



Business Council *of*
British Columbia

**2008 Municipal Elections:
Key Business Issues**

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Highlights:

1. The British Columbia business community wants to see more local governments **update their approach to property taxation** by shifting, over time, to a more equitable balance between business and residential properties, and by linking tax burdens more closely to the value of the services consumed by businesses versus those consumed by local residents.
2. Local governments should explore and make greater use of **innovative financing models, particularly for capital assets**. Municipal officials are urged to adopt an open mind on the **multiple benefits of P3s**: relieving the public sector of some of the financial burden of infrastructure renewal and of providing capital assets and their related services.
3. Local governments need to commit to **streamlined and cost-effective regulation**. Currently in BC, municipal governments rarely undertake any kind of regulatory impact analysis when developing new measures, nor do they show much interest in ongoing regulatory review.
4. Particularly in urban areas, municipalities should be looking to **organize and deliver more services and programs on a shared or region-wide basis** – everything from policing to economic development programs, human resource management, business licensing, and procurement.

Although British Columbia's 157 municipalities differ in size, in geographic location, and in the particular challenges they face, there are a number of local government issues of broad interest to business which deserve attention in the upcoming municipal elections.¹ Among the most important are property taxation; models of municipal financing; local government approaches to regulation; and the need for greater cooperation among municipalities at the regional level in organizing and providing services.

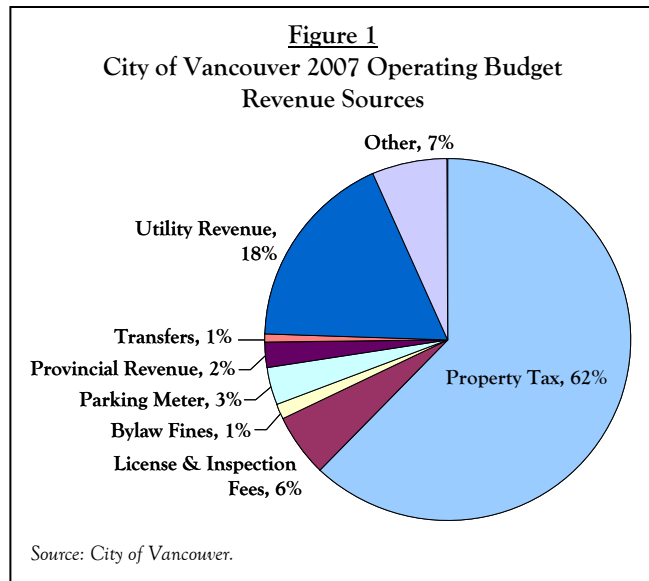
¹ Municipal elections take place on November 15, 2008.



Municipal Property Taxation

Under provincial law, municipalities are not allowed to run operating deficits. So every year they need to find revenues sufficient to pay for the programs and services they choose to provide. Property taxes are the main revenue source for most cities and towns in BC. They are calculated on the basis of the market value, or “assessment,” of land, improvements, or both, together with the municipal tax rate which is set by individual local governments.

Property taxes account for almost two-thirds of revenues for most of the larger municipalities in Greater Vancouver, including the City of Vancouver (Figure 1) at 62%, and Burnaby and Surrey at over 60%. Richmond bucks the trend, with property taxes producing approximately 42% of its revenues. Except for Richmond, the GVRD’s dependence on property tax is greater than the provincial average of 56%.



A number of analysts have noted that many communities in BC maintain business/industry property tax rates that far exceed residential rates, even though businesses often consume fewer municipal services than do households. The provincial average property tax ratio between business/industry and residential reached 3.4:1 in 2007, up from 2.5:1 in 1990. In the spring of 2007 the City of Vancouver announced a sizable increase in property tax. However, the twist in this instance is that the increase was limited to residential properties, while business property taxes were frozen. Restricting the increase to residential property classes allowed the City to narrow slightly the wide gulf that has opened up between business/industry and residential property tax rates, though the ratios remain high.

The Business Council has long argued that British Columbia’s business property tax system discourages investment and acts as a competitive handicap, particularly for capital-intensive industries.² The system is unwieldy and economically counterproductive because of the large number of discrete property classes, the absence of an appeal mechanism, and the fact that local governments are free to set tax rates and ratios without any limits – meaning that some can (and do) arbitrarily shift the tax burden onto specific types of business as a means to reduce the taxes levied on residents (Table 1).

² Robert Bish, “Property Tax on Business and Industrial Property in British Columbia: Comparisons and Business Climate Observations,” University of Victoria School of Public Administration, Working paper #11 (October 2003).



Table 1: BC Average Property Tax Rates Per Property Class, 2007

Residential	Major Industry	Light Industry	Business	Ratio Major Industry: Residential	Ratio Light Industry: Residential:	Ratio Business: Residential
8.763	36.366	28.968	23.863	4.149:1	3.305:1	2.722:1

Source: BC Stats, 2008.

In our September 2008 submission to the Legislative Select Standing Committee on Finance, the Business Council called on the provincial government to legislate maximum ratios between business/industry municipal property taxes and residential taxes. This would put some limits on the ability of local governments to shift the tax burden onto business and industry. The British Columbia Chamber of Commerce has advanced a similar recommendation, specifying that the overall business/residential ratio should be no higher than 2.45:1.³ In 2006 the BC Competition Council recommended that the province cap the ratio between residential and large industrial property tax rates to ensure greater tax consistency across the province and improve the competitiveness of key export industries.⁴

For its part, the provincial government has recognized the inequities in the current structure of municipal property taxation – in its 2008 budget, and again in the ten-point economic plan unveiled by the Premier in late October, the government took action to offset some of the cost of the higher property tax burdens on major industry in many areas of the province.

In the 2008 municipal elections, the business community should press local politicians to overhaul their approach to property taxation and move away from the current regime under which business frequently ends up subsidizing local residents. Where property tax burdens are misaligned, municipal councils should begin the process of shifting to a more equitable balance between business and residential properties, and base this shift on the value of the services actually consumed by businesses compared to those consumed by residents.

Municipal Finance

A second area of interest to business is the financing of municipal services and infrastructure. Given the funding constraints on BC municipalities, they need to be creative in raising revenues beyond traditional property taxes and user fees. The Conference Board of Canada has noted that municipal income taxes and sales taxes are utilized in the United States and Europe; in many ways, these are more appropriate funding sources than property tax for redistributive programs such as social housing.⁵ Reductions in transfers and downloading of certain responsibilities by senior levels of government have added to the financial pressure on municipalities and contributed to an intergovernmental fiscal

³ BC Chamber of Commerce, *Policy & Positions Manual*. BC Chamber of Commerce (2008).

⁴ BC Competition Council, *Enhancing the Competitiveness of British Columbia*. (June 2006), p. 18.

⁵ Conference Board of Canada, *The Canada Project Final Report, Volume III: Mission Possible: Successful Canadian Cities*. (2007).



imbalance as well as a local “infrastructure gap.” While most of the fiscal restrictions on municipalities stem from factors beyond their control, there is room for local governments to adopt more innovative financial policies, such as using taxes to limit sprawl and congestion and tapping private sector expertise to help pay for capital projects.

Among the financing/funding options available to local governments – but rarely used in BC – are using **tax-exempt municipal bonds** to raise capital; more reliance on **user-pay models** (such as road tolls); and adopting **contracting out and public-private partnership arrangements** to provide infrastructure and help pay for related services.

Considering each of these in turn, revenue-based municipal bonds are commonly used in the United States to finance local infrastructure. Instead of the general obligation bonds that Canadian municipalities tend to issue (where the bond is backed by the general revenue of the municipality), revenue-based bonds are backed by the revenue stream from the specific asset being built. An advantage of revenue-bond financing is that it is fairer to local taxpayers and economically efficient in its design: only users of the asset pay for it, which discourages over-consumption.

In general, user fees can and should be utilized more broadly by municipalities not merely to raise revenue, but to ensure that users of a service pay for it. Well-structured user fees can allow municipalities to better estimate future demand and help to inform their decisions on when (and how) to add capital assets.

Municipalities in BC should consider ways to manage the burden of building and providing infrastructure through expanded use of private sector resources and expertise. Numerous experts have observed that construction of municipal infrastructure and the delivery of the associated services in partnership with the private sector through P3s has been underutilized by local governments in Canada. British Columbia’s leadership role in Canada on P3s has taken place largely at the provincial level. There is scope to make greater use of P3 models in municipal infrastructure provision, from sewage treatment to water systems, roads, bridges and beyond.⁶

In an election year, the business community should inform candidates and citizens about the potential benefits of P3s in relieving local governments of some of the risks and burdens of undertaking capital projects and providing the related services, and also in tapping the expertise of the private sector in building and managing long-lived assets.

Municipal Regulation

In British Columbia, provincial legislation (notably the Community Charter) gives municipalities extensive authority to regulate activities and provide services at the community

⁶ A common type of P3 is the DFBO (design, finance, build and operate) with the option to transfer the asset back to the public sector partner at the end of the contract period.



level. Over time, the province has moved from a prescriptive model which delineated many specific local government powers, to a “spheres of jurisdiction” model which allows municipalities to implement laws and regulations in broad areas. This shift in approach has served to increase the salience of issues related to local government regulation in the eyes of business and industry.

Because municipalities have significant powers over matters such as zoning, business licensing, buildings, infrastructure, transportation, development, and even environmental protection, it is important that they exercise these powers in a responsible manner. However, the experience of many Business Council members is that local governments often make decisions without any kind of economic or business impact analysis. The principles of good public policy suggest that such analysis should be part of the policy-development process, especially when decisions are likely to have material consequences for particular industries or sectors. The quality of public decisions is improved when policy-makers develop an understanding of the broad economic, business and social ramifications of the choices they make.

In this connection, the Organization for Economic Co-operation and Development (OECD) has done extensive work on “best practices” in regulation and regulatory impact analysis.⁷ Based on this OECD work, together with the regulatory reform policy adopted by the British Columbia government,⁸ it is possible to identify a number of principles that should guide the process of regulation development, enforcement and reform. These principles, most of which apply to local as well as senior levels of government, include the following:

- Regulations should be targeted to serve clearly identified policy goals, and be effective in achieving those goals
- The onus of showing that a form of regulation is necessary to avoid harm should rest with the regulator rather than with citizens or other parties subject to regulation.
- Regulatory proposals should specify the benefits that will be achieved and demonstrate that these benefits will outweigh the costs incurred by regulatory bodies, consumers and business.
- When regulations are deemed necessary, they should minimize compliance, administrative and other bureaucratic costs.
- Good regulation should utilise market incentives to promote and harness the innovative capacity of businesses and other organizations.
- Regulations should be transparent, clear, simple to understand, practical for users, and easily communicated to all concerned.
- There should be consultation with those affected before regulatory decisions are made.

⁷ OECD, *Regulatory Impact Analysis: Best Practices in OECD Countries* (Paris: OECD, 1998).

⁸ See BC Ministry of Small Business and Revenue, “Regulatory Reform Initiative,” accessible via: <http://www.regulatoryreform.gov.bc.ca/index.htm>.



- Alternatives to government regulation should be considered and explored as part of the decision process; self-regulation, economic incentives, fiscal measures, “covenants” with industry, independent certification, and codes of practice may be more effective and less costly than traditional regulatory tools.
- Duplicate reporting and compliance processes should be avoided since they add to costs without resulting in better outcomes.
- Most regulations should be time-limited with the inclusion of sunset provisions.
- Regulatory enforcement actions should be proportionate to the seriousness of the “offence.”
- Appeal processes should be established.
- Every effort should be made to harmonize regulations with those of other relevant jurisdictions.

The British Columbia business community should press municipal governments to make their regulatory decision-making more consistent with “best practices” as identified by the OECD, and also with the regulatory reform policy established by the province.

Regional Cooperation and Service Provision

Regarding the final “best practice” identified by the OECD, business can play a constructive role in fostering cooperation among municipalities, particularly in urban areas (the Lower Mainland, Greater Victoria and the Central Okanagan). Put simply, it is often true that municipalities can gain by working together to organize and provide services on a larger scale - one that benefits taxpayers and produces better overall results.

To some extent this collaboration is already happening in parts of the province and in some service areas. In terms of specific services, examples of inter-municipal cooperation include the core functions of the GVRD: water, wastewater and solid waste service provision. An innovative example of such collaboration is the Capital Regional District’s (CRD) inter-municipal business licensing scheme, operating since 1999. Essentially, the scheme covers businesses that are licensed in one municipality of the CRD and may operate in multiple participating municipalities (mobile businesses such as locksmiths and contractors).

But greater regional and inter-municipal collaboration and cooperation, including the implementation of shared service models (and potentially even amalgamation in some instances), would be welcome in fields such as emergency services, parks and recreation, procurement, administrative services, economic development, and business attraction and promotion. These are areas where the business community would be well-advised to keep up the pressure on municipalities to change the way they operate.

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