TO: **CITY MANAGER** 2003 July 16

FROM: **DIRECTOR FINANCE** File: G69-5

SUBJECT: **PROVINCIAL PORTS COMPETITIVENESS INITIATIVE -MUNICIPAL IMPACTS**

PURPOSE: To provide Council with information related to the property tax cap for the Major Industry tax class proposed by the Provincial government.

RECOMMENDATION(S):

1. THAT the Provincial government be requested to abandon the proposal to further encroach upon the tax rate setting autonomy of municipal councils, and

2. THAT a copy of this report be forwarded to MLAs: Rick Thorpe, Minister of Competition, Science and Enterprise, Gary Collins, Minister of Finance, George Abbott, Minister of Community, Aboriginal and Women's Services, and Stan Hagen, Minister of Sustainable Resource Management (responsible for the BC Assessment Authority), the Federation of Canadian Municipalities, and the Union of B.C. Municipalities.

REPORT

On 2003 June 11 provincial government staff held an information session regarding a municipal property rate capping proposal designed to address the impact of property taxation on the investment climate for port terminal operators.

Port Terminal Operators' Concerns

Over the last several year, port terminal operators have been voicing their concerns that:

- property taxes represent too heavy a cost burden
- there is uncertainty about future tax rates
- property assessments for improvements and land are experiencing major increases

Municipalities' Position

In response, the seven port communities endorsed an eleven point position paper for the province to consider prior to making any legislative or other changes that impact municipalities. The points endorsed were:

- Our ports are significant economic generators for the entire country.
- Ports are primarily a federal responsibility.
- The presence of the ports creates real costs for municipalities.
- Revenues from property tax and Payments In Lieu of Taxes (PILTs)are crucial for municipalities.
- Property taxes and/or PILTs are not the main obstacle to port competitiveness.
- Tax rate capping is not the solution.
- A tax class shift is not the solution.
- The B.C. Assessment/tax system does not need major revision.
- The Municipal Finance Authority rating is potentially at risk if the province further encroaches on the autonomy of municipal councils to independently set their own tax rates.
- Port downloading has already been absorbed by municipal governments.
- Municipal tax payers should not subsidize a federal infrastructure facility.

On 2003 February 17, Burnaby City Council adopted the position paper and sent copies of the Council report and position paper to the applicable representatives of the provincial government.

Provincial Government Proposal

The provincial government proposal is intended to address the impact of property taxation on the investment climate for port terminal operators. The logic of the proposal being that property taxes on new port improvements are a disincentive to investment by virtue of the fact that they decrease the cost/benefit of any proposed new construction.

The proposal has four elements that are intended to be made effective for the 2004 taxation year:

1. The property tax rate on new Major Industry (Assessment Class 04) improvements, made by port terminal operators, will be limited to a municipal tax rate of $25 per $1,000 of assessed value.

2. The property tax rate on existing port terminal properties will be capped at $30 per $1,000 of assessed value.

3. Some financial assistance will be provided, by the province, for a five year period for municipalities that experience a financial impact from the implementation of the proposal.

4. Legislative changes to exempt certain types of assets of port terminal properties leasing federal crown land (this would mirror exemptions provided under the federal PILT Act).

The proposal will only apply to the following GVRD municipalities*:

- North Vancouver City
- North Vancouver District
- Vancouver
- Delta
- Surrey
- Port Moody
- Burnaby

* (the fourth element of the proposal is being considered for broader municipal application)

The effectiveness (magnitude of new port investment) of the provincial proposal would be reviewed after three years.

Impact on Burnaby

Although more work is required on the definition of facilities and assets to which the proposal will apply, the provincial government estimates that the 2003 assessed value of impacted properties is $11,882,000, of which $1,122,295 would be entirely exempt from taxation with the remainder being capped at $30 per $1,000 of assessed value.

Exempt improvements	$1,122,295	@	50.8823	=	57,105
Capped properties	10,759,705	@	20.8823	=	224,687
Total annual municipal property tax loss (at 2003 rates & values)					$281,792

The province is proposing to offer $248,123 (the impact of the cap applied to the total assessed value) worth of funding for a period of five years in order to provide municipalities time to work the loss of revenue into their operating budgets.

Issues

1. The proposal is providing an incentive for improvements, works and investment that may not fit within community plans.
2. Given the numerous reports on the growth of economic activity at the ports, including the fact that the cruise ship industry has registered its 20th consecutive year of growth and there has been record setting throughput of container traffic in the face of the impacts of September 11th, international economic downturn, and the softwood and other trade disputes the question needs to be asked: "are the port industries the group of tax payers most in need of municipal financial aide?"
3. Although the offer of temporary provincial funding will help in the orderly disengagement of the revenue from the city's budget, the province itself will continue to tax the same properties at $12.50/$1,000 of assessed value. Given the value of port industry to the provincial economy, relative to the value to a local municipal economy, and if the province is truly convinced that the port industries are the most needy tax

payers, the province could indicate their support by reducing or eliminating their tax on the port industries. This would result in a reduction, in Burnaby, of $134,496 per year that could be used to permanently offset the impact on the loss of our taxation revenue by increasing the threshold level of the proposed taxation cap.

4. Although the provincial staff have indicated that they have been provided with the financial condition of the port industries (terminal operators) and are convinced of the need for municipal tax relief, city staff have not been provided the same information for review or analysis; leading to questions about the reality of the allegations of the impacts of the competitiveness issue.
5. The fundamental question remains: "Is local government the appropriate level of government to bear the financial burden of reducing the cost of operations for the port industries?"

As input to the deliberations on the proposal it is recommended that Burnaby Council request that the provincial government abandon its proposal to further encroach upon the tax rate setting autonomy of municipal councils.

Rick Earle
DIRECTOR FINANCE

cc: Director Planning

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