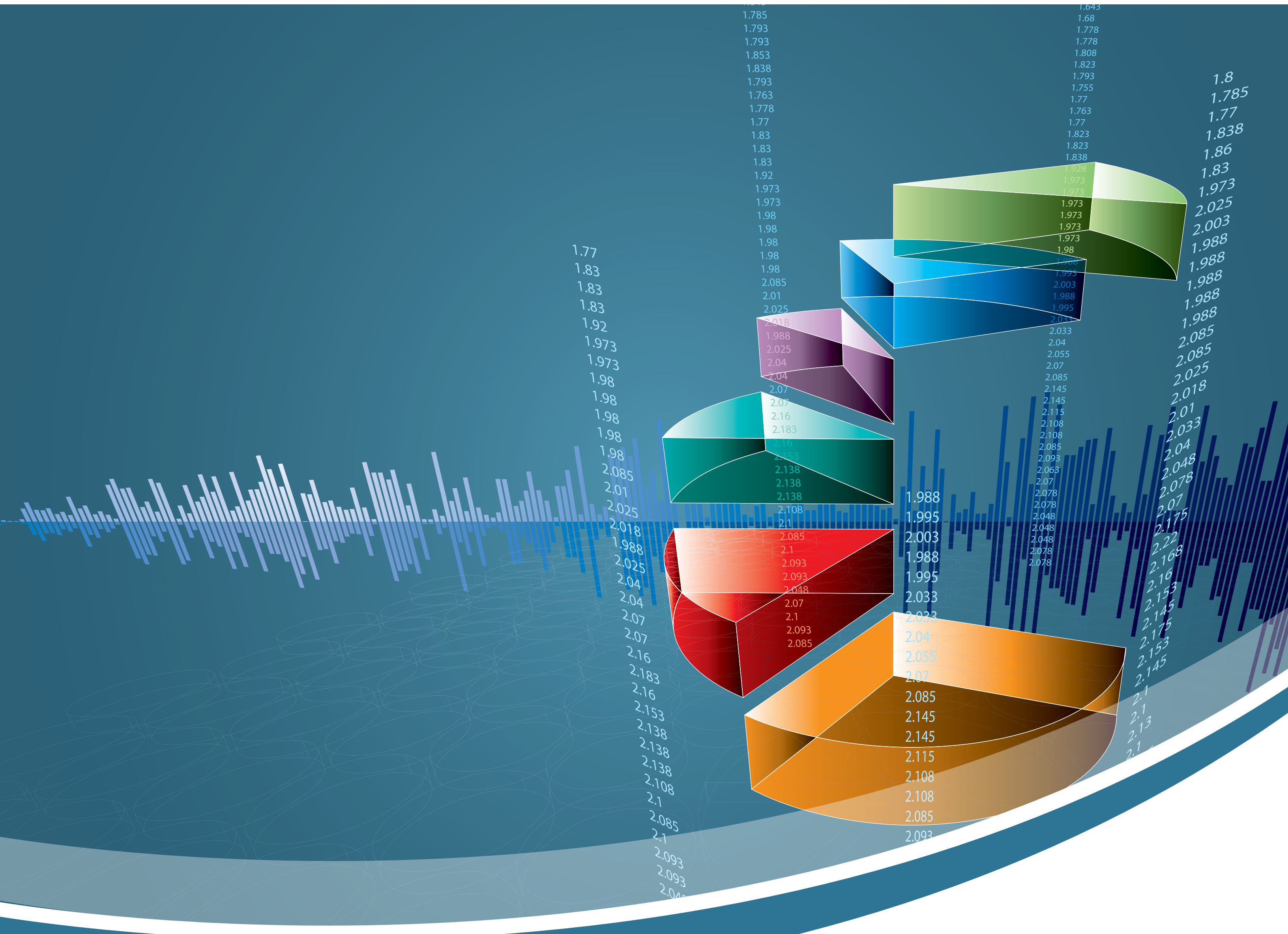
Strong Fiscal Futures

A Blueprint for Strengthening BC Local Governments' Finance System



Select Committee on
Local Government Finance
July 2013

UBCM
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Photo Credit: Picture BC

INTRODUCTION

MESSAGE FROM THE COMMITTEE TO THE UBCM EXECUTIVE

We wish to thank the UBCM Executive for its leadership and vision as it defined the scope for the Committee. That vision gave us an opportunity to evaluate the local government finance system and find some practical approaches aimed at strengthening it.

We see these approaches as forming a blueprint for reform of that system over the coming decade. Further, we trust that if the report is endorsed by the membership it will guide both inter-governmental discussions between UBCM and the provincial government, and a dialogue with a wider community of interest, including citizens and the business community.

Many of the demands on the local government system in terms of required infrastructure and services have already been determined – in large measure by the federal and provincial governments. They will have to be paid for one way or the other. The issue is whether we can improve the way they are financed through smarter expenditures and fairer more economically responsive revenue tools.

If implemented, this approach can result in a gradual move towards a reduced local government reliance on property tax, creating both a fairer and more responsive tax system.

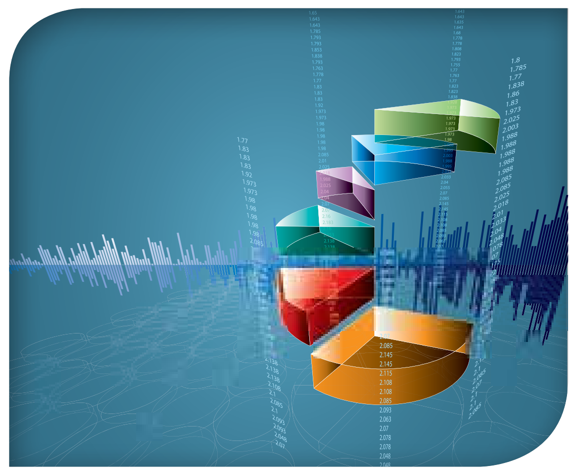
These revenue changes will be most effective if they are implemented in tandem with support to local governments as they work to manage expenditures in an environment where they are experiencing increasing pressure to provide more services at lower cost. We believe that implementing changes on both sides of the revenue/expenditure equation at the same time will enhance the effect of each.

This approach will require UBCM dialogue and negotiations with the provincial government. In order to set a positive framework for those discussions we have provided both a focused, flexible agenda for change and principles to govern key components of future dialogue. We have also established high level revenue targets of an additional $200 million per year within 5 years and $500 million per year within 10 years, which we believe are consistent with a local government goal of eliminating the infrastructure deficit within 20 years while maintaining the lowest property tax and debt levels within Canada.

By delivery of this report, we have fulfilled our mandate – but there is still much work to be done. Following what we trust will be a positive dialogue with the Province about new revenue sources, UBCM can lead development of formulas and approaches to distribute those revenues in ways that make sense to local governments.

While sustained effort will be required, we believe that this effort will lead to a local government finance system that will be both fairer and more sustainable.

UBCM can also lead discussions amongst local governments, the Province, and the business community as it builds a "made in local government" approach to supporting the system that, while maintaining local autonomy, provides critical information to local decision makers, and changes the nature of the dialogue on local government finance. And lastly, the UBCM can engage in an ongoing dialogue with the Province to better manage shared servicing, such as policing, and to ensure that provincial regulations imposed on local governments provide value for money.



We appreciate the opportunity to provide the blueprint for that reform.

Chair Al Richmond, Cariboo Regional District (co-chair)

Mayor Greg Moore, City of Port Coquitlam, and Chair, Metro Vancouver Regional District (co-chair)

Mayor Frank Leonard, District of Saanich

Carol Mason, Chief Administrative Officer, Metro Vancouver Regional District

Mayor Taylor Bachrach, Town of Smithers

Paul Macklem, Deputy City Manager, City of Kelowna

Photo Credit: Picture BC

EXECUTIVE SUMMARY

The purpose of this report is to set out a realistic, practical agenda for reforming British Columbia's system of local government finance.

The British Columbia system of local finance has much strength:

- Per capita costs are among the lowest in the country and have remained reasonably stable (as a % of GDP) for a decade;
- Residential property taxes are the lowest in Canada; and,
- Business taxes have been reduced, as a share of overall local revenue.

The local government finance system also faces some serious challenges:

- It is heavily reliant on the property tax, which neither grows with the economy nor distributes costs fairly;
- Infrastructure upgrades, required by the federal and provincial governments, will cost billions over the next 10-15 years. These will force property taxes up and to levels where the weaknesses of the property tax system will make the cost unacceptable for many British Columbians; and,
- Levels of provincial support do not provide a mechanism with which to counteract the sluggishness of the property tax with respect to economic change and growth.

UBCM understands that money is tight at all levels of government and there is no shortage of expenditure pressures. As a result the 5 key directions in the following agenda for change are designed to make sense not only to local governments but also to other governments and most importantly to taxpayers.

Photo Credit: Picture BC

AGENDA FOR CHANGE

1. Resiliency

Improve the resiliency of the existing local government finance system by maintaining and building on its strongest features. This includes the following:

- Renew the gas tax agreement with the federal government;
- Achieve a new funded 3 way infrastructure agreement with Canada and British Columbia that includes 1/3 funding from each of the federal, provincial and local governments, and that includes major infrastructure component funding for local government projects;
- Define Traffic Fines as a local revenue source so as to remove payments from provincial government books (no longer a grant);
- Renew provincial government commitment to small community grants;
- Renew and improve flexibility of provincial government commitment to hotel tax sharing;
- Define the local share of property tax at a minimum of 65 per cent;
- Restore public control of TransLink with an appropriate and sufficient funding model;
- Retain Regional Trusts and achieve a new injection of funding; and
- Achieve greater flexibility in design of development cost charges including greater scope for use of funds for parkland development so that DCC's raised for parkland acquisition can be used for a broader array of related purposes.

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.

Improve the resiliency of the existing local government finance system by maintaining and building on its strongest features. This includes the following:

- Establish a UBCM/Provincial Management Committee at the elected official level to oversee consultation and delivery of shared mandates;
- Amend Liquid Waste, Solid Waste and Drinking Water Protection legislation to include financial management considerations and provincial sign-off of a financial commitment to substantial new infrastructure requirements before the requirements become binding and subject to enforcement;
- Negotiate an improved protocol with the provincial government to govern the provision of first response paramedical services; and
- Explore regional transportation authority agreements outside of Metro Vancouver, with interested regions, on the basis of increased responsibility for regional transportation in exchange for appropriate funding mechanisms for these systems.

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.

- This is designed to ensure that local governments receive a share of British Columbia's economic growth for investment in environmental and economic infrastructure and community building.
- The goal of this proposal is straightforward. Rather than trying to gain a share of an ever diminishing economic pie, local government should work with the provincial government to increase the size of the economy while at the same time gaining a greater share of the benefits of overall economic growth.
- There are two parts to the proposal. The first is an Infrastructure and Community Development Bank under which local government would receive a guaranteed share in improved provincial economic growth. The second is a local government driven plan to grow the economy.

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.

- A key issue to be addressed is the weakness of the property tax in both responding to economic growth and in fairly distributing responsibility for the cost of local government services. This could be done in a number of ways including both improving the property tax and/or sharing other taxes that balance some of the weaknesses in the property tax.
- Principles to govern UBCM engagement in the development of either new revenue options and/or a fairer property tax would be:
  - a. Improved responsiveness to economic growth;
  - b. A more progressive distribution of local taxes across income ranges;
  - c. A better fit between who benefits and who pays for local services;
  - d. Stability and predictability;
  - e. Fiscal relations that are consistent with local government's role as an autonomous order of government; and
  - f. Practical administrative arrangements.
- A fairer more responsive property tax could be developed through such things as: reducing the provincial share of property tax; broadening the property tax base to include public institutions and crown corporation property; including hydro transmission lines in the rural area tax base; and exploring means to empower local governments to provide low income property tax credits.
- Tax sharing is where a portion of an existing tax could be dedicated for local government use. This could take the form of either topping up an existing tax or occupying tax space vacated by the provincial government.

5. Excellence

Building the Local Government Partnership

- Create a made within local government process for developing best practice advisory services for local governments to build on those already provided through organizations such as the Local Government Leadership Academy.
- Components could include such things as:
  - defining meaningful business taxation indicators and benchmarks and entering into two way discussions with key business groups on business taxation options;
  - developing resource materials to support local finance and tax decision making, such as best practices guides;
  - developing innovative and collaborative mechanisms to achieve greater service efficiencies and economies, such as group purchasing; and
  - highlighting and building on excellence, including through highlighting UBCM Community Excellence Award winners.

The Plan and Initial Priorities

These five key directions represent a multi-year blueprint to strengthen the local government finance system in BC. If endorsed by the UBCM membership, it can form the basis of the dialogue that will be needed between local governments and the provincial government.

It is proposed that initial priorities would be to achieve greater resiliency, address cost drivers, and engage the provincial government on an agenda for economic growth and an agreement on the introduction of the Infrastructure and Community Development Bank.

THE COMMITTEE AND ITS MANDATE

The UBCM Executive established the UBCM Select Committee on Local Government Finance in 2012. This report was timed to allow the UBCM Executive to consider a Policy Paper for the 2013 UBCM Convention. The following excerpt from the Committee's Terms of Reference provides the essence of the task the Committee was given:

Authority to impose property taxes and user fees stem from an era where local governments delivered a narrow range of services, such as water, sewer and local roads. With a significant broadening of the types of services that local governments deliver there is a need to consider whether these traditional revenue sources align well with the broader suite of services, or whether there are better ways to finance some or all of these services.

The Committee's task was to consider whether local governments have the right revenue tools for the range of services they now deliver, and if not, to consider what changes are appropriate.

The Select Committee will explore the fit between this broader range of services and existing revenue tools available to local governments in the context of whether the revenue tools are sufficient and whether they support tax policy objectives such as ensuring that those that benefit from a service pay for it. In addition, the Select Committee will consider whether additional taxing authority or a change in inter-governmental transfers might better meet these objectives.

See Appendix 1 for the full Terms of Reference for the Committee.

Members of the Committee are:

- Mayor Greg Moore, City of Port Coquitlam, and Chair, Metro Vancouver Regional District (co-chair);
- Chair Al Richmond, Cariboo Regional District (co-chair);
- Mayor Frank Leonard, District of Saanich;
- Mayor Taylor Bachrach, Town of Smithers;
- Carol Mason, Chief Administrative Officer, Metro Vancouver Regional District; and
- Paul Macklem, Deputy City Manager, City of Kelowna.

Mayor Peter Fassbender of the City of Langley participated on the Committee until January 2013, at which time he took a leave of absence from the Committee as a result of his candidacy in the provincial election.

The Committee wishes to acknowledge the contribution of our consultant, Mr. Dale Wall. Mr. Wall's expertise was invaluable to us as we worked through the process and it greatly informed our thinking as we developed our final product.

WHAT WE DID

Given the breadth of its task, the Committee developed a work plan based on the following elements:

Evaluate the existing system

The Committee critically evaluated the strengths and challenges inherent in the existing system of local government finance in BC; in essence, what was working, what was not.

Compare with other jurisdictions

Other local government finance systems, and in particular, revenue tools within these systems, were compared against those available in BC.

Consider all available revenue options against evaluation criteria we developed

The Committee considered a full range of revenue options and evaluated any that showed potential in a BC context against criteria it considered particularly relevant.

Talk with local governments across the province

The Committee took to the road in April and May to ask local government leaders what they saw as the key financial issues facing their communities.

Develop a framework to identify key directions

Pulling together the analysis of potential revenue tools, the understanding of the current systems in BC and other jurisdictions, and the results of discussions with local government leaders allowed the Committee to develop a framework under which key directions could be identified.

Identify key directions

Finally, the Committee established a template for moving forward, through development of five key directions for change.

KEY DIRECTIONS:

- **RESILIENCY**
- **VALUE**
- **RESPONSIVENESS**
- **FAIRNESS**
- **EXCELLENCE**

Appendix 2 provides the Committee's Work Plan.

Photo Credit: Picture BC

WHAT WE FOUND

SYSTEM STRENGTHS

BC communities are consistently rated at the top on international surveys of livability and competitiveness

To name just a few of the many awards won by local governments in BC:

- Money Sense's 2013 "Canada's Best Places to Live" ranked Saanich 3rd in the mid-sized cities category, and 7th overall; that report's top performer for low property taxes went to Victoria, with property taxes on an average Victoria home representing just 1.55% of household income – the lowest in the country;
- Vancouver is 5th on the 2012 Mercer International Quality of Life Survey of 221 Cities and 9th on its Infrastructure Survey that same year;
- Vancouver ranks 2nd in terms of tax competitiveness in KPMG's ranking of 55 international cities in 2012 (Competitive Alternatives; Special Report: Focus on Tax);
- Gibsons won 1st place for communities under 20,000 in the 2009 LivCom Awards and Telkwa was selected as a 2012 silver award winner in the LivCom Socio Economic Section for its Community Sustainability and Resiliency Plan; the awards focus on the management of the local environment as well as improving the quality of life of individual citizens through the creation of livable communities, and are endorsed by the United Nations Environmental Programme.

BC local governments are efficient service providers

Low per capita spending

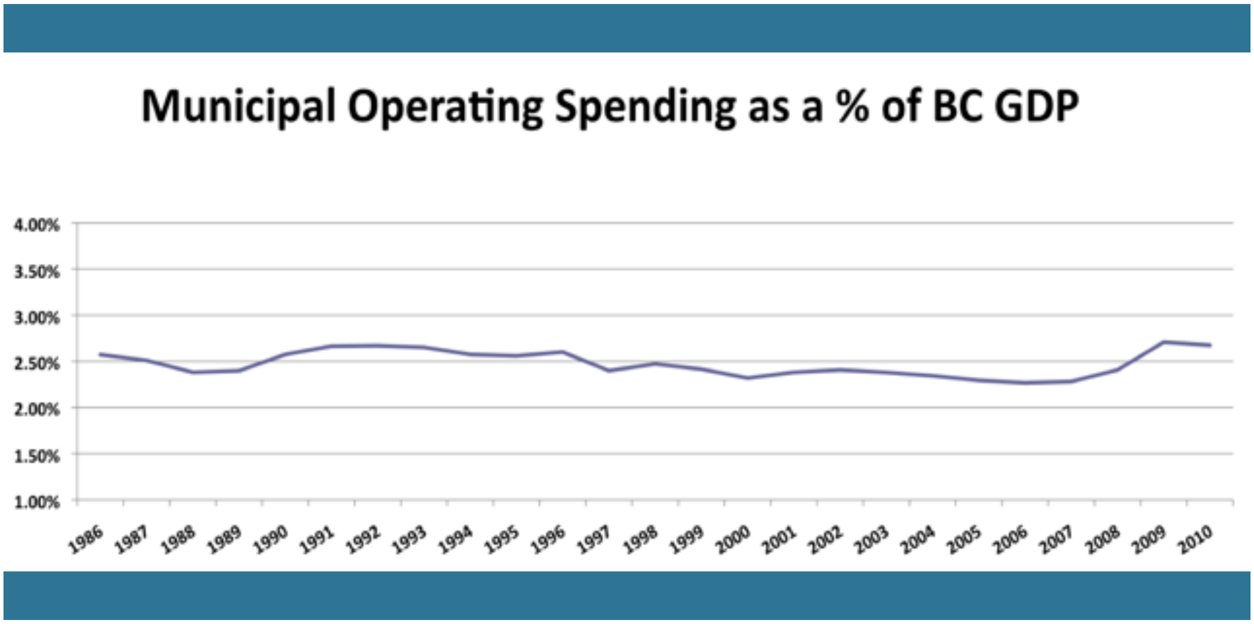
Per capita spending is near the lowest in Canada – not only overall – but also in most functional categories. The following table compares BC local government spending to other representative provinces for which data is available. (Source: Kitchen/Slack: Report for BC Expert Panel on Business Tax Competitiveness; May 2012)

Local Government Per Capita Spending-Selected Provinces (in $ per capita)

	BC	AB	MB	ON	QC	NS
General Government	196	336	189	133	226	230
Protection Services	386	454	353	477	345	354
Parks, Recreation and Culture	253	342	140	268	253	141
Environmental Management	585	626	342	462	585	296
Transportation	159	729	548	652	503	322
Health, Housing & Social Services	13	121	6	864	24	34
Total (differences due to rounding)	1591	2610	1578	2854	1937	1371

Spending as a percentage of GDP stable

Spending as a percent of GDP has remained stable for over a decade. At the same time per person spending has increased more rapidly than inflation. Much of the revenue for increased spending has come from user fees, suggesting both greater demand for services and a local government inclination to appropriately price services. All of this suggests that solutions need to involve both the revenue and expenditure sides of the local government finance equation.



Low per-capita property taxes

At $893, BC local government total per capita property taxes are among the lowest in Canada. They compare very well to Alberta ($1,325); Manitoba ($823); Ontario ($1,271); Quebec $1,565); and, Nova Scotia ($919). (Source: Kitchen/Slack: Report for BC Expert Panel on Business Tax Competitiveness; May 2012).

Reducing share of overall tax revenue from business

Business taxes have been reduced, as a share of overall local revenue. The following table is derived from local government statistics produced by the Ministry of Community, Sport and Cultural Development.

Distribution of Local Government Property Taxes Between Residential and Non-Residential Sectors – 1986-2011

Year	Residential Taxation	Non-Residential Taxation
1986	54.10%	45.90%
1991	52.50%	47.50%
1996	55.70%	44.30%
2001	56.00%	44.00%
2006	56.82%	43.18%
2011	59.69%	40.31%

Nearly 20 years of infrastructure programming has begun to have an impact on the infrastructure deficit

Innovative approach to debt financing

The Municipal Finance Authority (MFA) provides an innovative means of effectively securing debt finance – that is available to all local governments. It is one of the few systems of its kind and it is widely respected.

Manageable debt levels and low debt service costs

Debt service costs are managed though the competitive borrowing costs achieved through the MFA and debt levels are generally in good shape.

Provincial legislation and other system elements strong

High quality assessment system

The market value assessment system administered by BC Assessment provides credible, accurate assessments and is broadly acknowledged to be of very high quality.

Modern legislative framework

The overall legislative framework established by the *Community Charter* and the *Local Government Act* is modern, flexible and generally speaking provides appropriate authorities.

Nearly 20 years of infrastructure programming has begun to have an impact on the infrastructure deficit

Significant increases in federal and provincial investment in local government infrastructure, along with investments made by local governments themselves over the last 20 years has begun to have an impact of the infrastructure deficit. For example:

- Secondary sewage treatment at Annacis Island has helped to clean up the lower Fraser River;
- Drinking water quality has been improved through enhanced water treatment in many communities including Metro Vancouver (e.g.: Seymour Capilano, Coquitlam and Douglas Road), Victoria, Kelowna, Kamloops, Vernon, Port Hardy, Summerland, Telkwa and Oliver;
- Thousands of homes have had health issues associated with failing septic systems addressed through connections to sewer systems;
- Community and economic development has been stimulated through projects such as the Surrey City Centre Library, the Penticton Community Centre, New Westminister's Pier Park, Prince George's Boundary Road Connector and airport improvements in Nanaimo and Campbell River;
- Transit has been improved through rapid transit projects and bus purchases in Metro Vancouver and through projects such as Kelowna's Rapid Bus System; and
- Dozens of smaller rural water and sewer systems have seen substantial upgrades.

SYSTEM CHALLENGES

Substantial external cost drivers

The local government finance system contains substantial external cost drivers – that provide no shortage of examples of places where senior government decisions or decision-making structures drive local government costs.

For example policing salaries and professional standards are for the most part set independently of local government yet have substantial cost impacts.

There are many other examples. Many of these are in pursuit of legitimate public policy objectives – social housing partnerships, sewer and water regulation, arbitrated labour relation arrangements for essential services, and flood protection and mitigation – but all place costs on local governments that are not of their own making.

The consequences are that a very limited local revenue base is increasingly squeezed between its limitations and rising expectations. The solution is both to augment the revenue base and improve dialogue on shared mandates.

The system is heavily reliant on the property tax

On the revenue side, the system is heavily reliant on the property tax, which neither grows with the economy nor distributes costs fairly.

The property tax is unresponsive to economic growth

This means that the economic base from which local government is financed does not adequately reflect the BC economy. It also means that while overall local taxation of businesses has been declining, the distribution across businesses can be problematic.

The property tax cannot fairly distribute costs

It does not fairly distribute costs across income levels – and can be regressive, leaving low and middle income British Columbians to pay an unfair amount towards local services.

While local governments have authority to set tax rates under the variable tax rate system, their authority does not enable them to address these issues.

The cost of future infrastructure upgrades will be considerable

New and emerging federal wastewater regulations and provincial drinking water regulations will require significant upgrades to BC local government systems over the next decade or two – upgrades that are in addition to renewal, replacement and growth related facility upgrades.

Photo Credit: Squamish Lillooet Regional District

In BC, twelve wastewater systems were originally identified as not meeting the new federal wastewater regulations. These systems have marine discharges with no secondary treatment. Since then the Province has identified that there are additional systems, including systems with discharges to freshwater that do not meet the new federal wastewater regulations.

These upgrades will be in addition to other major infrastructure demands for BC communities, including significant transit infrastructure needs within Metro Vancouver and other urban centers on Vancouver Island and in the Okanagan, and major replacement, renewal and expansion needs for a range of transportation, recreation, cultural and administrative facilities in most areas of the province.

Photo Credit: Capital Regional District

As an example of the magnitude of infrastructure costs, the new federal law will require major upgrades to two Metro Vancouver sewage treatment facilities. Those upgrades will cost in the range of $2.5 billion, when considering costs related to compliance with this new regulation, as well costs related to replacement and growth.

Metro Vancouver estimates a cost of over $800 million to comply with federal and provincial regulation of drinking water, liquid waste and solid waste facilities over the next 10 years, and its infrastructure program for water, liquid and solid waste and parks over that period is in the range of $5.5 billion when considering all of replacement, growth and regulatory driven demand.

This region also faces the costs of future transit infrastructure. TransLink estimates the currently unfunded cost to keep the system in a state good repair and to keep pace with growth at $5 billion over the next 30 years. Additional costs for new projects to support regional objectives have been estimated by TransLink at as high as $18 billion over the same period.

The combined impact on debt and spending levels is not something that can be reasonably absorbed in the present system.

In Greater Victoria the costs of sewage treatment and transit will push up cost and debt levels. Even with federal and provincial commitments to pay 2/3 of the cost of sewage treatment upgrades, the region will face costs in excess of $280 million for these upgrades, and is expecting transit infrastructure costs over the next 10-20 years to top $1 billion.

The story is similar in many communities across BC. Within Nanaimo Regional District, two sewage treatment plants require upgrading to secondary treatment, as a result of federal and provincial regulations at an estimated cost of $89 million. A further $40 million will be needed for treatment plant extensions to serve a steadily growing population. Prince Rupert will face costs of $130 million for its wastewater system upgrades, Greater Kelowna's rapid bus project and transit operations centre are estimated to be at least $80 million, and many smaller communities are facing millions to bring their drinking water systems into compliance with new and emerging water treatment standards.

Difficult choices for many resource communities with declining industrial tax bases

In many resource communities the impact of a declining industrial tax base has placed them in a situation where there is nowhere to shift reductions in industrial taxes. Struggling small businesses, a smaller number of residents and increasing social issues mean without new resources these communities face a downward spiral.

A community that has seen continuing reductions in population and income from reduced industry activity and a gradual reduction in related production faces stark options to manage its own fiscal circumstances:

- It can reduce community recreation and park expenditures – likely increasing the rate of emigration and reducing the possibility of economic diversification.
- It can ignore high crime rates and reduce spending on policing, making a bad situation worse.
- It can increase taxes on residents who are already dealing with lower wage levels and higher unemployment; it can increase taxes on its struggling small business sector; or it can maintain revenue from an industrial sector that is dealing with reduced production and partial closures.

If it chooses to maintain revenue from the industrial sector, the retention of that revenue will see tax rates increase as plant size is reduced and ongoing depreciation results in lower industrial values. Characterizing that choice as "gouging" does not reflect the true nature of the decision, because it suggests there are easy alternatives, where there are none, as well as suggesting that this is a story of increased taxes where it is actually a story of tax revenues that have not fallen as quickly as key components of BC's industrial sector have shrunk.

Local finance system increasingly disconnected from economic growth

Increasingly the local finance system has become disconnected from economic growth. As urban growth increasingly takes on a new economy character – technology, service sector – the limitations of the property tax becomes more obvious.

In a resource driven economy dependent on plant and property, the property tax base will grow in relation to growth in economic activity – but as the nature of economic activity shifts away from resources and towards business activity that is less reliant on investments in land and buildings, then changes in the property tax base are less reflective of economic growth. This is seen clearly in sectors such as technology where value is derived from intellectual rather than real property.

Similarly in resource areas, as developments (e.g., mines, liquid natural gas facilities) increasingly occur in more remote areas beyond either municipalities and rural settled areas – but still draw employees from and impact the demand for local government services in these areas – the fit between community revenue capacity and service responsibility is reduced.

Levels of provincial support are not designed to counteract sluggishness of the property tax

Levels of provincial support do not provide a mechanism which counteracts the sluggishness of the property tax with respect to economic change and growth.

The bottom line is that a local finance system built for an older economy needs to be renovated for the economy of today.

As an independent order of government, BC local governments are ready to partner with Canada and British Columbia in delivering public services to British Columbians.

SYSTEM OPPORTUNITIES

There is a lot more room for new ideas than we expected. The long list option descriptions in Appendix 3 include many examples of the broad range of ways in which local governments are financed globally.

Key observations include:

- There are many ways to finance local government;
- Property taxes are the most wide spread but many jurisdictions use supplementary sources;
- Canada relies more on the property tax than most other countries;
- Most U.S. states provide access to two major sources of taxes (two of sales, property and income) to local governments;
- Income tax sharing with local governments is common in Europe; and
- Countries that do not use local property taxes tend to assign shares of national and state revenues to local governments – this can act as a constraint on local autonomy more so than is the case in Canada.

EVALUATION OF REVENUE OPTIONS

The Committee considered a full range of revenue options. To focus its review of the long list of revenue options, the committee developed the following evaluation criteria:

Fairness:
Do they reflect ability to pay;

Responsiveness:
Do they grow with the local economy;

Autonomy/Accountability:
Are they clearly associated with the government imposing the charge;

Service Correlation/Jurisdictional Spillovers:
Is there a reasonable match between benefit and cost;

Economic Neutrality:
Do they unduly impact economic decision making;

Adaptability:
Do they work in a diverse set of circumstances;

Stability:
Do they provide a stable revenue stream that works in the context of local government no deficit rules; and,

Administrative Efficiency:
Can they be effectively administered?

The Committee considered the following revenue options, and its analysis of each is set out in Appendix 3.

1 Revenue Source Options

2 Revenue Sharing Options

3 Grant Programs

4 Local Sources

5 Expenditure Management/Efficiency

WHAT WE HEARD

The Committee held a series of workshops in conjunction with local government area associations conventions, and asked local government officials for their thoughts on BC's local government finance system. The workshops attracted over 700 participants, and the dialogue resulted in the following key themes.

Future infrastructure upgrades is by far the most important financial issue facing communities, followed by increasing operating costs

Consistent with what the Committee found, local government officials told us that future infrastructure upgrades and increasing operating costs for things like policing were of concern to them. Many of the future infrastructure upgrades were linked to new and emerging regulatory requirements, such as the new federal wastewater or emerging provincial drinking water regulations.

Also of concern were new costs resulting from local governments taking on responsibilities for services previously delivered by the Province. Examples cited included a range of health and social services, such as affordable and social housing, as well as a emergency services such as first responder services and flood control and dyking.

Additional revenue is needed, both to support significant infrastructure upgrades and to reduce a reliance on the property tax

Local governments told the Committee that new revenue is needed, and while suggestions for additional revenue sources varied widely, there was a clear preference shown for revenue sharing rather than new taxing authority.

Support to manage costs is an important part of the solution

While local government leaders do feel that new revenue is needed, they are not solely focused on the revenue side of the equation. Rising costs are of concern, and a number of local governments suggested sharing of innovative approaches, development of tools, resources or training programs, and working with regulators to better manage these externally driven costs.

Photo Credit: Picture BC

AGENDA FOR CHANGE

FRAMEWORK FOR KEY DIRECTIONS

Given the local government finance system's many strengths, the Committee wanted to develop key directions that targeted the system's inherent weaknesses, while retaining those system elements that were beneficial. For example, while inherent weaknesses in the property tax were identified, the Committee also recognized essential characteristics like the property tax's ability to deliver a stable and predictable revenue stream. Consequently, the Committee focused on retaining these essential characteristics, while improving on the property tax's weaknesses, such as its relatively poor tracking of economic growth in a modern economy and the tendency of residential property taxes to fall disproportionately on lower and middle income earners.

The Committee also recognized that money is tight for all orders of government and there is no shortage of expenditure pressures. Therefore, it focused on elements that were representative of the key role that local governments have in building community and on ways, that in partnership with other orders of government, they could help build the economy.

Overall the committee was looking for a system that:

- Is responsive to economic change;
- Is fair to citizens and to business;
- Enables reasonable matching of costs to benefits received;
- Does not distort economic decision making;
- Could compensate for the environmental and social impact of economic activities on local government and local citizens;
- Delivers stable revenues; and,
- Operates with reasonable administrative overhead.

It was also important to the Committee in developing its proposals to recognize the important contribution that managing expenditure pressures could have on the overall system.

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.

In essence, the Committee chose to focus on system elements that not only resonated with local governments, but that also made sense to other orders of government, and most importantly to taxpayers and citizens – to create a blueprint for reform that will help us build tomorrow together.

KEY DIRECTIONS FOR CHANGE

1. Resiliency

Improve the resiliency of the existing local government finance system by maintaining and building on its strongest features.

- Renew the gas tax agreement with the federal government;
- Achieve a new funded 3 way infrastructure agreement with Canada and British Columbia that includes 1/3 funding from each of the federal, provincial and local governments, and that includes major infrastructure component funding for major local government projects;
- Define Traffic Fines as a local revenue source so as to remove payments from the provincial government annual budget.

  Traffic Fine Revenue Sharing is designed to assign traffic fine revenue to local governments. Each local government receives a share of traffic fines that is equal to its share of total local government policing costs. This is paid by way of an annual grant to eligible local governments and is subject to annual provincial budget decisions. As a result, it is vulnerable to those decisions every year.

  The proposal being made here is to remove the payment from the provincial budget by legislating it to be a local government revenue source. This would parallel other revenue sharing arrangements such as hotel tax sharing and TransLink Fuel Tax, which transfer actual revenue room to the applicable local governments.

  The most practical way to do this would be to transfer the province wide revenue to a local government body and enable it to distribute the revenue on the basis of the existing formula, thereby increasing certainty of revenue without changing the current basics for the distribution of the revenue.

- Renew provincial government commitment to current funding for small community grants;
- Renew and improve flexibility of provincial government commitment to hotel tax sharing;
- Define local share of the property tax at a minimum of 65 per cent, which represents local government's current share of the property tax;
- Restore public control of TransLInk with an appropriate and sufficient funding model;
- Retain and renew funding to Regional Trusts; and
- Achieve greater flexibility in design of development cost charges (DCC's) including greater scope; for use of funds for parkland development. DCC's raised for parkland acquisition should be opened up to a broader array of related purposes.

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.

- Establish a UBCM/Provincial Management Committee at the elected official level to oversee consultation and delivery of shared mandates;
- Amend Liquid Waste, Solid Waste and Drinking Water Protection legislation to include financial management considerations and require provincial sign-off of a financial commitment to substantial new infrastructure requirements before regulatory requirements becomes binding and subject to enforcement;
- Negotiate an improved protocol with the provincial government to govern the provision of first response emergency paramedical services; and
- Explore regional transportation authority agreements outside of Metro Vancouver, with interested regions, on the basis of increased responsibility for regional transportation in exchange for appropriate funding mechanisms for these systems (for example, by reduced hospital district finance obligations for the region, along with providing fuel tax points and fuel tax room).

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. This is designed to ensure that local governments receive a share of British Columbia's economic growth for investment in environmental and economic infrastructure and community building.

- The goal of this proposal is straightforward. Rather than trying to gain a share of an ever diminishing economic pie, local governments should work with the provincial government to increase the size of the economy while at the same time gaining a greater share of the benefits of overall economic growth.
- There are two parts to the proposal. The first is an Infrastructure and Community Development Bank under which local government would receive a guaranteed share in improved provincial economic growth. The second is a local government driven plan to grow the economy.

Photo Credit: Regional District of Central Kootenay

Infrastructure and Community Development Bank

Incremental revenue sharing to fund an Infrastructure and Community Development Bank is a new concept designed to have the provincial government share revenues in years where the economy performs above a set benchmark. It can be (but does not need to be) combined with a joint local-provincial approach on economic growth, which is described later in this section.

Here is an example of how it could work

From 2000/01 to 2010/11 provincial government revenue grew at an average rate of 3% per year. In 4 of those years it grew a rate greater than 3%. The amount of revenue attributable to growth above 3% in those 4 years is $8.4 billion. Incremental revenue sharing would share a portion of that high growth revenue. If that amount were 25%, revenue sharing would be $2.1 billion or an average of $210 million per year over the 10 years. (See Appendix 4 for details of this calculation.)

This money would be shared in the high growth years by depositing it in a special fund with the MFA. Decisions on spending from the fund for local infrastructure and other community building investments would be based on approaches developed by local governments and endorsed by the UBCM membership. Since timing of expenditures is flexible, spending could be in years of slower economic growth when construction costs are more affordable and a measure of stimulus is required.

Clearly there is some risk in this approach. Growth may not meet benchmarked levels or there may be little revenue earned above those levels. This can be addressed in part through formula design, for example by sharing a smaller percentage of growth above 2%. These, and other elements of the proposal, will need to be addressed during provincial/local government discussions of an approach.

Why advocate such an approach?

This option targets times of higher than average economic growth when provincial fiscal constraints are slightly less tight. It also has a performance pay dimension – in that the amount to be shared increases as economic growth improves. As shown by the example it can be designed to roughly equate to the value of annual payments and can be used to support infrastructure and community building projects that could in themselves support further economic growth.

Growing the Economy

The effectiveness of this approach is dependent on the extent to which economic growth improves. If growth continues near or under 2 per cent there will be little, if any, benefit to local government from this approach. However as growth moves above 3 per cent benefits improve sharply.

Clearly such an approach would be more effective if it were complimented by proactive local government strategies to build the economy. Such strategies would have the most impact if they were coordinated with provincial economic development policy and were tied to a strong business case that identified what government interventions would be most beneficial to economic growth and ways in which local government could best use the tools it has available.

Engagement of local government in economic development will vary by area but key themes include:

- Developing regional economic strategies that fit the needs of individual regions, are consistent with any applicable regional growth strategies, and provide the basis for negotiating funded regional development agreements with the provincial government;
- A common sense approach to harmonization of things like zoning categories and regulatory frameworks that find the sweet spot between the value of harmonization and the need for variation based on local conditions;
- Ensuring business regulation is consistent with accepted best practices;
- Working with various partners, including the provincial government, labour, post-secondary and health providers, and business groups on a range of activities from expanding apprenticeship and training opportunities, to ensuring local policy and service decisions are informed by an intimate understanding of the needs of local business, to maximize the potential for research and technology related development.

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.

- A key issue that needs to be addressed is the weakness of the property tax in both responding to economic growth and in fairly distributing responsibility for the cost of local government services. This can be done in a number of ways including both improving the property tax and/or sharing other taxes that balance some of the weaknesses in the property tax.

- The Committee has identified specific changes that could be made to the property tax and a number of possible tax sharing opportunities. Rather than locking UBCM into a particular approach, the Committee recommends that UBCM pursue improvements that meet the following principles:

  a. Improved responsiveness to economic growth;
  b. A more progressive distribution of local taxes across income ranges;
  c. A better fit between who benefits and who pays for local services;
  d. Stability and predictability;
  e. Fiscal relations that are consistent with local government's role as an autonomous order of government; and
  f. Practical administration arrangements.

- In order to illustrate some of the specific actions that could contribute to these objectives the following section provides a discussion of:
  - o Potential property tax reforms; and
  - o Tax sharing arrangements.

Photo Credit: Picture BC

A Fairer More Responsive Property Tax

There are at least six ways in which the property tax could be changed to get at key issues. These can be pursued individually or as a package. They are as follows:

1. Local governments receive about 65 per cent of property tax room. The Province receives the other 35 per cent.[1] In 2000/01 the local share was 60 per cent, meaning that over the past 12 years local governments have realized an additional $200 million in property tax room.

   Further options to reducing the growth rate of provincial property taxes in order to increase the local government revenue base could be explored. If the Province dropped its growth rate from CPI to CPI less 1% it would increase local tax room by roughly $20 million each year. In 10 years this would be equivalent to a $200 million share of another tax. Cementing an arrangement of this type through an agreement or legislation could also be considered.

2. Provide local government with 100 per cent of property tax attributable to new development and construction thereby making the local share of the property tax more responsive to economic growth.

3. Explore means to empower local governments to provide a low income property tax credit as a tool to help address the tendency of the property tax to fall more heavily on lower income citizens.

4. Consider base broadening for public institutions and crown corporation property. This would include advocating for the taxation of hydro transmission lines in rural areas.

5. Utilize part of the new revenue to create a pool by which local governments could use revitalization exemptions to finance locally specific solutions to industrial property tax problems.

6. Enable regional districts to use revitalization tax authority with respect to electoral area levies.

This package is built on the proposition that the property tax is a good overall tax for local government and that it is possible to resolve key property tax issues. Since the property tax is already closely identified with local government, a larger share of a fairer more responsive property tax could be a key component of an improved revenue system for BC local governments.

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1 Provincial property taxes (residential/non-residential school and rural) are estimated to raise $2.0 billion in 2012/13. By comparison, local government property taxes raised $4.1 billion in 2011.

Tax Sharing

Tax Sharing is where a portion of an existing tax could be dedicated for local government use. This can take the form of either topping up an existing tax or occupying tax space vacated by the provincial government.

The Committee identified personal income, sales, property transfer, insurance premium and property tax as potential options to address issues with the existing local government revenue base.

In 2012/13:

- The provincial personal income tax will raise an estimated $6.9 billion. The federal income tax in BC raises about $12 billion;
- The provincial sales tax will raise an estimated $6.1 billion in 2012/13. This is expected to fall slightly to $5.9 billion in 2013/14 as the Province transitions back to the provincial sales tax;
- The property transfer tax is estimated to raise $800 million in 2012/13; and
- The Insurance Premium Tax is estimated to raise just over $400 million in 2012/13.

For example, if revenue sharing was intended to raise $200 million annually for local governments, it would require:

- A 3% surtax on provincial personal income tax (equal to an increase in provincial tax rates from 5.06-5.2/7.7-7.9/10.5-10.8/12.3-12.7/14.7-15.1) or a 3% share of current revenue; OR
- O.25 of a point of sales tax; OR
- 25% or roughly a third of a point of property transfer tax; OR
- 50% of the Insurance Premium Tax; OR
- some combination of the above.

The key consideration in this discussion is the extent to which the four non-property tax options address the key weaknesses of the property tax:

- 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.

When compared to the property tax:

- The personal income tax is less predictable, far more responsive to economic growth and significantly more progressive. It is raised entirely from individuals. It does not track well to consumption of local government services;
- The provincial sales tax is slightly more responsive to economic growth than the property tax but largely misses the growing service sector. It comes 2/3 from individuals and 1/3 from business, through the taxation of business inputs. In terms of incidence it would be roughly comparable to the property tax. It is less predictable than the property tax but more predictable than the income tax. Although no analytical work is available it can be expected to track reasonably well to consumption of local government services;
- The property transfer tax is a 1% to 2% tax on property value at the time of sale. It is roughly similar to the property tax in terms of incidence and possibly slightly more responsive to economic growth than the property tax; and
- The insurance premium tax is more responsive to growth, slightly more progressive and tracks local government services very well.

It is the connection between risk reduction and insurance premiums that makes insurance premium tax sharing an interesting option. Local government services often reduce risk. Fire services, policing, safe roads, safe water and regional contributions to hospital construction are all good examples. Poorer local services often translate into higher risks and higher premium costs meaning that using insurance premium tax sharing to actually reduce risk can be seen as a prudent, proactive investment by taxpayers.

The following table summarizes the comparison of the options.

Evaluation Criteria	Options				
	Current Property Tax	Personal Income Tax	Sales Tax	Property Transfer Tax	Insurance Premium Tax
Economic Responsiveness	Low	High	Moderate	Low	Moderate
Incidence	Negative	Positive	Neutral/ Negative	Negative	Neutral
Relation to Consumption of Local Services	Modest	Low	Modest	Modest	Modest to High
Stability	High	Low	Modest	Modest	Modest
Independence	High	Low	Low	Low	Low
Capacity	Modest	High	Low	Low	Modest
Other Considerations	No distribution formula needed	Distribution formula needed	Distribution formula needed	Distribution formula needed	Distribution formula needed
Overall Fit for Local Government	Good	Good	Modest	Modest	Good

The Role of Regional Revenue Sharing Agreements

The Committee chose to focus its recommendations on province wide arrangements. However it also accepts that regional revenue sharing arrangements have an important and growing role in the local government finance system.

These arrangements serve a number of important purposes:

- They share property tax revenue among local governments where the assessment base is concentrated in some municipalities but the labour force and the associated service costs are distributed more broadly. The Elk Valley Tax Sharing Agreement is an example of such an arrangement;
- They provide a means for local governments to receive revenues from economic activity when the property tax base is located outside of municipalities but the labour force and associated service costs and social and economic impacts are located in municipal and rural settled areas throughout a region. The Peace River Fair Share Agreement is good example of such an arrangement;
- They provide a means to share the benefits of resource development with a region. This is particularly important where there are social and economic costs to resource development and a resulting need to ensure that the region receives a net benefit from development. The Columbia Basin Trust is a good example of such an arrangement; and
- They provide a means for recognizing unique service requirements of a region. The importance of an integrated transit and transportation system and the need to integrate transportation and land use decision making in Metro Vancouver and the broader South Coast region – through the TransLink governance and financing arrangements is an example of such an approach.

In a very different way the regional development trusts have enabled regions to create regionally appropriate approaches to economic development.

It can be expected that further arrangements of this type will be negotiated in the future. Arrangements of this type can play an important role:

- in achieving appropriate sharing of benefits where large-scale resource development such as major new mines, liquefied natural gas plants or hydro development impacts multiple communities;
- in providing for regional transportation management; and
- in continuing to enable and enhance regional economic development.

The Committee sees this as a necessary and legitimate part of the local government financing system. However it chose to focus its work on province wide issues as regional groupings of local governments are better equipped to advocate for regional approaches.

Distribution Principles

Revenue raised from tax sharing and the Infrastructure Development and Community Building Bank would need to be distributed to individual local governments. The basis for distribution will require considerable additional dialogue with local governments.

A legitimate guiding principle on which to base that discussion would be to provide local governments with roughly equivalent fiscal capacity from which they can choose how to balance service provision and tax levels in ways that meet the needs and values of particular communities.

Within this broad principle there could be three components:

- Supplementing the property tax - the primary purpose of tax sharing is to supplement the property tax, thereby improving the fairness and responsiveness of local government revenue. This issue is most often addressed through an even population based distribution of the largest component of tax shared revenue.
- Need – a second purpose of transfer is to enable local governments to address major infrastructure needs that are beyond their capacity – in many cases these needs also have a broader benefit such as reducing pollution in waterways or improving public health. Need is most often addressed through targeted, project specific infrastructure programs. Where these programs are in place and appropriately funded – through shared cost infrastructure programs or through mechanisms like the proposed infrastructure bank – it is not necessary to duplicate this type of funding within tax sharing.
- Equalizing fiscal capacity – there are a number of factors that impact local fiscal capacity. These include strength of the tax base, cost of service provision, local government population, the contribution of a particular region to the provincial economy and the range of services provided by particular types of local governments. The weight given to equalization, selection of which of these values to include and the weights assigned to each, is complex and deeply value laden. However, some component of tax sharing revenue should be weighted by at least some of these factors in order to produce an equitable result. How to make the necessary choices is best done through some form of collaborative process or negotiation.

5. Excellence

Building the local government partnership

- Create a made within local government process for developing best practice advisory services for local governments.

- Components could include:

    - o developing meaningful business tax indicators and benchmarks and entering into two way discussions with key business groups on business taxation options;
    - o highlighting use of authority to vary user charges to provide low income charges as a tool to help counter-balance the tendency of property taxes to fall more heavily on lower income citizens;
    - o developing resource materials to support local finance and tax decision making, such as best practices guides;
    - o building on the success of local government annual meetings and annual reports by sharing approaches to make them more meaningful to citizens and taxpayers;
    - o developing innovative and collaborative mechanisms to achieve greater service efficiencies and economies, such as group purchasing; and
    - o highlighting and building on excellence, including through highlighting UBCM Community Excellence Award winners.

Photo Credit: City of Vancouver

Photo Credit: Picture BC

GETTING STARTED

Turning the Plan Into Action

THE PLAN

These five key directions represent a multi-year blueprint to strengthen the local government finance system in BC.

If endorsed by the UBCM membership, it can form the basis of the dialogue that will be needed between local governments and the provincial government.

The Committee recognizes that money is tight, and that proposals for reform need to resonate with all orders of government and with taxpayers, including the business community. The recommendations should not be considered a call for more money, but rather as a way to improve the system, through overcoming some of the inherent weaknesses of an over-reliance on the property tax, ensuring a fairer taxation system overall, and through taking action to manage significant cost drivers.

Both the provincial government and local governments need to commit to sustained action to make these improvements to the system, and both need to recognize and respect the partnership that is required of all orders of government – federal, provincial and local governments – to grow the economy, build communities, and deliver quality public services to British Columbians.

INITIAL PRIORITIES

It is proposed that initial priorities would be to:

- achieve greater resiliency;
- address cost drivers; and
- engage the provincial government on an agenda for economic growth and an agreement on the introduction of the Infrastructure and Community Development Bank.

Photo Credits: Picture BC

BENEFITS AND COSTS

The table below quantifies both the benefit of the various options and packages to local governments and the potential cost to the provincial government. The table should be considered to be for illustrative purposes only, with costing representing order of magnitude.

Summary of Estimated Cost to Province and Value to Local Government of Proposals		
Proposal	Local Government Revenue Maintained ($'s millions)	Incremental Cost to Provincial Government ($'s millions)
Resilience		
Traffic Fine Revenue Sharing	70	-
Small Community Protection	55	-
Hotel Tax Flexibility	65	-
Maintain Property Tax Share at 65%	40/yr	-
Injection to Regional Trusts		$150-300/one time
Business Tax Benchmarks	-	-
DCC Parkland Flexibility	?	-
Matching 1/3 Infrastructure Funds	400?	200?
Major Infrastructure Component Projects	600?	($150)*
Cost Drivers		
Collaboration	-	-
Double Sign Off of Infrastructure Requirements	Saving	-
Infrastructure Bank		
Incremental Revenue Sharing	$0-$2.0 B over 10 years	$0-$2.0B over 10 yrs
Tax Sharing		
Property Tax		$100-300/yr
Tax Sharing		$100-300/yr
Best Practices	-	-

* This is represented as a savings when compared to funding $900 million worth of provincial infrastructure, the cost of which would be shared on a 50/50 basis with the federal government, rather than the proposed $900 million worth of local government infrastructure, for which the Province would be responsible for only $300 million (1/3 share).

APPENDICES

APPENDIX 1: TERMS OF REFERENCE

Purpose:
Authority to impose property taxes and user fees stem from an era where local governments delivered a narrow range of services, such as water, sewer and local roads. With a significant broadening of the types of services that local governments deliver there is a need to consider whether these traditional revenue sources align well with the broader suite of services, or whether there are better ways to finance some or all of these services.

The Select Committee will explore the fit between this broader range of services and existing revenue tools available to local governments in the context of whether the revenue tools are sufficient and whether they support tax policy objectives such as ensuring that those that benefit from a service pay for it. In addition, the Select Committee will consider whether additional taxing authority or a change in inter-governmental transfers might better meet these objectives.

The Select Committee will undertake inter-jurisdictional research, comparative and/or economic analysis, consultations with local governments and others, and any other work necessary or desirable to fulfill its mandate. Work may include, but is not limited to, the following subject areas:

- 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.

Members and Support:

- UBCM Executive will appoint Select Committee members composed of:
  - At least 2 members from the UBCM Executive;
  - At least 2 other members from amongst local government elected officials, who may or may not be members of the UBCM Executive;
  - Up to 4 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 one of the members as the Chair;
- UBCM staff will support the Select Committee; and
- The Select Committee may contract with any person, so long as that contract is within its budget allocation, and the contract is approved by UBCM's Executive Director.

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, 2013, 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 August, 2012 through to June 30, 2013, at the call of the Chair. The UBCM Executive may consider extensions to this term on an annual basis.

APPENDIX 2: WORK PLAN

Overview

In order to address the terms of reference provided to the Committee it is proposed that: the committee, use 4-5 meetings to:

- Review a comprehensive long list of options;
- Narrow these to a short list;
- Work through the short list in detail; and,
- Use the resulting option descriptions as the core of the Committee report.

As well, since there are significant strategic and tactical issues to consider before moving any recommendations on to the public policy agenda the work plan makes provision for discussion/consideration of potential strategy and tactics.

Engagement of members through the chapter meeting process is also anticipated.

Final Deliverables would be a report to members and an in-house resource book on the long list of options.

It is expected that areas to be addressed include all those identified in the Terms of Reference – which include:

- 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.

Work Plan

Meeting 1 – November 30, 2012

- Review Terms of Reference
- Background Presentation on Development of Local Government Revenue System (How We Got Here)
- Frame Problem Statement
- Review/Approve Work Plan, including Revenue Options Long List (about 30 attached) and Evaluation Sheet Template
- Make decisions with respect to consultations/info sharing/area association meeting engagement

Meeting 2 – January 23, 2013

Detailed Workshop on Long List Options

- Key Questions
- How Would This Work at the Local Level in BC?
    - o How would it improve on what we have now – more efficient, better relation to service, better distribution, etc.
    - o Potential Economic Impacts
    - o Potential Social Impacts
    - o Intergovernmental Issues
- Review/Discuss/Rank Long List Options
- Create Short List
- Approve Consultation/Update Paper

Meeting 3 - February 21, 2013

- Detailed Review of Short list Options
- Review Report Outline

Meeting 4 – April 8, 2013

- Prepare Rough Draft Report
- Prepare for Member Consultation

Meeting 5 – April 26, 2013

- Review Draft Report/Presentation Materials

Meeting 6 - May 22, 2013

- Review Feedback From Member Consultations
- Consider Outreach Strategy

Meeting 7 - June 24, 2013

- Complete Report

July 18/19, 2013

- Present Report to Executive

APPENDIX 3: REVENUE OPTIONS AND EVALUATIONS

The Committee considered the following revenue options, and its analysis of each is set out in Appendix 3.

The information provided in the following evaluation sheets should be considered illustrative only. Information has been gathered from a variety of sources, including some provincial, state, and tax foundation sources. While UBCM has endeavoured to ensure accuracy of the data, readers are cautioned against relying on the data for any purpose beyond its intention to provide context to the Committee's recommendations.

Local Revenue Option Evaluation Sheet

Option: Local Personal Income Tax

Background/Description (How Would It Work):

Personal income tax is the mainstay of the Canadian federal and provincial tax systems representing half of federal revenue and 35 per cent provincial revenue.

The Canadian federal and provincial income tax systems have been harmonized since the early 1950's through the federal provincial tax collection agreements.

In a shrinking global marketplace international tax agreements have taken a more prominent role as income flows show ever less respect for jurisdictional boundaries.

The prevailing view of tax professionals is that a local share of income taxation could only be provided through a tax or revenue sharing arrangement with the applicable province.

Tax sharing agreements are quite common in Europe where a portion of the national income tax from a jurisdiction is attributed to the applicable local government. It is less common for local jurisdictions to be able to set or "top-up" federal tax levels. The Canada Revenue Agency has statistics on total income; taxable income; and, tax by local jurisdiction so tax sharing, along the European model could technically be done in Canada. However the distribution of local revenue on the basis of income may not meet other public policy objectives.

In the United States it is more common for jurisdictions to apply a local rate on a state income tax. There are also local income taxes that are more along the line of a payroll tax. There are very few entirely stand alone local income taxes. Appendix 1 provides a fuller description of U.S examples.

- **Where Is It Now Used:**
  - U.S. (see Appendix 1)/Europe

- **Estimated Value/Impact:**
  - Province raised nearly $7.0 billion in 2012/13 at average rate of about 5%

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Neutral to Positive compared to Neutral to Negative for property tax
- Efficiency:
  - Local rate variations could trigger income transfers affecting decisions on where people choose to live.

- Administration:
    - Tax Sharing along European lines is practical if an appropriate basis for attribution to local jurisdictions can be developed. Any local variation in tax rates increases complexity. Stand-alone local income taxes would be difficult to impossible for local government to administer. Almost all U.S. examples are administered by state. Many are payroll taxes.

Key Issues for Local Governments:

- Association with Income Tax
- Attribution formulas – if tax sharing is to be used
- Boundary issues
- Tax complexity
- Potential autonomy loss due to piggy-backing
- Distribution/Sharing formula if tax is pooled
- Stability

Key Issues for Provincial Government:

- Requires amendment to Canada B.C tax collection agreement
- How to achieve accountability -visibility of local share
- Reduction in future tax room/flexibility

Potential Variations on Theme:

- Payroll taxes, inclusion of income tax in revenue sharing

Potential to Link to Specific Services:

- In Canada income tax is associated with major government services – health, education – not an obvious tie to local services

Probability This Revenue Source Will Work in British Columbia Context:

Stand Alone Income Tax

Low

Inclusion in Tax Sharing

High

Attachment 1: Local Income Tax Arrangements in the United States

(from the Tax Foundation and State and Local Sources)

- Nearly 5000 American municipalities and school districts across 17 states levy some form of local income tax; these vary widely across jurisdictions.
- The practice is most prominent in Pennsylvania, Maryland, Indiana, Ohio, Kentucky, Michigan, and New York City. States where local income taxes are common tend to have a flat rate individual income tax.
- There are several types of local income taxes: local services taxes collected on behalf of school (Iowa, Kentucky, Arkansas, Pennsylvania) and transit (Oregon, NYC) districts; flat taxes on income of a few dollars a month (Colorado, W.Va); local tax on intangibles income only (Kansas); and most commonly, an additional tax rate levied by the municipality on individual and business income, on top of the state income tax rate.
- Tax treatment of non-residents varies; some jurisdictions (Pennsylvania, Michigan, Maryland, Indiana) tax non-residents at lower rates than residents, while others make no distinction or vary by municipality (Ohio, Kentucky).
- In most cases local income taxes are collected by the state, through the same system used to collect state income taxes (Maryland, NYC). Municipalities rarely collect these taxes on their own, although there are a few examples (Ohio, Michigan).
- Taxes are typically paid by the employee and withheld by the employer.
- California, West Virginia, Massachusetts, Texas, Illinois and Florida do not permit local income taxes.
- Here are some examples of local income taxation in the United States:
    - Pennsylvania: 2469 of the state's 2563 municipal bodies (counties, cities, boroughs, and townships) assess a personal income tax, as do 469 of the 500 school districts. The tax is capped at a flat rate of 2%. "Home rule" municipalities are exempt from the cap; these include the urban centers of Philadelphia (3.98%), Pittsburgh (3%), and Scranton (3.4%), among others. This tax is assessed as a percentage of the earned income of individuals, or the net income of businesses. These jurisdictions typically also impose a service tax of around $50/yr.
    - Maryland: All 24 counties as well as the City of Baltimore (3.05%) collect a local income tax. Rates range from 1.25% to 3.2% of state personal income. Maryland has the highest local income taxes in America, averaging out to 1.55%.
    - Kentucky: Most of Kentucky's 120 counties and many of its 174 school districts collect a local income tax, including the main urban centers of Louisville and Lexington.
    - Indiana: all of Indiana's 92 counties collect a local income tax in addition to the state income tax. The state rate is 3.4% of personal income, while no local rate exceeds 1%.

- Ohio: Most of Ohio's municipal bodies (cities and villages) collect a local income tax on personal income, including Cleveland (2%), Columbus (2.5%), Toledo (2.25%), Akron (2.25%) and Cincinnati (2.1%). The tax is capped at a flat rate of 1% by state law unless a higher rate is approved by local referendum. Unlike other states, municipalities in Ohio can set their own definition of "income," forms, rules, etc. and collect their own taxes instead of using the state to do so. Ohio is in the process of streamlining its municipal tax policy, which is thought to impose an overly complex patchwork of tax laws, which is burdensome for businesses.

- Michigan: 22 of Michigan's 100-odd municipalities collect a local income tax, most at or around 1% of personal income, with Detroit an outlier at 2.5%. Some jurisdictions in Michigan collect their own taxes, rather than using the state system.

- California: San Francisco collects a payroll tax of 1.5% from businesses with payrolls above $250k/yr. The State of California has banned most forms of local income taxes.

- Kansas: Many municipal bodies (counties, cities, townships) collect a local income tax on intangibles (interests, dividends, securities). No local government in the state collects a tax on earned income. Rates range from 0.25% to 2.25%.

- New York: NYC's local income tax rate on earned income ranges from just under 3% to nearly 4%. NYC's Metro Transit Authority, which also includes several nearby municipalities, has an income tax of 0.34%, collected from employers. Yonkers has a local income tax of 15% of net state income tax.

- Oregon: Lane County and Portland each have a tax on behalf of their respective mass transit authorities. These taxes are collected from employers and are at rates of less than 0.75% of earned income.

- Colorado: A few jurisdictions impose a monthly tax ranging from $2 to $6 on any resident who earns more than a given amount (typically about $500) in that month.

- West Virginia: Charleston, Weirton, and Huntington each collect a tax of $2-3/wk from employers. Otherwise, local income taxes are banned in West Virginia.

- Delaware: Wilmington taxes personal income at a rate of 1.5%.

- Missouri: Kansas City and St. Louis each tax personal income at a rate of 1%.

- New Jersey: Newark taxes personal income at a rate of 1%, collected from employers.

- Arkansas: Several school districts assess a surcharge of 10% of state income tax before credits.

- Iowa: Many of the state's school districts impose an income tax surcharge ranging from 1% to 20% of state income tax owed.

- Washington DC: While not technically local, the District of Columbia has a bracketed income tax scale: 4% up to $10,000, 6% between $10-40,000, and 8.5% over $40,000.

Local Revenue Option Evaluation Sheet

Option: Local Corporate Income Tax

Background/Description (How Would It Work):

This could only work as a tax sharing arrangement. The distribution formula would need to be separate from corporate income as there is no practical way to attribute corporate income to local jurisdictions.

- **Where Is It Now Used:**
  - No known examples

- **Estimated Value/Impact:**
  - BC 2012/13 revenue estimated at $2.2 billion with large corporation rate of 10% and small business rate of $2.5 per cent.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Not Applicable
- Efficiency:
  - Could only work as a province wide tax sharing structure.
- Administration:
  - Could only work as a province wide tax sharing structure.

Key Issues for Local Governments:

- Making case for this in context of business property tax levels – dealing with question of why should business pay more for local government

Key Issues for the Provincial Government:

- Requires amendment to Canada B.C tax collection agreement
- Accountability -Visibility of local share
- Reduction in future tax room/flexibility

Potential Variations on Theme:

- Only works as tax sharing

Probability This Will Work in British Columbia Context:

Low

Local Revenue Option Evaluation Sheet

Option: Local Sales Tax

Background/Description (How Would It Work):

Sales taxes are the second most important form of taxation in Canada. They consist of the federal GST and provincial sales taxes of various types in all provinces but Alberta.

Provincial sales taxes vary both in terms of tax base and tax rates. As of April 1, 2013 (when PEI's HST became effective and BC returned to the PST) six provinces had harmonized their sales taxes with the federal GST. Three (BC, Saskatchewan and Manitoba) have not have harmonized their sales taxes with the GST. Alberta has no provincial sales tax. Combined rates vary from 15% in Newfoundland to 5% in Alberta, with BC at 12%.

Typically older style sales taxes such as the one in place in BC apply to more business inputs and fewer consumer services than do value added taxes such as the GST.

A local sales tax would most likely be an additional rate on top of the provincial rate. It could be applied locally or applied provincially and distributed to local governments.

Saskatchewan and Manitoba both tie their revenue sharing programs to the value of 1 point in sales tax. This will be discussed more under revenue sharing. In BC a point of sales tax is worth $871 million.

- **Where Is It Now Used:**
  - Some 9,600 local jurisdictions in the U.S. levy sales taxes. Combined state/local sales tax rates in the U.S. range from a high of 10% to a low of 0%. Local rates are as high as 6% but only rarely exceed 3%.
  - In Europe tax decision-making is more often centralized at the national level and a share of national tax assigned to local governments. Local own source revenues tend to represent a smaller share of overall revenue than in North America and consist of property taxation and user charges.
- **Estimated Value/Impact:**
  - BC Sales tax revenue at 7% is estimated to be $6.1 billion in 2012/13

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - o Little improvement - Neutral to Negative compared to Neutral to Negative for property tax
- Efficiency:
  - o Local rate variations could trigger business location decisions, particularly when 1/3 of tax comes from taxation of business inputs.
- Administration:
  - o Increases complexity. Difficult to impossible for local government to administer. Almost all U.S. examples are administered by state.

Key Issues for Local Governments:

- Association with Sales Tax
- Border issues
- Tax complexity
- Potential autonomy loss due to piggy-backing
- Distributional/Sharing formula issues if applied at scale larger than individual jurisdictions
- Variations in revenue – year to year and within years

Key Issues for Provincial Government:

- Accountability -Visibility of local share
- Reduction in future tax room/flexibility
- Economic impact given issues with current design of tax and level of marginal effective rate on investment

Potential Variations on Theme:

- Inclusion of sales tax in tax/revenue sharing.

Probability This Will Work in British Columbia Context:

Stand Alone Sales Tax

Low

Inclusion in Tax/Revenue Sharing

High

However, given current sales tax structure this does not represent much of an improvement on the current property tax.

Attachment 1: Local Sales Tax Arrangements in the United States

(from the Tax Foundation and State and Local Sources)

- The U.S.A. has no federal sales tax, leaving it up to individual states to set rates, define terms, and make rules. States are also able to make their own determinations as to what level of control municipalities will have over sales tax rates, regulations, exemptions and the like. This leads to a great deal of variance from one jurisdiction to another, and state, county, and city sales taxes can all be applied to a single purchase.

- Two states have no sales tax at either the state or local level: Delaware and New Hampshire.

- **Three allow local sales taxes but have no such tax at the state level: Alaska, Montana, and Oregon.**

    - Alaska: local rates in Alaska average 1.79%, including jurisdictions, which have chosen not to impose a local sales tax. Local jurisdictions which choose to collect a sales tax (primarily Juneau, at 5%) are responsible for determining all related regulations, exemptions, and the like.

    - Montana: No jurisdictions in Montana have a sales tax, giving an effective state-wide rate of zero. Montana does allow a "resort and local option tax" on rental cars, hotels, and campsites, but this is rarely used.

    - Oregon: While Oregon allows municipalities the option of collecting a sales tax, very few do so, with the statewide combined rate being essentially zero. However Oregon has some of the highest income and property tax rates in America.

- Twelve states have sales taxes at the state level but do not allow local sales taxes: Connecticut (6.35%), Idaho* (6%), Indiana (7%), Kentucky (6%), Maine (5%), Maryland (6%), Massachusetts (6.25%), Michigan (6%), New Jersey (7%), Rhode Island (7%), Virginia** (5%), and West Virginia (6%). The District of Columbia has a sales tax rate of 6%.

    - *Idaho allows some resort cities a local-option sales tax similar to Montana's usage taxes, which average out to an additional .03% statewide.

    - **1% of Virginia's state rate is a statewide mandatory local tax like California and Utah's.

- **The other thirty-three have some combination of state and local sales tax.**

    - Alabama: The state tax rate is 4%, with an uncapped local option. The average local rate at 4.37%, for a statewide total of 8.37%. Rates in major cities like Birmingham and Montgomery are higher, at nearly 10%; rural rates are generally lower. Exemptions and other regulations are set at the state level. Unlike in many other states, food products are not exempted.

- Arizona: Arizona's state tax is not an actual sales tax but a gross receipts tax collected from vendors and passed on to consumers via pricing. The most common state rate is 6.6%. Municipalities may impose an additional rate of up to 6%, with the statewide average local rate being 2.52%. Some decisions regarding exemptions are made at the local level, and others at the state level: for instance, prescription drugs are exempted statewide, but food can be taxed at the discretion of the local government.

- Arkansas: The state rate is 6%, with a local option, which averages an additional 2.65%.

- California: The state rate is currently 7.5%, the highest in America. This is made up of a 6.5% state rate and a 1% uniform local sales tax rate, which is imposed statewide as part of the overall rate but reserved for the use of local governments. There is also a local option (called the District sales tax) capped at 2.5%, averaging an additional 0.88% statewide. The high rate is commonly attributed to low property tax rates required by citizens' initiative referendum. Exemptions and other regulations are made at the state level.

- Colorado: The state rate is 2.9%, lowest in America among states, which have a state sales tax. The average local rate is 4.52%, which is comparatively higher than most local sales taxes. A consequence of allowing local governments to set tax rates to this degree is that rates vary widely among jurisdictions, theoretically from a low of 2.9% to a high of 10.4%.

- Florida: The state rate is 6%, with a local option (called a Discretionary Sales Surtax) up to an additional 1.5%, the average local rate currently at 0.62%. Exemptions and other regulations are made at the state level.

- Georgia: The state rate is set at 4%. The state also allows municipalities to choose between five different local options, all of which are set out at the state level and include specific rules. A municipality may choose up to three of the five options: a homestead exemption, a public school board levy, a special-purpose municipal option, a general-purpose municipal option, and a custom option which requires the approval of the state legislature. Nearly all of Georgia's counties choose to tax at the maximum 3% rate. As each option is capped at 1%, the result is an effective cap of 3%, but this can be increased via legislative approval or referendum; for instance Atlanta's counties tax at the maximum local rate of 3%, and the city itself at 1% for a total of 8%. The average local rate is 2.87%, for a statewide average total of 6.87%.

- Hawaii: Like Arizona, Hawaii's tax is properly a combination Gross Receipts and Usage Tax where businesses may pass the cost along to consumers, and not a sales tax proper. This tax includes many items, which are not typically included in sales taxes, for instance rent and medical services. Some municipalities also have local option taxes. The state tax rate is 4%, with local options averaging .35%. Of the states, which have both state and local sales taxes, Hawaii has the lowest rate in America.

- Illinois: Sales taxes in Illinois consist of several separate taxes on goods, services, gross receipts and sales. The state sales tax rate is 6.25%. Illinois also grants taxing authority to a large number of local government jurisdictions including transit districts, water commission, county school and business districts, and more. The average local tax rate is 1.97% for a statewide average of 8.22%. Chicago has one of the highest total sales tax rates in the U.S., at 9.5%.

- o Iowa: The state rate is 6% with a local option capped at 1%. The average statewide total rate is 6.82%.

- o Kansas: The state rate is 6.3%, with a local option of up to 4%. The average local rate is 1.96%, for a statewide total of 8.26%.

- o Louisiana: The state rate is 4%. Parishes (counties) have the option to set an additional rate of up to 3%, and jurisdictions within the Parish have their own option up to an additional 3% (these caps can be exceeded if approved by referendum). The average local rate is 4.85%, the highest in America. Unlike most states, Louisiana allows local governments at both the Parish and City levels to make their own rules concerning taxable base, exemptions, and even interpretation of tax laws. Consequently Louisiana has 493 separate sales tax jurisdictions, which is a major burden on business activity in the state.

- o Minnesota: The current rate is 6.875%, of which 6.5% is a general sales tax and 0.375% is a special-purpose tax for arts and entertainment. Municipalities are required to get specific legislative approval for any local option taxes, which can be special or general. The average local rate is only 0.3%, most of which is earmarked for the funding of mass transit in the Minneapolis-St. Paul region.

- o Mississippi: The state rate is 7%. Municipalities have the option to impose an additional rate only on restaurants and hotels. The rarity and limited base of these local taxes means that they have little effect on average statewide rates.

- o Missouri: The state rate is 4.23%, with local sales taxes averaging 3.53% statewide. The tax base for Missouri's sales tax is higher than in most other states, as it includes all sales of tangible goods as well as their storage, use, or consumption, in addition to a wide variety of services. Missouri's large number of often-overlapping local jurisdictions (school districts, transport districts, fire districts, counties, cities, and so forth), all with some ability to impose sales taxes, means that the total tax rate on a given purchase is often over 10% even though the average statewide total rate is only about 7.75%.

- o Nebraska: The state rate is 5.5% with a local option capped at 1.5%. Average statewide local tax rates are at 1.27%.

- o Nevada: Nevada has a state sales tax rate of 6.85%. Counties may impose additional local sales taxes only by referendum or the consent of the legislature. These taxes are capped at 1.5%, but a single county may have several separate taxes, often for specific purposes. The average statewide local rate is 1.08%, for a total statewide average of 7.93%.

- o New Mexico: Like Arizona, and Hawaii, New Mexico collects a gross receipts tax from vendors, which are passed along to the consumer through higher costs. These taxes tend to have a broader base than typical sales taxes, as they also include many services. The state rate is 5.15%, with a local option capped at 3.5%. The average local rate is 2.12%.

- New York: The state sales tax rate is 4%, with a local option for counties up to an additional 3%, which all counties in the state have levied. A higher rate can also be levied with the approval of the state legislature; most counties in the state have taken advantage of this, and as a result the average local rate is 4.48%. Some transit districts also are able to levy local sales taxes. Exemptions in New York State are handled by the jurisdiction, which levies the tax; state taxes may apply to some items, which are exempt from a local tax, and vice versa.

- North Carolina: The state sales tax rate is 4.75%, with a local option up to an additional 2.5%. The optional tax is levied in most local jurisdictions, with the average local rate being 2.12%.

- North Dakota: The state tax rate is 5%. This is a gross receipts tax and not really a sales tax. An additional 2% is levied on sales of alcoholic beverages, while rates are decreased by 2% on sales of farm equipment and mobile homes. There is a local option of up to 3%, with the average local rate statewide being 1.42%.

- Ohio: The state tax rate is 5.5% with a local option capped at 3%. The average local tax rate is 1.3%. The tax system in Ohio is fairly complicated relative to other states because of the many different overlapping jurisdictions able to levy taxes.

- Oklahoma: The state rate is 4.5%, with a local option of up to 6.5%. The local average rate is 4.18%, for a total average rate of 8.68%.

- Pennsylvania: Pennsylvania's state sales tax rate is 6%. Only Philadelphia (2%) and Allegheny (1%) have local sales taxes, for a low local average rate of 0.34% statewide.

- South Carolina: The state rate is 6%, with a local option capped at 3%. Many large-ticket items such as vehicle purchases have the sales tax capped at $300; these items are exempt from local sales tax. Local sales taxes for a specific purpose are also allowed with the approval of the state legislature; these are capped at 1%. The average local rate is 1.12% statewide for a total average of 7.12%.

- South Dakota: The state rate is 4%, with a local option capped at 2% and a local option gross receipts tax capped at 1%. Farm machinery is exempt from local sales tax and taxed at half the state rate. Rates can vary widely in tribal areas due to varying treaty arrangements.

- Tennessee: The state rate is 7%, except on groceries, which are taxed at 5.5%. Counties have a local option capped at 2.75%; if the county declines to levy the full amount, cities within the county are given the option to do so themselves up to the total of 2.75% on top of the state rate. The average local rate is 2.43%, for a statewide total average of 9.43%, the highest total rate in America.

- Texas: The state tax rate is 6.25%, with a local option capped at 2%, the local average being 1.89%. Some items, such as motor vehicles, are exempt from the local tax. Others, such as lodging, may be subject to additional local sales taxes on top of both the state and local rates. The total statewide average rate is 8.14%.

- Utah: The state tax rate is 5.95%, which includes a mandatory local levy of 1.25%, similar to California and Virginia. Utah also has a local option of up to 2% in addition to the state rate. The average local rate is just 0.73%, for a statewide total average of 6.68%.

- Vermont: Vermont's state sales tax is 6%, with a 1% local option. Vermont also has local options of 1% on its state lodging, restaurant, and alcohol taxes, which are separate from its general sales tax and have higher rates. The constitutions of some municipalities allow them to collect restaurant and lodging taxes which are slightly different from the 1% local option variant collected in other jurisdictions and allowed statewide. The average local rate is only 0.14%, one of the lowest among all states that allow local sales taxes.

- Washington: The state rate is 6.5%, with a local option capped at 3%. The average local rate is 2.33% for a total average of 8.83% statewide, with King County imposing the maximum rate of 9.5%. Due to the many treaty arrangements between the government and American Indian tribes, sales taxes vary widely in some areas of the state.

- Wisconsin: The state rate is 5%, with local options requiring legislative approval. Most counties charge 0.5%, with some tourist areas charging 1%. The average local rate is 0.43%.

- Wyoming: The state rate is 4%, with a local option capped at 2%. Resort areas may levy an additional 3% sales tax. Wyoming is unique among the states in that it defines labour as a taxable service. The average local rate is 1.18, for a statewide total of 5.18, not including resort areas.

Local Revenue Option Evaluation Sheet

Option: Targeted Consumption Taxes

Background/Description (How Would It Work):

These are in effect excise taxes on specific goods and/or services. The classic example is the tobacco tax, which is set at a much higher rate than general consumption taxes both as a deterrent to use tobacco and to recover the social costs of tobacco use. Fuel taxes are another example. Internationally these are the major income earners. Environmental levies such as charges on batteries, pesticides, ozone depleting products and disposable containers have become widespread in Europe. Many of these are also currently in place in BC.

In BC these could work in at least two ways. They could be a locally imposed tax on a particular good or service or they could be a share of a province wide tax. In both cases the primary case for such a tax or share would be that consumption of the good or service has cost consequences for local government that should be factored into the price.

Possible examples of where a case could be made for such an approach included gaining a share of liquor revenue, on the basis that it impacts police costs, environmental levies on products that have a substantial impact on the waste stream.

A variation on this theme are luxury taxes which are imposed not so much to price an externality as to capture revenue from those seen to have the means to pay.

- **Where Is It Now Used:**
    - Most examples would be from U.S.

- **Estimated Value/Impact:**
    - Depends on mix of products

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence: Incidence depends on the product or service taxed. In this case incidence tends to be given less policy weight because part of the purpose of the tax is to moderate use of the product or service.

- Efficiency: These tend not to be economically efficient taxes, as a result of the narrow base to which they are applied; narrow based, high rate local taxes distort decision-making. They will – and are often designed to - impact economic behaviour. Sometimes that may be effective. Other times it simply moves that behaviour between jurisdictions.

- Administration: These can be administered locally or provincially. Border issues between jurisdictions and between taxable and non-taxable products will virtually ensure the need for strong enforcement tools to counter built-in incentives towards tax avoidance.

Key Issues for Local Governments:

- Political issues associated with taxation of product
- Border issues – geographic, definition of product
- Tax complexity
- Potential autonomy loss due to piggy-backing, where that is used
- Distributional/Sharing formula issues if based on a share of tax
- Revenue Stability

Key Issues for Provincial Government:

- Accountability -Visibility of local share
- Reduction in future tax room/flexibility, makes provincial base broadening much more difficult

Potential Variations on Theme:

- Tax sharing with province on designated components of sales tax

Probability This Will Work in British Columbia Context:

Medium

Local Revenue Option Evaluation Sheet

Option: Property Transfer Tax

Background/Description (How Would It Work):

The Property Transfer Tax is imposed on the of value property transferred, at the time of sale. In BC it is currently imposed by the provincial government at a rate of 1% on the first $200,000 in value and 2% on value above that amount. If this were to be a local tax, local governments would either impose an additional amount or negotiate with the province for a share of the current tax.

- **Where Is It Now Used:**
  - Other Canadian provinces at much lower rates than BC Also imposed by some U.S. states and local governments.

- **Estimated Value/Impact:**
  - 2012/13 BC government revenue estimated at $758 million.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Slightly more positive than property tax – due to less falling on renters and exemption for first time buyers.
- Efficiency:
  - Relatively small efficiency impact due to low rate, immobility of property and effective exclusion of business property, due to effective tax management strategies.
- Administration:
  - Most transactions straightforward. Many administrative issues in particular cases.

Key Issues for Local Governments:

- Association with an unpopular tax;
- Potential autonomy loss due to piggy-backing
- Distributional/Sharing formula issues – value of tax quite uneven between local jurisdictions

Key Issues for Provincial Government:

- Accountability -Visibility of local share
- Reduction in either revenue or future tax room
- Question of whether there is room for a rate increase, given current high rate in BC and relative ease of avoidance, if rate set too high
- Distribution of revenue

Potential Variations on Theme:

- None
- Tax sharing is practical
- There is no room for add-on rates

Probability This Will Work in British Columbia Context:

Medium

Local Revenue Option Evaluation Sheet

Option: Hotel Room Tax

Background/Description (How Would It Work):

British Columbia currently has a fairly well developed local hotel room tax structure. The provincial hotel room tax is 8 per cent. Municipalities can impose an additional 2 per cent with provincial approval, which is usually contingent on endorsation by the local accommodation sector, which in turn usually requires that the tax be used for marketing.

In designated resort communities a portion of the provincial base tax ranging from 1-4 percent can be used by local governments for tourist related infrastructure, again with provincial approval, following preparation of an investment plan and consultation with the local accommodation sector.

- **Where Is It Now Used:**
  - Common throughout U.S. City specific rates on top of state rates not uncommon in U.S and parts of Europe.

- **Estimated Value/Impact:**
  - TBD

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Generally considered positive given income distribution of hotel room consumption compared to Neutral to Negative for property tax. Tends to be paid by non-residents of a city.
- Efficiency:
  - Little efficiency/locational effect. Opponents argue that effect is to reduce tourist expenditure on other items.
- Administration:
  - Administrative issues seem manageable. Issues occur around online sales through intermediaries – the issue is whether the tax applies to the wholesale or retail price.

Key Issues for Local Governments:

- Provincial limitations on use of funds
- Inter-Jurisdictional competition

Key Issues for Provincial Government:

- Mix between provincial/local marketing
- Accountability -Visibility of local share
- Reduction in future tax room/flexibility

Potential Variations on Theme:

- Design/Application of revenue sharing component

Probability This Will Work in British Columbia Context:

High

Local Revenue Option Evaluation Sheet

Option: Fuel Taxes

Background/Description (How Would It Work):

Fuel taxes represent one of the more important ways in which revenue room have been dedicated to special purpose organizations for a specific purpose – in this case transportation. Dependent on the individual governance structure of these organizations this can be seen to be a transfer to local/regional authorities.

Appendix 1 shows the current dedication of clear gas tax revenue. It is this and diesel fuel that represent reasonable areas of consideration for local governments, although they have quite distinctive economic impacts. Taxes on other fuels have limited applicability to local governments.

There is no longer any real question about how local fuel taxes can work in BC as both dedication and a rate structure with over a 10 cent spread between the south coast and the much of the rest of the province already in place. This is a significant spread and there is no visible evidence of substantial impacts.

- **Where Is It Now Used:**
    - BC actually has one of the more aggressive jurisdictions with respect to local gas taxes. In Canada only Montreal has a local transit gas tax and in the U.S. these are also not that broadly used and often targeted for roads as well as transit (see Appendix 1).

- **Estimated Value/Impact:**
    - Non-dedicated provincial fuel tax is estimated at $491 million in 2012/13. A further $435 million is dedicated to the BC Transportation Finance Authority. TransLink fuel tax is estimated at $331.7 million in 2012/13. BC Transit fuel tax (Victoria Region) is estimated at $11 million in 2012/13.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
    - Neutral to Negative as compared to Neutral to Negative for the property tax
- Efficiency:
    - Local rate variations seem to have only minor- modest economic impacts.. Care needs to be taken in setting area boundaries.
- Administration:
    - Administrative issues appear quite manageable.

Key Issues for Local Governments:

- Area Boundaries
- Use

Key Issues for Provincial Government:

- Impact on revenue flexibility
- Accountability/Visibility of Local Share

Potential Variations on Theme:

- Vehicle Mileage Fees, Vehicle Registration Fees, use Based Insurance Premiums

Probability This Will Work in British Columbia Context:

High

Attachment 1:

Clear Gasoline Tax Rates per Litre			
Type of Tax	**South Coast British Columbia Transportation Service Region**	**Victoria Regional Transit Service Area**	**Remainder of the Province**
Dedicated Motor Fuel Tax – TransLink	17.00¢	N/A	N/A
Dedicated Motor Fuel Tax – BC Transit (Victoria)	N/A	3.50¢	N/A
Dedicated Motor Fuel Tax - BCTFA	6.75¢	6.75¢	6.75¢
Provincial Motor Fuel Tax (general revenue)	1.75¢	7.75¢	7.75¢
Total Motor Fuel Tax	**25.50¢**	**18.00¢**	**14.50¢**
Carbon Tax	6.67¢	6.67¢	6.67¢
Total Provincial Tax	**32.17¢**	**24.67¢**	**21.17¢**

Attachment 2: Local Gas Tax Arrangements in the United States

(from American Petroleum Institute)

Table 1: Local Option Gasoline Taxes

State	Allowable Uses	Voter Approval Required?	Areas imposing tax for transportation purposes	% of Pop. Taxed	Mean Per Capita Annual Revenues
Alabama	Roads, Other	No	23 of 67 counties, 60+ cities	> 56%	> $ 14
Alaska	General Revenues	No	At least one borough	> 8%	$5
California	Roads, Transit	Yes	None	-	-
Florida	Roads, Transit	No	All counties	100%	$ 38
Hawaii	Roads, Transit	No	4 of 5 counties	100%	$ 51
Illinois	Roads, Transit	Yes	4 of 102 counties, several cities	56%	$ 19
Mississippi	Roads & Seawalls	No	3 of 82 counties	13%	$ 17
Montana	Roads	Yes	None	-	-
Nevada	Roads	No	All counties and 1 independent city	100%	$ 41
New Mexico	Any	Yes	None	-	-
Oregon	Roads	Yes	2 of 36 counties, 3 cities	32%	$8
South Dakota	Roads	No	None	-	-
Tennessee	Transit	Yes	None	-	-
Virginia	Transit, Roads	No	2 regional commissions	27%	$ 12
Washington	Roads	Yes	3 cities, 1 transit district	0.1%	$ 67

While most states earmark local gasoline taxes for transportation projects, a few (Alabama, Alaska and New Mexico) also permit the revenues to be used for non-transportation related purposes.

Here are some examples of how local gas tax revenues are being used around the U.S.:

- In Alabama, specific counties have been authorized to levy local option gas taxes by special acts of the legislature. At present, roughly one third of all counties in Alabama have adopted a local option gas tax. Most of these counties use their revenues for road and street maintenance projects. In addition, over 300 cities have also adopted gas taxes, but only about 23% use revenues for roads.

- Florida relies upon local option gas taxes to an unusually high degree. Every county in the state has adopted at least one of the state's various forms of local option gas tax, at rates ranging between 1¢ and 11¢ per gallon. The counties vary in how they use their gas tax revenues, with some dedicating them entirely to transit, and others investing in a mix of transit, roads, and streets.

- As in Florida, counties in Hawaii and Nevada have widely adopted relatively high local option gas taxes. In all three of these states, the near-universal adoption of high gas tax rates at the local level act as a substitute for higher taxes imposed at the state level. In Nevada, gas tax revenues must be used for highway or street maintenance or construction, but in Hawaii, revenues are used for transit and public safety operations as well.

- Nevada also allows local option taxes on aviation and jet fuel. Clark County, home to Las Vegas, has adopted a 3¢ per gallon jet fuel tax to fund airport access projects.

- The Tennessee state legislature recently provided cities and counties with the power to levy a 1¢/gallon gasoline tax to finance public transit services, subject to voter approval. To date, no cities or counties have adopted it.

- Virginia state law imposes a 2% excise tax on the sale of motor fuel in five counties and six independent cities in the Washington, D.C. suburbs. Tax revenues are generally allocated to debt service and operating expenses for public transit, as well funding some road improvements.

Overall, local option fuel taxes can be a sound and appropriate long-term revenue source for the maintenance, operation, and routine expansion of local transportation systems, particularly if they can be indexed for inflation. However, it is politically and economically difficult for local gasoline taxes to be adopted at high enough levels that they can generate sufficient revenue for major infrastructure investments. Perhaps for this reason, it is unusual to find cities or counties adopting time-limited, high-rate fuel taxes.

Local Revenue Option Evaluation Sheet

Option: Carbon Tax

Background/Description (How Would It Work):

BC's revenue neutral carbon tax is unique in North America and still relatively rare globally. It represents an advanced from of product pricing – designed to reduce reliance on high carbon products –as part of a greenhouse gas reduction strategy.

The unique features of the tax are it's broad base ($30/tonne of carbon as of 2012), gradually increasing rates from 2008 to 2012; and, required revenue offsets. In effect it is a planned approach to tax carbon more and other things less in an effort to shift consumptive behaviour.

In practice the Carbon Tax is more than revenue neutral. The estimated $960 million in Carbon Tax is matched to an estimated $1,152 million set of tax reductions. Of these $481 apply to personal taxes and $671 to business taxes.

Importantly for local government $75 million is used to increase homeowner grants outside of Metro Vancouver, the Capital Region and the Fraser Valley and $68 million is used to reduce industrial school tax rates.

In considering application of the revenue neutral carbon tax to local government, the key thing to consider is the fact of its revenue neutrality. One has to breech the revenue neutral principle before there is any revenue available.

In order to make such a case it is necessary to show that the breech is limited (otherwise the "revenue grab" argument undermines the case for the carbon tax) and that the use to which the revenue is to be put is more important than offsetting tax reductions. This is no easy task.

The most sustained argument in this regard is the use of carbon tax revenue for transit. The strength in this argument is the relationship between transit service and carbon reducing behaviour. The challenge is that substantial elements of the carbon tax come from industrial and rural users, for whom transit is not an option. In this regard more targeted fuel tax options would create a closer relationship.

The key choice for local governments is whether to take on the revenue neutrality principle or look to direct any future offsets towards property tax related sources.

- **Where Is It Now Used:**
  - Carbon taxes

- **Estimated Value/Impact:**
  - Gross carbon tax in 2012/13 – $960 Million; net tax ($192)

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence: This is challenging, given the revenue neutral offsets. However overall the impact of the carbon tax looks like a progressive tax reduction for individuals and small business with a loss to larger industrial enterprises, which both bear a large share of the cost and a smaller share of the offsets.

- Efficiency: Carbon taxes are designed to place an economically efficient price on carbon, in the context of climate change mitigation. They are efficient to the extent that this overall policy is effective and to the extent that other jurisdictions adopt similar approaches. They will reduce the competiveness of particular industries so long as similar approaches are not widely adopted. The nature of the tax offsets can reduce this impact.

- Administration: The carbon tax base is too broad for local government administration. There is no evidence of local government carbon taxes.

Key Issues for Local Governments:

- How to approach revenue neutrality
- Broad base means impacts are complex and vary between jurisdictions
- Matching an expenditure to the incidence of the tax is difficult

Key Issues for Provincial Government:

- Importance of a legitimate price for carbon
- Importance of revenue neutral policy
- Industrial impacts
- Regional impacts

Potential Variations on Theme:

- Any reduction in property taxes helps local governments. How to make the case for such reductions to the provincial government is a useful question to ask.
- The connection to transit is contentious but needs to be addressed. More targeted approaches using specific fuel taxes will be more effective.

Probability This Will Work in British Columbia Context:

Medium

Attachment 1: Carbon Taxes

A number of countries have put in place taxes on the greenhouse gas emissions associated with certain sectors, such as the use of fossil fuels or resources:

- Finland introduced the world's first carbon tax in 1990 (currently ranges from $36 to $72 per tonne);
- Norway has carbon taxes on petrol ($66 per tonne) and other fossil fuels;
- Sweden (up to $153 per tonne) and Switzerland ($37 per tonne) have carbon taxes on fossil fuels, such as coal, oil and natural gas;
- Ireland has a carbon tax ($25) as does British Columbia in Canada ($30);
- China adopted a nationwide tax on coal, crude oil and natural gas extraction in 2011 (around $1.50 per tonne);
- India has a tax on imported and domestic coal with revenue used to fund clean energy technology projects (applied at less than $1 per tonne of coal); and
- South Africa is planning to introduce a carbon tax after 2013.

Local Revenue Option Evaluation Sheet

Option: Property Tax Reform

Background/Description (How Would It Work):

The classic theoretical property tax model is one tax rate on the market value of all property.

In practice almost all jurisdictions that use the property tax vary from this model in several important ways. These include:

- Business property is taxed at higher rates than residential property.
- There are specialized assessment rules for specialized property such as pipelines, utilities and in some cases, certain industrial property.
- The line between structures (taxed) and fixtures (not taxed) varies.
- Some property – often that belonging to non-profit organizations and other public authorities is not taxed.
- In some cases circuit breakers are introduced to reduce property taxes at lower income levels in order reduce the negative incidence of the property tax.

There are a great number of more specific variations as jurisdictions work to tailor the property tax to specific local conditions.

There are also substantial variations in how the tax is administered particularly with respect to consistent, accurate and up to date assessments.

In British Columbia all these factors come into play. The assessment base is broad but does exclude a substantial amount of the property of non-profit organizations. Business tax rates are higher than residential with the amount of the variance being decided locally. Specialized property including industrial improvements is assessed according to special rules. Fixtures, including industrial machinery and equipment are excluded from the tax but the structures required for such machinery are included. The homeowner grant acts as a significant circuit breaker that reduces the negative incidence of the tax.

In terms of administration the use of a single province wide assessment agency and annual assessments results in accurate, up to date and consistent assessments.

All of these features are in the local government interest. A broad base, consistent up to date assessments, local rate variations, higher rates on business and a substantial circuit breaker push the revenue earning potential of the property tax up as much as is likely practical.

- **Where Is It Now Used:**
  - o U.S., most Commonwealth countries, Europe (at much lower rates)

- **Estimated Value/Impact:**
  - o Total combined (provincial/local) property tax revenue in BC was an estimated 6.1 billion in 2011. Unlikely that reform measures will result in a significant increase

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - o Depends on nature of reform – but hard to design progressive property tax changes
- Efficiency:
  - o Property tax is least distortionary local tax option
- Administration:
  - o Property tax widely considered to be the tax most amenable to local administration

Key Issues for Local Governments:

- Business competitiveness
- Regressive incidence
- Redistributive effect of volatile property markets
- Gaps – i.e. Hydro lines in rural areas
- Relatively slow/indirect response to economic growth in an increasingly service based economy
- Share relative to that of province

Key Issues for Provincial Government:

- Business competiveness
- Provincial share
- Homeowner Grant cost/design
- Volatility in changing property markets

Potential Variations on Theme:

- Expand base – rural hydro lines
- Expand Base – crown corporation/public authority grants in place

Probability This Will Work in British Columbia Context:

Low

Local Revenue Option Evaluation Sheet

Option: Property Tax Reform – Hydro/Rail Base Broadening

Background/Description (How Would It Work):

This issue was raised at our first meeting in two forms:

- the tax structure of railroad property taxation; and
- the exclusion of Hydro utility lines in rural areas from local taxation.

Rail Taxation

The rail taxation issue is complicated but the basic issue is straightforward. B.C property taxes on railroad property remain the highest in Canada by a considerable degree. The argument for further increasing them is not strong as it could dampen railway investment intentions. Changes to the BC tax structure made in 1996 significantly increased rail property taxes while also shifting them from urban jurisdictions to more rural jurisdictions. Some urban jurisdictions lost revenues in the process. Further changes made in 2005 reversed the increases and made some other changes beneficial to the railroads. Both rural and urban jurisdictions were impacted and transitional measures were imposed, many of which remain.

The bottom line is that one could argue for further re-alignment between local jurisdictions this would come with the increased provincial intervention required to mange impacts and would not likely raise additional money overall. Making the case for more revenue is much more difficult.

Hydro Taxation

Hydro property taxation is also complicated but once again the fundamentals of the issue are straightforward. BC Hydro lines in rural areas are taxed for provincial school purposes but not for local government purposes. Hydro lines owned by other utilities are taxed are both purposes. Hydro pays a consumption based grant that largely compensates municipalities for the difference but is far less equivalent in rural areas. It is very difficult to pin down the revenue difference because many of the lines are in very low rate areas (i.e. no service areas). However it would be conservative to estimate it at upwards of $20 million.

Changing this would reduce taxes for rural residents and increase hydro rates for hydro customers by an equivalent amount.

- **Where Is It Now Used:**
  - Not Applicable

- **Estimated Value/Impact:**
  - $20 million and up for rural residents

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Hard to say – given the geographical shift
- Efficiency:
  - Little impact
- Administration:
  - Consequences modest

Key Issues for Local Governments:

- Rural-Municipal fringe tax issues may occur with a decline in rural rates

Key Issues for Provincial Government:

- Shift to hydro rate payers
- Rural tax impact

Potential Variations on Theme:

- None identified

Probability This Will Work in British Columbia Context:

Rail
Low

Hydro
Medium

Local Revenue Option Evaluation Sheet

Option: Resource Revenues

Background/Description (How Would It Work):

British Columbia derives substantial revenue from the sale/use of provincial resources. This includes revenue from crown forest use (stumpage), oil and gas royalties, mineral royalties and water rentals.

These revenues are substantial (just under $3 billion in 2012/13) and prone to severe fluctuation (from $2.5 to $4.5 billion) due to both price and rate of resource extraction.

The questions of whether and how to share these with local governments have been a point of public policy in B.C for many years and have been answered in a number of different ways.

General sharing of resource revenue with local governments was achieved as part of the 1978 revenue sharing package. In this arrangement one point of personal income tax, one point of corporate income tax and 6 per cent of sales, fuel and resource revenues were shared with local governments through a variety of conditional and unconditional grant programs. Revenue Sharing was eliminated from 1996 to 2000.

More locally specific approaches have evolved over the last 50 years.

In the initial resource development boom of the 1950's the provincial government used BC resources to leverage investment in the industrialization of the BC interior. Low resource royalties were used to leverage investment in industrial infrastructure and ongoing management of the land base. The resulting community development was financed by the taxation of the resulting industrial enterprises and supported by the MFA debt financing structure. Important components of this structure are still in place in the forest sector, although things have become much more tenuous as forest companies have become less integrated and industrial plant ownership has been separated from forestry operations.

This structure makes adjustments in order to address the context of major mines as in these cases the industrial infrastructure was a distant from municipal areas. Initially (in the 1970's) some mines were placed in municipal boundaries at municipal tax rates under satellite style boundary extensions. However attempts to formalize this approach in policy were rejected and an informal compromise reached where mines could be placed in municipal boundaries with regulated limits on tax rates that approximated either the rural area rate or a rate agreed to between the property owner and the municipality.

Oil and gas development posed the additional challenge of a network of industrial development spread over a large area, that impacted communities in ways similar to mines – housing employees, impact of industrial use on local roads, providing recreational and cultural services and providing law enforcement. The Peace River Regional District Fair Share Arrangement was developed to provide impacted communities with revenue roughly equivalent to what would be received from industrial development within the community. A method of sharing revenue between communities was also part of the arrangement.

An alternative arrangement emerged in the Columbia Basin to address the distribution of the local share of the downstream benefit, paid to B.C by the United States for the incremental power production enabled by the Columbia River Storage dams. In this case a Crown Corporation (Columbia Basin Trust) was established to administer the revenue for the overall benefit of the larger region. In conjunction with another crown corporation (Columbia Power Corporation) it invested substantial amounts in revenue creating enhancements to Columbia River dams while also investing in community social and economic infrastructure. This regional approach contrasts with the locally driven approach of the Peace River Fair Share.

A further variant on these structures occurred with the creation of the Northern Development Initiative Trust and 3 additional regional trusts. In these cases the Trusts were created as bodies entirely out of provincial control as opposed to being regional crown corporations.

With the exception of the development trusts, all of this work is designed to create a practical means of sharing provincial resource revenues with local government in some type of reasonable fashion that is both moderately equitable across jurisdictions and represents the impact of resource development on communities. It is clear from the number and variation in approaches that this is still a work in progress.

- **Where Is It Now Used:**
  - Not common in Canada. Wyoming shares most of its oil revenue with local government.

- **Estimated Value/Impact:**
  - Resource Revenue in BC varies from $2.5 to $4.5 billion/year. Old revenue sharing fund provided 6 per cent ($150-$270 million/year) to local governments. Peace Fair Share provided $35 million to Peace River local governments in 2012.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Not Applicable. Resource revenue accrues from the sale of an asset rather than from taxation.
- Efficiency:
  - Resource pricing must be sensitive to local conditions but is not particularly susceptible to local decision-making. All the described arrangements separate resource pricing from the use of the local share. Most simple provide for the share to be negotiated.
- Administration:
  - Local resource pricing is not practical. Provision of a share of resource revenue to local governments and determination of the use of funds can be done in many ways.

Key Issues for Local Governments:

- Share
- Distribution between local governments
- Determination of use

Key Issues for Provincial Government:

- Share
- Distribution between local governments
- Determination of use

Potential Variations on Theme:

- Revenue Sharing (various forms)

Probability This Will Work in British Columbia Context:

High

Revenue Sharing Summary

In the revenue sharing section we consider 5 different approaches to revenue sharing

1. **Classic** – multiple revenue sources create a pool from which multiple programs are funded. The best example is the old BC Revenue Sharing Program that dedicated 1 point of personal income tax, one point of corporate income tax and 6 per cent of sales, fuel and resource revenue to local government and used this to fund a number of unconditional and conditional grant programs.

2. **Incremental/Performance Based** – this looks at possible new options for sharing revenues from a growing economy.

3. **Regional Pools** – rather than create a provincial pool these represent regional pools in which some amount of revenue identified with a region is paid into a pool and an accompanying agreement or organization is used to determine how monies from the pool are utilized. The Columbia Basin Trust, Peace River Fair Share and the Development Trusts represent variations on this theme.

4. **Focused** – these arrangements are more focused than the classic revenue sharing scheme. They tend towards sharing revenue from a single source, through a single program for a focused set of objectives. The federal gas tax program, hotel tax sharing are good examples of such an approach. Traffic Fine Sharing is a somewhat looser version as the purpose to which the funds are to be used is only specified in general terms.

5. **Focused** – Program Specific – dedicated fuel tax for transit is an example, as is U.S Federal Funding for transportation.

Local Revenue Option Evaluation Sheet

Option: Revenue Sharing (Classic)

Background/Description (How Would It Work):

The challenges involved in stand alone local revenue sources have led some jurisdictions to design revenue sharing arrangements whereby senior governments continue to collect a particular tax or group of taxes but share a portion of those revenues with local governments under some type or group of grant programs.

The old BC revenue sharing program was a good example of such an approach. Under it, one point of personal income tax, one point of corporate income tax income tax and 6 per cent of sales, fuel and resource revenue were shared with local government. These funds were then transferred to local governments through a series of conditional and unconditional grant programs.

This arrangement was eliminated in a number of steps between 1993 and 2000. Part of this had to do with the consolidation of government accounts, which made a fund based approach such as revenue sharing meaningless. More importantly government concluded that financial support to local government was a lower priority than financing direct expenditure programs such as healthcare, K-12 education and post secondary education and that larger local governments had sufficient property tax room to get by without revenue sharing funds.

If revenue sharing was to be re-instated its 2012 value is roughly estimated at $650 million.

- **Where Is It Now Used:**
  - Saskatchewan and Manitoba use revenue sharing type formulas based on 1 point of sales tax.

- **Estimated Value/Impact:**
  - About $450-500 million above current grant levels.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Depends on the revenue sources used to finance the fund.
- Efficiency:
  - Properly done this should improve overall efficiency of the tax system as it substitutes a stronger mix of revenue tools for an amount of property taxation. However this is balanced somewhat by where BC sits in terms of tax competitiveness on tax sources –it needs property tax reductions less than it needs to stay in the game on income and sales tax levels.
- Administration:
  - Straight forward. Are issues about timing of fund accumulation and payment.

Key Issues for Local Governments:

- Size
- Distribution between programs and local governments
- Confidence in provincial commitment

Key Issues for Provincial Government:

- Fiscal capacity/Priority
- Accountability -Visibility of local share

Potential Variations on Theme:

- Regional Pools, Incremental Performance Based Revenue Sharing

Probability This Will Work in British Columbia Context:

Medium

Local Revenue Option Evaluation Sheet

Option: Revenue Sharing (Incremental/Performance Based)

Background/Description (How Would It Work):

This is a different take on revenue sharing. It involves 2 components that can be mixed and matched. It is also possible to vary each component.

This type of approach to revenue sharing has received some recent academic discussion but there are only a small number of instances where it has been applied. A good example is a recent agreement between the City of Manchester and the U.K. government.

The 3 components are:

- **Incremental** – the focus here is on growing provincial revenues and sharing from the larger pie as opposed to altering the distribution of the existing budget. The share would come from times when the provincial economy was growing strongly. The principle should be that this is a good time to put money aside because you do not want to grow programs that are not sustainable in periods of weaker growth. However, it is a poor time to make major investments because infrastructure construction costs are high. The proposition is that part of the revenue accruing from strong growth would be paid to a local government organization that would take on the job of providing it to local governments on the basis of some sort of service infrastructure plan.

- **Performance Based** - This could take a variety of forms. One could be an agreement on actions local governments would take to support economic growth – regulatory reduction, training initiatives, tax policy, industrial land availability, infrastructure investments- which presumably would support enhanced economic growth. The benefit to local government would be sharing in revenue that resulted from the economy achieving defined benchmarks. The nature of the supportive actions, the benchmarks and the degree of sharing would all be subject to negotiation.

In the Manchester example the Manchester local government agreed to take certain actions on the basis that the U.K. government would contribute as benchmarks were achieved. While this carries some risk to municipalities, particularly if too many commitments are made upfront, the concept of connecting the interest of the two governments is sound as that of securing funds when these are available, for use at a later date.

- **Where Is It Now Used:**
  - U.K.

- **Estimated Value/Impact:**
  - The value of any BC arrangement would need to be negotiated. Matching federal gas tax funding ($250 million/year) would be a reasonable target.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Neutral – the appropriate trade-off is future investment against debt repayment.
- Efficiency:
  - It depends on the choice of investments.
- Administration:
  - There are some significant and tricky accounting issues to address. Beyond those it should be quite practical. How well it works depends a lot on the details to be negotiated.

Key Issues for Local Governments:

- Value
- Benchmarks
- Commitments
- Governance

Key Issues for Provincial Government:

- Value
- Accounting
- Economic Value of Investment
- Nature of commitments

Potential Variations on Theme:

- None

Probability This Will Work in British Columbia Context:

High

There are some technical accounting issues to address but nothing to suggest it could not work.

Local Revenue Option Evaluation Sheet

Option: Revenue Sharing – Regional Pools

This option focuses on regional revenue sharing arrangements rather than a province wide arrangement.

In a sense this is the direction in which British Columbia has been trending. Since the elimination of provincial revenue sharing we have seen the development of the Columbia Basin Trust, the Peace River Fair Share, the Northern Development Initiative Trust, the South Interior and Vancouver Island Coast Development Trusts and though it is a stretch to think of it as revenue sharing, the unique lower mainland transit arrangement of TransLink.

This is not going to stop. It is broadly understood that regional revenue sharing in the Peace River will need to be enhanced if the Site C Dam proceeds and LNG Plant construction in the northwest will need to trigger some form of revenue or tax sharing arrangement in that region. The same is possible with respect to mine development in the Cariboo.

In each of the current cases unique regional arrangements have been created that are customized around the characteristics of particular regions.

An approach that builds on these arrangements would:

- focus on addressing issues with current arrangements;
- develop appropriate arrangements for other regions; and
- move towards a robust network of arrangements that achieves reasonable levels of equity between regions, while still recognizing the unique needs of each region.

The advantage of such an approach is that these types of regional approaches are likely to be more resilient than any province-wide provincial spending program (particularly if they can be done outside of the annual budget in ways such as TransLink gas tax points or Columbia Basin trust revenues). The challenge is achieving a resilient network as opposed to a series of ad hoc arrangements.

Background/Description (How Would It Work):

- **Where Is It Now Used:**
  - BC
- **Estimated Value/Impact:**
  - Peace River Fair Share valued at $35 million/year. The Columbia Basin Trust is a $321 million endowment of which $276 million is invested in power projects and $45 million in other investments to create an income stream that used for the benefit of Columbia Basin communities.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
    - In both cases the payments are effectively surrogates for industrial taxation that cannot be captured by the communities. Having such programs helps to properly distribute both the costs and benefits of industrial development.
- Efficiency:
    - Without these structures the communities would be financing the negative externalities of resource development – ensuring there is appropriate community and regional benefit is efficient.
- Administration:
    - Fair share is very administration light. The money goes straight to communities without strings or even much in the way of reporting requirements. This is consistent with the parallel to industrial taxation. The Columbia Basin Trust is much more interventionist with the endowment being used to finance power projects in the region, which will create short-term jobs and a long-term income stream. Community investment has been focused away from ongoing local government programs and on longer-term initiatives.

Key Issues for Local Governments:

- Appropriate regional shares
- Design/Structure
- Sub-regional distribution
- Allocation between operations and long-term investment

Key Issues for Provincial Government:

- Accountability
- Regional Equity
- Incenting on-going resource development

Potential Variations on Theme:

- Province wide resource sharing formula
- CBT/Fair Share/NDIT all represent variations

Probability This Will Work in British Columbia Context:

High

Local Revenue Option Evaluation Sheet

Option: Revenue Sharing – Focused

This option is built around an individual revenue source and an individual means of distributing the revenue to all or some local governments.

Examples –which show how much diversity there can be within this range – include the federal gas tax transfer, the hotel tax sharing program and traffic fine revenue sharing.

In each case all or part of a revenue source is committed to local government but the money flows through senior government programming and is limited to particular uses. Accountability mechanisms ensure it is used for the defined purposes and (in some cases) achieves the expected results are built into the program.

The three programs give a good range of how such arrangements can be defined.

Traffic Fine Revenue Sharing is a fairly straight forward arrangement. Traffic Fine Revenue is calculated net of costs to collect. This amount is then distributed to jurisdictions on the basis of their percentage of overall municipal policing costs. Recipient communities are expected to report to the province on the use of funds.

Hotel Tax Revenue Sharing with resort communities is a smaller, much more focused arrangement. It is designed to:

- provide resort communities with a source of funds to invest in community infrastructure to improve the public component of the resort product; and,
- partially address the chronic problem tourism based communities have of servicing a seasonal increase in population.

It includes criteria to define resort community, a siding scale of hotel room tax points (1-4) that are devolved to communities based on how strongly they meet these criteria and an investment plan on how the funds will be used that must be developed in conjunction with the local tourism business sector. Reports on the use of funds and results achieved are required.

This is clearly a much more tightly structured arrangement than traffic fine revenue sharing that works to balance local government interest in funding with provincial interest in achieving incremental results from that funding.

Federal Gas Tax Revenue Sharing is positioned between these two poles. It provides funding to local governments on a largely per capita basis, requires it to be spent on environmental infrastructure and requires reports on the use of funds and results achieved. In BC funds are pooled for many more urbanized regions in order to focus on larger more regional infrastructure.
The structure of these arrangements highlights a key issue in contemporary revenue sharing – how to balance local flexibility with senior governments interest in being able to document results achieved.

Background/Description (How Would It Work):

- **Where Is It Now Used:**
    - BC, Canada

- **Estimated Value/Impact:**
    - The value of the three programs of this type to BC local governments is $300 million.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
    - Depends on how incidence of revenue shared compares to property tax
- Efficiency:
    - Depends on value achieved from funds
- Administration:
    - Relatively straight-forward, but not simple

Key Issues for Local Governments:

- Flexibility
- Nature of accountability
- Amounts
- Eligibility
- Distribution

Key Issues for Provincial Government:

- Accountability
- Results achieved

Potential Variations on Theme:

- The concept of joint local-provincial investment or service planning could be built into such initiatives to ensure alignment in objectives.

Probability This Will Work in British Columbia Context:

High

Local Revenue Option Evaluation Sheet

Option: Infrastructure Grants

Background/Description (How Would It Work):

Infrastructure grant programs provide shared cost funding to specific infrastructure projects on a competitive basis. Well over a billion dollars in federal and provincial finding has been provided through such programs over the past 10 years.

Infrastructure grant programs fill an important need in the local government finance system. They allow for the funding of required projects that are beyond the fiscal capacity of individual local governments. These are typically water, sewer road (often bridge) or recreation centre projects that are large for a jurisdictions ability to pay. Such projects vary dramatically from very large projects in major urban areas to much smaller (but equally unaffordable) projects in rural service areas.

While these programs perform best where capital is matched to construction schedules, the mismatch between planning frameworks and program deadlines, as well as a need to achieve both regional balance and distribution of projects between a large number of communities tends to result in these programs supplementing local capital budgets and sometimes supporting projects are not a community's highest priority.

Where funds supplement capital budgets the benefit of lower community debt and reduced property taxation is partially offset by the cost of additional senior government oversight. Where the programs fund lower priority projects they support a less than optimal allocation of funding.

- **Where Is It Now Used:**
  - BC/Canada

- **Estimated Value/Impact:**
  - On average combined federal provincial infrastructure funding (not including gas tax) has been about $100 million/year over the past 15 years.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
    - Positive – the federal/provincial tax mix in effect replaces the local property tax/user fee mix.
- Efficiency:
    - Positive to the degree project selection increases economic efficiency. With good project selection they can be highly efficient.
- Administration:
    - Come at the price of substantial federal/provincial oversight. This is increasing, not decreasing. Local costs associated with project bidding are material.

Key Issues for Local Governments:

- Application costs
- Oversight
- Uncertainty of project selection

Key Issues for Federal/Provincial Governments:

- Accountability
- Results
- Management of project selection

Potential Variations on Theme:

- The current Infrastructure Canada led infrastructure planning process is looking at ways to improve program design.

Probability This Will Work in British Columbia Context:

High

Local Revenue Option Evaluation Sheet

Option: Grants – Per Capita/Equalization

Background/Description (How Would It Work):

The classic way of sharing senior government revenue with local governments is through per capita grants, that often have some form of equalization formula to provide greater financing to places with weaker tax bases.

In BC, the Small Community Grant program is an example of this approach. It uses a combination of a flat amount per community, per capita and equalization.

In BC equalization formulas are complicated by high property values in urban area and high industrial property values in resource communities that do not consistently align with ability to pay.

- **Where Is It Now Used:**
    - BC/Canada/Europe U.S tends towards use of own source taxation.

- **Estimated Value/Impact:**
    - In BC Small Community grants are currently about $55 million.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
    - Getting the distribution between communities right is the primary challenge with this type of approach.
- Efficiency:
    - Highly efficient way of achieving cross-government re-distribution of revenue.
- Administration:
    - Straight-forward – compared to most options.

Key Issues for Local Governments:

- Distribution between local governments
- Resilience – as a budget line item tend to be an easy budget cutting target

Key Issues for Provincial Government:

- Accountability/Visibility of provincial contribution
- Results achieved

Potential Variations on Theme:

- None

Probability This Will Work in British Columbia Context:

High

Local Revenue Option Evaluation Sheet

Option: Local Property Tax

Background/Description (How Would It Work):

The property tax is the major local government revenue source in British Columbia and most other local jurisdictions. It raised $3.6 billion in 2010.

The most recent available research (done by Enid Slack and Harry Kitchen for the Provincial Expert Panel on Business Taxation) suggests that BC residential property taxes are lower than most other Canadian jurisdictions and that business tax levels are roughly competitive with other Canadian jurisdictions – though this is less the case in local jurisdictions have higher than average rates.

The incidence of the residential component of the BC property tax is improved by the provincial homeowner grant.

As a result, an obvious source of additional revenue is higher residential property taxes.

If the committee is going to make a strong case for alternatives it will need to have good arguments about why this answer is not sufficient.

The basis for such an argument is most likely that there is much less tax room than comparative analysis might suggest because it is effectively displaced by high house price and mortgage levels. However this can be easily expanded to other taxes that fall on individuals, which makes the case for any increased taxation of individuals more difficult.

- **Where Is It Now Used:**
  - BC/Canada/U.S./Commonwealth Countries/ Europe (to a lesser degree).

- **Estimated Value/Impact:**
  - 2010 local government revenue from the property tax was $3.6 billion. Of this $2.1 was residential and $1.5 billion was non-residential. This represented 63% of municipal operating revenue.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Neutral/negative
- Efficiency:
  - From a purely economic point of view the property tax is generally held to be the most efficient tax for local governments as it imposes low rates on generally immovable property. A diverging view is that it is inefficient because it results in a drag on investment and taxes unrealized capital gains. Economists hold that there is a stronger case for residential property taxation than there is for non-residential property taxation. However in practice non-residential property is almost always taxed at higher rates.

- Administration:
    - o Total overhead (BC Assessment and Collection) would be in excess of $100 million. Based on $5.5 billion in collections this represents around 2-3 cents on the dollar.

Key Issues for Local Governments:

- Residential (personal) incidence is fixed and neutral to negative.
- Rate setting decisions to move taxes between classes can appear stark and difficult to explain.
- Property tax is both visible and often unpopular.
- Movements in property value create shifts that are not related to spending decisions and do not reflect immediate change in ability to pay.
- It is one of the few revenue sources over which they have substantial control.

Key Issues for Provincial Government:

- Provincial share important
- Non-Residential property levels can impact competitiveness
- Property value driven shifts are periodic issue to be managed

Potential Variations on Theme:

- The other major tool currently available to local governments is user charges. It is useful to look at how the two can be used in tandem to create local tax policy.

- If the primary concern is incidence a possible intervention could be a low-income property tax credit. To be useful this would need to include some proxy for renters (i.e. 1% of rent as base fro credit).

Probability This Will Work in British Columbia Context:

High

Local Revenue Option Evaluation Sheet

Option: User Charges

Background/Description (How Would It Work):

User charges are the second largest local government revenue source accounting for $2.4 billion in 2010.

They represent everything from property parking fines to recreation centre charges. However the big items are charges for water and sewer services.

In theory public goods should be finance through taxation and private good should be financed through user charges. This is offset to some degree by consideration of incidence considerations that suggest that facilities that serve a social purpose – recreation centres – should in part be financed by tax dollars. Getting the balance right is no easy matter.

However multiple studies suggest that at least when it comes to water charges – these are both largely a private good and substantially under priced in many jurisdictions.

Understanding the combined incidence and efficiency of user fee/property tax decisions will give local governments a good sense of at what levels to set these fees and how best to integrate fee and tax policy. To the extent that fees can be reasonably used they will dampen demand and impact service costs.

- **Where Is It Now Used:**
  - BC/Canada/U.S./Commonwealth Countries/ Europe (to a lesser degree)

- **Estimated Value/Impact:**
  - 2010 local government revenue from user fees was $2.4 billion

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Incidence for user charges likely somewhat more negative than property tax
- Efficiency:
  - Very good
- Administration:
  - Depends on local government systems in place

Key Issues for Local Governments:

- Incidence
- Conservation/efficiency
- Communication

Key Issues for Provincial Government:

- Conservation

Potential Variations on Theme:

- The other major tool currently available to local governments is the property tax. It is useful to look at how the two can be used in tandem to create local tax policy.

- The concept of an income tax credit for water charges would improve incidence and be a creative - though administration heavy - means of revenue sharing.

Probability This Will Work in British Columbia Context:

High

Local Revenue Option Evaluation Sheet

Option: Developer Contributions

Background/Description (How Would It Work):

Developer contributions represent one of the more interesting stories in local government finance. In 2010 they totaled $720 million – up from around $100 million 10 years earlier and from $27 million in 1985. While the 2010 numbers will have declined sharply as a result of the recession, the change in developer contributions represents one of the most important changes in the recent history of local government finance.

The key issue for the committee to come to grips with is the nature of these charges, their dramatic growth and how in that context to best address the numerous resolutions on record supporting further expansion of such charges.

Developer contributions primarily take two forms - development cost charges and negotiated exactions. These will be dealt with separately.

Development Cost Charges date from 1978, when the provincial government amended the then Municipal Act to provide a structured and regulated way of their imposition as part of the replacement strategy for land use contracts. Prior to the creation of land use contracts in the mid 1970's charges of this type were not allowed.

The decision to allow development cost charges reflected the realization that residential development was often not a break-even proposition for local government and that development which represented a cost to municipalities would be challenging to approve. DCC's were created to neutralize the financial picture so development decisions could be addressed on the basis of their consistency with municipal planning and development strategies as opposed to downstream servicing costs. The goal was to find a consistent means of pricing the financial impact of development.

A good Development Cost Charge bylaw should achieve this goal of assigning the incremental costs associated with new development to the developer. Legislation allows this to be done for roads, water, sewer, and drainage works as well as recreational land purchases.

The ongoing debate is whether the charges appropriately reflect the true incremental cost of development (linkage).

Local governments have tended to argue for broader application of development cost charges. Development industry groups tend to argue that existing charges are too high, some linkage arguments are weak, there should be more balance between development charges and debt finance to achieve inter-generational equity and there should certainly be no expansion of scope.

The economics of development cost charges can be very complicated but the essentials are quite basic. In rising land markets the costs tend to be passed forward to buyers and in slow markets they tend to either be passed back to motivated sellers or result in land being taken off the market. To the extent that they are passed forward they impact the overall value of property, providing a windfall to existing property owners and a cost to market entrants. It is this latter point that causes development industry groups to argue for a flatter allocation of development costs between developer contributions and long-term debt.

Negotiated exactions are a means of capturing the value gain associated with the approval of a development application. In effect the two parties reach agreement on the appropriate price – cash or amenities- associated with approval. That then forms part of the package that goes through the rezoning/development permit process. The consequence of this is property specific development approvals. This adds to development approval time.

- **Where Is It Now Used:**
  - BC/Canada/U.S.

- **Estimated Value/Impact:**
  - 2010 revenue from developer contributions was $720 million.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Tend to be positive if pushed back onto property owners but quite negative when pushed forward onto new housing. Will vary based on local circumstances. Needs to be evaluated in context of alternatives of lower servicing standard or higher local government payments.
- Efficiency:
  - They are an efficient pricing mechanism to the extent that they impose the cost of development on the new development.
- Administration:
  - The administrative cost of incremental additions will not be high.

Key Issues for Local Governments:

- Impact on development patterns
- Impact on housing prices
- Transparency

Key Issues for Provincial Government:

- Impact on housing prices
- Transparency

Potential Variations on Theme:

- None

Probability This Will Work in British Columbia Context:

Medium

Local Revenue Option Evaluation Sheet

Option: Vehicle Charges/Tolls

Background/Description (How Would It Work):

Project specific tools using electronic tolling technology have now been introduced on the Golden Ears and new Port Mann bridges.

Non-electronic tolling was used for over 20 years on the Coquihalla highway.

Metro Vancouver has discussed one or both of system tolls for all major crossings in the metro region or a vehicle surcharge, collected along with automobile insurance.

Paying Our Way, the 2009 Report of the U.S. National Surface Transportation Commission recommended that the best ways to finance surface transportation were project tolls at the local level and some combination of a vehicle miles tax, fuel taxes, auto tire tax, vehicle registration fee, heavy vehicle use tax and vehicle registration tax at the federal level. Most of the charges they suggest at the federal level could be adapted to local use.

- **Where Is It Now Used:**
    - Tolls are common through the U.S. and Europe, cordon or congestion charges (which are close to the system tolling idea for Metro) are in place in London, Singapore and Stockholm. The only known example of non-metro congestion charges is the Paris–Lille freeway. Quebec, Toronto and Washington State are examples of jurisdictions with local motor vehicle registration charges for transit.

- **Estimated Value/Impact:**
    - Depends on rates-could be substantial in Metro Vancouver.

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
    - Most likely neutral to negative
- Efficiency:
    - Quite good, with respect to commuters as it is use based. Impact on port competitiveness needs to be watched.
- Administration:
    - Practical

Key Issues for Local Governments:

- Structure of charges
- Need for province to collect registration charges
- Provincial ownership of key crossings
- Public reaction/communication
- Tolling authority

Key Issues for Provincial Government:

- Accountability/collection of registration charges
- Public response

Potential Variations on Theme:

- Charges can take many forms

Probability This Will Work in British Columbia Context:

Medium

Local Revenue Option Evaluation Sheet

Option: Expenditure Management /Shared Services

Background/Description (How Would It Work):

Increasingly governments are looking at the issues of shared services to reduce costs.

This takes two basic forms. One is sharing of back office functions (systems, payroll) and the other is the sharing of service delivery.

BC municipalities have a long history of co-operative arrangements at a province-wide level – MFA, MIA, and CivicInfo, BC Assessment.

There is also a substantial amount of sharing of service delivery both through the regional district system through and individual service delivery arrangements between local governments.

The issue here is whether there are institutional changes that could become part of a negotiate package that would help move these arrangements to a higher level.

One area where shared services are increasingly common is that of back office services (i.e. systems, payroll). If a structure to undertake this can be created - at either a provincial or regional level -it is also possible to take this a further step and contract with major private sector service providers.

The second area has to do with shared service delivery. In this model smaller municipalities would typically contract with larger municipalities for the provision of a service. For example, Vancouver recently combined Parks Board and Municipal maintenance operations – this model could be replicated in other places by combining maintenance of municipal and regional parks.

Such changes are not easy – there are substantial barriers including labour relations issues and reduction in local control over service levels - and a strong business case will need to be made that it is worthwhile. However, given the large number of smaller local government units there is a reasonable possibility of reductions to both cost and risk.

- **Where Is It Now Used:**
  - Private sector, provincial government, being explored in many local government jurisdictions

- **Estimated Value/Impact:**
  - Unknown

Key Questions – (How Does It Improve Status Quo):

- Distribution/Incidence:
  - Creates savings
- Efficiency:
  - Positive
- Administration:
  - Complex/ongoing

Key Issues for Local Governments:

- Labour Relations
- Inter-Jurisdictional Relations
- Program design
- Communications

Key Issues for Provincial Government:

- Possible Legislation to enable particular approaches

Potential Variations on Theme:

- None

Probability This Will Work in British Columbia Context:

High

Summary Evaluation of Potential Revenue Tools for B.C Local Government									
Proposed Revenue Source	**Evaluation Criteria**								
	Economic Responsiveness	**Incidence**	**Relation to Consumption of Local Services**	**Stability**	**Independence**	**Capacity**	**Amount Currently Raised in BC 1 ($'s billions)**	**Distribution Formula Needed?**	**Overall Fit for BC Local Governments**
Current Property Tax	Low	Negative	Modest	High	High	Modest	6	No	Good
Personal Income Tax	High	Positive	Low	Low	Low	High	25	Yes	Good
Sales Tax	Moderate	Negative	Modest	Low	Low	Low	10	Yes	Modest
Property Transfer Tax	Low	Negative	Modest	Modest	Low	Low	0.7	Yes	Modest
Insurance Premium Tax	Moderate to High	Neutral	Modest to High	Modest	Low	Modest	0.4	Yes	Good
Corporate Income Tax	High	High	Low	Very Low	Low	Modest	6	Yes	Poor
Targeted Consumption Taxes	Varies	Varies	Good	Varies	Good	Low/ Modest	1.5	Possible	Varies by product
Hotel Room Tax	Good	Good	Good	Modest	Good	Low/ Modest	0.1	No	Good
Fuel Tax	Modest	Negative	Good	Modest	Good	Modest	1.3	No	Good
Carbon Tax	Modest	Negative	Good	Modest	Modest	Modest	1.1	Yes	Modest
Resource Revenues	High	Not Applicable	Poor	Poor	Poor	Modest	2.4	Yes	Poor/Modest
Local User Charges	Modest	Neutral to Negative	Very Good	Good	Good	Modest	2.4	No	Good

Notes:

1. This refers to the estimated value total of current taxes imposed by all 3 levels of government in British Columbia. These are order of magnitude estimates and do address the offsetting impacts of transfer payment, as would be done in the determination of the national accounts.

2. This table does not include revenue sharing and expenditure management options as the degree to which these options meet the criteria depends on their design and particularly on the precise revenue sources or expenditures to be included. It also does not include developer contributions because of the impact of such charges vary with how they are designed and with local context.

3. The difference between fuel taxes and the carbon tax is based on the degree to which the carbon tax falls on industrial activities, which would in turn require additional attention to attribution to individual local governments. The carbon tax evaluated here would be in addition to the current revenue neutral carbon tax. This is because the revenue neutral carbon tax does not raise net revenue and therefore can only be evaluated in comparison to the offsetting tax reductions introduced by the provincial government.

APPENDIX 4: INFRASTRUCTURE & COMMUNITY DEVELOPMENT BANK

How the Infrastructure Bank Concept Would Have Worked from 2000/01-2010/11

		Results using sharing of 25% of growth over 3%			Results using sharing of 10% of growth over 2%		
Year	Provincial Revenue (Actual)*	Provincial Revenue If 3% Growth were achieved*	Actual Provincial Revenue above 3% Growth*	25% of Actual Provincial Revenue above 3% Growth*	Provincial Revenue If 2% Growth were achieved*	Actual Provincial Revenue Above 2%*	10% of Actual Provincial Revenue above 2% Growth*
2000/01	29.7	N/A	N/A	N/A	29.7	N/A	N/A
2001/02	28.1	30.6	nil	nil	30.3	nil	nil
2002/03	27.7	31.5	nil	nil	30.9	nil	nil
2003/04	29.1	32.4	nil	nil	31.5	nil	nil
2004/05	33.3	33.4	nil	nil	32.1	1.2	.12
2005/06	35.9	34.4	1.5	.375	32.8	3.1	.31
2006/07	38.4	35.4	3.0	.75	33.4	5.0	.5
2007/08	39.7	36.5	3.2	.8	34.1	5.6	.56
2008/09	38.3	37.6	0.7	.175	34.8	3.5	.35
2009/10	37.4	38.7	nil	nil	35.5	1.9	.19
2010/11	39.9	39.9	nil	nil	36.2	3.7	.37
Total**	347.8	350.4	8.4	2.1	331.6	24	2.4

* All $ in billions
** 2000/01 not included in totals, as it is the base year

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Select Committee on
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July 2013

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