

TO: CITY MANAGER 1998 May 20

FROM: DIRECTOR FINANCE

SUBJECT: FINANCING LOCAL GOVERNMENT STUDY

PURPOSE: To provide Council with information regarding the U.B.C.M./Ministry of Municipal Affairs study of local government financing issues.

RECOMMENDATION:

THAT this report be received for the information of Council.

Background

Council, at its regular meeting held on 1998 May 11 received correspondence from the U.B.C.M. advising of the joint U.B.C.M./Ministry of Municipal Affairs initiative, *Financing Local Government Study*. Arising from consideration of the correspondence, Council requested that staff prepare a report on the initiative.

REPORT

A number of Provincial Ministries and the U.B.C.M. have recently approved the terms of reference for a review of local government financing issues. The review will be conducted by Working Groups composed of elected local officials, local government staff, provincial government staff and assisted by a research/facilitator. The work is to be completed in time to report to the 1998 U.B.C.M. convention in September.

Five broad elements for the study have been identified, they are:

1. Exploring Opportunities to Finance Own Source Revenues
2. Appropriate Local-Provincial Financial Relations
3. Eliminating Unnecessary Expenditure Mandates
4. Appropriate Financial Management
5. Opportunities to Rationalise the Financing of Shared Jurisdictions

Due to the tight timetable for the review the U.B.C.M. had requested comments and "early ideas" by Friday, May 15th. Due to Council schedules, the tight time frame for comments and a desire to indicate an interest in participating in the process, a sub-committee of the Regional Finance Advisory Committee (consisting of regional Director's of Finance) provided a consolidated list of suggestions on the Process, Elements, and Outputs to be considered during the review.

The suggested areas of review put forward by the regional Director's of Finance have been distributed to cities to provide a starting point for input or comments from Municipal Councils.

The suggested review areas are as follows:

Process

- Due to the desire to fast-track this study no organized response has been sought from finance groups such as the Government Finance Officers Association of B.C. (G.F.O.A.-B.C.) or the Regional Finance Advisory Committee (R.F.A.C.) which could have elicited some in-depth comment from these groups. However, the study's organizing committee did incorporate members of the G.F.O.A. -board on the working committees.
- The five stated issues/elements are inter-related and therefore working groups may be at "cross purposes"; to minimize this conflict a knowledgeable research director/facilitator is needed, preferably one appointed by the UBCM. (The role of the director/facilitator also needs to be clarified.)
- The number of participants, membership and role of the working groups needs to be reviewed to ensure balanced perspectives are obtained.
- The Joint Council should ensure that input provides a balance between the lower mainland, the island and the interior; the appearance is that the process is already slanted toward the lower mainland's issues.
- There should be provision or a process to accept formal presentations and/or contributions from G.F.O.A.-B.C. and R.F.A.C..
- The extent to which specific mandates of the Province are to be included in the discussion needs to be clarified.

Elements

1. Exploring Opportunities to Finance Own Source Revenues

- review deferment of utility fees under the Property Tax Deferment Act for seniors/handicapped homeowners.
- review assistance from the Province in the collection of unpaid parking tickets through procedures similar to unpaid traffic violations.

- review the limitations on full cost recovery/profit that are inherent in the Cemetery Act.
 - review the establishment of a Provincial approach to taxation of telecommunication utilities and rights of way.
 - review compensation to municipalities for the right of way used by B.C. rail.
 - Review the sections of the Municipal Act that affect financing of operations and capital.
Sections: 224 Restriction on granting privileges
 225 Prohibition against aid to a business
 316 Power to lease municipal property
 318 Notice of proposed sale or lease
 321 Prohibition against options to purchase municipal property
 451 Contracts for general operations of municipality
 458 Requirement for assent of the electors
 459 Comprehensive loan authorization bylaw
 534 Title of highways in Provincial government
 etc.
 - review local government access to additional taxing authority, including the use of sales taxes.
 - review the use of the property tax for the support of non-local services, eg.: school taxes.
 - review Provincially mandated municipal property tax rates and caps.
 - review differential tax rates for defined areas and sub-classes.
 - review terms of Provincial agreements with First nations to ensure compliance with the treatment of other tax payers under the Municipal Act.
 - explore the dollar level restrictions on Business licences.
 - review compensation for criminal record checks related to the issuance of Chauffeur's permits.
 - review fees for Cell phone distributors.
 - review restrictions on the elements and types of costs covered by Development Cost Charges.
2. Appropriate Local-Provincial Financial Relations
- review Provincial school taxation and the basis for BC Assessment levies to ensure that the current systems are equitable.
 - review Provincially funded reinstatement of programs and services provided to the needy which were previously covered under the Canada Assistance Plan.
 - review existing Equalization Grants to maintain funding levels in order to avoid further cuts to municipal services.
 - review the payment for utility services (sewer, water, solid waste) provided to provincially-owned properties.
 - review operational and capital grants to ensure they are non-partisan and distributed on a regional basis to organizations which provide cross jurisdictional benefits, eg. the Greater Vancouver Transit Authority.

- review the Assessment Appeal process to ensure that appeals are dealt with in a timely and consistent fashion and that values are based on market not simply negotiated settlements.
- review Provincial infrastructure grant programs formerly covered by conditional grants.
- review payments-in-lieu of taxes to ensure that the policies underlying the process are fair to local taxpayers. Consider the principles established by the Federation of Canadian Municipalities and their applicability to adoption by the Province (current B.C. Assessment values, timely remittance, appeal process, etc.).
- assess the financial impact of shifts in responsibility caused by devolved Provincial roads, closing court houses, and allocation of appropriate sources and levels of revenues for the Greater Vancouver Transit Authority.
- review the use of municipalities as a policy arm of the Provincial government; i.e.: fair wage contracts, regulation of public sector wage increases, purchasing regulations, etc.

3. Eliminating Unnecessary Expenditure Mandates

- review the work commenced in this area by the KPMG study on Provincial-Local Transfers (1997). This study can provide the basis for further research and discussion.
- review the imposition and compensation for additional costs to municipalities as a result of Provincial issues such as gambling and casinos.

4. Appropriate Financial Management

- review the need, format, and criteria for the Provincial Home Owner Grant
- review the use of the homeowner grant for the payment of utility fees.
- review Provincial compensation to municipalities for homeowner grant administration.
- review the format, layout, and wording of the property tax notice.
- examine the mandatory phrases of the tax notice. (Sections 378-379, regulation 110/90, Home Owners Grant Act Regulation 134/81(4)/(5)), with the view to making them easier to understand, specifically for those citizens whose second language is English.
- review the ability to provide special purpose components separately categorized and shown on the property tax billing.
- review the authority for setting fees and charges with the view of providing the ability to recover costs directly attributable to user or special interest groups.
- review the proposed implementation of the Public Sector Accounting Board guidelines, to ensure there are no adverse impacts on municipal budgets and taxes. The reporting forms and statement requirements also need to be rationalized and simplified.
- explore changes to the Act to provide more flexibility for entering into Private Public Partnerships.
- The Financial Information Act report has largely been replaced by obligations to report under the Freedom of Information Act, explore a more adequate level of compensation for municipal costs incurred.
- explore the need to simplify the ability and remove restrictions to entering into long term leases.

- review restrictions to and the provision of more flexibility on the types of authorized municipal financial investments.
 - review the ability to bill by installments
 - review the tax penalty provisions of the Act.
5. Opportunities to Rationalize the Financing of Shared Jurisdictions
- Negotiations around the sharing of traffic fine revenues need to come to some resolution. Specifically, the Province needs to ensure that municipal costs of traffic enforcement are covered by enforcement revenues, and that there is adequate incentives for municipal police forces to continue to generate these revenues for the Province.
 - review the compensation to municipalities for the collection of school taxes.
 - review municipal access to the gas tax, sales taxes, income taxes, etc. to fund downloaded Provincial services.
 - Transit and hospital financing are moving to a regional basis; the ability to provide policing and fire services on a similar basis should be reviewed.

Outputs

- The draft report from the study on options and recommendations, scheduled for July 23, should be made available for comment from the GFOA (and RFAC).
- Municipalities need to be able to protect themselves from appearing to "buy in" to proposals by virtue of their involvement in this review process if the Province is free to cherry pick the issues it wishes to deal with after the consultation process is complete.

The above constitutes the initial input of the Regional Finance Advisory Committee to the U.B.C.M./Ministry study on financing local government. It is provided for the information of Council as a basis for municipal comment. The study's working groups are scheduled to begin meeting at the end of May and the work is to be completed in time to report to the U.B.C.M. convention September 21 to 25 this year.



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