classified as energy or utilities.

Featured Private Equity Investments

Below is a description for a fossil fuel related company held in MPP's private equity portfolio.

Pilot Freight Services

In 2016, BCI invested in Pilot Freight Services (Pilot), a global third-party logistics provider and freight forwarding business. Based in Pennsylvania, Pilot serves customers through a network of over 75 locations in North America and Western Europe, and 87 international partners. As an active owner and with board representation at Pilot, BCI has helped Pilot consider several ESG-related initiatives including:

- Air and water pollution
- Exploring a carbon credit offset program
- Working on converting forklifts from propane to electricity

In addition, to strengthen their ESG initiative, the company has been researching the feasibility of adding electric vehicles for customer pick-ups and deliveries. While still in early days of electric vehicles being considered as competitive options for commercial deliveries, the initiative positions Pilot as a forward thinker.

To learn more about Pilot Freight Services view: www.pilotdelivers.com

Infrastructure & Renewable Resources

In Infrastructure & Renewable Resources, MPP's portfolio value of $7.8 billion, at December 31, 2020, represented 11.7% of total portfolio assets. Of this, nearly $4.0 billion or 51% of the portfolio would be classified as utilities and renewable power. Less than 1% of MPP's Infrastructure & Renewables market value is exposed to energy. Nearly half of BCI's program is invested in core regulated utilities that are essential to the economies they serve and provide investors with stable, long-term cash distributions. The majority of assets are in electric and gas utilities with limited exposure to oil, gas & consumable fuels. Approximately 25% of the program is invested in Renewable Resources.

Featured Infrastructure Investments

Below are descriptions of fossil fuel related companies held in MPP's infrastructure and renewable resources portfolio.

Open Grid Europe

Open Grid Europe ("OGE") is the largest of Germany's 12 regulated gas transmission service operators, responsible for about 70 per cent of the country's total national shipping volume. The company is committed to maintaining high standards of environmental management, occupational health and safety, and technical safety. BCI is OGE's largest shareholder.

To learn more about Open Grid Europe visit: oge.net/en

Puget Sound Energy

Puget Sound Energy (PSE) is the largest utility in the U.S. state of Washington, serving more than 1.1 million electric and nearly 850,000 natural gas customers in a service area spanning over 15,500 square kilometers. PSE owns and operates three wind farms, making it the Pacific Northwest's largest utility producer of renewable energy. BCI has held an equity interest in Puget Energy since 2009 alongside other institutional investors. In January 2021, PSE announced its target to be a "beyond net-zero carbon" energy company by 2045. As a shareholder and board member, BCI worked closely with PSE throughout 2020 to support this target and participated in the development of climate change policy in Washington State.

To learn more about Puget Sound Energy visit: www.pse.com

PORTFOLIO CARBON FOOTPRINT

In 2020, BCI expanded the methodology of its portfolio carbon footprinting to include private markets alongside most of fixed income and real estate, and public equities. BCI's carbon footprinting now covers all asset classes.

Carbon footprinting is an intensity measure of GHG emissions relative to the percentage of holdings. It is expressed in tonnes of CO_2e/$M invested. BCI's total carbon footprint includes direct emissions (all emissions generated by the activities of the organization) and indirect emissions (emissions generated from energy purchased and used by the organization).

BCI is committed to disclosing its carbon footprint annually in line with the Montreal Carbon Pledge, which mobilizes investors to measure, disclose and reduce portfolio carbon footprints. By measuring the carbon footprint annually, BCI can track changes in portfolio emissions, identify areas of climate-related risk and opportunity.

The table below shows the MPP specific carbon foot calculation by asset type:

Asset type	2020 Carbon footprint[1] (CO2e/$M)
Public Equities[2]	138
Fixed Income[3]	71
Real Estate[4]	8
Private Markets[5]	335

1) 2020 metrics have been derived from 2019 emissions data.

2) The public equities footprint has been calculated based on updated carbon and portfolio financial data and includes broader coverage of the portfolio compared to last year. The methodology continues to be refined and additional coverage will be added in future years. The 138 tonnes of CO2e per million invested as at December 31, 2020, is compared to the benchmark[3] intensity of 146 tCO2e/$M invested. The benchmark is a weighted combination of multiple indices selected to measure performance that is appropriate for the portfolio.

3) The fixed income carbon footprint includes public corporate bond exposures but excludes private debt, money market and segregated assets. The carbon footprint of 71 tonnes of CO2e per million invested as at December 31, 2020, is compared to the benchmark intensity of 70 tCO2e/$M invested.

4) QuadReal emissions reflect the location-based domestic real estate emissions rather than the market-based emissions which were reported previously. Renewable energy credits and verified emission reductions were acquired in the portfolio and will be disclosed in QuadReal reporting. The international portfolio emissions are currently excluded from the footprint. Emissions data is estimated based on roughly 80 per cent data completeness. By the fourth quarter, QuadReal will publish final carbon emissions numbers with higher data completeness, quality control and external assurance.

5) Private market footprints are calculated using a combination of estimation methodologies most appropriate for the asset types and data availability. The approach is consistent with the TCFD recommendations and current industry best practices but is limited in accuracy due to data gaps and methodology limitations. BCI is working to improve private market quantification techniques, and we expect that these results will change over time.

Closing Comments on Divestment Resolution

The 2020 resolution calls for "Re-examining Municipal Pension Plan Divestment" in light of globally changing investment and divestment strategies in relation to climate change. The objective of this chapter has been to share a transparent view of MPP's exposure to fossil fuel related investments and how this exposure has changed since the publication of the 2016 Primer.

The data shows the evolution of MPP's portfolio. Since 2015, MPP's portfolio has grown and evolved. The total AUM has grown approximately 53% to $66.427 billion, investment in private market assets has increased, and following the 2018 ALM review - changes to the strategic asset allocation have been completed. As of December 31, 2020, MPP's energy-related investments were approximately 2.2% of the total portfolio. Additionally, as reported in MPP's 2020 TCFD disclosure, the plan has exposure to $1.2 billion in climate-related opportunities. These include exposure to investments such as, green bonds, private market renewable energy assets, and exposure to companies that generate revenue that contribute to the UN's Sustainable Development Goals, as defined by the SDI-AOP classifications.

Importantly, since 2016, inline with increased climate action from global investors, BCI and MPP have also evolved their approach to ESG to advance leading practices and support active in-house management. Today, BCI integrates climate analysis in all investment decision-making, and monitors ESG key performance indicators throughout the life of the investment. This level of analysis allows BCI to understand the current exposure to climate risks in the portfolio, and monitor how the exposure to physical and transition climate change risks change as investment strategies and new investment decisions are considered. It also supports BCI in making more informed investment and policy decisions that will benefit its clients in the long term, as well as limit wealth erosion resulting from all forms of climate risk.

Through pursuing a strategy of 'voice over exit', BCI and MPP are also committed to proactive engagement and policy efforts to advance best practices in the capital markets. BCI advocates for climate action policies that will limit the rise in global average temperatures to below two degrees Celsius and participates in global initiatives on climate risk reporting and transparency. BCI also regularly meets with management teams and board directors to share their views and encourage the adoption of best climate practices, including setting targets. This active approach positions BCI and MPP to not only manage the risks of the transition to a lower carbon economy, but to capitalize on the opportunities the transition creates.

COMMITMENT TO ADVANCING CLIMATE-RELATED DISCLOSURE

The Task Force on Climate-related Financial Disclosures (TCFD) was created by the global Financial Stability Board to develop climate-related disclosures that will lead to a better understanding of the financial system's exposure to climate-related risks following the entry into force of the Paris Agreement in 2016. The recommendations of the Task Force on Climate-Related Financial Disclosure are widely recognized as the global standard for climate change disclosure.

As part of its commitment to climate action, the MPP board is disclosing climate-related financial information for the second consecutive year, building on its inaugural disclosures in the 2019 Annual Report.

In building on the MPP 2019 disclosure, the 2020 disclosure lays out key updates of MPP's actions and those of BCI as they relate to climate change. This disclosure also features relevant updates relating to the integration of climate consideration into BCI's asset management processes. The board is aligned with and supports the efforts of BCI to integrate climate change considerations throughout its investment analysis and stewardship activities.

Although the timing and extent of the effects of climate change are uncertain, the MPP board believes that actions to reduce GHG emissions through investor stewardship, the selection of assets and advocating for appropriate public policies directly and indirectly benefit the plan. The board is committed to understanding the issues, risks and opportunities posed by climate change to support informed investment decision making.

The board is starting by measuring and monitoring MPP investments. The board expects climate-related data to evolve as more information becomes available and MPP reporting will also evolve as better data becomes available. This disclosure is one way the board reports on climate-related risks and opportunities.

Please see the plan website to read the full disclosure at http://www.mpp.pensionsbc.ca/.

Taking Action on Climate Change

Climate change is one of the most significant social and economic risks the world faces today. The 2016 Primer set out a vision for an MPP Climate Action Plan that would change the thinking from "getting out" of investments to investing with a clear, forward looking plan. As an outcome, BCI created and released its Climate Action Plan in 2018. The action plan outlines four activities to manage the effects of climate change across the total portfolio. They are: manage risk, integrate, seek opportunities, and engage and advocate.

With the release of the action plan, BCI began incorporating ESG into the asset liability review process, and conducting climate change scenario analysis to identify macro-economic climate-related opportunities and risks that could impact clients' investment returns. Evaluating the potential impacts from systemic risks like climate change provides a critical lens to ensure investment strategy is informed by a holistic understanding of the most pressing global sustainability risks.

Following the momentum created with the action plan, in 2020 BCI introduced its ESG Strategy, which established a coordinated and consistent approach to ESG integration across the entire portfolio. Today BCI employs a robust ESG framework to identify, analyse and manage the risk and investment opportunities from climate change. BCI's investment strategy and focus on integrating ESG has allowed them to reduce the carbon exposure of the public equity program by 13% in 2020 relative to 2019. By 2025, the continued execution of this strategy is expected to further reduce the carbon exposure of the public equity program by 30%, using 2019 as a baseline.

BCI's action plan also supports proactive engagement and advocacy to encourage best practices in climate-related disclosure and strategy. Through direct engagement with companies, policy submissions and collaborations with likeminded peers, BCI uses its voice to influence change on a global scale.

The action plan and ESG strategy have helped position BCI and MPP to capitalize on investment opportunities from the long-term transition to a low carbon economy, while protecting the portfolio from undue physical and transition risks.

9. PRIMER SYNTHESIS

The 2016 Primer included the four 2016 conclusions (see side bar). These four points remain valid. The final call for a Climate Action Plan has made huge strides.

1. Trustees are Fiduciaries who must act in the best financial interests of the beneficiaries
2. The governance structure is not conducive to a directive on divestment
3. The investment management structure is not conducive to divestment by a single public sector pension plan
4. An avenue for UBCM members is to support, promote and advocate for continued MPBT and bcIMC action through Responsible Investing; including consideration of Environment, Social and Governance factors and the development by MPBT of a Climate Action Plan for the Municipal Pension Plan

The 2020 Resolution:

EB42 Re-Examining Municipal Pension Plan Divestment Vancouver

Whereas since 2016, when the UBCM report, Primer on Fossil Fuel Divestment and the Municipal Pension Plan noted that "Divestment may compromise our investment strategy, increase risks and costs, and negatively affect our clients' investment returns", there have been major shifts in global climate science and investment strategies;

And whereas evidence is growing that fossil fuel-free funds are outperforming fossil fuel investments. The 2019 return on the BC Government Employees Union's fossil fuel-free investments, for example, was 21.7 percent:

Therefore, be it resolved that UBCM re-examine and update its 2016 Primer on Fossil Fuel Divestment and the Municipal Pension Plan report in light of globally changing investment and divestment strategies and inform BC Investment Management Corporation, as the provider of investment management services for BC's Municipal Pension Plan, of the concerns regarding the growing financial risks related to investing in fossil fuels and its support for a plan, built on leading practices related to fossil fuel-free investment portfolios, to fully divest Municipal Pension Plan funds from fossil fuels.

The 2021 Primer's objectives are to update and elevate the background on the MPP, plan governance, service providers, responsible investing and divesting. The content is richer and more evocative of the values of UBCM, MPP, BCI and pension partners. Chapter 8 deals with Fossil Fuels and BCI's 2021 response is equally rich and a deeper financial reporting.

The Primer's goal is to provide the information for delegates to evaluate and vote on the Primer [Note delegates are not voting on the resolution. That was done in 2020 and it was endorsed. Delegates will be voting on accepting the policy paper].

UBCM, after consultation with its advisors, is confident that the Primer addresses the matters raised in the resolution and is complete for presentation to the membership.

New and Renewed Opportunities

Renewed Opportunities

1. An outcome of the 2016 Primer was a challenge for BCI to adopt a Climate Action Plan. This plan was in place by 2018. UBCM understands there is a similar opportunity available today starting with a suggestion to BCI to update the Climate Action Plan.

2. UBCM support, promote and advocate for continued MPP board and BCI action through Responsible Investing, including ongoing consideration of Environment, Social and Governance factors.

New Opportunities

3. Boards, including MPP, need to consider if a high carbon emitting company is in their Plan's best financial interests.

   We recommend MPP and BCI accept the challenge to explore how this would be operationalized. We acknowledge this may involve a significant change to the role of the Municipal Pension Board of Trustees and the role of BCI. This will certainly require pioneering work to scope the options, determine a set of implementation parameters, and define new monitoring and reporting requirements. However, UBCM also notes that this model could offer a solution to the impediments identified on points 2 and 3 on the first page of this Chapter. It offers site-specific company solutions. It is an alternative where one-size doesn't fit all situations.

4. There is a commitment by the MPP to explore the "Net Zero" concept and its applicability. Net Zero is a target of completely negating the amount of greenhouse gases produced by reducing emissions, implementing technologies to absorb carbon dioxide before it is released into the atmosphere or off-setting emissions."

   The federal government and the City of Vancouver have already made net-zero-by-2050 commitments, and British Columbia has announced plans to move forward with provincial net-zero-by-2050 legislation.

Recent Net-Zero Announcement By the Cooperators – An Example

We are announcing *net-zero emission targets for both our operations and our investments. This is a reflection of our continued journey to catalyze a more sustainable, resilient and low-emissions society.*

Milestones our journey to net-zero emissions future include:

- *2026: Reduce the emissions of our investments by 20% (public equities and publicly-traded corporate bond portfolios)*
- *2030: Reduce emissions of our operations by 45%*
- *2040: Emissions of our operations will be net-zero*
- *2050: Our investment portfolio will be net-zero*

In addition, by 2030: we will invest 60% of our total invested assets in either impact investments or investments that support the transition to a sustainable, resilient, low-emissions society.

We suggest BCI join with the MPP to explore a Net-Zero commitment.

The Primer earlier introduced the participation of MPP and BCI in Climate Action 100+.

The Climate Action 100+ initiative developed the Net-Zero Company Benchmark. It is designed to clarify specific disclosures and targets for companies and be a useful tool for investors to assess and compare company performance. Disclosure indicators include:

- Net-zero by 2050 ambition
- Targets and goals for GHG emissions reduction in the short, medium, and long term and whether targets align with 1.5 degrees Celsius climate scenario
- Decarbonization strategy
- Capital allocation alignment
- Climate policy engagement
- Governance, including executive remuneration linked to climate targets
- Just transition (impacts on workers and communities)
- TCFD reporting, including scenario analysis

While considering the Net-Zero for MPP and BCI activities the indicators could also be considered to apply to internal organizational performance management of MPP and BCI.

5. Finally, we ask the MPP board and BCI to consider if holding high carbon emitting industries in the portfolio is in the MPP's best financial interests. (see also #3 for similar rational)

In conclusion, we would encourage UBCM members to support these five initiatives:

1) Update the Climate Action Plan.

2) Continued MPP board and BCI action through Responsible Investing, including ongoing consideration of Environment, Social and Governance factors.

3) MPP and BCI consider if holding a high carbon emitting **company** is in MPP's best interests.

4) BCI join with the MPP to explore a Net-Zero commitment and consider applying Net-Zero Indicators to internal organizational performance management of MPP and BCI.

5) MPP and BCI consider if holding a high carbon emitting **industry** is in MPP's best financial interests.