

Local Government Financial Review Working Group August 2024 Interim Report

In January 2022, a Memorandum of Understanding (MOU) on Local Government Financial Resiliency was signed by the Province and the Union of BC Municipalities (UBCM). The parties to the MOU agreed to engage through a meaningful working relationship in order to meet the respective interests of strengthening the local government finance system.

Progress under the MOU is being made through a local government financial review working group (the Working Group) made up of staff from the Province and UBCM. The group is currently reviewing the local government finance system in BC analyzing the recommendations in the UBCM report and discussing matters of mutual interest.

The Working Group is tasked with developing a shared understanding of the issues raised and recommendations contained within UBCM's 2021 report, [*Ensuring Local Government Financial Resiliency ~ Today's Recovery and Tomorrow's New Economy*](#) ("the Report"). Based on the shared understanding, the Working Group identifies any further work needed. The Report includes 20 recommendations (see Appendix A: Recommendations) that:

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

The Working Group is comprised of seven staff level members from the Province and five staff level members from UBCM; it is co-chaired by one representative from UBCM and one from the Province. The Working Group is also supported by a UBCM Finance Technical Review Committee comprised of senior-level staff representatives from local governments around the province, who offer on-the-ground experience and perspectives.

The Working Group has met monthly from May 2022 through March 2023 and is now meeting biweekly to address its scope of work within its three-year work plan. In addition to the regular Working Group meetings, there have been subgroups focused on assigned topics, for example to develop and report on metrics for monitoring impacts on local government finance from the New Economy. Since the 2021 report was released, the Province has taken significant actions relating to some of the recommendations.

The Working Group meets with the Minister of Finance, Minister of Municipal Affairs and the UBCM Presidents Committee (the Principals Group) to update the elected officials on the work plan and to seek direction.

Working Group Activities, August 2023 to July 2024

2023 UBCM Convention (September)

The Working Group made a series of short presentations in various sessions during the 2023 UBCM Convention, instead of having a stand-alone update session. The purpose was to provide greater exposure to UBCM members of the work being done by the Working Group. Presentations provided a general overview of the MOU and Working Group, and specific work that was related to the topic of the various conference sessions. These included:

- Building Homes, Building Communities – Study Session;
- Modernizing Emergency Management Regulations – Provincial Policy Session;
- Policing and Public Safety Modernization Initiative Overview – Provincial Policy Session;
- Staying Cybersecure in a Modern, Digital Organization – Provincial Policy Session; and
- Natural Asset Management: Building on Momentum – Workshop

Fall 2023 Work Plan

For the remainder of the calendar year, the Working Group focused on direction provided by the Principals Group at the briefing on July 20, 2023. Work was driven by the problem statement endorsed at the briefing, and identified possible approaches to explore:

Property tax is useful and important as an own-source revenue tool, but local governments report difficulty raising enough revenue from property taxes, particularly regarding infrastructure capital costs and select service delivery costs driven by senior government regulations and environmental factors.

Possible Approaches to Explore:

- A. Tools to mitigate potential PT regressivity
- B. Adjustment of provincial/local shares of PT
- C. Changes to structures or levels of senior government funding transfers
- D. Long-term financing tools (access, scope)
- E. Tools/resources to improve planning & coordination of large spending
- F. New non-property-based revenue tools

The 2023 Fall workplan included the following:

1. The Working Group reviewed an analysis of public local government financial data, sourced from the Local Government Data Entry (LGDE) system. (see *attached Analysis Summary*). The analysis included the following:
 - PT Growth in Relation to Provincial Economic Indicators;
 - Expenditure and Revenue Trends by Service Category;
 - Housing Values and Housing Wealth;
 - Census Household and Individual Income Growth;
 - Population Growth;
 - Service Charges/User Fee Revenue;
 - Development Finance; and
 - Borrowing.
2. Establishment of a Working Group sub-group to explore/analyze the possible approach of 'C. changes to structures or levels of senior government funding transfers.
3. Further exploration/analysis regarding the possible approach of 'D. long-term financing tools' included:
 - Meeting with Municipal Finance Authority to explore the current local government borrowing system, Environmental, Social, and Governance rules, assent-free limits, and borrowing periods;
 - A presentation from the Director of Finance, Local Government Division, Ministry of Municipal Affairs; and
 - Discussion with Provincial Treasury to understand the relationship between MFA/local government borrowing and its effect on the Province's borrowing.
4. Continued to monitor/assess the financial impacts of new provincial legislation/initiatives on local governments, specifically:
 - *Emergency & Disaster Management Act* (Ministry of Emergency Management and Climate Readiness);
 - Pre-hospital care collaborative (Ministry of Health);
 - Homelessness Performance Measurement Framework (Ministry of Housing);
 - Housing legislation (Ministry of Housing); and
 - *CleanBC* Strategy (Climate Action Secretariat – Ministry of Environment and Climate Change Strategy)

Principals Meeting – January 22, 2024

On January 22, 2024, the Working Group met with the Principals Group seeking input and confirmation on the work completed in Fall 2023, focused on the problem statement and possible approaches to explore.

Through discussions and further analysis in the Fall of 2023, the Working Group suggested areas for further collaborative action, supported by shared objectives and desired outcomes, focused on 3 of the 6 possible approaches to explore. These included:

- C. Changes to structures or levels of senior government funding transfers;
- D. Long-term financing tools (access, scope); and
- E. Tools/resources to improve planning & coordination of large spending.

The Principals Group endorsed the continuation of the work and direction presented by the Working Group.

2024 Work Plan

The Working Group continued to focus on the endorsed problem statement and the three possible approaches to explore.

1. Working Group sub-group on infrastructure funding work included:
 - Review and analysis of existing funding programs. The sub-group reviewed current and past programs based on their effectiveness to deliver on expected outcomes and administrative efficiency;
 - Presentation from UBCM on the structure and administration of the Canada Community Building Fund;
 - Aligned with shared objectives and cost-drivers identified in the 2021 UBCM Finance Report, reviewed and assessed infrastructure needs and priorities; and
 - Initial review of infrastructure gap/deficit based on data collected under the LGDE and UBCM Canada Community Building Fund (CCBF) Asset Management Survey.
2. The Working Group continued to review opportunities to improve local government financing/strategic borrowing.
 - Presentation from Ministry of Municipal Affairs on current borrowing system and opportunities to make improvements with respect to short-term borrowing and assent free borrowing.

In addition, the Working Group received presentations from the following (and continues to monitor);

- Municipal Growth Framework advocacy (Federation of Canadian Municipalities);
 - Review of the Climate Recommendations in the 2021 UBCM Finance Report, Climate Action Secretariat & UBCM Climate Committee (recommendations 14-20);
 - Climate Recommendations Gap Analysis (UBCM and Climate Action Secretariat; and
 - Pre-Hospital Care Collaborative (Ministry of Health)
3. Through the UBCM Finance Technical Review Committee, work is underway in developing local government case studies on the financial impacts of homelessness, mental health and addictions.
- Results will be shared with the Working Group and will be focused on local government efforts to address homelessness, and the financial implications of their work.
4. The Working Group, through UBCM and the Ministry of Municipal Affairs in a joint negotiation approach, entered into negotiations with the federal government to renew the Canada CCBF in January.
- On June 6, 2024, a renewed (2024-2034) CCBF Agreement was signed, providing BC local governments with reliable, long-term funding for the next 10 years.
 - Included in the Agreement will be new asset management commitments, ensuring local governments are managing their infrastructure sustainably.
5. The Working Group updated the New Economy¹ Metrics Dashboard (Appendix B). The Dashboard identified the following key findings:
- Potential shifts in the balance between residential and commercial or industrial property values are not yet showing in available data sets, although office vacancy rates are rising;
 - There is a clear shift in e-commerce and working-from-home indicators since the pandemic that could mean future softening in the retail and office sectors;
 - Strong economic performance in the province in the wake of pandemic recovery could be masking the extent of New Economy shifts; and
 - The impact of other economic shifts and global phenomena on local government finances are discernible: a gradual decline of traditional resource-based industries can be observed.

¹ "New Economy" is defined as the transition from a manufacturing-based economy to a service-based economy. It is being driven by new technology and innovations (e.g., online commerce) and concomitant socio-economic trends.

Principals Meeting – June 11, 2024

On June 11, 2024, the Working Group met with the Principals Group seeking input and further direction on the work completed to date supporting the shared problem statement and possible approaches.

Included in the meeting was an update on the New Economy Metrics Dashboard, outcomes from the CCBF renewal negotiations, as well as highlights from 2024 presentations. Also included was a discussion on the review of the MOU, which is identified as a requirement within 3 years of the signing of the MOU.

There was continued support of the current work by the Working Group and the continuation of the MOU; however, the final decision will be taken after the October election.

Looking Ahead: Upcoming Working Group Actions

Based on direction provided at the June 11, 2024, Principals Group meeting, the Working Group will:

1. Continue to build on the work already completed with respect to the problem statement and possible approaches to explore in order to come back to the Principals Group post-election, for consideration and additional direction;
2. Review the MOU and Working Group Terms of Reference and recommend any changes to be considered; and
3. Continue to implement the work plan as identified in the MOU which includes the review of the 20 recommendations identified within the 2021 UBCM Finance Report.

The Working Group will continue to meet biweekly, and have formed sub-groups for the following areas to further analyze:

- Climate Action – to further analyze the *CleanBC* strategy and assess provincial actions against the climate related recommendations within the UBCM 2021 Finance Report; and
- Local Government Infrastructure – Further analyze, through LGDE data, the current and future infrastructure gap/deficit for BC local governments. As part of this analysis, the Working Group will consider any issues with data quality and ways to possibly improve data and future reporting under LGDE.

Indicators of New Economy Shifts and Impact on Local Government

The "New Economy" is defined as the transition from a manufacturing-based economy to a service-based economy. It is being driven by new technology and innovations (e.g., online commerce) and concomitant socio-economic trends. These indicators will be used to observe whether and how these shifts are happening, and whether there are impacts on local government revenues and expenditures

Key Findings - April 2024

Significant shifts in the balance between residential and commercial or industrial property values are not yet showing in available data sets, although office vacancy rates are rising.

E-commerce and working-from-home indicators may be anticipatory of future softening in the retail and office sectors. There is a clear shift in these indicators since the pandemic.

Traditional resource-based industries are providing a lower share of economic support to local governments through property tax revenues.

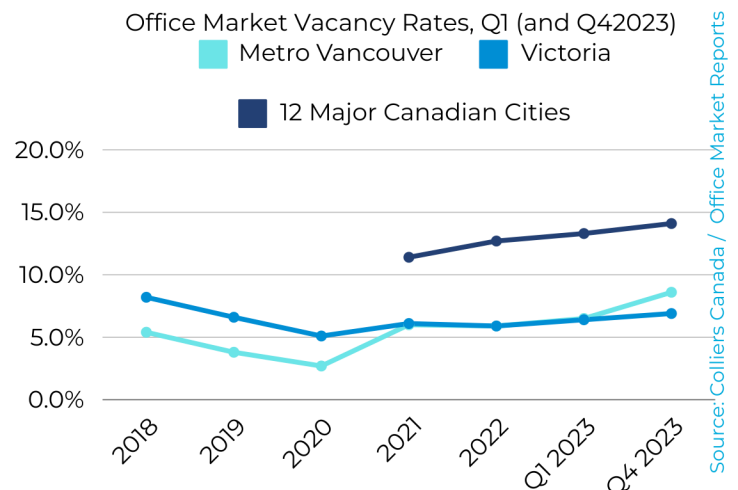
E-Commerce Sales as a Share of Retail Sales

E-commerce sales may drive a change in the demand for, and value of, commercial property, affecting property assessments and tax revenues.



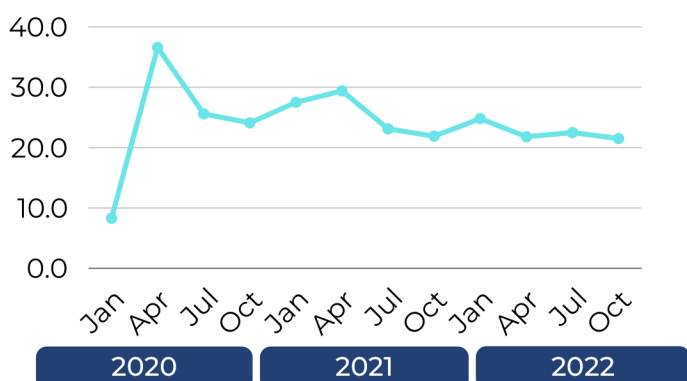
Vacant Office Space, Metro Vancouver and Victoria

Demand for office space affects the value of commercial property and the resulting tax revenue.



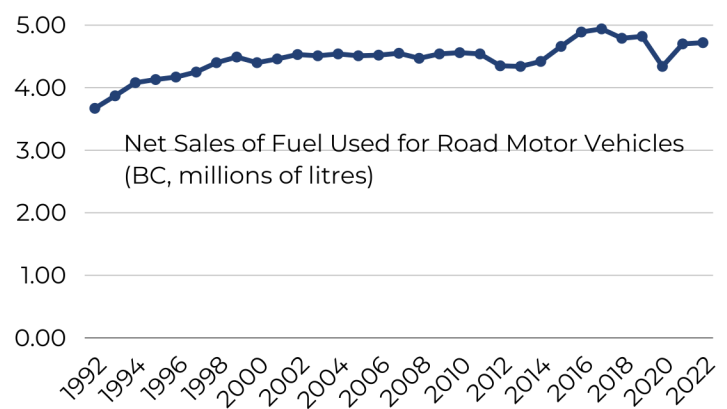
Working from Home: A Shift in Worksite Patterns

The percentage of British Columbians working most of their hours from home has tripled since before the pandemic. Remote working affects commercial property demand and shifts population distribution.



Motor Vehicle Fuel Sales: Limiting Fuel Tax Revenue?

Changes in fuel sales volume affects the fuel sales tax revenue that is available to local governments and TransLink to fund transportation infrastructure.

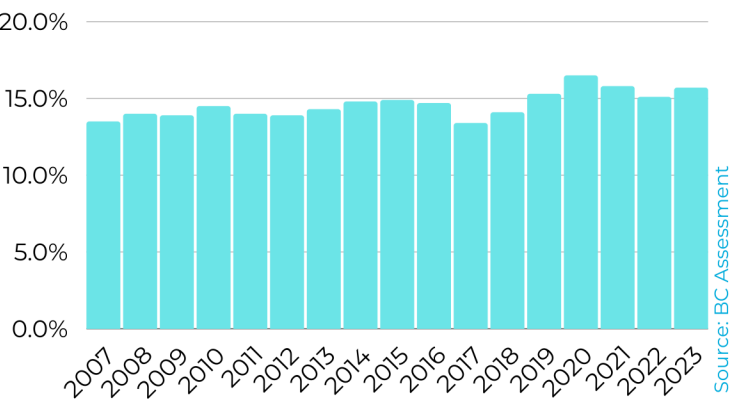


Measuring Local Government Impacts of New Economy Shifts

These indicators show how New Economy trends affect the property tax base and revenues. As property assessments may lag economic trends by a few years, the working group will monitor these data sets annually to watch for changes.

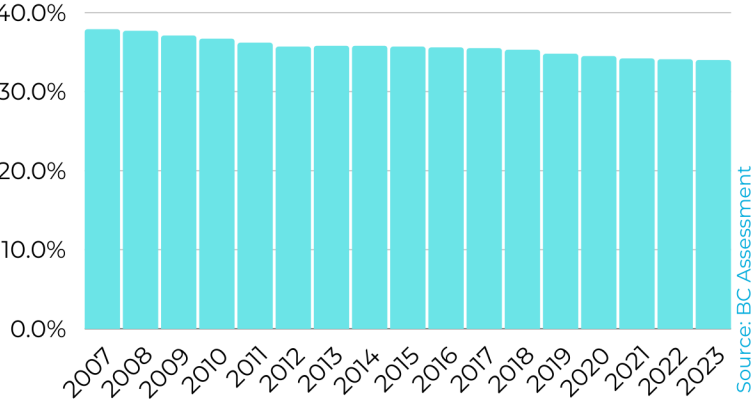
Business & Light Industry Assessment Values

Share of Class 5 & 6 from the total of Class 1, 5, & 6 values



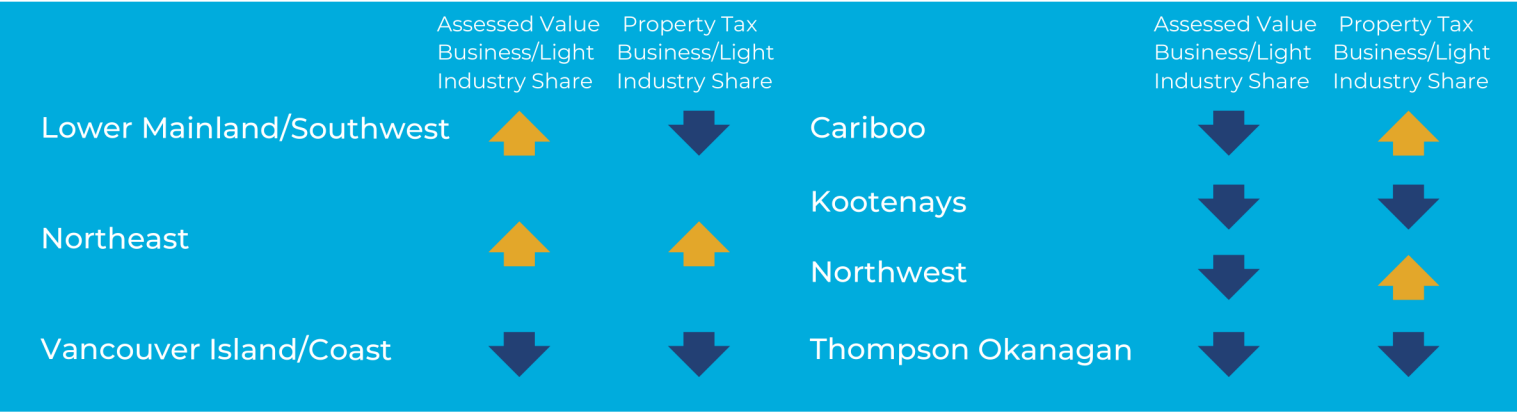
Property Tax Revenue from Business & Light Industry

Share of Class 5 & 6 from the total of Class 1, 5, & 6 revenues



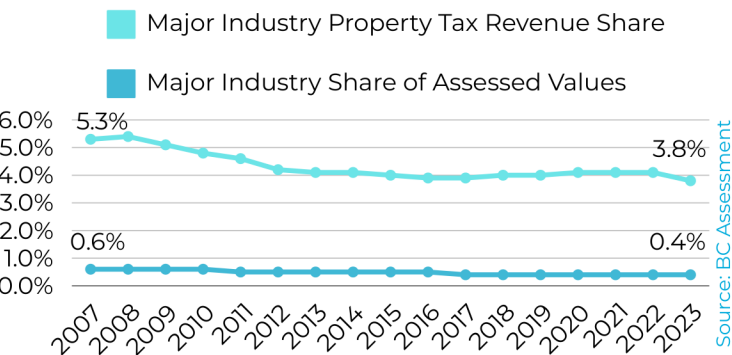
Assessed Value and Revenue Trends Vary Among Development Regions between 2007 and 2023

The significant weight of the Mainland/Southwest region skews the provincial totals. Most development regions saw a decline in business/light industry assessed values and variable changes in the share of property tax revenue from business/light industry vs. residential properties.

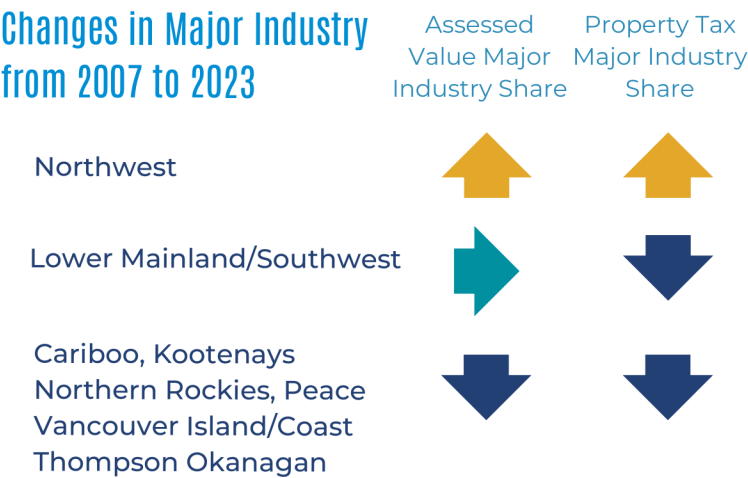


Major Industry Assessed Value and Property Tax

Major industry parcel total assessed values and property tax revenues have both declined since 2007, as a share of all property classes in B.C.



Changes in Major Industry from 2007 to 2023



Macroeconomic and Municipal Finance Data: Quantitative Analysis

The Provincial- Union of BC Municipalities (UBCM) Working Group on Local Government Finance has drawn upon a variety of quantitative analyses of local government financial data and macroeconomic indicators to inform its work. Quantitative work is considered alongside the qualitative knowledge and expertise offered by the Working Group members, Finance Technical Review Committee, and staff from UBCM, Ministry of Municipal Affairs, and Ministry of Finance. This report provides a summary of the data analyses that the Working Group has considered during its deliberations.

Macroeconomic Indicators

Population Growth

The number of individuals residing in BC municipalities increased 9.4% between Census 2016 and Census 2021, from 3.319 to 3.632 million. The number of households in BC municipalities increased 8.6%, from 1.669 to 1.812 million. 90% of BC municipalities saw an increase in their Census population. Significant population growth has also occurred since the 2021 census.

Census Household and Individual Income Growth

Total personal income of taxpayers that resided in BC municipalities increased 31% between Census 2016 and Census 2021. Between Census 2016 and Census 2021 an increase in total income occurred in 96% of municipalities. The increase in total income was faster than the rate of inflation for 88% of municipalities. Median income increased in every municipality, except Northern Rockies Regional Municipality where it fell by 1.9 percent, between Census 2016 and Census 2021. Median incomes increased faster than inflation in 91% of municipalities.

Housing Values and Housing Wealth

The total value of all BC real estate in 2024 is \$2.79 trillion. This is a 132% increase from 2015 when it was \$1.2 trillion. Approximately 80 percent of real estate value in BC is residential.

Increases in the Lower Mainland and on Vancouver Island were slightly higher than the Southern Interior, and increases in the North Central region were much lower, at only 66%. Most of the province's real estate wealth is in the Lower Mainland and on Vancouver Island. About \$355 billion in new construction was added in the past ten years, assessed at 2024 values. Therefore, approximately \$1.26 trillion in value in BC real estate has been generated through pricing increases in the past ten years.

A survey of mortgage professionals indicates that Canadians average about 73% equity in their homes¹; this suggests there is about \$1.63 trillion in residential homeowner equity in British Columbia.

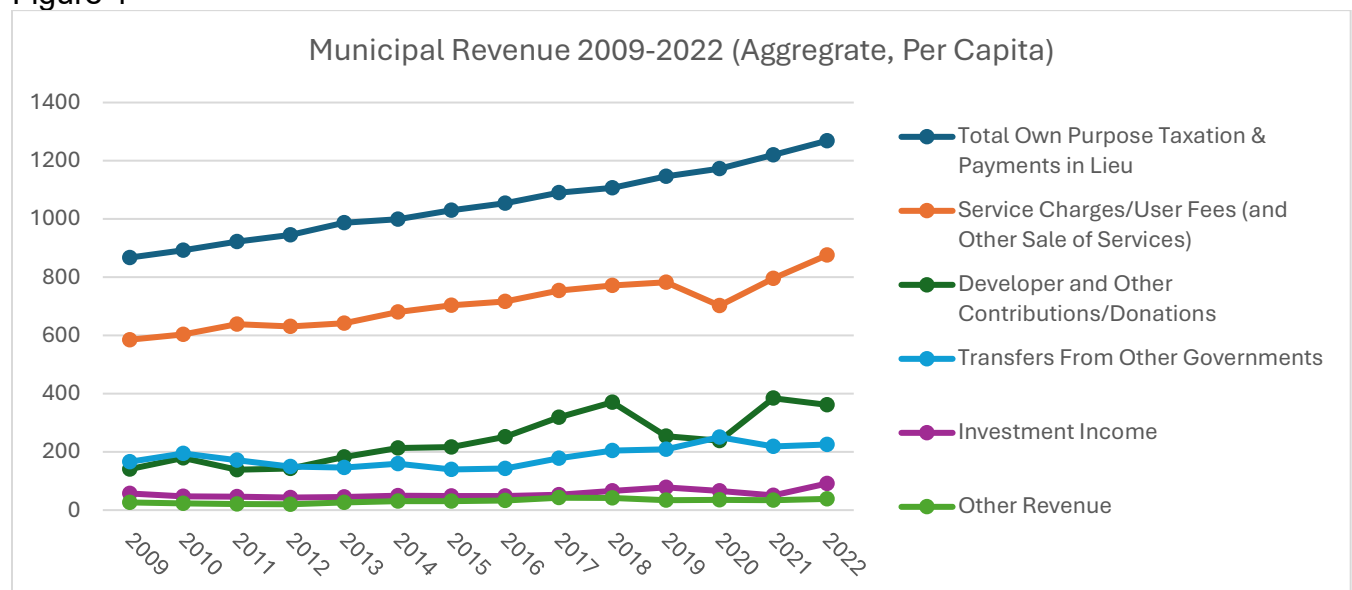
Municipal Revenues and Expenditures

This work on the analysis of data from the Local Government Information System focuses primarily on municipalities. Regional district data were also considered, but the variation in size and service types between regional districts make comparisons more complex, so regional districts are not represented in the exhibits below. The Working Group will be doing additional analysis into local government financial data including regional districts, with specific focus on infrastructure.

Trends in Municipal Revenue Sources

The two largest municipal revenue sources, Own Purpose Taxation and Service Charges accounted for nearly two-thirds of revenue growth between 2009 and 2022. Developer Contributions was by far the fastest growing category, increasing by 158% since 2009. This growth demonstrates increasing development activity and increasing use of development finance tools, although the revenue raised is lower than taxation and service charges and is concentrated in the larger municipalities in urban regions.

Figure 1



*Nominal. Source: B.C. Government Local Government Information System. Accurate as of December 2023.

¹ Source: Annual State of the Residential Mortgage Market in Canada, Mortgage Professionals Canada, December 2020 (Published March 2021).

Table 1

Revenue Growth 2009-2022 (Aggregate, Per Capita)		
Category	% Increase	\$ Increase
Total Own Purpose Taxation & Payments in Lieu	46%	401.21
Service Charges/User Fees (and Other Sale of Services)	50%	290.27
Developer and Other Contributions/Donations	158%	221.59
Transfers From Other Governments	35%	58.94
Investment Income	58%	33.60
Other Revenue	45%	11.90

Revenue growth differs greatly between municipalities. Table 2 shows the range of municipal revenue growth by category.

Table 2

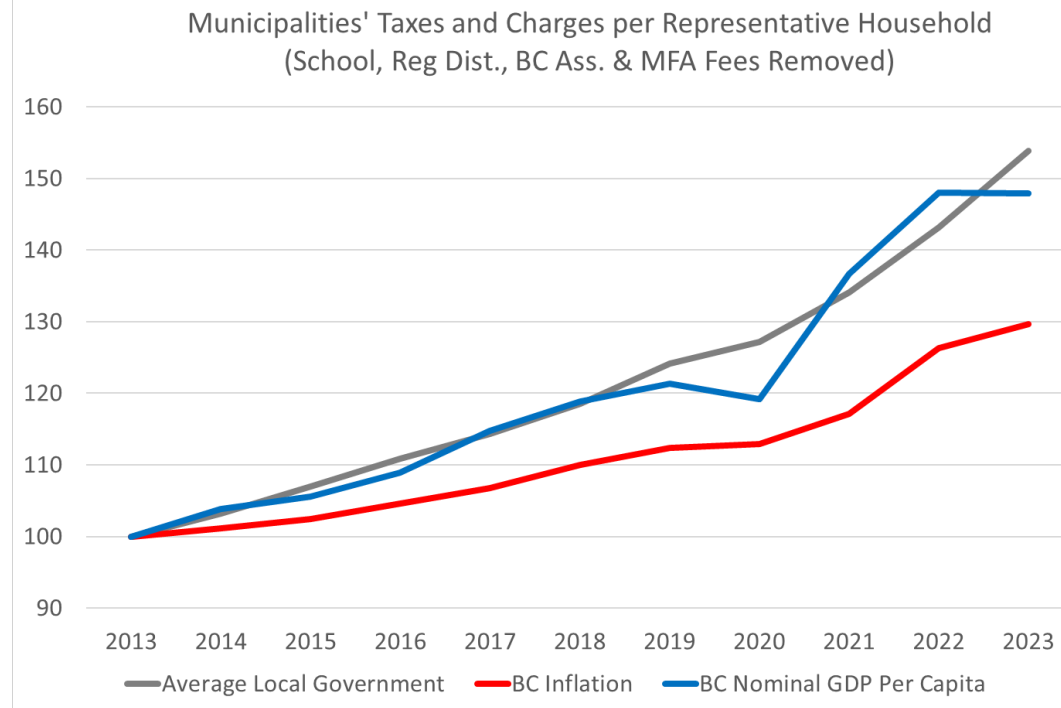
Revenue % Increase, 2009 – 2022 (Range, Per Capita)			
Category	25th Percentile	50th Percentile (Median)	75th Percentile
Total Own Purpose Taxation & Payments in Lieu	37%	51%	72%
Service Charges/User Fees (and Other Sale of Services)	38%	64%	95%
Developer and Other Contributions/Donations	-89%	-19%	111%
Transfers From Other Governments	-22%	15%	68%
Investment Income	56%	211%	534%
Other Revenue	-100%	-100%	0%

Property Tax Growth in Relation to Provincial Economic Indicators

Figure 2 compares the growth over time in municipalities' taxes and charges on a representative household (single-detached) with the growth over time in inflation (Consumer Price Index) and nominal BC GDP per capita. Each data series has been indexed with a value of 100 at 2013.

As of 2023, 52% of municipalities' taxes and charges have kept pace with or exceeded the rate of growth in nominal GDP per capita since 2013. 35% of municipalities had rates of growth that exceeded inflation but did not keep pace with nominal GDP per capita. In 13% of municipalities, the taxes and charges on a representative household grew slower than inflation.

Figure 2



Service Charges / User Fee Revenue

BC's 161 municipalities raised a total of \$4.1 billion in 2022 through service charges and user fees for categories including water, sewer, garbage/recycling, parks/recreation/culture, and transportation.

Within the water, sewer, and garbage/recycling categories, there is growing recognition of the benefits of achieving a high ratio of cost recovery. For the three categories combined, BC's municipalities spent \$2.00 billion in 2022 and raised \$2.12 billion through service charges and fees. Surplus revenues go into reserve funds. However, this represents the provincial aggregate; not all individual municipalities achieve full cost recovery. About half of municipalities (84 of 161) collect less revenue from service charges than their expenditures in water, sewer, and garbage/recycling, making up the difference from other revenue sources. The total difference between service charges and costs for these municipalities was \$84 million in 2022.

Development Finance

In 2022, out of 161 municipalities, 57 reported revenues from development cost charges (DCCs), raising a combined total of \$397 million. Fewer municipalities reported developer asset donations (36 municipalities, \$215.7 million) or developer contributions of other types (53 municipalities, \$1.08 billion). Non-developer contributions were

reported in 48 municipalities (\$26.9 million). In total, there was \$1.7 billion in developer and other contributions in 2022.

The Province made changes in legislation for development cost charges and other types of development finance tools in 2023. These changes, along with shifts in economic conditions, are expected to be reflected in development revenues in 2024 and later years.

Borrowing

Municipal borrowing is regulated by the Community Charter and the Municipal Liabilities Regulation. The amount of liabilities a municipality can incur is based on how much of its eligible revenue would have to be devoted to debt servicing of various types. Most municipalities spend less than 3% of their revenues servicing their debts. Only eight municipalities spend more than 7% of their revenues servicing their debts.

As of December 2022, which is the most recent data available at this time, 99 of 161 BC municipalities are borrowing less than 30% of their potential capacity and only 11 municipalities have borrowed more than 50% of their potential capacity. In the aggregate, if BC municipalities were to make full use of all debt servicing capacity, an additional \$20 billion could be borrowed, resulting in an additional \$2.3 billion per year in debt servicing costs. There is no expectation for municipalities to 'max out' their borrowing capacity and indeed it is preferable to use borrowing carefully, as a strategic tool as part of a long-term financial plan.

From 2016 to 2022, debt payments to principal and interest by all municipalities decreased from \$329 million to \$276 million. This reflects lower costs of borrowing and may also indicate that municipalities have been retiring older debts in anticipation of future borrowing needs.

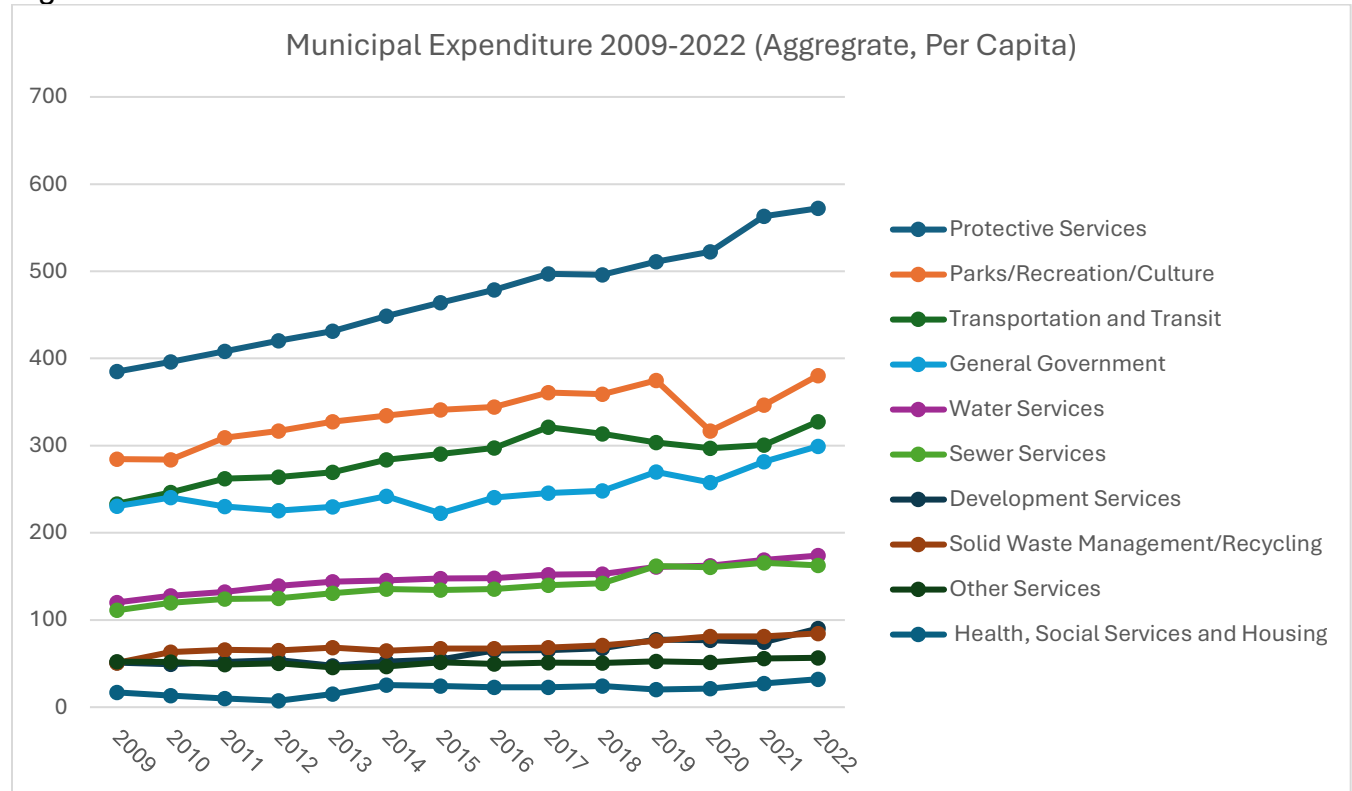
Municipal Expenditures

Figure 3 shows the aggregate per capita growth for municipal expenditure categories between 2009 and 2022, excluding capital projects funded from reserves. Table 3 shows the per capita percentage and dollar increase over the same period. Health/Social Services/Housing and Development Services have seen the highest percentage growth; however, both still make up a very small proportion of municipal spending overall. Additionally, the Health/Social Services/Housing category is heavily concentrated in a handful of larger municipalities, with only 62 of 161 municipalities reporting any expenditure in that category in 2022.

Protective Services (Policing, Fire, Bylaw) has been by far the largest contributor to expenditure growth, accounting for nearly a third of the cost increase. This is due to its

relatively high growth rate compared to other historically large areas of spending, such as Parks/Recreation/Culture and Transportation and Transit.

Figure 3



* Nominal. Includes Operations, Interest/Foreign Exchange on Debt, and Amortization. Source: B.C. Government Local Government Information System. Accurate as of December 2023.

Table 3

Expenditure Growth 2009-2022 (Aggregate, Per Capita)		
Category	% Increase	\$ Increase
Protective Services	49%	187.24
Parks/Recreation/Culture	34%	95.95
Transportation and Transit	40%	94.33
General Government	30%	68.70
Water Services	45%	53.70
Sewer Services	47%	51.72
Development Services	76%	39.06
Solid Waste Management/Recycling	66%	33.81
Other Services	8%	4.34
Health, Social Services and Housing	90%	15.24

Table 4 shows the range of municipal expenditure growth by category (25th, 50th, and 75th percentiles). The wide range of growth for many of the categories demonstrates how different BC municipalities' fiscal situations are.

Protective Services and Water Services both experienced decent growths, even at the lower end of the range. The median growth rate for Health Social Services and Housing has been much lower than the rate observed in the provincial aggregate. This is due to the fact spending in that category increased in only 43 municipalities.

Table 4

Expenditure % Increase, 2009 – 2022 (Range, Per Capita)			
Category	25 th Percentile	50 th Percentile (Median)	75 th Percentile
Protective Services	37%	55%	95%
Parks/Recreation/Culture	14%	38%	88%
Transportation and Transit	19%	43%	74%
General Government	16%	52%	90%
Water Services	32%	50%	88%
Sewer Services	22%	48%	83%
Development Services	0%	62%	142%
Solid Waste Management/Recycling	10%	47%	89%
Other Services	-100%	-32%	52%
Health, Social Services and Housing	-100%	-17%	55%