

Memo



Date: June 20, 2011
File: 0280-40
To: City Manager
From: Paul Macklem, General Manager, Corporate Sustainability
Subject: Fiscal Management in British Columbia's Municipalities

Recommendation:

THAT Council receive the following documents:

- Report by the General Manager, Corporate Sustainability on Fiscal Management in British Columbia's Municipalities dated June 20, 2011;
- UBCM news release titled, 'UBCM Releases Municipal Fiscal Management Study', dated May 16, 2011;
- Publication by Union of British Columbia Municipalities titled, 'Comment on Fiscal Management In British Columbia's Municipalities' and dated May, 2011;
- Powerpoint presentation titled, 'Comment on Fiscal Management In British Columbia's Municipalities' and dated June 27, 2011

Purpose:

To provide factual information on municipal government taxation and spending in addressing reports and comments expressed by organizations such as the Canadian Federation of Independent Business and the Canadian Taxpayers Association.

Background:

In December, 2010, the Canadian Federation of Independent Business (CFIB) released the third edition of *British Columbia Municipal Spending Watch*, the group's position paper on spending by municipalities in British Columbia. Earlier, in June, 2010, CFIB released a separate paper on municipal taxation titled *The Case for a Cap on the Property Tax Gap*. These two papers are the most recent installments in a series of reports and statements by CFIB on local government financial management and taxation. A separate group, the Canadian Taxpayers Federation (CTF), has issued its own papers and has made its own statements in recent years.

Municipalities in British Columbia welcome open, constructive dialogue with all groups on important matters of local government, including spending, taxation, service delivery, governance and accountability. What municipalities take exception to are reviews that ignore or misrepresent the fiscal and service realities facing local governments, and that unfairly characterize local governments as being less-than-responsible financial managers.

The attached '*Comment on Fiscal Management in British Columbia's Municipalities*' has been produced by the Union of BC Municipalities (UBCM), in cooperation with the Local Government Management Association of BC and the Government Finance Officers Association of BC, to provide balance to the story of municipal spending, taxation and accountability as presented by CFIB and CTF. The paper makes three points:

- Contrary to the views of CFIB and CTF, local government spending on operations is not "out of control". Municipal operating expenditures have increased over time in response to the demands and needs of communities for important local services. Expenditures have also increased due to the rising cost of key service inputs, and to downloading of new responsibilities - without matching sources of funding - by senior governments.
- Municipalities do not unfairly tax local businesses. Tax revenue data from the past 20 years in BC show that the property taxes received from business (Class 6) properties have remained constant as a percentage of overall tax revenue. The proportion of revenue from residential (Class 1) properties has increased.
- Local governments are not unaccountable to Class 6 taxpayers. The large numbers of business leaders who serve as Mayors and Councillors across BC help to ensure that the needs and priorities of local businesses inform municipal policy-making.

The UBCM publication and associated powerpoint presentation is supplemented with some statistical information regarding Kelowna specific experience with taxation and expenditures included as the last 5 slides.

Internal Circulation:

Legal/Statutory Authority:

Legal/Statutory Procedural Requirements:

Existing Policy:

Financial/Budgetary Considerations:

Personnel Implications:

External Agency/Public Comments:

Community & Media Relations Comments:

Alternate Recommendation:

Considerations not applicable to this report:

Submitted by:



P. Macklem, General Manager, Corporate Sustainability

cc: General Manager, Community Sustainability

General Manager, Community Services



UBCM Releases Municipal Fiscal Management Study

Report shows policy advocated by CFIB would cost average homeowner nearly \$230 per year

News Release: May 16, 2011

(Victoria, BC) Tax policies advocated by the Canadian Federation of Independent Business (CFIB) would increase property taxes on the average home in BC by 14.5% - nearly \$230 - annually. This finding is contained in a new report published by the Union of BC Municipalities (UBCM) that examines municipal tax policy and fiscal management in British Columbia.

"The CFIB has been saying that businesses are taxed unfairly," said UBCM President Barbara Steele. "Our research shows that for the past two decades the actual portion of property taxes paid by businesses has declined slightly. During the same period, the portion paid by homeowners has grown by 7%. The implementation of the cap advocated by the CFIB would effectively increase the taxes paid by families even further."

The report calculates the shift from business to residential property owners if a 2:1 ratio advocated by the CFIB was implemented at current spending levels. Many municipalities in BC have a higher rate of taxation for businesses based on their ability to pay in comparison to residential owners, since businesses can deduct this expense or pass along costs.

The report also shows how increased spending in municipalities in recent years is driven by local demand for improved protective and recreational services. While the portion of total spending in these areas over the past two decades is increasing, the portion of spending on overhead has decreased.

"The findings of the report show that municipalities are investing more in the areas that matter most to our communities and that our operations are becoming more efficient," said Ms. Steele.

The report also includes data showing that the vast majority (75%) of the Mayors in British Columbia's municipalities are drawn from the private sector.

The report *Comment on Fiscal Management in British Columbia's Municipalities* was produced by UBCM together with the Local Government Management Association and Government Finance Officers Association of British Columbia. It is available now at www.ubcm.ca

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**COMMENT ON FISCAL MANAGEMENT
IN BRITISH COLUMBIA'S MUNICIPALITIES**

In December, 2010, the Canadian Federation of Independent Business (CFIB) released the third edition of *British Columbia Municipal Spending Watch*, the group's position paper on spending by municipalities in British Columbia. Earlier, in June, 2010, CFIB released a separate paper on municipal taxation titled *The Case for a Cap on the Property Tax Gap*. These two papers are the most recent installments in a series of reports and statements by CFIB on local government financial management and taxation. A separate group, the Canadian Taxpayers Federation (CTF), has issued its own papers and has made its own statements in recent years.

Municipalities in British Columbia welcome open, constructive dialogue with all groups on important matters of local government, including spending, taxation, service delivery, governance and accountability. What municipalities take exception to are reviews that ignore or misrepresent the fiscal and service realities facing local governments, and that unfairly characterize local governments as being less-than-responsible financial managers.

This Comment on Fiscal Management in BC's Municipalities has been produced by the Union of BC Municipalities (UBCM), in cooperation with the Local Government Management Association of BC and the Government Finance Officers Association of BC, to provide some balance to the story of municipal spending, taxation and accountability as presented by CFIB and CTF. The Comment makes three points:

- Contrary to the views of CFIB and CTF, local government spending on operations is not "out of control". Municipal operating expenditures have increased over time in response to the demands and needs of communities for important local services. Expenditures have also increased thanks to the rising cost of key service inputs, and to downloading of new responsibilities — without matching sources of funding — by senior governments.
- Municipalities do not unfairly tax local businesses. Tax revenue data from the past 20 years in BC show that the property taxes received from business¹ (Class 6) properties have remained constant as a percentage of overall tax revenue. The proportion of revenue from residential (Class 1) properties has increased.
- Local governments are not unaccountable to Class 6 taxpayers. The large numbers of business leaders who serve as Mayors and Councillors across BC help to ensure that the needs and priorities of local businesses inform municipal policy-making.

MUNICIPAL SPENDING

Statistics collected by the Ministry of Community, Sport and Cultural Development confirm that operating expenditures by municipalities across British Columbia have been increasing consistently in recent years, even when adjusted for population growth and inflation.² The explanation for this trend is not that spending is "out of control". The explanation, instead, relates to the need and demand for services. Put simply, local government expenditures have increased in recent years in response to the demands and needs of communities for important local services. Expenditure increases can also be attributed, in part, to the rising cost of key service inputs, and to service and regulatory initiatives taken by senior governments that result in additional responsibilities and net costs being downloaded onto municipal governments.

DEMAND FOR SERVICES

Municipal governments exist, first and foremost, to provide services to their local communities. In some cases, local services and service levels are mandated by provincial authorities — local governments are required by statute to respond in these instances. In most cases, however, the range and level of local services provided by a local government are determined by the municipal council, which serves as the community's elected governing body. Council is guided in its decision-making by the demands of the local community, as expressed by the various groups that comprise the community.

As would be expected, local service demands have evolved

¹ For the purposes of this report, "business properties" refer to properties prescribed in Class 6 and "residential properties" to those in Class 1 of the Assessment Act.

² The same statement can be made for regional districts. This document, however, focuses on municipalities.

over time. Traditionally, communities' expectations of their municipal governments were relatively modest. So-called "hard" services, such as roadworks, sewer systems and water utilities, were expected at basic levels, as were fire suppression and local policing. Today, in response to economic, social, demographic and environmental changes, the range and level of services expected are far greater. Local governments today are increasingly viewed by their communities as the service providers of first resort, responsible for identifying, developing and providing the services that meet the community's needs, support its values, and help to achieve its vision.

Figure 1 illustrates the scope of services that is now common to municipal governments in British Columbia, particularly governments of mid- and large-size centres. The list includes the traditional "hard" services and protective services that municipalities have always provided; but it also includes a number of "soft" services, such as parks and recreation, land-use planning, museums and libraries. Certain social planning services, particularly in the area of social

housing and homelessness, are provided by a number of municipalities as well.

In recent years, local governments have noticed particular increases in demand for protective services (primarily policing and fire suppression) and parks, recreation and culture (including libraries and performing arts). In the case of protective services, the overall increase in demand reflects heightened concerns over public safety. Higher demand for parks, recreation and culture services, on the other hand, reflects quality of life aspirations and the view that spending in these areas generates social dividends in the form of active youth and seniors, healthy and engaged populations, and in reductions in levels of property and other crime.

Spending data illustrate the rise in demand for these particular services across BC. A breakdown of the aggregate municipal operating expenditure figures reveals that spending on protective services and on parks, recreation and culture has increased steadily in recent years relative to spending in other areas of service.

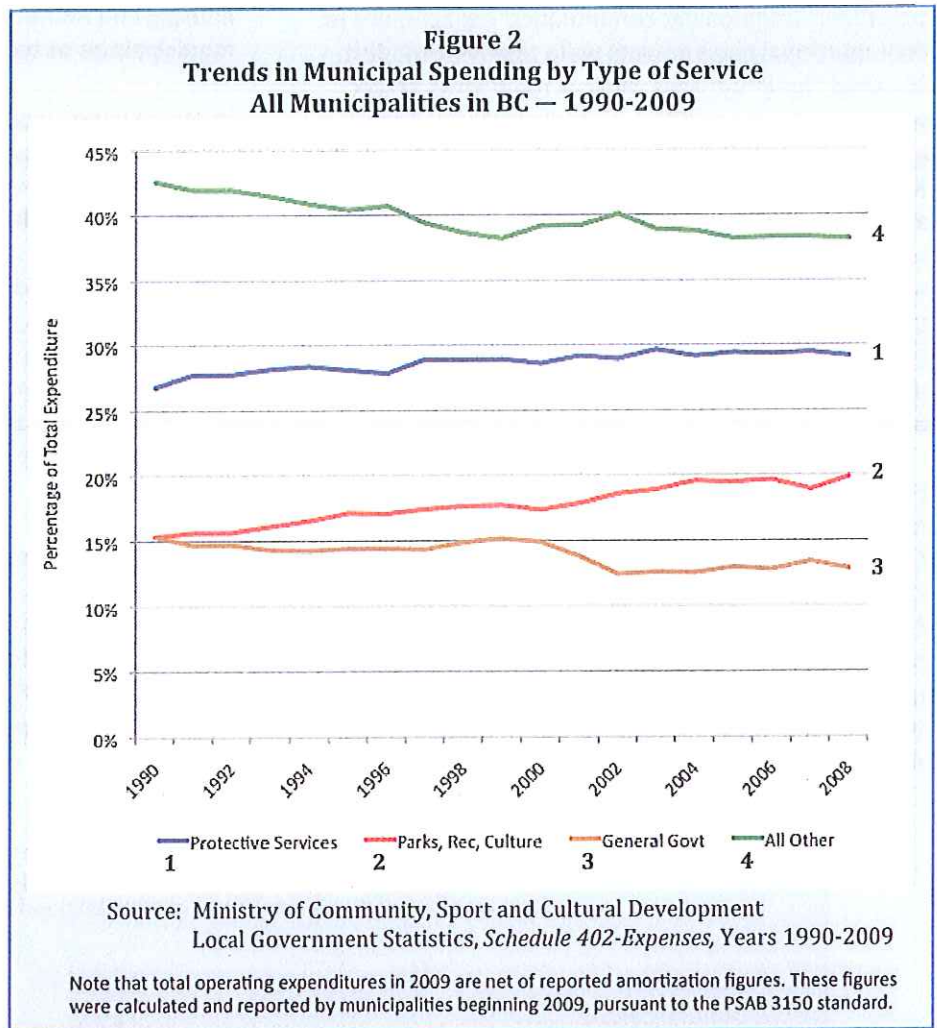
Figure 1
Range of Services Provided by Municipalities in BC

- | | |
|---|------------------------------------|
| Airports | Museums |
| Animal control | Parks |
| Arenas and sports facilities | Planning and zoning |
| Art galleries | Police protection |
| Building, plumbing, electrical inspection | Protection of natural environment |
| Business licensing | Public health regulation |
| Cemeteries | Public transportation |
| Communications | Public works |
| Economic development | Recreation facilities and programs |
| Elections | Regulation of nuisances |
| Electricity generation and distribution | Social housing |
| Emergency planning | Social planning |
| Fire protection | Soil fill and removal regulations |
| General administration | Solid waste management |
| House numbering | Storm drainage |
| Industrial parks | Street maintenance |
| Irrigation and flood control | Subdivision control |
| Land purchase and development | Theatres |
| Libraries | Traffic planning and control |
| Liquid waste management | Water supply and distribution |

Source: Robert Bish and Eric Clemens, *Local Government in British Columbia (4th Edition)*, UBCM, 2008

Figure 2 presents this breakdown for the years 1990 through 2009 — a longer period of time than the more selective period chosen by CFIB in its recent publication.³ To be sure, overall spending has increased in absolute terms in all service areas and across all municipalities. Increased spending has been focused, however, on the specific services — protective services and parks, recreation, culture — that communities most demand.

In reviewing Figure 2, it is useful to note that the percentage of overall spending on general government — often referred to as “general overhead” — has decreased over time, particularly since 2000. This finding suggests that municipal governments are conscious of the need to economize where possible, to provide value-for-money, and to direct limited resources to those services and activities that communities deem to be most important.



CORE SERVICES

The term “core service” does not appear in the provincial legislation that empowers and directs local government in British Columbia. It is a term, however, that is commonly used in local government to identify services that are deemed essential to communities. It is also a term that is used by interest groups such as CFIB to limit the scope of services that municipalities should provide. The suggestion by these groups is that municipalities exist solely to provide basic, essential services, and that any activity that is undertaken over and above a limited set of functions represents a “nice to do” service that communities neither need nor can afford.

The limited set of core services is not clearly identified by CFIB. Reference is made in the group’s 2010 *BC Municipal Spending Watch*, however, to a statement from the Winnipeg-based Frontier Centre that defines

non-core services as those which have substitutes in the private market. This definition, applied to BC’s municipalities, would characterize all or parts of recreation, transit, economic development, arts and culture, housing, garbage collection, and other local services as non-core services, outside of the limited service scope that CFIB would impose on municipalities. The Canadian Taxpayers Federation also refrains from explicitly listing what it believes to be the core services that communities should expect from their local governments. In its 2008 publication *A Property Tax Cap*, however, CTF refers to local recreation services as non-core services that should be provided by other levels of government or the private sector.

The views of CFIB and CTF notwithstanding, the reality is that in British Columbia today each community working through its elected council determines for itself which local

³ The most recent year for which complete data are available in Figure 2 is 2009. All figures in the paper make use of the most recent data. For some figures the data end in 2009; for others, 2010 data were available.

services should be treated as “core services” — services, in other words, that are deemed to be important to a community’s economic, social and environmental well-being. The decision is not made by CFIB, CTF or any other group based on its notion of the proper role and priorities of local government.

SERVICE INPUT COSTS

An additional point on municipal expenditures relates to the cost of service inputs — that is, the items that municipalities must purchase in order to provide services. Business groups correctly point out that labour costs represent the single largest cost input for municipalities, in many cases accounting for over 50% of local operating budgets.

CFIB and others suggest that municipal employee wage increases are too generous, and that municipal councils need to exercise stronger discipline in controlling spending on labour. Certain realities must be understood, however, namely that changes to wages for employees in collective bargaining units are negotiated, not imposed by council fiat. Both parties in labour negotiations have certain rights, responsibilities and pressures. Agreements that arise from such negotiations are reached through compromise, and are entrenched through contract. The suggestion that local governments should disregard established contracts, or ignore fundamental collective bargaining rights and processes, could not be taken seriously by responsible elected officials.

SENIOR GOVERNMENT DOWNLOADING

Local government leaders in British Columbia believe strongly that senior governments should not assign responsibilities to municipalities without providing, or making available, sufficient revenues to offset costs that are incurred. In recent years, this issue of downloading has been the subject of more than 40 resolutions that have been debated by local elected officials at UBCM annual meetings. It remains the case today, however, that senior government downloading occurs.

In many cases, downloading occurs through senior government regulatory change. New regulations are developed by the provincial or federal government — often in pursuit of worthwhile goals — and imposed

on local governments. Upon implementation, senior governments typically make available some or all of the necessary funding to meet the changes. Over time, however, the funding is withdrawn and municipalities are left to cover the costs using their own resources.

The fiscal impact — potential and actual — of downloading on municipalities is more considerable as it relates to ever-increasing senior government environmental regulations, particularly those that are introduced to address greenhouse gas emissions, and concerns over water quality and wastewater effluent. The need to retrofit buildings, and to upgrade (or construct) water and wastewater treatment facilities to meet new standards can impact — and has impacted — municipal capital and operating budgets. In some municipalities, cost impacts have been significant.

An ongoing and evolving senior government initiative concerns the Canada-wide Strategy for the Management of Municipal Wastewater Effluent. This Strategy, which has been endorsed by the Canadian Council of Ministers of the Environment, has been put forward without the promise of senior government financial assistance.

MUNICIPAL TAXATION

Each year, municipalities must determine how much property tax revenue is required to help cover their projected expenditures. The total amount required in any one place represents that municipality’s property tax burden. Each municipal council allocates its tax burden among the various property tax classes that make up the local community. The burden is allocated based on a number of factors, such as the relative size of assessment bases for different classes of property, the size of assessment changes in each class, local economic conditions, and the decisions of councils in other centres. Councils are also guided in their allocation decisions by some general taxation principles that are important in all jurisdictions. Key among these principles is fairness, which has two dimensions:

- fairness, as determined by the benefit each type of property receives from municipal services; and,
- fairness, based on the (perceived) ability of each tax class to pay.

BENEFITS RECEIVED

In its June, 2010 publication *The Case for a Cap on the Property Tax Gap*, CFIB takes the position that fairness based on benefits received is the most important consideration in allocating the municipal tax burden.⁴ CFIB notes in its text that small business owners would define property tax fairness “ultimately by drawing a direct link between the property taxes the business pays and the services the business consumes” (p. 4). CFIB suggests, further, that there is evidence that Class 6 properties user fewer services (and thus benefit less) than Class 1 properties. The fact that Class 6 properties typically pay higher tax rates is considered by CFIB to be unfair.

BC’s municipalities would agree that consumption of (or benefit from) services is an important and legitimate consideration that should be reflected in every tax allocation decision. Municipalities would also suggest, however, that benefits-received is not the only consideration that is relevant, and further that benefits-received is not necessarily the best indicator of fairness. Municipalities would also point out that it is exceedingly difficult to accurately measure the benefits that are received from many types of municipal services.⁵ In recent years some studies have been undertaken in an attempt to calculate levels of local service consumption/benefit for different property classes. The best example comes from the City of Vancouver. A 2006 share-of-service study conducted by MMK Consulting for the City found that in Vancouver non-residential property classes (almost entirely Class 6) paid \$2.42 in municipal property taxes for every \$1 of benefits received. Class 1 properties, conversely, paid only \$0.56 for every \$1 received.

In 2007, the City of Vancouver established an independent Property Tax Policy Review Commission of tax experts to examine the City’s approach to allocating its tax burden. In its review, the Commission examined the MMK report and made the following conclusion:

“In our view, there are some inherent weaknesses in consumption studies in general. While the MMK Report is thorough and generally makes reasonable assumptions and defensible calculations, the study only looks at the direct consumption of services or the direct benefit from services. There is an important indirect

dimension, however, that needs to be considered.

“The quality of life in a city, the perceived level of safety, the availability of a high quality park and recreation system, and the provision and maintenance of high quality infrastructure are very important factors in attracting skilled labour to a community. Business depends on the community’s ability to attract labour, especially in sectors of the economy that employ highly mobile and highly skilled knowledge workers who look at quality of life as a key factor in their decisions about where to live or to start companies. This benefit to business is not captured in a direct measure of consumption.

“We acknowledge that it is very hard to measure indirect consumption or indirect benefits and any such analysis would necessarily involve many assumptions, judgments, and subjective interpretations that would be open to debate. Nonetheless, in our view there are clear indirect benefits to the business community, and the total benefit to the business community is greater than the share of direct benefit estimated by MMK.”⁶

ABILITY TO PAY

The perceived ability of a class of property to pay a tax is another indicator of tax fairness. The Commission established by the City of Vancouver struggled with this issue. It made the following conclusion (p. 25):

“Generally, business enterprises and commercial property owners are thought to have a greater ability to pay than individuals [i.e., Class 1 owners] for three reasons: they use the property to generate income; they can, in general, pass on costs to customers; and, they can deduct expenses from taxable income. These reasons are felt to provide some justification for taxing non-residential property at a higher rate than residential property.”

It is worth noting that the provincial government takes these arguments into account when it sets the variable tax rates for regional district services, and for the public school system. The same is true of the Municipal Finance

⁴ The Canadian Taxpayers Federation, in its 2008 publication *A Property Tax Cap*, makes the same point.

⁵ Because many municipal services do not have private good characteristics, it is difficult to clearly identify service beneficiaries. Further, services such as utilities and solid waste collection that do have private good characteristics are typically funded through user fees. User fees closely link expenditures and benefits.

⁶ City of Vancouver *Property Tax Policy Review*, 2007 (p. 31)

Authority, British Columbia Assessment, the Greater Vancouver Transportation Authority and BC Transit. All of these authorities set their tax rates for Class 6 properties above those for Class 1 properties.

ALLOCATION OVER TIME

CFIB focuses considerable attention on the Class 6/Class 1 tax rate ratio. Tax ratios, however, can be a misleading indicator of tax equity. On a year-to-year basis, variable increases in property class assessments will require councils to change rates (and thus ratios) in order to maintain a consistent allocation of the tax burden among property classes.

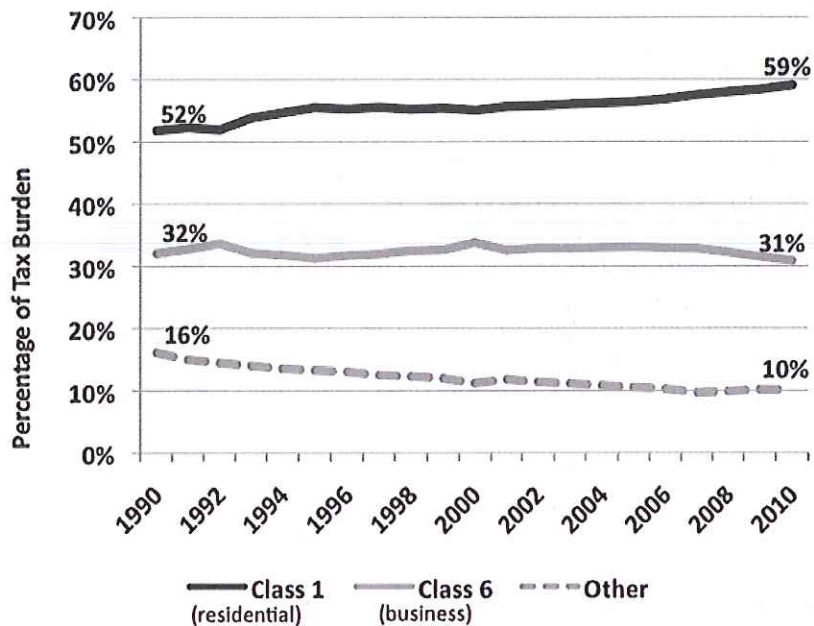
Tax ratios are important to the extent that they are manipulated to transfer the tax burden from one class of properties onto others. Ratio adjustments that resulted in a portion of the tax burden shifting from residential properties to other classes, for example, would be a cause for concern. Such shifts in the tax burden, however, have not been occurring. In fact, the opposite is true; residential taxpayers are carrying an increasing share of the property tax burden.

Figure 3 charts the percentage of the municipal property tax burden paid by each property class, province-wide, from 1990 through 2010. The percentage allocated to Class 6 properties has remained remarkably constant over this entire period. The Class 1 share, on the other hand, has increased from 52% to 59%.

THE CALL FOR A CAP

In *The Case for a Cap on the Property Tax Gap*, CFIB calls on municipalities to voluntarily cap the ratio of Class 6 property tax rates to Class 1 property tax rates at 2:1. CFIB suggests that if municipalities are unwilling to take this action, the provincial government should

Figure 3
Allocation of Tax Burden Over Time
All Municipalities in BC — 1990-2010



Source: Ministry of Community, Sport and Cultural Development
Local Government Statistics, Schedule 707 (Tax Burden), Years 1990-2010

prepare the necessary legislation and impose the 2:1 cap. Such a cap, whether introduced voluntarily or imposed through legislation, would lead to revenue shortfalls in almost every city, town and village. CFIB anticipates this consequence, and provides the following counsel:

“To make up any shortfalls, municipalities should look to cost savings in their budgets rather than placing an additional burden on residents.” (p. 23)

For most if not all municipal governments, finding sufficient “cost savings in their budgets” to accommodate a cap on the Class 6/Class 1 ratio would lead to the reduction or elimination of important local services, the presence of which contributes directly to the well-being and prosperity of local communities, their residents and their businesses. In most communities, the reduction or elimination of local services would not be considered acceptable.

The true result, therefore, of a 2:1 cap on the Class 6/Class 1 tax ratio would be a shift in the allocation of the local tax burden off of Class 6 properties and onto all other classes, primarily residential.

Figure 4 presents the average impact across BC municipalities that would be felt by the owner of a home that is assessed at \$524,000.⁷ The figure shows clearly that a 2:1 cap on the Class 6/Class 1 tax ratios would result in an increase in the amount of tax paid by homeowners.

CFIB is not the only group calling for a cap on the Class 6/Class 1 tax ratio — the Canadian Taxpayers Federation (CTF) has also demanded a cap. For CTF, however, a cap of 2:1 for Class 6/Class 1 would not go far enough. CTF calls on municipalities — at the behest of the province, if necessary — to reduce the property tax rates for all tax groups to current Class 1 rates, over a ten-year period. This demand, if acted upon, would create a single tax rate for all classes, or an effective tax ratio cap of 1:1. Figure 4 shows the shift in the tax burden that would occur from non-residential property classes to residential properties if the CTF cap were endorsed.⁸

MUNICIPAL ACCOUNTABILITY

In 2003, the provincial government enacted the Community Charter, a piece of legislation that explicitly recognizes municipalities and their councils as an order of government within their jurisdiction, with the power and discretion necessary to address existing and future community needs. Section 8 of the Charter is particularly significant. It extends to municipal councils the authority — characterized as “broad corporate powers” — to decide which local services to provide, and which to not provide, to their municipalities. Equally significant, however, are the accountability mechanisms that have been embedded in the Charter to balance the new powers, and to ensure that municipalities remain accountable to all stakeholders, including local businesses.

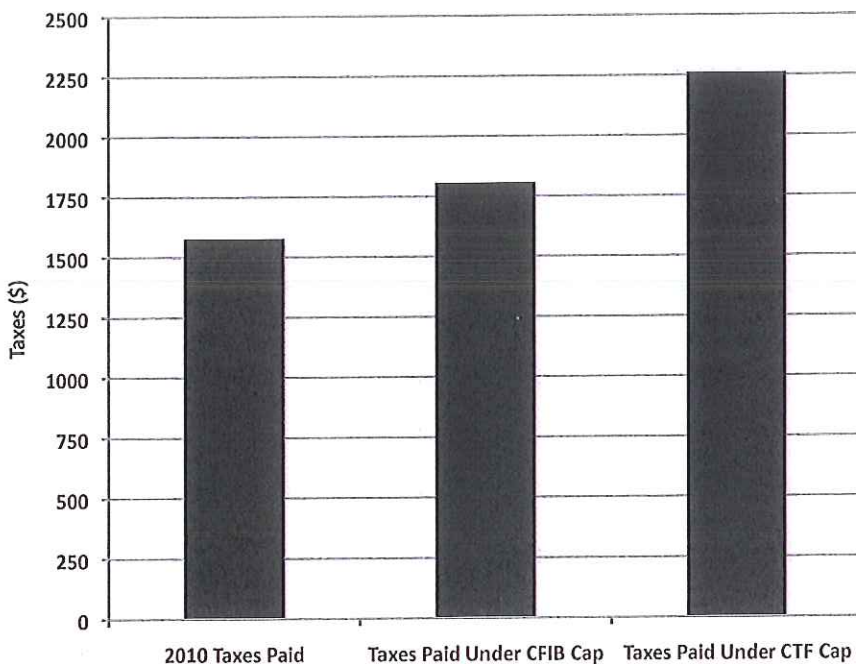
These mechanisms include:

- the legislative requirement for council and committee meetings to be open to the public, except in specific and rare circumstances, so that all interested persons can follow the decision-making process;
- the requirement that all in camera meetings be announced, with reasons given for their in camera status;
- the requirement for municipalities to undertake public consultation on their annual financial plans;
- the tax policy requirement for councils to include in their financial plans explicit objectives and policies regarding the distribution of the property tax burden among property tax classes;

⁷ Given the significant variability in residential assessment values across BC, it is very difficult to pick one figure that is representative of a typical home for the province as a whole. The figure of \$524,000 is the average for all of BC in 2010 according to the BC Real Estate Association. This figure is presented for illustration purposes only. It is below average values in parts of Metro Vancouver and Greater Victoria, but is greater than average values in most other parts of BC.

⁸ The impact of the CTF cap in Figure 4 assumes 2010 municipal spending levels. The reduction in municipalities’ net costs that would be necessary to neutralize any tax impact on residential properties would be substantial, and would result in significant service cuts for communities.

Figure 4
Impact of Tax Caps on Homes Valued at \$524,000
2010 Rates -- BC Average (all municipalities)



Variable property tax payment only. Does not include parcel taxes or user fees.

Sources: Ministry of Community, Sport and Cultural Development
Local Government Statistics: *Schedule 704* (2010 Taxes & Charges),
Schedule 707 (2010 Assessments, Tax Rates & Taxes)
BC Real Estate Association News Releases (BC Average home assessment)

- the requirement for municipalities to issue annual reports, and to include in their reports measurements of progress made on past goals, and an outline of future goals; and,
- the requirement for municipalities to seek input from businesses before passing a business regulation bylaw.

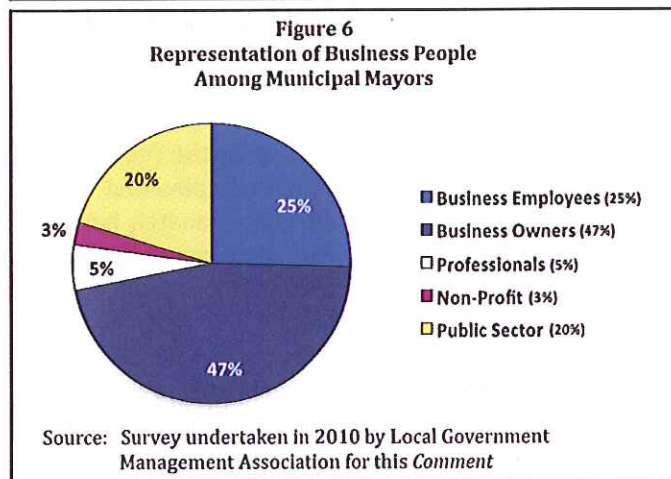
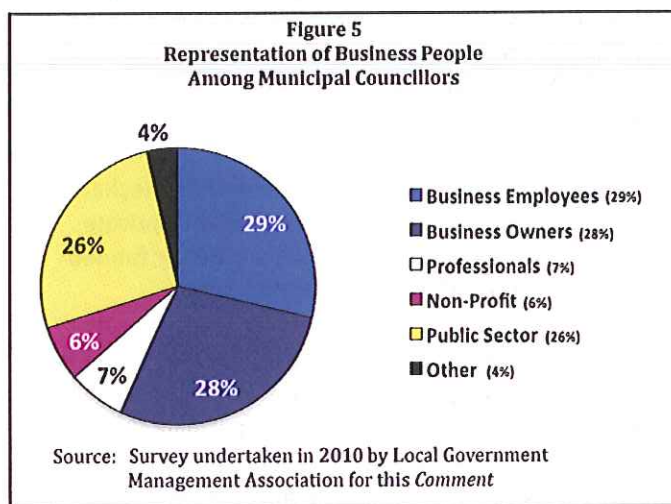
These requirements apply to all municipalities in the province. In many places, however, the requirements are only part of the picture. Several municipalities regularly conduct surveys to collect input on service needs and priorities, and to gauge the value that taxpayers feel they receive from municipal spending. An increasing number of municipalities are undertaking service reviews to critically examine the need for existing services and service levels, and to improve the cost-effectiveness of service delivery efforts.⁹ Some municipalities also make use of independent commissions and committees to provide advice on key financial and taxation matters. The City of Vancouver's 2007 Property Tax Policy Review Commission is one example; the City of Fort St. John's 2009 Property Tax Policy Commission is another. A third example is Whistler's 2009 Long Term Financial Planning Committee.

Finally, decisions and actions of municipal councils are regularly scrutinized by local media, local business associations (e.g., Chambers of Commerce), business interest groups (such as CFIB) and other organizations that are independent of government. The questions posed and investigations undertaken by these groups help to ensure that municipal decision-makers account for spending, service and taxation choices. The transparency and openness of local government in BC make the job of these groups easier.

BUSINESS REPRESENTATION

Business cannot vote in local elections in British Columbia — or, for that matter, in local elections in any jurisdiction.¹⁰ Business leaders and business owners can, however, stand for election to local office and can, as a member of a municipal council, act to ensure that needs of the business community are considered in key decisions. In communities across British Columbia, business people are well represented in municipal government.

Figures 5 & 6 present the results of a survey conducted for this *Comment*. A full 72% of mayors whose municipalities responded to the survey (n = 114) own or work for private businesses. For councillors (n = 651) the number is 59%. The reality in local government is that the vast majority of elected officials — not only those who come from the private sector — understand the importance of local businesses to their communities, and understand the need to ensure that local decisions promote rather than hinder business growth and prosperity.



LOOKING AHEAD

Over the past several years, communities in BC have increasingly relied on their local governments for a growing range of services. These services have met the needs of residents and businesses, and have enabled communities to develop into vibrant centres in which all stakeholders can thrive.

⁹ Examples of municipalities that have recently done, or are now doing, service reviews include Penticton, Whistler, Squamish, Vancouver & Kelowna.

¹⁰ The sole exception to this statement appears to be the city of London, UK. The City, at one square mile in size, is distinct from Metropolitan London. It is home to 9,000 residents and 340,000 workers. The City of London Corporation is the jurisdiction's local government, created to provide local services to the financial and commercial centre. See Local Government Elections Task Force, *Corporate Vote Discussion Paper* (2010), Appendix 1. It is useful to note as well that businesses cannot vote in elections at any level of government, including provincial or federal.

In the years ahead, communities will almost certainly continue to turn to their local governments to have local service needs met. Local governments will do their best to respond to needs and expectations that are presented. The challenge for local governments, however, will be one of resources. Local governments in British Columbia have access to a very limited number of revenue sources. Property value taxes remain the largest single source in all centres. In general, property taxes represent a relatively stable and predictable source of revenue — a reliance on this source, therefore, does not expose most municipalities to financial instability. Property taxes do, however, give rise to a number of other concerns. For example:

- They are not the most appropriate funding mechanism for all types of local services. Services with private good characteristics, for example, are better funded using other tools that target specific users.
- They do not always promote vertical equity — that is, equity among taxpayers within the same tax class. The property tax system is based on the premise that a property's assessed value reflects the property owner's ability to pay relative to that of other owners in the same tax class. This premise is not necessarily valid, particularly in high-growth centres where changes to assessment are not gradual or uniform.¹¹
- They are regressive taxes. Research by the Federation of Canadian Municipalities in 2006 revealed that low-income residents pay a disproportionately large percentage of their pre-tax income on property taxes (directly as homeowners, or indirectly as tenants) relative to high-income residents.¹²

These concerns, coupled with a general desire to diversify revenue sources, account for the efforts in local government to seek out alternatives to property taxes. User fees and charges represent one such alternative — one that has been embraced by many municipalities. Very few other alternatives, however, are currently available for local governments to consider.

In recent years, municipalities, local government organizations and others have been calling for a new fiscal

deal for local governments. A number of important studies have been done to highlight both the need for new sources of revenue, and some of the tools that could be made available:

- The most recent report, titled *Local Prosperity: Options for Municipal Revenue Growth in British Columbia*, was published by the research group Think City in November, 2010. Chapter 3 highlights a number of different tools for generating local government revenues. One set of tools features consumption and other non-property taxes. Guaranteed access to a percentage of provincial sales tax revenues is identified based on a model that was recently introduced in Saskatchewan. Municipal sales taxes, similar to those in place in many American and European cities, are also suggested, as is a property transfer tax, such as the one in place in Toronto. Road pricing schemes, increasingly commonplace throughout the world, are mentioned, as are carbon taxes, more secure hotel room taxes, and "sin" taxes.
- UBCM's 2008 policy paper, *Financing Local Government: Achieving Fiscal Balance*, also identifies revenue generating tools to consider in place of, or in addition to, property taxes (the list of tools is similar to the list featured in the 2010 Think City paper). In 2004 UBCM published a paper titled *Proposal for Sharing Resource Revenues with Local Governments*. This paper focuses specifically on a system of guaranteed provincial revenue sharing to supplement, and decrease local dependence on, municipal property tax revenues.¹³
- FCM's 2006 publication, titled *Building From the Ground Up: Restoring Municipal Fiscal Balance*, outlines the fiscal challenge for municipalities and calls for new revenue tools, including local income taxes and provincial revenue sharing.

Demands for a new fiscal deal for local governments will remain strong in the coming years — indeed, if anything they will increase. Acquiring access to a broader range of revenue tools is considered essential if municipalities are to continue to be able to meet, in cost-effective and equitable ways, the service needs and demands of their communities.

¹¹ Within the Class 6 property class the lack of a clear relationship between property taxes and business activity leads to equity concerns and helps to explain calls for activity-based taxes in place of property taxes. The idea of a tax on business activity is mentioned briefly by the Vancouver Property Tax Commission (see City of Vancouver *Property Tax Policy Review*, 2007, p. 94). Business value taxes are examined in detail in a 2001 Commentary by the CD Howe Institute (Richard Bird and Kenneth McKenzie, authors) titled *Taxing Business: A Provincial Affair?*

¹² See FCM's *Building From the Ground Up: Restoring Municipal Fiscal Balance* (2006), p. 25

¹³ The paper refers to the former Revenue Sharing Act, introduced by the province in 1978 to provide local governments in BC with a predictable flow of provincial revenues, including: 1% of personal income tax receipts, 1% of corporate income tax receipts, 6% of social service tax receipts, and 6% of various natural resource receipts. This Act was repealed in 1993 and replaced in 1995 with the less valuable Local Government Grants Act.

ACKNOWLEDGEMENTS

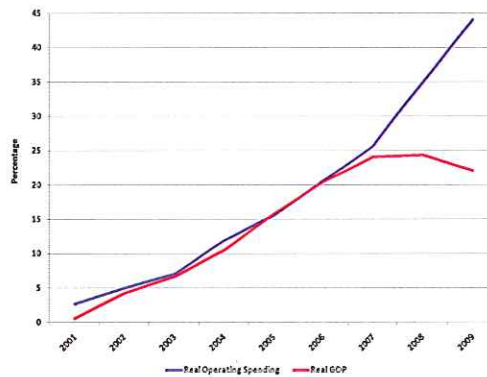
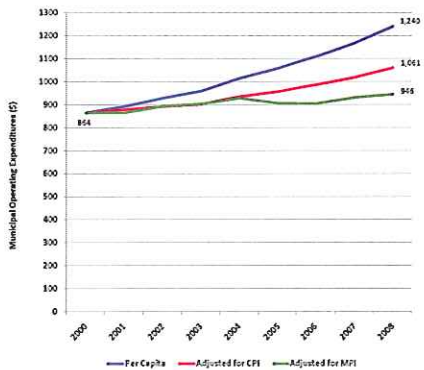
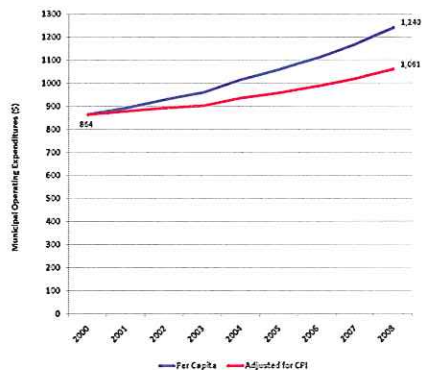
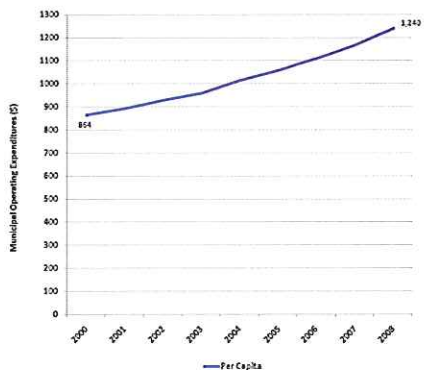
The *Comment on Fiscal Management in British Columbia's Municipalities* was produced by a Steering Group drawn from the Union of BC Municipalities, the Local Government Management Association and the Government Finance Officers Association of BC. The Steering Group thanks Mr. Allan Neilson-Welch who prepared this document under its direction.

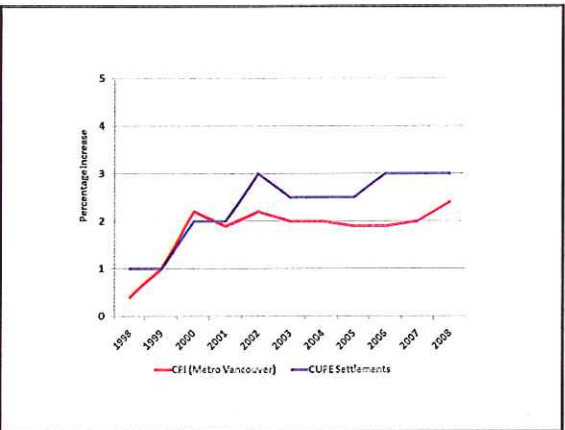
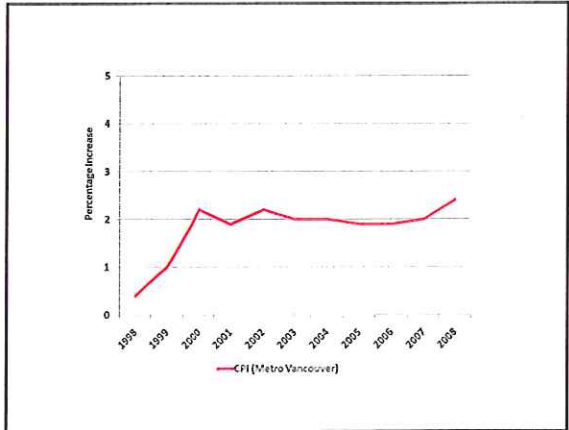
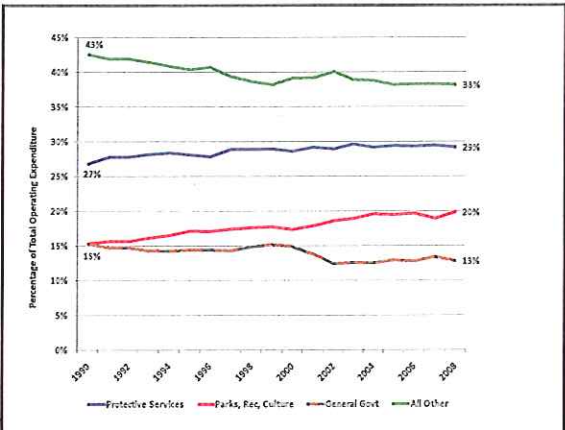
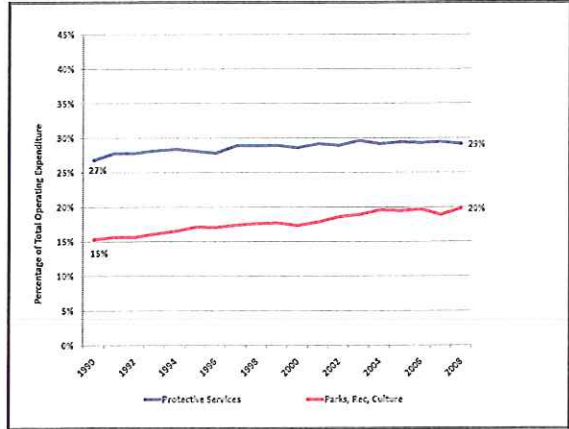
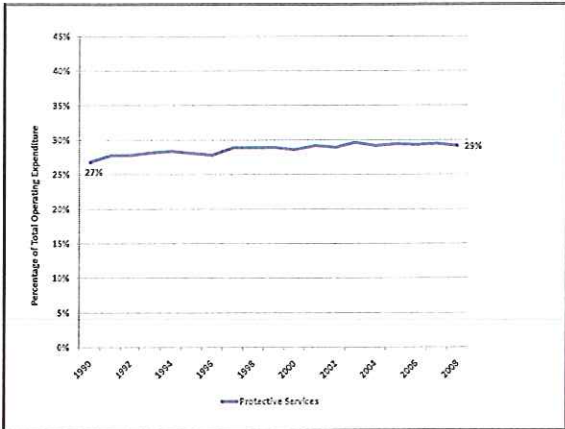


Comment on Fiscal Management In British Columbia's Municipalities

Presentation to Kelowna City Council
Originally prepared for UBCM, May, 2011
June 27, 2011

Municipal Operating Expenditures



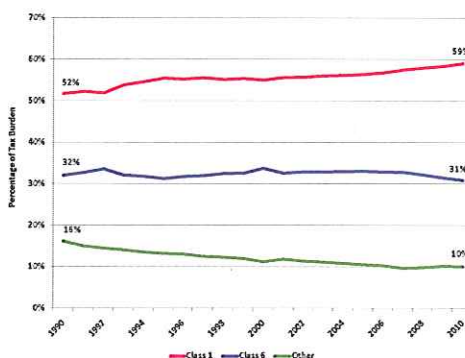
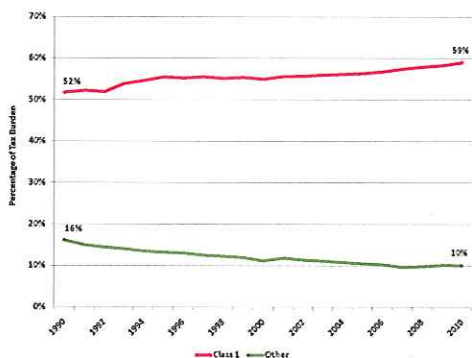
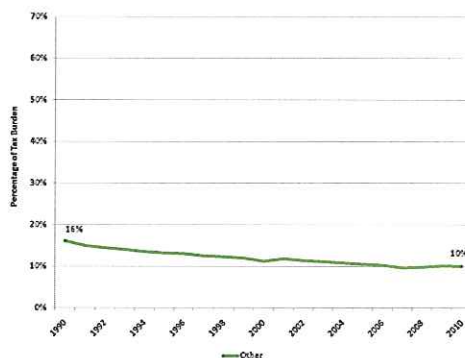


Allocation of Municipal Tax Burden

"In our view, there are some inherent weaknesses in consumption studies in general. While the MMK Report is thorough and generally makes reasonable assumptions and defensible calculations, the study only looks at the direct consumption of services or the direct benefit from services."

"The quality of life in a city, the perceived level of safety, the availability of a high quality park and recreation system, and the provision and maintenance of high quality infrastructure are very important factors in attracting skilled labour to a community."

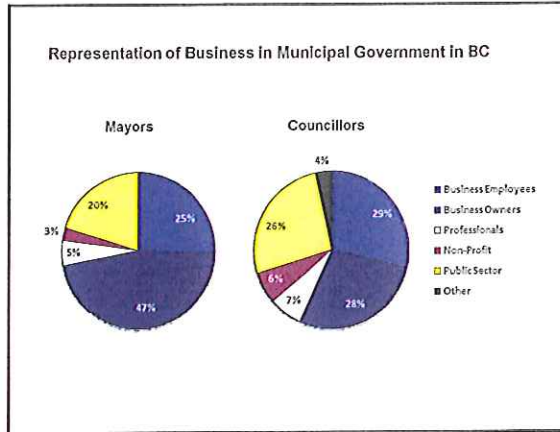
"Business depends on the community's ability to attract labour, especially in sectors of the economy that employ highly mobile and highly skilled knowledge workers who look at quality of life as a key factor in their decisions about where to live or to start companies. This benefit to business is not captured in a direct measure of consumption."



MUNICIPALITY	HOME VALUE	TAX INCREASE
Chilliwack	319,726	
Cranbrook	260,866	
Kamloops	327,769	
Kelowna	454,442	
North Vancouver District	829,762	
Saanich	589,641	
Surrey	531,813	
Vancouver	958,444	
Victoria	546,131	

MUNICIPALITY	HOME VALUE	TAX INCREASE
Chilliwack	319,726	20
Cranbrook	260,866	238
Kamloops	327,769	178
Kelowna	454,442	71
North Vancouver District	829,762	153
Saanich	589,641	182
Surrey	531,813	125
Vancouver	958,444	711
Victoria	546,131	578

Municipal Accountability



Comment on Fiscal Management
In British Columbia's Municipalities

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- City of Kelowna Context – What's Changed?
- Revenue sharing grant
 - Commodities increases
 - RCMP costs
 - Labour market
 - Land values
 - Housing partnerships
 - Water & sewer grants
 - Transit
 - Gas tax
 - Traffic fine sharing
 - Attention to tourism
 - User fees
 - 10 Year average tax increase = 2.47%
 - 10 Year CPI average = 1.71%

City of Kelowna Context – Business Property Tax

2010 CLASS MULTIPLES - BC MUNICIPALITIES
POPULATIONS > 75,000
SORTED BY HIGHEST RATIO IN CLASS TO LOWEST

Municipality	Type	Utilities	Major Ind.	Light Ind.	Business	Res/Non-P
Cootan	C	12.44	15.66	3.90	4.63	4.40
Vancouver	C	18.58	14.26	4.55	4.55	1.00
Burnaby	C	12.60	17.20	3.88	3.88	0.65
Victoria	C	8.59	3.59	3.59	3.59	2.48
Saanich	D	7.91	3.55	3.55	3.58	1.67
Richmond	C	14.32	4.20	3.90	3.45	0.68
North Vancouver	D	15.38	17.06	8.68	3.32	2.29
Kamloops	C	7.79	14.29	4.97	3.12	2.21
Delta	D	11.69	8.64	3.04	3.04	1.92
Surrey	C	13.37	4.62	2.60	3.00	0.97
Langley	D	8.54	2.83	2.93	2.85	1.47
Nanaimo	C	7.52	5.22	3.03	2.68	1.88
Abbotsford	C	8.38	-	2.43	2.65	1.63
Kelowna	C	5.21	3.54	2.38	2.38	1.00

City of Kelowna Context – Business Property Tax

2010 BUSINESS CLASS TAX RATES - BC MUNICIPALITIES
POPULATIONS > 75,000
SORTED BY HIGHEST TAX RATE TO LOWEST*

Municipality	Type	Tax Class Ratio	Residential Tax Rate	Business Tax Rate
Kamloops	C	3.12	4.8300	15.6500
Cootan	C	4.69	3.2077	15.0319
Nanaimo	C	2.68	5.1921	13.9219
Victoria	C	3.59	3.6581	13.1471
Abbotsford	C	2.65	4.7713	12.6500
Saanich	D	3.58	3.2027	11.6160
Delta	D	3.04	3.4210	10.4549
Burnaby	C	3.88	2.5867	10.0296
Vancouver	C	4.55	2.1486	9.7808
Langley	D	2.85	3.2023	9.1288
North Vancouver	D	3.32	2.6015	8.6340
Richmond	C	3.45	2.4173	8.3079
Kelowna	C	2.38	3.4549	8.2767
Surrey	C	3.00	2.4504	7.3798

City of Kelowna Context – Residential Property Tax

- General Municipal Tax on Average Property = \$1,584 (4th lowest of 14 municipalities *)
- Total Residential Taxes and Charges = \$3,500 (3rd lowest of 14 municipalities *)

* BC Municipalities with population > 75,000

City of Kelowna – All Funds Expenditure Summary 2011 Financial Plan

EXPENDITURES	All Funds	% of All Funds
Salaries & Wages	63,185,800	30.5%
Internal Equipment	6,516,200	3.1%
Material & Other	59,159,200	28.6%
Contract Services	54,519,700	26.3%
Debt Interest	11,228,500	5.4%
Principal	<u>12,296,700</u>	<u>5.9%</u>
Total Expenditures *	206,906,100	100.0%

* Before internal allocations and transfers of \$34.7 million and carry-over projects

City of Kelowna – All Funds Expenditure Summary 2011 Financial Plan

EXPENDITURES	All Funds	% of All Funds
Salaries & Wages	63,185,800	30.5%
Internal Equipment	6,516,200	3.1%
Material & Other	59,159,200	28.6%
Contract Services	54,519,700	26.3%
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Principal	<u>12,296,700</u>	<u>5.9%</u>
Total Expenditures *	206,906,100	100.0%

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