



Local Prosperity

**Options for Municipal Revenue
Growth in British Columbia**

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Executive Summary

The next few years will be challenging times for BC's local governments. Social and economic changes will require adaptation and innovation in our institutions and governance structures. In particular, the BC economy is in the midst of a major transition.

The need for broad-based municipal finance reform has long been recognized in numerous studies and reports, such as those published by the Conference Board of Canada, the Canada West Foundation, TD Bank Financial Group, and the Canadian Chamber of Commerce. However, little has been done in the past three decades to advance specific proposals for how cities in this province – or across Canada – pay for the services and infrastructure that residents and businesses rely on now, and will need in the future.

This discussion paper is intended to spark debate among BC's local governments, residents and businesses about the state of finances. The aim is to begin a process of building consensus around a set of solutions to address the fiscal challenges facing our province's 189 municipalities and regional districts.



The ongoing economic transition requires that we develop new ways to finance local governments.

The first chapter of this paper looks at how local governments are currently financed in British Columbia, and how those financing arrangements have changed over time. It also examines some of the challenges and issues associated with the current model of municipal financing in British Columbia.

The second chapter explores questions related to social, environmental and economic changes that are reshaping British Columbia. These changes are happening simultaneously at both the global and local levels. This chapter argues that BC is in the midst of a major economic transition that has important predictable consequences for local communities; consequences we must prepare for as best we can.

The ongoing economic transition requires that we develop new ways to finance local governments. It is argued that the most important aspects of the economic transition will be driven by demographic changes toward an aging, more urbanized population; industrial changes away from renewable resource extraction and processing; and changes in government financing arising from rising government debt and declining revenue buoyancy.



The third chapter looks at possible solutions to diversify revenue sources for local governments. Using examples and case studies from British Columbia and other jurisdictions, we explore solutions that would allow governments to diversify their sources of revenue.

In the fourth and final chapter, we examine a number of promising economic development policies to help BC communities grow their local economies. These ideas aim to diversify our economy; improve local multiplier effects with high-value industries; keep money circulating longer in our communities; and attract and retain business investment and human resource talent. Together, they provide a blueprint for a more self-sufficient, more entrepreneurial and more sustainable economy.

Local Government Financing

Most local governments in British Columbia are governed under the Community Charter and the Local Government Act. There are some exceptions, such as the City of Vancouver, the Islands Trust, and various resort municipalities governed under separate legislation. However, whether it's BC's largest municipality, the new Sun Peaks Mountain Resort or the Village of Hazelton, municipal legislation regulating the financial scope of a local government is virtually the same across BC – and that scope is quite limited.

Local governments are not allowed to run deficits, even during periods of recession, making them particularly vulnerable to the boom-and-bust cycle of a resource-based economy. Their primary source of revenue is the ability to tax real property within their jurisdiction, and levy charges for municipal services. Taken together, property taxes and sales of services account for 88.5 per cent of own-source revenues for local governments in British Columbia in 2008.

BC's municipalities are not allowed to collect sales taxes, income taxes, royalties, or various other taxes collected by the provincial and federal governments. They are also not allowed to borrow money without the approval of electors by referendum, a democratic safeguard to protect against reckless decision making.

Local governments in British Columbia have long struggled to establish an equitable financing model that recognizes the growing responsibilities of local government. Tensions between the provincial government and the Union of BC Municipalities (UBCM) and its member governments are not new. Indeed, the history of financial relations between these two levels of government has often been challenging. From the 1940s onward,

Local governments in British Columbia have long struggled to establish an equitable financing model that recognizes the growing responsibilities of local government.

the issue of local government financing arose regularly with reports and studies on the issue published in every decade.

The high point for municipal – provincial financing relations occurred in 1978. In that year, according to a 2008 UBCM policy paper, the province introduced a revenue-sharing program that “...provided a guaranteed share of major provincial revenue sources including personal and corporate income taxes, sales and fuel taxes and natural resource revenues. This share of provincial revenue was used to finance unconditional operating transfers and conditional operating and infrastructure support to local BC governments.”

Over the last 32 years, much of that funding has dwindled and the proportion allocated to unconditional grants has shrunk, with much more of the funding becoming conditional and tied to specific capital projects. By 1993, less than half of the funding was unconditional. This trend continued throughout the 1990s. According to the UBCM, “general unconditional support was eliminated in 1997, although some grants to small communities continued.” This prompted the UBCM to publish the study “Financing Local Government” in 1998. The 1998 UBCM study recommended giving more flexibility to municipalities; improved reporting standards; removing restrictions on existing revenue instruments; access to new sources of revenue; a new police cost-funding formula for small communities, and continued provincial support for small communities.

As a result of UBCM’s advocacy work, traffic-fines sharing was introduced in 1999 and raised to 100 per cent in 2004, while support for small communities has been maintained and expanded. The federal government began, in 2005, to share gas-tax revenues with local governments under an agreement with the UBCM and the provincial government. In addition to these revenue-sharing programs, the federal and provincial governments have continued to fund capital projects through the Canada – BC infrastructure Program, the Municipal Rural Infrastructure Fund and the Building Canada program.

Other specifically targeted, provincially-mandated programs in areas such as wildfire prevention, seniors housing and community tourism have been introduced to meet certain narrowly-focused needs. However, like most provincial and federal transfer programs, they are mostly restricted to capital infrastructure or are one-time grants that do not provide for ongoing operating expenses and do not provide financial stability for local governments.

In 2006, the Federation of Canadian Municipalities (FCM) presented a paper titled, “Restoring Municipal Fiscal Balance.” The FCM paper called for broad-based reform that would clarify roles and responsibilities of the different levels of government, develop a plan to tackle the infrastructure deficit, diversify municipal revenue tools, invest in public transit, and reform various administrative and governance practices.

According to Vancouver Mayor Gregor Robertson, the need for municipal finance reform is just as great today. At an FCM-sponsored event in May 2010, the mayor of BC’s largest municipality reaffirmed that, “Canada is way behind other countries in restructuring so that cities are empowered to take care of their own needs.”

The balance of this chapter reviews the recent municipal financing trends for BC’s local governments and discusses their implications for future economic viability, as well as their primary impacts on residents and businesses.

Trends in Local Government Financing

BC's local governments receive the largest part of their revenues from three chief sources: property taxes, sales of goods and services, and transfers from other governments.

Property taxes are an own-source revenue (i.e., a revenue that is solely derived and managed by the city). They are based on a charge on the assessed value of land and improvements.

Sales of goods and services are another own-source revenue and the vast majority are calculated on the basis of volumes of services delivered. However, because there is very little individual property metering, the volumes are generally proportionately allocated to properties. They are essentially a tax on property calculated on a different basis than the standard property tax.

The final major source of revenues for local governments are transfers from senior levels of government, so are not own-source revenues. Transfers may be for specific purposes, in which case the local government is essentially acting as the administrative agent of the transferring government. Alternatively, transfers may be for general purposes, in which case they supplement the revenues supporting general services.

Tables 1 and 2 provide data on local government and provincial government revenues from 2000 to 2008. When comparing these figures, remember that Table 1 is expressed in thousands of dollars, while Table 2 is expressed in millions of dollars.

Table 1: British Columbia local government revenue and expenditures
(\$thousands, current), 2000-2008

Revenue and Expenditure	2000	2001	2002	2003	2004	2005	2006	2007	2008
Total revenue	\$8,521,050	\$8,800,212	\$8,981,522	\$9,318,707	\$9,791,072	\$10,577,459	\$11,252,598	\$11,923,586	\$12,554,106
Own source revenue	4,780,217	5,006,580	5,010,656	5,219,752	5,568,622	5,925,006	6,455,542	6,837,437	7,229,017
Property and related taxes	2,599,612	2,715,661	2,794,121	2,886,090	3,000,249	3,165,982	3,437,791	3,655,669	3,830,456
Sales of goods and services	1,557,197	1,601,682	1,650,949	1,764,185	1,965,230	2,084,072	2,270,115	2,426,578	2,566,378
Other revenues	\$623,408	\$689,237	\$565,586	\$569,477	\$603,143	\$674,952	\$747,636	\$755,190	\$832,183
General purpose transfers from other government subsectors	64,335	68,711	62,911	67,483	113,733	121,366	157,332	113,849	151,616
Specific purpose transfers from other government subsectors	3,676,498	3,724,921	3,907,955	4,031,472	4,108,717	4,531,087	4,639,724	4,972,300	5,173,473
Total expenditures	8,603,744	8,847,486	9,286,348	9,790,511	10,115,862	11,069,407	11,764,540	12,492,781	13,700,419

Table 2: British Columbia provincial government revenue and expenditures
(\$millions, current), 2000-2009

Revenue & Expenditure	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
Own source revenue	\$22,850	\$24,951	\$23,788	\$22,493	\$24,439	\$26,747	\$28,780	\$29,887	\$31,166	\$30,458
General purpose transfers from other government subsectors	2,495	2,632	2,737	3,417	2,918	2,575	1,804	2,008	1,574	1,663
Specific purpose transfers from other government subsectors	459	484	482	472	829	3,030	3,665	4,142	4,417	4,488
Total expenditures	27,121	27,914	29,256	28,586	28,728	28,885	30,661	32,707	35,065	38,335

Charts A and B trace the trend lines for own-source revenues of local governments and the provincial government since 2000. The dots are the actual amounts and the line represents the trend.

While local government own-source revenue growth was more stable over most of the past decade, these revenues grew at a faster rate than provincial own-source revenues and the provincial economy as a whole. These results show that in order to meet the expenditure demands placed upon them, local governments were compelled to impose a more rapidly-growing burden of taxes and goods and service charges on their taxpayers than the provincial government placed on provincial taxpayers. Local government own-source revenues increased by 51.2 per cent from 2000 to 2008, while provincial government own-source revenues increased by only 33.7 per cent from 2000 to 2009.

Chart A: British Columbia local government own-source revenues, 2000-2008

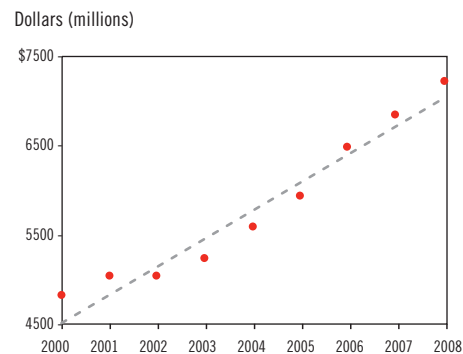
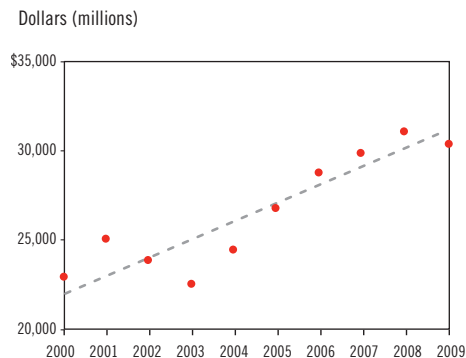


Chart B: British Columbia provincial government own-source revenues, 2000-2009



Furthermore, as noted earlier, these two major revenue streams account for 88.5 per cent of own-source revenues for BC's local governments in 2008. In comparison, property taxes and sales of goods and services account for only 16.7% of all local government and provincial government own-source revenues collected in BC in 2008. One of the explanations for this is that local governments are restricted to a much narrower range of revenue sources than is the province.

The burden of local government revenue-raising being concentrated on only two sources suggests that resulting economic distortions may be quite large. Furthermore, the vulnerability of local governments to weakness in either source is quite high.

Charts C and D show the distribution of local revenues between sales of services and property tax since 2000, as well as the trends between 2000 and 2008. The rate of growth of sales of goods and services has been somewhat higher than that of property tax revenues, with sales increasing from 59.9 per cent of property tax revenue in 2000 to 67.0 per cent in 2008.

Chart C: British Columbia local government sales of good and services revenues, 2000-2008

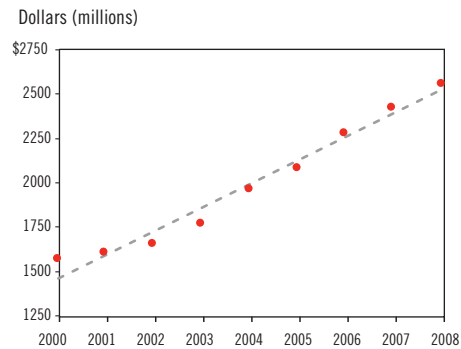
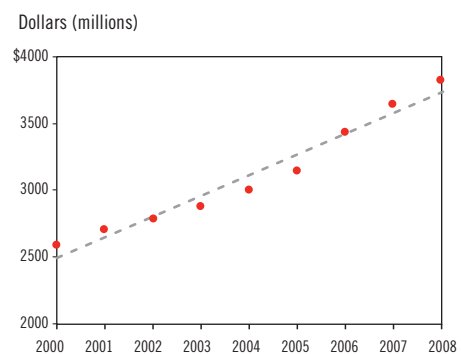


Chart D: British Columbia local government property tax revenues, 2000-2008

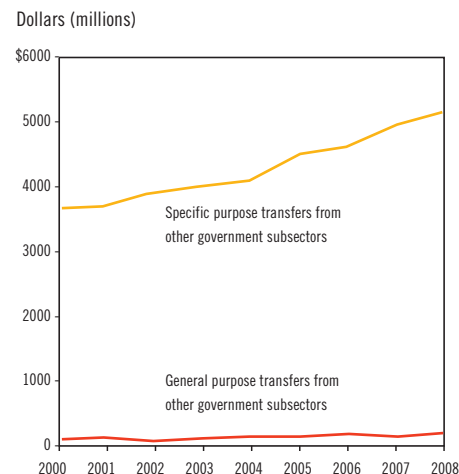


It appears that local governments are showing some inclination to shift the burden to user charges over time. The reason is not entirely clear, although it may be in part because user-charge increases receive less public attention and thus are subject to less taxpayer resistance. For example, in Vancouver the property tax for 2010 was increased by over four per cent for residential property owners, while the increases in charges for services was about 12 per cent. The latter increase received little attention in the media, even though it will result in an increase in payments by property owners of about \$50 million, compared to an increase of about \$20 million in property tax payments.

There has also been a change in transfers from senior levels of government in the past decade. Chart E shows the amounts and trends in aggregate transfers over the last decade. As can be seen, transfers are now almost entirely for specific purposes.

Transfers increased by about 42.4 per cent over the period, which is almost exactly the same rate as the growth in provincial own-source revenues, but considerably less than the 51.2 per cent rate of growth in local government own-source revenue. When transfers fail to keep pace with the growth in own-source revenue, local governments necessarily become more dependent on their own-source revenues.

Chart E: British Columbia local government transfer revenues, 2000-2008



Over time, this trend towards greater self-financing will contribute to the growing infrastructure deficit as needed investments are delayed for lack of funds. In addition to the upfront capital costs, the ongoing operating expenses of new infrastructure must also be taken into account.

Think City surveyed mayors, councillors and senior staff in local government throughout British Columbia from November 2009 to February 2010 (for full details see Appendix A). From this survey, the infrastructure deficit emerged as a primary source of concern for local governments.

Impact of BC's Municipal Revenue Changes: Housing Costs

For residents, municipal revenue changes over the past decade have primarily translated into higher housing costs. In some BC municipalities, shifting the property-tax burden of commercial and industrial property owners to residents further increases these costs. These increased housing costs come at the same time BC is dealing with an overheated real estate and rental market, where housing costs have increased faster than wages, inflation or gross domestic product (GDP).

Residential property taxes and the related goods and service fees (e.g., water, sewer, and solid waste) are based on the assessed value of the property, multiplied by the mill rate. For example, the current mill rate for residential properties in Vancouver is \$3.25 per \$1,000 of assessed value. Thus, the combined annual property tax and user fee costs for the average residential property worth \$781,000 is approximately \$2,543 per year. When a local government increases its own-source revenues from property taxes or fees for services that are linked to property ownership, both residential property owners and tenants are forced to pay higher housing costs.

Unfortunately, property values may have a relatively weak relationship to the homeowner's ability to pay. Furthermore, while assessed property values are certainly a contributor to an individual's wealth and net worth, the relationship between property value and income is less direct. As a result, this form of taxation disproportionately impacts lower-income people.

Retired homeowners, for example, often own property but live on relatively modest incomes. The provincial tax-deferment program exists to help in these and other hardship situations. Unlike low-income homeowners, low-income tenants do not benefit from any of the policies that subsidize home ownership, such as the annual home owner grant. Low-income tenants do pay higher housing costs, however, because landlords pass their increased property-related costs along to tenants in the form of increased rents.



Moreover, because housing is a basic necessity rather than a discretionary spending choice, the increased cost of property taxes and related fees falls most heavily on those who are already most exposed to the costs of BC's inflated housing market. In this sense, higher own-source revenues linked to property assessments can work to erode the benefit of other public policy initiatives in areas such as poverty reduction, child tax credits, income assistance and affordable housing measures.

Many of BC's local governments also recognize the inequity of the property taxes and user fees that contribute to municipal coffers. In Think City's survey of local government leaders, 52.8 per cent of respondents agreed or strongly agreed that local governments should look at their tax policies through the lens of tax fairness for lower-income people.

In addition to annual increases in property-related taxes and fees, residents have also been impacted by increases to the proportion of the overall property tax burden they bear. Several local governments have adjusted their property tax regimes – mostly to reduce the proportion paid by business property owners and to increase the proportion paid by residential property owners. The City of Vancouver's tax shift has attracted the most attention, but other local governments have pursued similar policies in recent years.



A more extreme version of this type of shifting is the recent tax revolt initiated in several resource-based municipalities in 2009 by large industrial property owners. Taxes were initially withheld and in turn local governments closed the resulting revenue gap by hiking residential property taxes and related fees, or cutting public services, or both.

In Port Alberni, for example, residents were assessed a 23.6 per cent increase on their property tax bill, industrial property owners received a 6.9 per cent cut in taxes, and commercial businesses saw no increase in 2010.

Impact of BC's Municipal Revenue Changes: Industrial Property Tax

In March of 2010, the BC government established a process called the industrial property taxation review, a policy review that could dramatically restrict the ability of local government to tax industrial property owners.

Over the last two years, the BC Business Council and a group of large industrial taxpayers have mounted a campaign to reduce industrial property-tax rates in British Columbia.

The industrial property taxation review comes on the heels of the \$24-million in tax relief for heavy industry in the 2008 budget. Also, Premier Campbell announced an industrial property tax credit on October 22, 2008, which provides a rebate of 50 per cent of school property taxes to light and heavy industry. Big business will also benefit from the HST, which will shift approximately \$2-billion in provincial sales tax from business to consumers.

The industrial property tax issue really came to a head when Catalyst Paper, the largest pulp and paper company in BC, refused to pay its taxes in the four municipalities where its pulp mills operate: Campbell River, Powell River, North Cowichan, and Port Alberni. Instead of paying the \$23 million in taxes assessed, Catalyst Paper CEO Richard Garneau said the company could only afford to pay \$1.5 million to each municipality – about one quarter of the amount they were owed.



As the economy worsened, other industrial companies such as TimberWest, West Fraser, and Zellstoff Celgar also began to withhold their property taxes. Their main complaint is that industrial property taxes in BC are higher than in other competing jurisdictions.

The municipalities responded by taking Catalyst Paper to court, and, in December of 2009, the BC Supreme Court ruled that municipalities have the right to set tax rates as they see fit. Justice Peter Voith wrote that the courts have traditionally been unwilling to encroach on the authority of local government in this regard, and that essentially this was a political issue, not a legal one.

Catalyst Paper responded to the court decision by continuing to refuse to pay its taxes, launching an appeal, and stepping up its lobbying and public relations efforts.

Pressure on the government steadily increased as big business, local politicians, and labour leaders stepped forward to demand tax concessions for the industrial sector. In the throne speech in early February 2010, the government promised a review of the industrial property-tax issue.

On March 10, the government announced that the review would look into the issue and report back by the fall of 2010. The steering committee for the review is composed of senior bureaucrats, industry representatives, and municipal politicians. There was no mention of any public process or opportunities for public involvement.

In British Columbia, municipalities mostly have free reign to set their own property tax policies. Provincial regulation has crept into certain areas, such as railways and ports, but it now appears the province is contemplating further restrictions on the taxation authority of local governments. According to Think City's survey of local government leaders, more than one in seven municipalities said they had difficulty collecting taxes from large, industrial taxpayers as a result of the recent industrial tax revolt.

Local governments, big business, and most economists agree that municipalities are far too dependent on property taxes as a single revenue source and they need alternate sources of financing. But simply shifting the property tax burden from business to homeowners, as Vancouver and several other communities are doing, is not an equitable solution.

If the provincial government intends to further regulate municipal property taxes, the whole issue of municipal financing must be taken into consideration. Subsequently, local governments need to be compensated with alternate revenue sources.



The City of Trail has recently joined the District of Kitimat in calling for a rigorous independent analysis to be conducted to determine the statistical causality between municipal property taxation and industrial activity. Many local governments throughout BC are concerned that important policy decisions about industrial property taxation could soon be made without detailed economic analysis.

In an open letter copied to all BC local governments, Trail Mayor Dieter Bogs wrote:

"In the absence of proceeding in this way, we are very fearful of the eventual outcome, which may provide major industry with marginal short-term profit gains but do nothing to address potential macro-economic problems and the long-term sustainability of industry that most likely extends far beyond the annual municipal property tax levy."

Impact of BC's Municipal Revenue Changes: Competitive Edge

When it comes to the primary impact of BC's recent municipal finance changes on businesses, FCM studies assert that the commercial component of increased property tax and goods and service fees has an impact on the competitiveness of business, making it more difficult for cities to attract business investment and human resource talent. Simply put, people and money are mobile and will seek out more favourable environments in which to operate.

Tax competition among adjacent Canadian municipalities can have a destructive effect on revenues as residents and businesses seek out lower tax jurisdictions. Where low-tax jurisdictions or unincorporated areas exist adjacent to municipal boundaries, the discrepancies in property tax rates can sometimes be very significant. Residents and business in these areas often benefit from the municipal infrastructure and services but do not contribute their fair share of the costs.

Another consideration is the impact of tax competition between countries on various industries. For example, exporting firms are very important to the health of the overall BC economy. Exporting firms selling to international markets are competing against other firms that benefit from more favourable property tax regimes. These businesses are often in the manufacturing, processing, and distribution sectors of the economy. This is a very valuable sector of the economy because it generates higher economic multipliers and higher paying jobs than the service or retail sectors.



Finally, besides lower taxes, there are other incentives that competing countries offer businesses to attract human-resource talent with that Canadian municipalities currently cannot match. In a 2006 report titled, “Our Cities, Our Future”, the mayors of Canada’s largest cities make the case that Canadian cities are competing with cities around the globe that are able to draw upon a much wider and more diverse range of revenue sources to finance the infrastructure and public services required to support a twenty-first century economy.

According to the mayors’ report:

“Cities in the United States and Europe have access to other revenue sources such as income, sales and selective sales taxes. In the US, 16 states permit municipal governments to collect local income taxes. Couple the access to these revenue sources with federal programs ... that provide US cities with access to over \$100 billion for transportation infrastructure, and Canadian municipalities quickly lose any competitive advantage.”

The Future of Municipal Financing in British Columbia

The historic trends of the three major funding mechanisms of BC's local governments suggest that continued reliance on these sources may prove troubling in the future.

Over the decade just ended, local governments have relied upon higher rates of increases in property taxes and goods and service user fees, compared to the growth of provincial government own-source revenues. This raises questions about the viability of the current revenue model for municipalities in the face of the troubling economic pressures felt by many residents and businesses.

Furthermore, senior government transfers are not keeping pace with the growth of municipal own-source revenues, which in turn creates additional upward pressure on the growth-rate of the two other revenue sources. Given the state of the finances of senior governments, it is also very unlikely that transfers will grow as rapidly in the coming decade.

In addition to these weaknesses undermining the capacity of local economies to grow as they have in the past, it is also very doubtful whether the recovery from the recession will be as rapid and as complete as is commonly thought. These factors together could seriously impede the ability of local governments to enjoy the revenue buoyancy of the past decade.

Looking into the future, the economy of the new decade will likely be much different than the past one for local governments. Forward-thinking policy development, at both the local and provincial level, is required to respond to global environmental changes; population changes; new and expanded demands on local governments, and a transitioning BC economy.

It is clear that a more comprehensive and reliable revenue-sharing system is needed to provide certainty and stability for municipalities in the years ahead. As well, alternative revenue sources should be developed for financing the expanding needs of BC's municipalities.



Challenges Facing Local Government

Local governments in British Columbia are facing several key economic challenges that will have serious implications for revenues and expenditures. Concerns about the environment are fundamentally altering the global economy, significant population structure changes are coming, the role of municipal government is changing as it takes on greater responsibility, and the BC economy is in the midst of a major transition.

These macro-level changes are creating two British Columbias by widening the divide between – on the one hand – the rapidly growing population centres in Metro Vancouver, the Capital Regional District, and the Okanagan and – on the other hand – the resource-based communities in the rest of the province. Very different challenges are facing local governments in both situations.



Economic Impacts of Environmental and Energy Policy

Sustainability is a fundamental goal for British Columbia's future economic development. This necessitates looking at value-creating activities in terms of their environmental impacts. The goal of sustainability poses a challenge for policy makers, as our economy continues to depend on industries such as construction, mining, oil and gas, transportation and forestry.

At present, industrialized societies face a monumental challenge to reduce greenhouse gas emissions. Most experts agree on the need for dramatic measures to address this problem. The challenge in BC is very similar to that of other industrial economies, with transportation, buildings operations and temperature control, and large industry each contributing close to one-third of total greenhouse gases.

Simultaneously, we should anticipate that energy prices will climb over the next two to three decades, as the cost of extracting scarcer fossil-fuel energy sources increases, and as climate change policies begin to shift more of the environmental costs of energy production onto the end user. For energy intensive industries in BC, the long-term trend toward higher energy prices signals that investments in energy efficiency and energy-saving technologies are a strategic priority.

Most analysts agree that part of the solution must be to shift the BC economy to a much “greener” base. This shift is needed not only to reduce greenhouse gases, but also to compete with economies in Europe and Asia who, as early adopters, threaten to move well ahead in the transition to a more energy-efficient economy. We must make not only greater efficiencies in the consumption of energy, but also major investments in the production of new technologies that will make dramatic gains possible.

The first major economic shift required is the rapid development and production of new technologies. The second is the rapid adoption of new technologies in goods and services production. In terms of the first, many nations and jurisdictions are pursuing industrial strategies that will generate rapid growth in the production of green technologies. To date, there has been only limited progress in BC. However, we expect the pace of adaptation to accelerate as policies favour reduced greenhouse gas emissions.



Implications of these changes for local governments are not entirely clear. Many local governments are under pressure to make shifts in their own practices. As global energy costs increase, the cost of operating municipal utilities, buildings and vehicle fleets will inevitably also increase. Senior levels of government will likely pursue policies that will inevitably shift some of the responsibilities and costs for reducing greenhouse gases onto local governments.

The tax base of local governments may also be affected by adaptations to climate change. One example of how climate change is affecting the economy of BC communities is the pine beetle epidemic. Without sustained cold weather in the winters, the pine beetle has been able to thrive and destroy large tracts of BC forest. Other industries such as agriculture, fisheries, and tourism may also be impacted by climate change. As some of the more intensive greenhouse gas emitting industries come under increasing demands to reduce emissions, there may be further industrial dislocation.

Local economies will be faced with additional and unpredictable demands and pressures going forward toward a goal of sustainability. The impacts on local governments’ costs and revenues cannot be ignored.

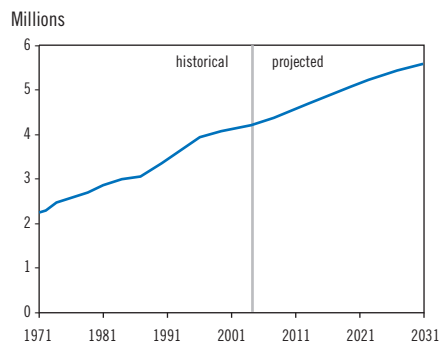
Population Structure

In many ways, population changes are more predictable than the other three challenges that will affect BC's collective economic future. Over the next two decades, British Columbia's population will continue to grow, age, become more concentrated in large urban areas, and become more diverse and multi-cultural. These four demographic developments will have financial implications for BC's municipalities.

I. GROWTH

BC's population will grow by approximately one million people over the next 20 years, and about 500,000 over the next ten years. Such population growth will exert significant pressure on local governments for new infrastructure and additional services. A growing population will create some economies of scale and a broader base to absorb some of these costs, but there will also be significant additional costs. Of particular concern is the need for local governments to provide new infrastructure sufficient to handle larger populations.

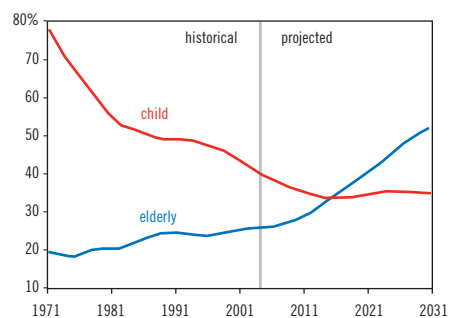
Chart F: Total population of British Columbia, 1971-2031



II. AGING

The general contours of the aging of the population are quite well known. The post-war baby boom had dramatic impacts on the age distribution of populations, which continue to be felt. Dependency ratios measure the relationship between those in their working years (aged 18 to 65) and those who are under 18 and over 65 and dependent, to one degree or another, on the adult working population. The following table sets out the changing dependency ratios over the years.

Chart G: British Columbia children and seniors as percent of those aged 18 to 64, 1971-2031



Implications of an aging population for municipalities are considerable, as the shift in dependency ratios from youth to the elderly has dramatic implications for service needs. In response to this shift in the population, all governments will have to address new configurations of needs for housing, transportation, infrastructure, community facilities, health care services, education, and security services.

Furthermore, public services and public service employment are anticipated to change in response to these population changes. For example, need for nurses and home care workers may increase, while that for teachers may decrease.



III. REGIONAL DISTRIBUTION

The largest rates of growth in population will continue to be in the Lower Island, Greater Vancouver and the Okanagan. In several regions, local communities will experience stagnation or declines in population. As these population changes take place, the impact on the revenues of local governments will be complex. For many rural municipalities, serious questions arise about the viability of the existing systems of financing and service delivery under these conditions.

Table 3: British Columbia population projections by region, 2010 and 2020

Region	2010 population	2020 population	Per cent change
BC total	4,510,500	5,148,500	14.1%
Vancouver Island/Coast	752,000	870,600	15.8%
Mainland/Southwest	2,710,400	3,175,500	17.2%
Thompson/Okanagan	541,400	605,900	11.9%
Kootenay	150,400	156,400	4.0%
Cariboo	160,000	163,700	2.3%
North Coast	58,000	57,900	-0.2%
Nechako	40,000	41,600	4.0%
North East	68,600	76,900	12.1%

IV. IMMIGRATION

British Columbia has – and will continue to have – relatively high in-migration over the next 20 years. Net movements from other provinces will average about 10,000 per year and immigration from other countries will be about 40,000 per year

New immigrants, particularly from other countries, create both opportunities and challenges for local governments. A full realization of the potential contribution of immigrants often requires complex services. Roles of the provincial government, local governments, and contracted non-governmental organizations in providing settlement services vary widely throughout the province. Where service gaps exist, local government must often bear the costs of assisting individuals in crisis.



Changing Role of Municipal Government

Over the past two decades, local governments have increasingly been expected to take on many more roles than was the case in the past. However, while the roles and responsibilities of municipal governments have grown, the revenue tools and fiscal environment have actually become more constrained.

Just over 30 years ago, the BC government distributed substantial amounts of revenue to local governments on the basis of equalization principles. However, due to fiscal choices made at the provincial level, the municipal financing system has actually reverted back to earlier, less supportive principles. In addition, many less affluent BC communities often have relatively more pressing demands for supportive services, while at the same time having a lesser capacity to meet the costs.

Greater pressure is put on municipal revenues by increased competition for investment and human capital. Other challenges for local government include more complex social conditions, emergency preparedness and public safety, growing environmental problems, and other societal challenges. For example, infrastructure and housing are two areas where BC's local governments have been asked to do more with less for many years.



I. INFRASTRUCTURE

Local governments have always played a major role in infrastructure, but senior government off-loading has added considerably to that burden. When Think City asked BC's local government leaders what their priorities would be if they could increase their revenues by five per cent, survey respondents indicated that repairing and upgrading local infrastructure was at the top of the list, far ahead of any other spending priority.

Over half of the entire infrastructure in BC is the responsibility of local governments. In the face of continuing population growth, the costs of developing and maintaining that infrastructure have become impossible for local governments to meet within the existing fiscal model. Urban transportation is one aspect of the infrastructure gap, with Metro Vancouver as an especially serious case. A large financing gap must be addressed in order to meet the needs for a modern, efficient public transit system.

Many local governments have deferred or put off expensive infrastructure projects due to lack of funding. Collectively, these decisions have resulted in the much discussed infrastructure deficit; a bill that can be delayed, but cannot be avoided. Meanwhile, the cost of maintaining and repairing an aging infrastructure is increasing. Modern, efficient infrastructure is absolutely critical if BC is to overcome the major economic challenges outlined in this chapter. The current local government infrastructure gap in BC – the gap between needed and available revenues – is in excess of \$10 billion.

II. HOUSING

Housing is another area where local governments have found themselves squeezed by more complex social problems on the one hand and less senior government support on the other. Housing was traditionally the jurisdiction of senior governments, but the federal government walked away in the 1990s and the provincial government followed in the early 2000s.

Housing costs in British Columbia, and particularly in the Metro Vancouver region, are very expensive. Recent data from Canada Mortgage and Housing Corporation (CMHC) shows that Metro Vancouver has the least affordable housing market in Canada. A January 2010 report from Demographia International surveyed 272 metropolitan housing markets worldwide and found Vancouver had the least affordable housing in the world when median housing sale values were compared to median household incomes. According to this study, the median house in Metro Vancouver sells for 9.3 times the median annual salary.



The average two-bedroom apartment in the Vancouver region rents for \$1169 per month. To achieve the CMHC's affordability threshold, which states that housing costs not exceed 30 per cent of income, this two-bedroom apartment requires occupants to earn a minimum household income of \$46,750. The 2006 census revealed that 21 per cent of Vancouver's renters, comprising 57,000 households, pay more than 30 per cent of their income in rent. And those numbers are certainly higher now. Last year, average rents in Metro Vancouver increased ten times faster than the rate of inflation.

Metro Vancouver has conducted homeless counts in 2002, 2005, and 2008. In 2002, 1,121 homeless people were counted. In 2005 there were 2,174, and 2008 saw an increase to 2,592 homeless individuals. Approximately 60 per cent of these homeless people were counted in Vancouver, while the remaining 40 per cent were counted in other municipalities throughout the region. A reasonable estimate of Metro Vancouver's homeless population in 2010 is approximately 3,000, a figure that has almost tripled since 2002.



In the absence of adequate housing, local governments experience the frontline affects of housing inadequacy. Poverty, mental illness, drug dependence, violence and abuse, and discrimination all find immediate expression on the streets and in public spaces. Local governments cannot help but take responsibility in the face of senior government neglect, but the costs are very high. Local governments must, and do, address housing and other causal factors associated with these issues. Yet, with senior governments off-loading much of their long-standing responsibility and now providing little or no help to municipalities, the ballooning needs for housing and housing-related services are putting local governments in a near impossible situation.

BC's Economic Transition

British Columbia's economy is going through a major transition. In part, this transition is due to a larger trend in the industrial world that is moving toward more services and less manufacturing as a proportion of the economy. BC is also unique in a number of ways. In particular, sectors such as manufacturing and renewable resources and processing are seriously threatened.

During recent years, aspects of this economic transition were – to some degree – masked. While the pine beetle epidemic has done long-term damage to BC's forests, the forestry sector did benefit from the short-term harvest of the pine beetle-infected stands. Further, before the onslaught of the recession in 2008, elements of apparent prosperity appeared for a short time as a result of booms in the housing market, government-financed infrastructure projects, consumer spending, and natural gas production.

In order to fully appreciate the direction of the BC economy, it is important to pay special attention to the resource sectors. Land and resources have long been the primary sources of wealth for many, and the sources of great riches for some. The fishery, now in serious if not fatal decline, was at one time at the core of the BC economy. Forestry, always a source of considerable wealth creation, was the single most important contributor to BC's ascendancy within the Canadian economy by the middle of the last century. Mining and petroleum were always considerable industries but somewhat lesser sources of wealth and employment. However, over the last few years a transition has begun in the BC economy.



Fisheries and forestry are in decline due to markets, unsustainable management and other industrial and policy failures. A comparative look at the role that forestry has played in the BC economy shows the industry's evident decline. Ten years ago forestry contributed directly and indirectly to over 35 per cent of the annual income and wealth generation in BC. It is now well below 10 per cent. Forestry revenues to the BC government in the form of stumpage and various taxes were close to \$3-billion dollars only 10 years ago. Today, the figure is less than \$500 million. Currently, timber-harvesting jobs are less than one-third their number in the mid-1990s. Mills have closed all across the province and more closures are expected over the next two to three years.

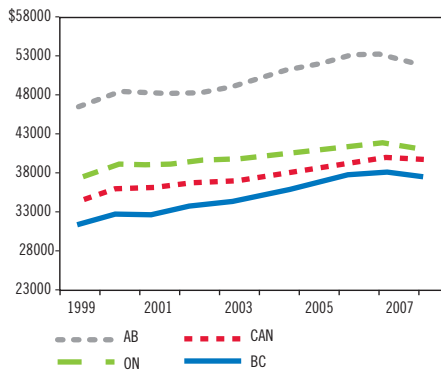
Furthering BC's transition, natural gas, and to a lesser extent mining, are displacing renewable resources in economic importance. While natural gas saw a period of strong markets and extremely high prices for a short period preceding the recession, accounting for close to 10 per cent of provincial government revenues, the outlook for the next decade is much less encouraging. Prices have dropped by two-thirds of their peak, and market oversupply will dominate over for a prolonged period as new sources are discovered and developed.

Beyond resources, other areas are changing too. BC's manufacturing sector has struggled to attract new capital investment, and the high tech sectors, a hoped for source of new opportunities, have grown very little. The growing sectors, in terms of job creation, are construction, tourism, public-sector employment, and lower-paying jobs in the service sector.

Overall, the transition over the last few years has been one of decline in the high-value sectors. Construction, non-renewable resources and government spending have provided a temporary cushion, but do not have the capacity to support a long-term sustainable economy based on high wages and strong returns to investment. A transition that has the capacity to support long-term prosperity and wealth creation requires growth in high-value sectors adequate to replace the relative losses in the weakening sectors.

Construction as a major source of growth in jobs and business activity is largely the result of a housing construction boom and large government spending on infrastructure. Neither of these factors can be sustained at recent levels. Housing demand is hard to predict, but the unusual circumstances of the pre-recession years are unlikely to continue. Moderating house prices, higher interest rates, and a slow recovery from the recession will all have a depressing effect on the pace of new construction. Government spending on construction will also moderate as the deficit and debt reduction assume a greater importance in government spending plans.

Chart H: Alberta, British Columbia, Ontario and Canada per capita gross domestic product, 1998-2008



BC's competitive position is weak due to the weak transition to a high-value economy. The most important measure of competitiveness is output per capita. BC is the only province in Canada where business-sector productivity actually fell between 2003 and 2008. Output per capita is below that of Canada as a whole and of the major competing provinces.

A productive, competitive economy today depends upon high levels of new investment in modern plants and equipment, and on robust research and development spending. BC is lagging in both respects.

It is widely agreed that a competitive, high-productivity, high-value economy must look to external exports as a source of markets. Studies overwhelmingly find that the less a modern-industrial economy sells into export markets, the less it is able to achieve economies of scale and acquire technology needed to be competitive. Again, BC performs badly in terms of exports.

Chart I: Alberta, British Columbia, Ontario and Canada business capital investment as percentage of gross domestic product, 1998-2008

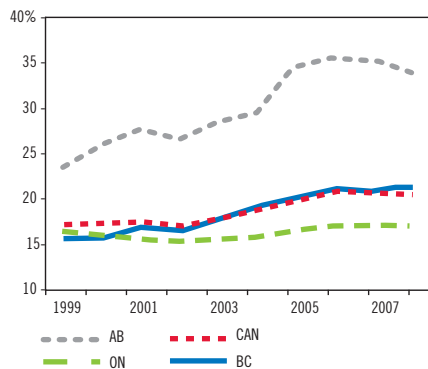
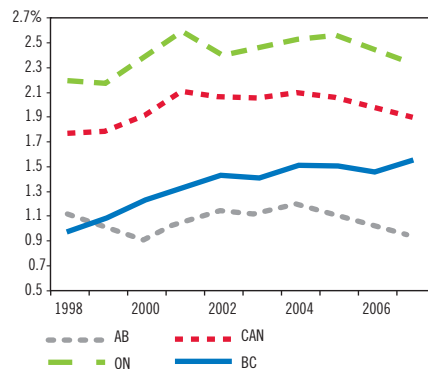


Chart J: Alberta, British Columbia, Ontario and Canada research and development investment as percentage of gross domestic product 1997-2007





Creating Two British Columbias

The four challenges to BC's economy, as discussed, result in a growing economic gap between the rural and large urban areas – two British Columbias. Unemployment rates in many rural communities are now double that of large urban communities. Average incomes are significantly lower as well.

A recent study by BC Stats looked at BC regional districts in terms of the economic hardship their residents are experiencing. The ten worst off communities are listed below.

Any district with a hardship index above zero is suffering an unusual degree of hardship – the higher the index rating, the worse the hardship in that community. The ten worst off, out of a total of 26, are all in difficult straits. Tellingly, all but one region is rural and all are resources dependent.

Chart K: Alberta, British Columbia, Ontario and Canada per capita exports (2002 constant dollars), 1998-2008

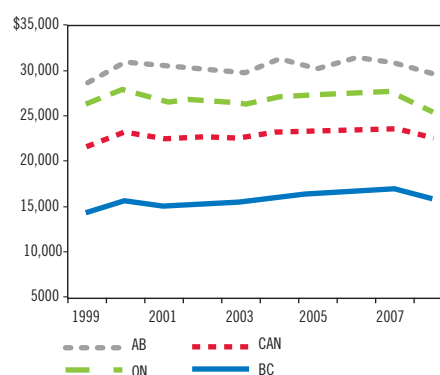


Chart L: Average employment income, British Columbia health regions, 2005

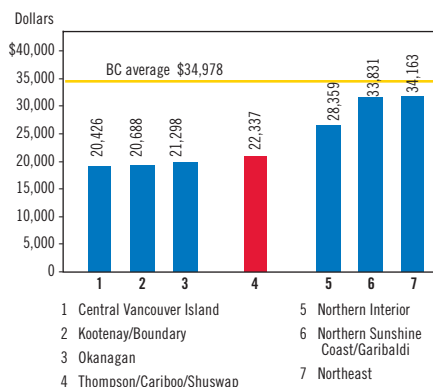


Table 4: Economic hardship index, ranked by degree of hardship, by regional district, 2009

Region	Hardship	Rank
Queen Charlotte- Skeena	1.16	1
Kitimat-Stikine	1.14	2
Alberni-Clayoquot	0.92	3
Mount Waddington	0.92	4
Fraser-Fort George	0.82	5
Cariboo	0.70	6
Buckley-Nechako	0.62	7
Powell River	0.44	8
Nanaimo	0.29	9
Thompson-Nicola	0.28	10



Rural, resource dependent, remote and northern communities face special challenges. Economic distress and uncertainty is endemic in such communities today. For example, the loss of forestry product mills removes an important part of the tax base without a corresponding reduction in costs. In turn, this situation undermines a community's ability to achieve financial viability.

Such communities must, and are, turning their attention to economic development and diversification. In the absence of a viable economic base, there is little possibility of maintaining a tax base sufficient to finance needed services. Moreover, when the economic base is threatened, the local property-tax base cannot support investments in the very economic renewal needed to reverse this decline in local government revenues.

Revenue Sources for Local Government

In the first two chapters, we looked at the main sources of revenue for local governments in BC and the economic challenges that may impact revenues. Growing infrastructure deficits have combined with the offloading of responsibilities from senior levels of government to place more pressure on local governments. Yet, despite the increase in financial pressures, BC's local governments have access to relatively narrow bases of own-source revenue.

In addition, many of BC's communities are struggling to maintain a viable economic base in the midst of a very difficult economic transition marked by the erosion of high-value industries. If BC's communities are to successfully adapt to a changing, globalized economy, our local governments will require access to a more diverse range of revenue sources.

In this chapter, we propose specific areas where local governments have the opportunity to diversify and grow their revenues. We focus on three main areas: new taxes and a share of existing taxes, opportunities to increase sales of services, and other revenue options.

Taxes

BC's local governments can make better use of taxation powers to increase funding for municipal needs. This section explores how BC municipalities can access new revenues by sharing – or negotiating a greater share of – existing taxes, or developing new taxation tools.

I. TAXES – PROVINCIAL SALES TAX

As of July 1, 2010, the British Columbia government combined the provincial sales tax with the federal goods and services tax using the federal collection and administrative process. The combined tax is called the harmonized sales tax (HST), and although the final rate remains at 12 per cent, the provincial portion will be collected on a broader base of goods and services

In terms of sharing the new HST, local governments may want to look at the sales tax model in Saskatchewan. There, the provincial government agreed to transfer one percentage point – or 20 per cent – of its 5 per cent provincial sales tax to local governments. In its 2009 budget, the Saskatchewan government projected it would transfer \$167-million in revenue to local governments. This is a 19 per cent increase over the previous funding transferred to local governments in that province.

If the British Columbia government transferred 20 per cent of its sales tax revenue to local governments, the result would be \$627-million in unconditional transfers during the first full year of HST, rising to \$667-million in year two.

This idea appears to have broad support among local governments in BC. Several resolutions were submitted to the 2009 and 2010 Union of BC Municipalities (UBCM) conventions calling upon the provincial government to share a portion of its sales tax revenue. In addition, when Think City surveyed local government leaders, 88.9 per cent agreed or strongly agreed that BC should use Saskatchewan's policy as a model and transfer a share of the new HST to local governments in BC.



II. TAXES – LOCAL SALES TAXES

Another option local governments can pursue is collecting their own sales taxes. This would be more difficult and costly to implement and administer than a simple transfer of existing sales tax revenues, but remains an option that does not require sharing existing provincial revenues but would require changes to provincial legislation.

Municipal sales taxes are widely used to generate revenue in many European and Asian nations. Such taxes are also commonplace throughout the United States, where many states allow local government to charge a wide range of sales taxes. Municipal sales taxes are employed in at least 16 American states, such as California, Florida and Texas, and include some of the country's biggest cities. Dallas, for example, has an 8.25 per cent sales tax, St. Louis has a 6.325 sales tax, New York City has an 8.875 per cent sales tax, and California's sales taxes range from 8.25 per cent to 10.75 per cent.

US sales taxes are typically segmented and directed by legislation to very specific purposes. Missouri allows local governments to collect six sales taxes for general revenue (up to one per cent), capital improvement (up to 0.5 per cent), economic development (up to 0.5 per cent), transportation (up to 0.5 per cent), storm water and parks (up to 0.5 per cent), and fire protection (up to 0.25 per cent). New Mexico allows local government to collect several sales taxes for general revenue (up to 1.25 per cent), capital improvement (up to 0.25 per cent), environment (up to 0.0625 per cent), infrastructure (up to 0.25 per cent), and quality of life (up to 0.25 per cent).

III. TAXES – PROPERTY TRANSFER TAX

A property transfer tax would allow local government to capture some of the increase in land value each time a property is sold. It is an efficient way of capturing a small percentage of the increase in land value.

The provincial property transfer tax is budgeted to bring in \$900-million in revenue for the provincial government in the 2010 - 2011 fiscal year. The tax is applied to the sale of each property at a rate of one per cent on the first \$200,000 in value, and two per cent of the value greater than \$200,000. The revenue generated by this tax is very closely correlated with the fluctuations of the real estate market. As real estate values in British Columbia have climbed steadily in recent years, the property transfer tax has become a larger contributor to government revenues.

The City of Toronto has recently introduced a similar tax called the municipal land transfer tax (MLTT). As of February 2008, the Toronto began to collect the MLTT under the legislative authority given to it by its provincial government under the City of

Toronto Act, 2006. The tax is calculated on detached houses at a rate of 0.5 per cent on the first \$55,000 in value, rising to 1 per cent of the value between \$55,001 and \$400,000, and 2 per cent of the value over \$400,000. For commercial property and multi-family residential properties, the rates are somewhat lower with the portion over \$400,000 taxed at a rate of 1.5 per cent and any value over \$40-million taxed at 1 per cent. In the 2009 fiscal year, the MLTT raised \$184-million, over two per cent of Toronto's \$8.7-billion operating budget.

The property transfer tax allows local governments to capture a small return on its investment in infrastructure and services that sustain property values. It also ensures that localized increases in property value can be equalized and shared across the jurisdiction so that all taxpayers benefit. Assessed at the time of sale, this type of tax recognizes that – until a property is sold – an increase in land value does not translate into an increase in income for many homeowners.

Some critics claim property transfer taxes will deter investment. However, many jurisdictions in North America, including the British Columbia government, have a property transfer tax, and there is little empirical evidence to support claims that such a tax inhibits investment in real property.



IV. TAXES – ROAD PRICING

Road pricing is an economic concept that supports direct charges or user fees applied to the use of roads. Road pricing has two discrete objectives: revenue generation, usually for the financing and maintenance of road infrastructure, and road pricing for purposes of transportation demand management. The 1993 Greater Vancouver Regional District Transport 2021 study recommended the use of road pricing measures to reduce congestion, provide clearer price signals to users for the costs they incur and impose on others, and to raise revenues for transportation improvements.

Local governments throughout the province already benefit from one road-pricing tool, in the form of parking fees. However, other road-pricing tools, such as tolls, congestion charges and license fees are not currently available to BC's municipalities. The provincial government itself has embraced tolls as a means of financing major road infrastructure projects. For municipalities, however, the implementation of such tools would require new legislative authority. Furthermore, there are other issues to address regarding tolls, as elaborated on in the Golden Ears Bridge case study.



Case Study: Golden Ears Bridge

The Golden Ears Bridge is a six-lane bridge in Metro Vancouver that spans the Fraser River and connects Langley on the south side with Pitt Meadows and Maple Ridge on the north side. Opened in mid-2009, traffic volumes have been lower than expected. This case illustrates that there can be problems of revenue leakage where alternate non-tolled routes exist. According to TransLink figures, the Golden Ears Bridge is not meeting its revenue targets. While daily traffic volumes have slowly increased in recent months, they remain significantly below TransLink's original estimates. As a result, TransLink increased tolls on the new bridge on July 15, 2010 to capture additional revenue.

This raises questions about the approach to tolling for the Port Mann Bridge, the new Patullo Bridge, and other major projects. There seems to be no obvious reason why some of these bridges and highways should be tolled while others, like the Lions Gate, Pitt River, and Alex Fraser bridges are not.

A network or system toll would have the advantage of capturing toll revenues from all routes and not distorting traffic patterns as drivers attempt to avoid tolls. In fact, a system-wide toll would allow pricing to fluctuate in response to traffic volumes. High demand routes during peak periods could be priced higher than low demand routes during off peak periods. Portugal's Via Verde, an electronic tolling system which covers all highways and bridges in the country, is a good example of system tolling applied at a macro level.

Aside from tolls, congestion charges are another road pricing option worth considering. Congestion charges are more likely to find political support within a major city because they extract revenue from non-residents, who, nevertheless, are using city streets and services but do not pay property taxes. The geography of Metro Vancouver, with its bridges and limited routes into the city, make it a good candidate for a congestion charge.

Singapore introduced the world's first successful congestion pricing scheme in 1975. Now congestion charges are widespread, with well-known examples in Bergen, Stockholm, Shanghai and London. In North America, San Francisco is currently exploring this form of road pricing. In New York, Mayor Michael Bloomberg and a majority of his city council voted in favour of a congestion charge in 2007, only to see it stall in the state legislature.

Following the lead of Canada's largest city, license fees are our final example of road pricing that BC's local governments may want to consider pursuing. In 2008, Toronto was given the authority by its provincial government to introduce a personal vehicle tax (PVT) of \$60 annually on each personal vehicle, and \$30 annually on each personal motorcycle. Toronto collected revenues of \$51.7-million from its personal vehicle tax in 2009. There was an attempt to introduce a fee for vehicles in Metro Vancouver in 2000, but that levy failed to receive support from the provincial government at the time.





V. TAXES – BC CARBON TAX

In 2008, British Columbia introduced a carbon tax at a rate of \$10 per tonne, rising to \$30 per tonne by 2012. The tax is applied to virtually all fossil fuels, including gasoline, diesel, natural gas, coal, propane, and home heating fuel. While the carbon tax is comprehensive, it is weakened by the many exemptions granted to the largest industrial emitters in the province, such as those for aluminum smelting, lead and zinc production, and the transportation sector.

There are also valid critiques about the disproportionate impact that the carbon tax has on lower-income households. The tax credits intended to cushion the impact on low-income households have not kept pace with increases to the rate of the carbon tax. The bottom 40 per cent of the income earners in BC will pay more in carbon taxes than they will receive in tax credits and income tax reductions. Furthermore, it is precisely these people who are least able to afford the capital investments required to reduce their energy consumption. In contrast, higher income families will find it easier to reduce their consumption and upgrade their homes for energy efficiency.

Although the carbon tax is projected to generate \$1.85-billion in its first three years, it is designed to be revenue neutral because the government has reduced income taxes and business taxes by the same amount.

Instead of requiring that this money be used to cut other taxes for individuals and business, local governments could benefit from redirecting these funds toward programs and projects that will actually cut greenhouse gas emissions. Resolutions on this issue were submitted to both the 2009 and 2010 UBCM conventions.

When Think City surveyed local government leaders throughout BC, 77.9 per cent agreed or strongly agreed that the provincial government should direct carbon tax revenues toward initiatives to cut greenhouse gas emissions, which would also improve a local government's bottom-line. Public transit, energy saving retrofits, district energy systems, upgraded sewage and waste management systems, renewable energy generation projects, more efficient vehicle fleets, and various other technology upgrades would not only reduce the greenhouse gas emissions of most local governments, they would also help local governments to save money through reduced energy costs.

VI. TAXES – GAS TAXES

Federal Gas Tax

One important new source of revenue for BC's local governments has been the federal gas tax fund (GTF). In BC the GTF is administered under an agreement between the Union of BC Municipalities and the federal and provincial governments. The gas tax provides revenue to local government for municipal infrastructure and related projects. The stated goal of BC's 2005 - 2015 gas tax agreement is that federal gas tax funding "... will provide local governments in British Columbia with a source of stable, predictable and long-term funding towards environmentally sustainable municipal infrastructure to help them address their infrastructure needs and meet sustainability objectives."

The money from the GTF can be spent on a variety of eligible forms of capital infrastructure. These include public transit, community energy systems, water and wastewater projects, solid waste management, and capacity-building programs. All of these projects are intended to reduce greenhouse gases by allowing local governments to invest in cleaner technologies and municipal systems.



In many respects, this is good public policy because it channels the gas tax revenues into public transit and other projects that reduce emissions. However, the gas tax agreement does not allow these funds to be spent on operational needs, only on capital projects. Unfortunately, this is a serious oversight because operating funding is desperately needed to sustain many services, such as public transit, that are crucial to reducing greenhouse gas emissions.

Without operating funding, even the best capital investments will not function at peak efficiency, therefore depriving the public of their full benefit. For example, a clean fuel bus is of little use when it's sitting idle because there isn't money to pay drivers' salaries. Similarly, funding staff training or capacity-building plans makes little sense at a time when layoffs have bumped recently trained civic employees into positions where they are unable to use their expertise. In order to realize the full benefit of these capital investments, municipalities need to be able to access operating funding to ensure that an adequate level of trained staff are in place when they are needed.

Provincial Gas Tax

When it comes to the provincial gas tax within the Metro Vancouver region, TransLink has legislative authority to collect an additional gas tax of 15 cents per litre to fund public transit. In the Victoria regional transit service area, BC Transit is authorized to collect an additional gas tax of 3.5 cents per litre for similar purposes.

The provincial government collects a gas tax of 14.5 cents per litre in communities outside of the Vancouver and Victoria metropolitan regions. Many of these communities also have public transit service operated by BC Transit, but lack similar legislative authority from the provincial government. There is no obvious reason to continue this inequity. Smaller communities also need reliable transit service and should be eligible for a gas tax similar to the tax collected in Metro Vancouver and Victoria.

Finally, local governments could be given the right to collect their own gas tax, in addition to gas taxes collected by the federal and provincial governments. Local gas taxes would help to recognize the current reality that all three levels of government have responsibilities connected to transportation and environmental policies. All three levels of government require the resources necessary to fulfill their respective responsibilities.

VII. TAXES – HOTEL ROOM TAX

Since 1990, BC's municipalities have been able to levy a two per cent additional hotel room tax on top of the province's eight per cent hotel room tax. However, while local governments and school districts have successfully lobbied for exemptions from the HST, its introduction means the regular eight per cent hotel tax ceased to exist as of July 1, 2010. Those municipalities that levy the two per cent additional hotel room tax will still be able to collect this revenue for now (Chilliwack, North Vancouver, Oak Bay, Parksville, Prince Rupert, Qualicum Beach, Richmond, Rossland, Saanich, Smithers, Surrey, Vancouver, Victoria and Whistler). However, at present the status of the additional hotel room tax in future years remains unclear.

Across Canada, many municipalities collect hotel room taxes, sometimes called destination marketing fees. For example, in Alberta, Calgary and Edmonton charge one per cent in addition to the four per cent provincial tax. And in Ontario, the communities of Greater Toronto Area (GTA), Ottawa, Sault Ste. Marie, Kingston, Kenora, Hamilton, St. Catharines, Burlington, Stratford, Dryden, and the Village at Blue Mountain (Collingwood) charge three per cent. In the Maritimes, Halifax and Charlottetown charge two per cent and St. John's charges three per cent. In Quebec, hotel room taxes go to the local tourism marketing associations.



VIII. TAXES – SIN TAXES

Taxes are often used to discourage forms of behaviour that are deemed to be unhealthy or socially undesirable. These taxes are sometimes referred to as “sin taxes,” such as taxes on alcohol and cigarettes. They are also intended to recoup some of the social costs for additional care services or addictions treatment.

In 2006, the Ontario government gave Toronto the authority to impose a sales tax on alcohol, in addition to the provincial taxes already collected on alcohol sales. Although Toronto has not yet imposed an alcohol sales tax, it could do so at any time. If BC followed Ontario’s example, local governments in this province could then tax alcohol in view of the policing and social service costs associated with over-consumption.

The concept of sin taxes could also be extended to other harmful substances and activities, such as gambling and other behaviours that society wishes to discourage.

Sales of Services

After property taxes, sales of services are the next largest category of own-source revenue for local governments. There are significant opportunities for local government to expand their sales of services and take advantage of their existing expertise and infrastructure. The principal areas where local governments could increase their revenues are sales of energy, garbage collection, water and sewer services.

I. SALES OF SERVICES – ENERGY SALES

British Columbia's electrical system has historically been run by large utilities such as BC Electric, and its publicly-owned successor, BC Hydro. The government has exerted a high degree of control over the generation, transmission and sale of electrical power. As a result, British Columbians have enjoyed some of the lowest electricity rates in North America.

BC Hydro provides electricity to most of British Columbia, and FortisBC provides power to several communities in the Kootenays and southern interior of the province. Six communities in BC (Nelson, New Westminster, Kelowna, Summerland, Penticton and Grand Forks) have their own municipal electricity utilities because they were in operation prior to the creation of BC Hydro in the 1960s. Most of these municipal utilities purchase electricity from either BC Hydro or FortisBC – only Nelson Hydro owns and operates its own generation facilities at Bonnington Falls.

In other provinces, municipally-owned electrical utilities are much more common, despite a trend toward privatization in recent years. Edmonton's EPCOR was recently partially privatized, and Princeton Light and Power was sold to FortisBC. These policy decisions reduce public control of a critical piece of economic infrastructure and close the door on potential sources of public revenue. Ironically, energy privatization is happening at precisely the time when energy prices are forecast to increase dramatically and when environmental and economic challenges demand a more aggressive and farsighted response than the private sector is usually able to provide.

In recent years, the provincial government has made dramatic changes to energy policy in British Columbia. The most significant policy change is the decision to restrict BC Hydro's ability to build new generation facilities, requiring BC Hydro to meet its future energy needs by purchasing power from independent power producers (IPPs). This change has been controversial, and could erode one of BC's competitive advantages – an integrated, publicly-operated electrical utility that provides low cost, low carbon emission power.

While it is questionable whether this policy direction is in the public's interest, it does present certain opportunities for local governments to become involved in for-profit electrical generation. Local governments, First Nations and some community cooperatives are among the entities eligible to sell power to BC Hydro.

BC Hydro has three programs under which it purchases power: the calls for power program, the standing offer program, and the net metering program. BC Hydro issues calls for power (similar to a request for proposals) periodically and invites proposals for power projects. They then select successful proposals and negotiate energy purchase agreements.

In 2007, BC Hydro brought in the standing offer program to encourage small-scale renewable energy projects that generate between 50 kW and 10 MW. Proponents are required to sign a minimum 20-year energy purchase agreement with BC Hydro. It is possible for a local government to generate power for its own internal use and sell any surplus power under the standing offer program.

The net metering program is intended to encourage micro-scale projects, such as installing photovoltaic solar panels on the roofs of buildings or geothermal heating systems in new buildings. Under this program, hydro customers receive credit for any electricity they generate, and if at the end of the year they have generated more power than they have consumed, BC Hydro will pay the customer for the difference.

Although participation in this program is unlikely to become a net-revenue source, it would reduce the electrical costs incurred by local governments for the daily operation of municipal buildings and facilities.

Local governments are well positioned to generate power for sale because of their existing infrastructure base and engineering capacity. By establishing a municipally-owned utility, local governments can take advantage of their existing land, buildings, infrastructure and expertise. An additional advantage for local government is that municipally-owned utilities are exempt from regulation by the BC Utilities Commission (BCUC). This has important implications, since the BCUC regulates prices and the capital structure of utilities (i.e., the debt versus equity ratio and other finance concerns). Local government utilities are therefore free to determine their own rates, priorities and tolerance for risk.

One of the most important advantages of public ownership is that local governments can make investments and undertake projects with longer time horizons and lower rates than most private sector companies. They also have the flexibility to look beyond immediate, bottom-line considerations and balance their return on investment with customer rates, long-term energy security and environmental considerations.

When Think City surveyed local government leaders throughout BC, 68.5 per cent agreed or strongly agreed that their government was looking for ways to create energy for internal use and/or external sales.

II. SALES OF SERVICES –

DRINKING WATER SYSTEM ENERGY

Almost all local governments are involved in providing drinking water. In order to do this they maintain a vast infrastructure of pipes to bring water from fresh water sources to households. Some municipalities have fitted these pipes with turbines to harness the energy in drinking water flowing through their pipes. Cities such as Portland and Tacoma are generating electricity in this manner.

In 2004, the District of West Vancouver installed a system of this kind, the Eagle Lake hydroelectric project. Previously, West Vancouver used a system of pressure reducing valves to reduce the pressure of the water flowing down from the Eagle Lake Reservoir. They replaced the valves with a 200 kW turbine at a cost of \$450,000. The project is expected to pay back the \$450,000 capital investment over 10 to 12 years.

Another example of this type of project is the Lake Country hydroelectric generating station, a project that added to existing infrastructure with the installation of a 1.1 MW hydroelectric turbine as part of the Eldorado Reservoir system. This project generates approximately 4,000 MW hours annually that is sold to BC Hydro.

III. SALES OF SERVICES – LANDFILL BIOGAS

Landfills give off significant amounts of methane, a greenhouse gas that is 25 times more potent than carbon dioxide in trapping heat in the atmosphere. Capturing and burning this gas cuts greenhouse gas emissions, and also produces energy. Capturing the gas can be an expensive process, and often requires major capital investment. In general, the larger the landfill site, the better the economies of scale for such projects.

There are already several projects to capture landfill gas in British Columbia. These include the Hartland landfill in the Capital Regional District, the Vancouver landfill and the Glenmore landfill in Kelowna.



IV. SALES OF SERVICES – MUNICIPAL SOLID WASTE

Municipal solid waste can be burned in incinerators that convert waste-to-energy. Local government already collects the waste, and needs to dispose of it. Although there are important concerns about the toxicity of emissions, the latest high-efficiency furnaces are able to burn much cleaner than traditional incineration methods.

After implementing programs to maximize diversion rates through expanded recycling and composting programs, local government will still be left with solid waste that must be disposed of. High efficiency waste-to-energy systems are an option for local government in dealing with their municipal solid-waste problems. Although it is not a perfect solution, it must be balanced against the environmental cost of alternate methods of disposal, such as the creation of new landfill sites.

Metro Vancouver's waste-to-energy facility in Burnaby processes about 20 per cent of the region's garbage and generates about 135,000 MW per year that is sold to BC Hydro, earning \$6-million annually for Metro Vancouver.

V. SALES OF SERVICES – ANAEROBIC DIGESTION

Anaerobic digestion of gases from sewage has long been a source of energy in sewage treatment plants, and biogas production is currently in place at sewage treatment plants in Vancouver, Prince George and Nanaimo. Energy from wastewater treatment digestion is likely only viable in communities of at least 50,000 people, and the economies of scale improve with larger populations and sewage volumes. Approximately one million litres of sewage per day is needed to produce nine kilowatts.

The Whistler wastewater treatment plant, owned and operated by the Resort Municipality of Whistler, extracts ambient heat from treated wastewater and provides 95 per cent of the heating and cooling needs for 2,200 homes, covering 85,000 square metres. It has been able to cut greenhouse gas emissions by 90 per cent compared to conventional systems. After its first year of operation, the system is already saving money for the municipality. The plant is combined with a state-of-the-art compost system that



transforms biosolids, residential food waste and wood chips into high-grade compost. The composting system has the potential to divert 5,000 tonnes annually, or 20 per cent of the municipality's waste.

The Hyperion treatment plant in Los Angeles produces about eight million cubic feet of methane biogas, which is converted to electricity. The Deer Island sewage treatment plant treats 360 million gallons of wastewater each day from the Greater Boston area. It is able to supply 20 per cent of its own power needs through methane gas extraction and hydroelectricity produced as wastewater drops from the plant into the outfall tunnel. In total, the electricity the plant generates saves over \$16-million in annual operating costs.

Montana's Helena wastewater treatment facility treats 2.68 million gallons of wastewater per day. The treated wastewater is disinfected with ultra-violet light and methane gas from the digestion process is used to meet the plant's heating and energy requirements.

There is also potential to use anaerobic digestion – the breaking down of waste in the absence of oxygen – on agricultural waste and green waste. Again, large volumes of organic matter are required in order to make enough gas to make the economics viable. In Canada, Toronto's Dufferin facility is an example of anaerobic digestion of solid waste.



Toronto's green bin program collects organic green waste from over 500,000 single-family households. Along with organic waste from city parks, this household green waste is processed at the Dufferin facility. The program generates revenues for the City of Toronto and has achieved a 44 per cent diversion rate, and aims to reach 70 per cent. A similar program in Metro Vancouver would extend the life of existing landfills, reduce methane gas emissions from landfills, and generate revenue for the regional district.

VI. SALES OF SERVICES – BIOMASS AND WOOD WASTE

Biomass, in the form of agricultural waste or wood waste, can be a useful energy resource in many communities. For instance, Revelstoke undertook a community energy planning process in 1997. The process focused on a district heating system, a residential energy retrofit program, and, the creation of an energy services company to serve its institutional and commercial buildings.

Today, the people of Revelstoke are the proud owners of a biomass energy system that uses waste wood from the Downie Timber sawmill to produce energy for its district heating system. The waste is burned to provide steam for the sawmill, with the surplus steam used to heat municipal and commercial buildings in the downtown area.

The Revelstoke Community Energy Corporation is wholly-owned by the City of Revelstoke. Their programs reduce greenhouse gas emissions, produce electricity and generate revenues. The sawmill is their largest customer, and was a major partner in the deal. The project cost approximately \$5-million, which was provided through a combination of loans, grants, and civic reserves.

VII. SALES OF SERVICES – COMMUNITY ENERGY COOPERATIVES

Community energy cooperatives are companies owned by their members, not shareholders. There are two kinds of cooperatives: producer co-ops that allow producers to sell their power locally, and consumer co-ops that allow consumers to group together to buy power at lower rates than they could individually. Community energy cooperatives have been an important force in developing renewable energy in Denmark, Germany and the Netherlands. For example, the City of Copenhagen initiated the Middelgrunden wind farm, and helped found an energy cooperative whose 8,500 members own 10 of the wind farm's 20 turbines.

WindShare in Toronto is another example of a producer cooperative in the renewable energy sector. WindShare is in the process of developing Lakewind, a 20 MW wind farm in Kincardine, Ontario. When the wind farm opens in 2012, it will be the largest cooperatively-owned wind power project in Canada. It will consist of 10 two-megawatt turbines standing 108-metres high, and will generate enough electricity to power 13,000 homes.

Here in British Columbia, the City of Dawson Creek played an important role in helping to establish the Peace Energy Cooperative. This producer co-op helps small producers sell their power to larger distributors. As purchasing the technology for alternative energy – such as wind turbines and photovoltaic solar energy systems – is very expensive, producer cooperatives can help with bulk purchase orders and by negotiating better prices for energy producers.

VIII. SALES OF SERVICES – DISTRICT HEATING SYSTEMS

District heating systems create an opportunity to provide steam heating and hot water to a network of buildings at lower costs than stand-alone systems are able to achieve. District systems also significantly cut the greenhouse gas emissions of participating buildings.

The Lonsdale Energy Corporation (LEC), owned by the City of North Vancouver, is an example of a successful district energy system. LEC provides heat and hot water to 1,390 residential consumers and 150,000 square feet of commercial space. LEC has grown rapidly and is now in a break-even position after only five years in operation. Investing in LEC has allowed the City of North Vancouver to provide a competitively priced and environmentally efficient service that also expands the range of services that the city is able to sell. As the number of buildings connected to LEC continues to grow, the city can expect to benefit from a new long-term revenue stream.

One other advantage of a district energy system is that under the province's Community Charter, a city can mandate private property owners in the immediate area be connected to the district energy system. This type of system works best in compact, densely built areas, such as the Lower Lonsdale part of North Vancouver. The City of Vancouver built a new district energy system as part of the Olympic Village



project. It will provide heat for the entire development of over 557,418 square metres, using the city's underground sewage pipes as a heat source to heat the water and generate steam. The system works by pumping sewage into the facility, where ambient heat is extracted and circulated through the buildings. The cold sewage is then pumped into the city's sewer system.

The district heating system has the capacity to serve up to 16,000 residents and businesses and will reduce greenhouse gas emissions by 50 per cent compared to conventional heating methods. Half of the cost of the \$29-million facility was covered by grants and low-interest loans from senior levels of government. The other half came from city bonds, which will be repaid through rates billed to future residents in the Olympic Village neighbourhood.

IX. SALES OF SERVICES – DISTRICT ELECTRICITY UTILITY

Similar to a district energy system, this type of utility or micro-grid distributes electricity rather than steam to customers in a compact, local area. Using renewable energy sources, and supplemented by power from BC Hydro when necessary, this type of small-scale utility could provide electricity to consumers in dense, urban areas. For example, the district energy centre in Toronto is part of the Exhibition Place complex and is owned by the City of Toronto. It provides heating, cooling and electricity for the entire complex.

The United Kingdom's Borough of Woking provides a much larger example of how micro-grids can be used to provide power for neighbourhoods. The system in Woking provides public buildings and housing with both heating and electricity that is generated from nine natural gas co-generation plants and 11 photovoltaic solar power systems.



X. SALES OF SERVICES – COMMERCIAL GARBAGE COLLECTION

In the last several decades, many local governments removed themselves from the business of commercial garbage collection, turning over city-run services to private operators. However, the trend in recent years is moving away from contracting out, as cities discover that commercial garbage collection makes sense for both businesses and taxpayers.

There are three reasons for contracting-in commercial garbage collection. Studies have shown it can be more cost-effective, contribute to greater waste diversion and deliver a profit to local government coffers. Even some advocates of private garbage collection, such as Ben Dachis, have even noted that “during the last decade, American cities have been contracting work back in at a faster rate than they have contracted out.”

In western Canada and the United States, there are several local governments that provide publicly-run commercial garbage collection, such as the City of Burnaby, the District of North Vancouver, the City of Calgary, the City of Medicine Hat and the City of Seattle. Publicly-run commercial garbage collection is often more cost-effective than private comparators because of larger public infrastructure and economies of scale. Diversion rates from landfill to recycling are typically higher in public systems than those achieved by private sector contractors.

According to the City of Ottawa's Diversion 2015 report, the reason for this difference is clear:

"When waste materials have limited commercial value, the private sector limits recycling services or prices them accordingly. Where there is insufficient demand for recycling due to the lack of regulatory requirements or the size of the local economy, the service will not be provided unless doing so can optimize use of other systems, such as the residential infrastructure, in an economic fashion."

Ottawa is now in the process of phasing in an industrial, commercial and institutional waste strategy with the goal of increasing diversion rates from 17 per cent to 60 per cent by 2015, which will extend the life of municipal landfills and help protect the environment.



Increasing local government involvement in commercial garbage collection is also beneficial in reducing costs for businesses by providing competition – directly and indirectly. Directly, local governments can build on existing publicly-run residential garbage collection services to offer competitive programs that lower costs for businesses. Indirectly, the presence of a public sector commercial garbage competitor can help bolster fairness in the market.

An example of how business can benefit is the City of Toronto's yellow bag program, an innovative pre-paid system of commercial garbage collection. The goals of the program are to reduce waste and increase recycling and organic collection, to create a harmonized, fair service for businesses across the city, and to dramatically lower the costs of garbage collection and disposal.

Recognizing that many small businesses do not generate large amounts of garbage, the program collects their garbage once per week, much like it does for residents. Businesses who register are entitled to free recycling and organics collection. Generally, commercial establishments of less than four floors and less than 500 square metres of ground floor space qualify for the program.

Competition in commercial garbage collection can also indirectly influence the behavior of private contractors to prevent collusion and keep costs in check. In 2009, the Federal Competition Bureau (FCB) investigated claims from central Vancouver Island that a small number of companies were manipulating the market for commercial garbage collection. The companies involved locked customers in using long-term contracts that included highly restrictive terms, such as automatic renewal clauses, significant penalties for early contract termination and rights of first refusal. The FCB ruled that the contracts resulted in substantially less competitive markets, leading to higher prices and reduced choice for businesses.



XI. SALES OF SERVICES – FRANCHISE FEES

BC's local governments have long charged franchise fees to utilities that use municipally-owned streets, alleys, poles, conduits and rights-of-way. These franchise fees are typically charged to electric utilities, pipelines, natural gas companies and telephone and cable companies.

Revenues that may be raised from natural gas providers are an example of the importance of franchise fees. For BC's local governments, up to three per cent of the value of natural gas sales within municipal boundaries are payable as franchise fees. However, the provincial government has restricted, and sometimes prohibited, local governments from charging franchise fees without providing compensation to the affected municipalities to offset the loss of these franchise fee revenues. The UBCM has identified restrictions on franchise fees as an area where improvement is needed.

For example, the City of Nanaimo details the impact of the 1989 Vancouver Island Natural Gas Pipeline Act:

“The City’s inability to impose a three per cent franchise fee on Terasen (Centra Gas) means that the costs of Terasen (Centra Gas) doing business in Nanaimo must be borne by city taxpayers. It is important to note that the costs to municipal taxpayers from Terasen’s business have been substantial, especially in light of the major expansion of natural gas infrastructure that occurred in Nanaimo in the early 90s. Revenues from franchise fees, had they been allowed, would have kept pace with the expansion-driven costs.”

XII. SALES OF SERVICES – WATER PRICING

Good water is a necessity of life for all species, including humans. Quality public water and sanitation are necessary for community development and the protection of community health.

Decisions about the management of water and sewer services should therefore not only be based on scientific data and best practices in public health, but must also take equity concerns into account. When it comes to water, revenue generation must never take precedence over public safety and public provision. Canadian communities moved away from private provision of water and sewage services in the late nineteenth and early twentieth centuries, after suffering a series of epidemics and public health crises related to water-borne diseases. Today, most Canadians are the beneficiaries of an extensive network of publicly operated and maintained water systems, though in many First Nations and rural communities, water quality continues to be poor.

Many local governments in British Columbia charge for water at a flat rate. Charges for water vary only by the assessed value of the property, rather than by the level of water usage. Some studies have shown that flat rates for utilities do not provide incentives for customers to limit their consumption. In areas where water conservation is a concern, flat rates fail to mitigate excess demand on the resource, especially during peak periods and times of scarcity.

As with other user fees, water pricing based on usage tends to have a disproportionately negative impact on those with lower incomes or with larger families. Those opposed to user fees for water believe them to be inherently regressive and argue that necessary services such as water should be provided through the general taxation system.

However, there are countervailing arguments about the need to conserve scarce water resources. One way to do that may be to price water in the same manner as other metered utilities such as electricity and natural gas. One possible solution to the impact of water metering on lower income families is a stepped rate structure. A stepped rate structure could provide each household with a reasonably inexpensive base rate, and rates would then increase with each incremental step. However, in countries such as South Africa, which instituted a stepped system of this sort via privatized “pre-paid water meters”, the result has been considerable social tension.



While most water conservation attention tends to focus on residential users, it is equally if not more important to focus on large commercial and industrial users because of their ability to achieve much greater conservation targets. A stepped rate structure could result in those large-volume users being charged rates commensurate with their much higher consumption of water.

Some BC local governments have brought in water metering. These municipalities include Vernon, Summerland, West Vancouver, Penticton, Peachland, Gibsons, and the Capital Regional District. Other municipalities, such as Richmond, Delta, Surrey and Maple Ridge, have brought in voluntary water metering. Voluntary water metering is a system that allows residential consumers to pay whichever is lower of either the metered rate or the flat rate.

Those who advocate metering believe it to be a useful tool in changing public behaviour. They believe local governments could benefit from increased water revenues and lower demand for expensive, new infrastructure such as dams and storage reservoirs. Cranbrook is one of several municipalities in the province now looking at water metering as a way to reduce demand and defer the need to build new storage reservoirs.



After citizen approval in a vote held in 2008, the Town of Gibsons invested \$1.4-million to install one water meter for each commercial and residential property. The project was completed in 2009. Gibsons has done this in order to help educate residents about the amount of water they consume and to provide an incentive to use less.

Kamloops has also recently decided to proceed with water meters, with the hope that water metering will reduce consumption and aid conservation efforts in this very dry part of the province.

Others opposed to water metering are concerned that it is a first step toward privatization. Many people are worried about the commodification of water and believe that fees based on usage create a ready revenue stream that is very attractive for would-be water privatizers.



Whether or not water metering is implemented, it is important to recognize that metering alone will not do enough to achieve the conservation goals of a rapidly growing province. What's needed is a comprehensive vision for better stewardship of water resources.

Regulation of water use is also a critical conservation tool. In order to address the problem of water conservation, we need to limit the amount soaked up by the largest water users such as golf courses and large industrial operations. Many local governments are taking steps to encourage re-use of grey water. As well, lawn-watering restrictions and public education about the need for water stewardship are important tools for all municipalities.

Other Revenues

There are many other smaller revenue sources available to local governments, which are useful in diversifying the tax base and thereby reducing dependency on property taxes and sales of services. In this section we explore options that could generate new revenue or stop the leakage of existing revenue.

I. OTHER REVENUES – TRANSFERS

Local governments are creations of the provincial legislature. They are granted powers through provincial laws, such as the Community Charter and the Local Government Act. At the most basic level, local government powers to raise revenue are derived from provincial governments. In that sense, all local government revenues involve a sharing or transfer of provincial revenues.

Property tax is just one possible mechanism for transferring or sharing revenue. This tax has the advantage of being attachable to property that a local government serves, and therefore reflects the relationship between services provided and the revenue source. The idea that property owners should pay for services provided to their property appears fair. However, the extent to which local government services can be considered as services to property has become tenuous.



Communities that are similar, in terms of numbers and uses of properties, may have very different demands for services depending upon socio-economic characteristics and other factors. Many services provided by local governments are general government services to people. The demand for these services has a relatively insignificant relationship to the value of taxable properties in the community. For instance, certain kinds of policing may be needed to a greater degree in some communities for reasons only tenuously connected to the protection of property and residents located within the bounds of the community. The same may be true of certain kinds of social services that are provided to meet provincial objectives.

Furthermore, similar communities with similar needs and demands may have highly divergent abilities to pay for equivalent services due to different economic conditions. It is generally agreed that residents of all communities should enjoy a basic standard of local services to property, such as clean water, sewage disposal, waste collection and disposal, paved streets, and drains. However, communities vary widely in terms of the incomes of residents and businesses, the relative values of their properties, and thus the ability of property owners to pay taxes.



In British Columbia over the past few years, the forest sector has fallen into decline, decreasing the earnings of residents and businesses in rural areas. As a result, the property tax base in many rural communities has been eroded, as reflected in the declining relative property values and the loss of tax paying residents and businesses. Overall, the ability of residents and businesses to pay has come under severe pressure. Those communities experience a revenue squeeze on their local governments. The only way for local governments to address this squeeze is to cut services or collect relatively higher property taxes. Neither alternative is fair on the basis of horizontal equity, which holds that all residents should enjoy generally the same levels of services at comparable levels of taxation, regardless of the community they live in.

The revenue problem for local governments is fundamentally driven by differences in the per capita property tax base of their communities or regions. Similar rates of tax bring in much less revenue in less prosperous communities. In reality, adjusted revenue transfers from senior levels of governments are required to address this issue. Such transfers could equalize per capita revenue of the governments in question to ensure that comparable services can be provided at comparable tax rates.

Per capita grants provide a certain amount of relief, given that they assist poorer communities just as much as more prosperous ones. Equalization transfers are, however, are much more effective at ensuring equity among communities. Such transfers provide a ‘top-up’ to the revenues of less well-off municipalities, raising their per capita revenues to comparable levels with those municipalities that are better off.

Equalization transfers work to meet the objective of horizontal equity and of vertical equity, which states that better off communities should pay a greater share of the costs of services than those that are less well off. While British Columbia once had equalization revenue sharing for local governments, this is no longer the case. Unless and until there is a return to a system of equalization transfers to local governments, the financial problems of local governments in many parts of the province will become ever more onerous.

II. OTHER REVENUES – GAMBLING

In Think City's survey of local government leaders in British Columbia, many local governments report gambling as an important new source of revenue. While there are many views about the appropriateness or morality of such expansion, there have been consistent trends toward increased opportunities for gambling and the liberalization of many restrictions on gambling.

Like other social vices, gambling produces associated social costs like organized crime, policing, emergency services, family violence, and addiction treatment. Local government often picks up the related expenses and, therefore, it is not unreasonable for local government to expect a share of gambling revenue.

In the case of new casino development, local government typically benefits from property taxes, development cost levies, amenity contributions, and an ongoing share of revenues. These revenues can be quite lucrative and therefore very attractive to local governments. However, there is a limit to the amount of gambling the economy can support. With several major casino projects opened or in the development process, BC may be nearing the point of market saturation. As such, it is unwise for local governments to count on growth in gambling revenues to continue at current rates.

From an economic development perspective, there is evidence to support the idea that gambling takes money out of the local economy that would otherwise be spent on other discretionary goods and services. In this sense, gambling expansion imposes an opportunity cost that is borne by other businesses in the economy.

III. OTHER REVENUES – DEVELOPMENT COST LEVIES

Development cost levies (DCLs) are fees charged to developers to compensate local government for the cost of providing new infrastructure and service to new developments. For example, development may require new streets, water and sewer lines, and other infrastructure. There is much debate about what could and should be included in the scope of DCLs. For example, how should local governments recoup longer term operating costs associated with new developments?

The province could assist local governments by providing them with more flexibility in determining DCLs that accurately reflect the true costs of development. However, there are several questions surrounding DCLs that need to be further explored. For example, some environmental and smart growth advocates express concern that the current system of municipal financing is motivating some local governments to approve development that would not otherwise be approved because of the DCL revenue that would flow to the city as a result.

In Think City's survey of local government leaders, we asked what percentage of their total revenues came from DCLs. The median figure was one per cent. There are a small number of municipalities where DCLs do comprise an uncommonly large share of overall revenues. Those municipalities brought up the average in our survey to 3.9 per cent. Notably, jurisdictions where DCLs are a large source of revenues can be left quite exposed to any downturn in the real estate and development industry.



IV. OTHER REVENUES – CAPTURING LIFT

Local governments often make land-use decisions that directly lead to an increase in the market value of one or more properties. For example, a property zoned for single-family residential use may be up-zoned to allow for a multi-family, residential high-rise. The value of the property can increase by millions of dollars as a result of this type of decision. The amount of this increase is called “the lift” and it accrues directly to the owners of the properties in question.

Most local governments try to capture some of the lift through various means, including requiring some amenity contributions from developers as a condition of development approval. For example, the developer may be required to contribute some land for a park or build a childcare facility. However, this process is not transparent. Negotiations happen behind closed doors between the city and the developer. The value of the amenity contribution varies from project to project and can lead to suspicion that some developers are treated differently than others and that political influence can result in a much more favorable deal.

Further research should be undertaken on mechanisms that would allow for a more uniform and transparent way of capturing the lift created by public policy and land-use decisions.

V. OTHER REVENUES – TRANSPORTATION-RELATED LAND DEVELOPMENT

Transit systems around the world, perhaps most notably the mass transit railway system in Hong Kong, are financed by revenues from property investment and development. As transportation is a key factor influencing land values, governments have captured revenue as land is developed for higher-density uses. At present, BC's local governments realize little benefit from the increase in land value whenever a new bridge is opened or a rapid-transit line is built. However, one solution already underway in Metro Vancouver may usher in a new era in transportation-related land development.



TransLink is the regional transportation authority in Metro Vancouver, responsible for providing public transit and major road projects throughout the region. As a single agency responsible for transportation throughout the entire Metro Vancouver region, TransLink has the ability to shape development in the region through its investments in transportation infrastructure and its public transit service.

In 2008, TransLink established a wholly-owned real estate and property development company. This company is responsible for the acquisition and development of land for TransLink's own use, and to generate extra revenues, which are forecast to be up to \$1.5-billion over the next 10 years. Not only does this company allow TransLink to invest in land for future use at reasonable, fair market prices, it also allows TransLink to recover some of the costs associated with multi-billion dollar investments in transportation infrastructure.

VI. OTHER REVENUES – REMOVE PUBLIC-PRIVATE PARTNERSHIP COMPARATOR RESTRICTIONS

In order to be eligible for project funding, the provincial government has burdened local government with restrictive rules that require all public infrastructure projects with a value in excess of \$50-million to go through a complicated public-private partnership (P3) comparison process. This process is meant to prove that the local government can build the project at a lower cost than a hypothetical P3 comparator.

The P3 comparison process can be quite lengthy and expensive, relying heavily on outside expert consultants. It is also an unnecessary intrusion on the decision-making authority of local governments. Rather than allowing elected mayors and councillors to make decisions in the best interest of their communities, the provincial government is dictating a 'one size fits all' approach to municipal infrastructure funding.

Moreover, given the instability and dysfunction in world credit markets over the past few years, and the private sector partners' difficulty in obtaining capital at reasonable rates, government financing and contracting is always more secure and often more cost-effective than P3 models. The difficulty of relying on P3 models was illustrated recently when the provincial government was unable to find a P3 bidder capable of financing the twinning of the Port Mann Bridge. Instead, they chose to develop the project using a traditional government-procurement model.

VII. OTHER REVENUES – COLLECTION OF TICKETS AND FINES

Some local governments have lobbied the provincial government to make a legislative change that would allow local governments to collect unpaid tickets and fines by applying outstanding amounts to an individual's property tax bill. Courtenay had a resolution to this effect at the 2009 UBCM convention. If implemented, this relatively simple legislative change would address the leakage of some revenue in unpaid fines and tickets.

VIII. OTHER REVENUES – ACCESS TO PROCEEDS OF CRIME

The provincial government's Civil Forfeiture Act enables the government to seize assets purchased with the proceeds of crime. The production and sale of illegal drugs and other organized crime activity negatively impacts communities and causes economic harm to residents, businesses and local governments. Given the local impacts, many of BC's local governments believe the province should enact legislation to share the proceeds of property seized with municipalities. The Cariboo regional district had a resolution to this effect at the 2009 UBCM convention.

Economic Development

All local governments spend money on infrastructure, facilities, human resources and services. These investments can help propel economic development if they are part of a coordinated plan to attract, retain and grow businesses. A high priority should be assigned to investments proven to make local communities stronger and more resilient.

While the previous chapters have looked at how to find additional revenue sources within the existing economy, this chapter will consider strategies to help grow the economy and expand the economic base of communities with resulting long-term benefits in terms of a larger and more diversified tax base for local governments. The strategies outlined will help to improve the employment prospects and quality of life for residents, and create growth opportunities and a fertile environment for business. By implementing such measures, local governments can help foster growth in their main bases of revenue.

These strategies can effectively complement other economic development initiatives and be pursued in collaboration with local residents, businesses and other levels of government.

I. HOUSING AFFORDABILITY

The housing affordability crisis is a problem for many communities in British Columbia, especially those in the rapidly growing large urban centres. The economic and social costs of an unaffordable housing market are becoming more apparent as housing costs continue to outpace growth in incomes.

For lower-income earners, the cost of the housing often exceeds 30 per cent of household income in many communities. For instance, in the 2006 census, 21 per cent of Greater Vancouver's renters – 57,000 households – reported that rent consumes more than 30 per cent of their income. These numbers are certainly larger now. In 2009, average rents in the Greater Vancouver area increased ten times faster than the cost of living, as measured by Statistics Canada's consumer price index.



Many families face growing economic insecurity and lack the discretionary income to support consumer spending, education and personal development, or take advantage of investment opportunities. Although the affordability crisis is most acute in Metro Vancouver, recent CMHC data reveals it is by no means just a big city problem.

High housing costs also place a burden on employers in many parts of British Columbia. As housing has become less affordable, many public and private sector employers have had a harder time attracting and retaining qualified staff. Wage demands are driven by the high cost of living, particularly in Metro Vancouver. The lack of affordable housing is therefore a key factor that reduces our economic competitiveness and makes it more difficult for companies to grow and keep skilled staff.

Policies that help make housing more affordable benefit the broader local economy, as employers are able to find qualified staff while maintaining reasonable labour costs. Employees also benefit from lower housing costs with greater disposable income and the ability to participate in a growing economy with expanding career opportunities.

Local governments should carefully examine their zoning and land-use policies, as well as their development regulations and permitting practices. Ineffective, overlapping or outdated municipal regulations contribute to unnecessary increases in housing costs. Specific exemptions and equivalencies can often reduce the cost of housing by thousands

of dollars. For example, is it necessary to require a parking spot for each housing unit in dense urban areas that are well served by transit?

Local governments need to view affordable housing policies as a key component of their economic development strategy. For example, the City of Salmon Arm has successfully attracted new business and employment on the strength of its relatively lower cost-of-living, and its proximity to major centres and transportation corridors. The city has prioritized affordable housing and densification as part of their downtown revitalization plan, which focuses on townhouses and multi-family buildings located near shops and services. Salmon Arm understands that high housing costs are passed on to business in the form of higher labour costs or labour shortages. The city understands its relative affordability is a competitive advantage for local business.

The Salmon Arm Economic Development Society (SAEDS) launched a creative marketing campaign around the idea that locating in Salmon Arm leaves you “with more money in your jeans.” The campaign targeted businesses in areas with labour shortages and rising cost-of-living such as Calgary, Edmonton, Red Deer and Vancouver. They focused on firms in light manufacturing because of their economic spin-off benefits. SAEDS estimated over 200 new jobs and millions in investment were attracted to the community through this campaign.



Richard Florida, in his book *The Rise of the Creative Class* (2004), argues low housing costs are one of the critical factors that make cities attractive to creative class professionals. High housing costs drive away young people, artists, intellectuals, and others on the cutting edge of technological, social and artistic innovation.

Like other professions, creative professionals are often burdened by student debts and low incomes at the beginning of their careers. High housing costs are therefore crippling to creative class professionals at the point in their career when they are most likely to be producing cutting edge work, and before they have families and become more settled. Unaffordable housing drives away the next generation of innovators, artists, entrepreneurs, and professionals – exactly the people necessary to maintain a creative, knowledge-based economy.

Other critical factors in attracting creative professionals include cultural diversity and tolerance, leading universities and educational institutions, quality public services and amenities, and environmental and recreational amenities.

II. LOCAL PROCUREMENT POLICIES

Local governments are powerful consumers, purchasing many products and services required to maintain their operations. Many local governments are exploring local procurement policies to ensure their dollars are supporting local business wherever possible. As an added benefit, local procurement helps to avoid the economic and environmental costs of shipping products and services that can be sourced locally.

The preference for local sourcing supports the multiplier effect, allowing more money to circulate in the community longer. When buy-local policies accompany ethical purchasing policies, the benefits are more visible in the community. Even if you do not include the benefit of sustaining employment and income contributing to the local tax base in the equation, the use of local suppliers is often competitive with outside suppliers.

In October 2009, Toronto adopted a local food procurement policy after more than 2,000 Toronto residents told their politicians to avoid jet-lagged food and buy local first. The city set a target of 50 per cent local food for civic facilities such as daycares, shelters and seniors' homes. Their local food policy will result in fresher, healthier food, with less associated greenhouse gas emissions. Further, the policy helps to support Ontario farmers by providing a market for their products.

Another example is the University of Waterloo's procurement policy, which establishes the public institution as a Canadian leader when it comes to local procurement policies. Their policy includes a preference for "...products that are produced or located locally or regionally to reduce shipping and packaging requirements (storage, chemical treatment for freshness)." Selecting preferred origins of products, as a means to reduce shipping and packaging, does not contravene trade agreements because the policy is connected to reducing impacts on the environment.

The St. Catharines–Thorold Chamber of Commerce applauded Waterloo's move and called upon "all public institutions – including but not limited to hospitals, post-secondary institutions, school boards, and agencies to produce green procurement standards that are modelled after leading green standards in Canada ... and that all green procurement standards include proximity to product clauses to reduce transportation impacts."

When Think City surveyed local government leaders in British Columbia, 60 per cent reported their local government's economic development strategy incorporates tools such as local procurement, local hiring and/or community economic development.

In the US, there is widespread use of local procurement as an economic development tool. A 2007 survey by the National Association of State Procurement Officials found that 39 states use the location of a firm as a tiebreaker, if all other aspects of a bid

are equal. In fact, half of the 50 states, half of the 26 largest cities and five of the 18 largest counties offer between a four and ten per cent uplift to local businesses on local government contracts.

Unfortunately, while other nations see the benefits of fostering their own economies with local procurement policies, the Canadian government is currently pursuing trade policies that could inhibit our own ability to do so. Until now the federal government has never bound sub-national governments under the World Trade Organization's agreement on government procurement. However, the proposed "Buy American" agreement would for the first time include provincial and territorial governments, and municipalities with a population over 50,000.

Similarly, the draft Canada-European Union trade agreement (CETA) text would, if enacted, undermine the ability of local governments to implement local procurement policies. According to research published by the Canadian Centre for Policy Alternatives and the Centre for Civic Governance, there are serious concerns that the language in the draft CETA text would effectively prohibit local procurement policies and would facilitate the privatization of public services, such as waste management, drinking water, and public transit.

III. WORKING WITH FIRST NATIONS

In the 21st century, the rights of First Nations must be accommodated. There is a growing body of case law that establishes the obligations for all parties, including local government. Some local governments have concerns about how they will be affected by treaty settlements, and it is important that these concerns be addressed by senior levels of government. While negotiating treaties is clearly the responsibility of senior levels of government, local governments could be affected. However, many local governments have also realized that treaties have the potential to bring real economic benefits to communities throughout the province.

A November 2009 study titled “Financial and Economic Impacts of Treaty Settlements in British Columbia” by PriceWaterhouseCoopers concluded that if all 60 First Nations currently in the BC treaty process complete treaties by 2025, they could receive a net benefit of \$10.28-billion. BC could receive \$6.4-billion in economic benefits after deducting settlement costs. As part of these treaty settlements, federal money that otherwise would not be spent in BC will be available to First Nations in BC.

The legal uncertainty surrounding title to the land base of the province is a significant barrier to private sector investment in the province. The settling of treaties establishes a more favourable climate for investment and development.



First Nations governments are important partners in the development of local economies. Once they are empowered with legislative authority and resources, they will be able to actively promote economic development within their territories. This economic activity will ultimately benefit all British Columbians, particularly some smaller communities throughout rural BC that are struggling with severe economic challenges.

Many First Nations have already started to take on some of the revenue instruments and service delivery responsibilities traditionally associated with local governments. For example, in 2006 Terasen and the Westbank First Nation reached an operating agreement that resulted in Terasen paying a 3.09 per cent franchise fee to the Westbank First Nation, and collecting it from gas customers on band lands.



Local governments around the province have started to build relationships with local First Nations by partnering on local projects and initiatives. Such ventures include local hiring and training, partnering on local-revenue generation projects, sharing infrastructure for municipal services, and other joint projects. When treaties are settled, many local governments will have built alliances with First Nations at the local level. These intergovernmental partnerships will have very important implications for local economic development.

An example of such a partnership is when, in 2008, the City of Penticton signed an agreement with the Penticton Indian Band to provide sanitary sewage treatment for band lands on the west side of the Okanagan River. The band will pay the city for the capital and operating costs in an agreement amortized over a 20-year period. The agreement will benefit the environment and help to diversify the area's economy by allowing the band to develop the land for industrial purposes.

In 1988, in the same part of the province, the Osoyoos Indian Band established the Osoyoos Indian Band Development Corporation (OIBDC) to undertake economic development projects. Over the last 20 years, the OIBDC has been highly successful in establishing business partnerships and joint ventures with investors and governments. The OIBDC works with local municipal and regional authorities on synchronized planning, such as the regional marketing and promotion plan. A 2006 agreement between the OIBDC, the provincial government and the Mount Baldy Ski Corporation has resulted in the band purchasing an ownership stake in the resort.

Over 90 agreements have been signed between local governments and First Nations, covering matters such as general cooperation and protocol agreements, transit service, water and wastewater treatment, fire protection, and other local services. Treaty negotiations may be the responsibility of senior levels of government, but formal treaties are not necessary for local governments to explore partnerships with First Nations. Together, the two parties can strengthen local economies.



IV. COLUMBIA BASIN TRUST

The Columbia Basin Trust (CBT) was created in 1995 to benefit the southeastern part of British Columbia (the Columbia basin), which was severely affected by the 1964 Columbia River treaty. This treaty led to the construction of three storage dams in the basin (the Duncan, Keenleyside and Mica dams), and the Libby Dam in Montana. Without public consultation, the government of the day displaced 2300 residents – who lost their communities and farms to flooding.

In the 1990s, people and communities in the basin approached the provincial government seeking justice. The government responded and began the negotiations toward the creation of the Columbia Basin Trust. The provincial government agreed to invest \$276-million to install hydroelectric generation facilities in the three Columbia basin dams, and a further \$250-million for various community development projects. The revenue from the CBT dams goes toward an endowment that funds a wide range of community programs, social services, affordable housing, scholarships and youth programs, small business loans and venture capital investments. This money is re-circulated in the economy of the region and directly benefits local businesses and residents.



When the province set up the CBT, it also transferred funds to CBT's joint-venture partner in power project development, the Columbia Power Corporation (CPC). To date, the joint venture partners have invested in three hydroelectric power projects, with a fourth in the advanced stages of feasibility planning.

The CBT private placements include all investments the CBT makes in businesses located in the Columbia basin region. The investments take different forms, but they generally fit into three categories:

Real Estate: CBT has an ownership interest in a number of seniors' care facilities located in the basin. Collectively, these properties contain more than 800 living suites and offer a range of services depending on the needs of the resident.

Direct Lending: On a select basis, CBT invests directly in basin-based businesses. The investment risks and financial returns accrue fully to CBT, as they exclusively manage the investments.

Loan Syndication: In partnership with regional credit unions, CBT invests in basin-based businesses. These investments are managed on a joint basis with the credit unions and both parties share the risk, as well as the return.

The CBT's priority is investment opportunities located in the Columbia basin. However, given the limitations of investing in a small region, there is a balance of funds that is available for investment in a portfolio of market securities, such as short-term deposits, bonds and equities.

The CBT also funds the basin business advisors program (BBA) to build economic capacity in basin communities by strengthening and supporting existing businesses. The BBA program assists small- and medium-sized independent business operators in the Columbia basin by providing free, one-to-one confidential business counselling and assessment services. The BBA program also arranges and shares the costs of specialized consulting services, if they are recommended by BBA staff.

The Columbia Basin Trust provides local communities with the control and financial resources to shape their own economic future. It will ensure that the region receives a fair share of the ongoing downstream benefits of the Columbia River treaty. The Columbia Basin Trust is a good model for how resource-based communities throughout BC can be empowered with the capacity, mandate and resources to engage in economic development at the local level.

V. COMMUNITY BONDS

Community bonds are a form of borrowing from within the local community and a mechanism for local government to raise funds for capital projects. These bonds are issued by the local government and are administered through the BC Municipal Finance Authority (BCMFA). All community bonds are guaranteed by BCMFA and carry the same AAA credit rating as other BCMFA services.

The local government issuing the bond is responsible for promoting and selling the bonds. The local government must receive the assent of electors, either through referendum or the alternate approval process. Two chief advantages of community bonds are that they create a strong sense of community ownership, by encouraging buy-in to local projects, and interest is paid to local residents, thus keeping the cost of interest within the community. Typically these bonds have been used for small-scale local infrastructure projects. For example, the Village of New Denver raised \$220,000 in 2005 for the paving of local roads, and the Village of Montrose raised \$200,000 in 2004 for electrical system upgrades and power line installation.

One reason why community bonds are not more widely used is the difficulty local governments often have in offering commercially competitive interest rates. Local governments are usually able to borrow at lower rates through BCMFA. In 2008, the City of Kelowna examined the feasibility of using community bonds to partially finance their new \$46 million Mission Recreation Park Aquatic Centre. At the time the city had concerns about their ability to sell community bonds given the other products available to investors. Ultimately, Kelowna decided to use more traditional financing methods.

In an attempt to make community bonds a more attractive investment vehicle, Senator Jerry Grafstein introduced a bill (S-203) in 2009 which would have made the interest earnings on community bonds tax-exempt, among other changes. However, the bill has been criticized because most institutional investors are already tax-exempt or enjoy special tax status, and most individual investors earn investment and interest income tax-free in their registered retirement savings plans and tax-free savings accounts.

In 2003 the Ontario Municipal Economic Infrastructure Financing Authority (now Infrastructure Ontario) introduced a more centralized model of community bonds called Ontario opportunity bonds. These bonds were exempt from provincial income tax and were used to finance local infrastructure projects throughout Ontario. Infrastructure Ontario concluded the bonds “may not be the most efficient products to use to raise funds for a broader infrastructure loan program” and the program was discontinued.

In the early 1990s, the government of Saskatchewan developed a community bonds program to mobilize local people, local capital and local resources for new, diversified business and manufacturing development. These community bonds originated in response to the provincial need to diversify the rural economy and create jobs to offset the effects of massive structural adjustment in Saskatchewan agriculture and an extremely limited government fiscal position.

NatWest, a large British bank, sells community bonds over the counter as an investment product. The bonds are guaranteed by the government and the purchaser can choose to direct how much interest they want to contribute to community projects, and which communities they wish to invest in.

With the support of the BC government, local governments could partner with banks and credit unions to market similar investment products, raise money for local projects and keep the interest payments in our communities. The policy challenge would be to develop the legal and taxation framework where this kind of program would make financial sense, both for investors and for local governments.

When Think City surveyed local government leaders in British Columbia, 48.2 per cent said they would be interested in exploring the use of community bonds and municipal revenue bonds as tools for financing capital projects. 30 per cent said they were not interested in this option, and 21.8 per cent said they didn't know.

VI. CAISSE DE DÉPÔT ET PLACEMENT DU QUÉBEC

One of the key weaknesses in the BC economy concerns the availability of investment capital in the province. Studies have shown that small- and medium-sized businesses in BC and Canada have more difficulty finding investment capital than their competitors in other countries. The relatively small size of our economy, structure of the banking industry, government tax policies, the role of institutional investors and the risk-tolerance level of investors are all factors limiting the availability of investment capital in British Columbia.

The province's tax subsidy for labour sponsored investment funds (LSIFs), such as the Working Opportunity Fund, has proved beneficial for business investment in the province. Another winning strategy could be to follow Quebec's example of how public-sector pension funds can be used as an important source of investment capital. Created by the Quebec government in 1965, the Caisse de dépôt et placement du Québec is one of the largest institutional fund managers in Canada and North America. It manages public and private pension and insurance plans, and invests primarily in fixed income securities, equity markets, private equity and real estate. It is the largest pension

fund in Canada, with \$220.4-billion in assets under management.

British Columbia has a similar institution to manage public-sector pension funds in this province, the BC Investment Management Corporation (BCIMC). The BCIMC has \$74.5-billion in assets under management, and also invests in bonds, Canadian and international equities, private equity and real estate. The main difference between the two organizations is that the Caisse de dépôt et placement du Québec has always had, as part of its mandate, an explicit commitment to invest in the economic development of Quebec. The BCIMC has no such mandate to invest in British Columbia, with the result that this capital is managed no differently than it would be if it were based outside the province.





In 1967, Caisse chairman Claude Prieur stated their philosophy as follows:

“Between two investments of similar quality and price, the one that seems most susceptible of favouring the economic development of the province is preferred, even if, in doing so, it is necessary to sacrifice somewhat the diversification of the portfolio.”

Even today, despite some changes in policy over the years, the organization’s mission statement reflects that goal as a key principle guiding the Caisse: “The mission of the fund is to receive moneys on deposit as provided by law and manage them with a view to achieving optimal return within the framework of depositors’ investment policies while at the same time contributing to Quebec’s economic development.”

This policy has proved to be a very effective economic development tool, providing necessary capital for business investment and expansion in Quebec. Over the past 45 years, since its inception, the Caisse de dépôt et placement du Québec has provided investors with returns comparable to other similar pension funds and investment vehicles. Importantly, it has also played a significant role in developing Quebec’s economy.

Exploring the use of Caisse de dépôt et placement du Québec’s mandate, as a model for the BCIMC, is an economic development option that could prove beneficial. Implementation would require that the provincial government amend the legislation governing the BCIMC and appoint a board of directors willing to oversee such a shift in policy.

When Think City surveyed local government leaders in British Columbia, 43.5 per cent agreed or strongly agreed that British Columbia should coordinate its public sector pension plans to provide a pool of investment capital for business development and provide for local and provincial government financing. 31.1 per cent said they disagreed with this option, and 25.4 per cent said they didn’t know.

VII. ENCOURAGING CLUSTERS

One of the most powerful concepts in regional economic development over the past 20 years is the development of industrial clusters as a central economic development strategy. Harvard economist Michael Porter has written extensively about clusters, and other economists have furthered his research with more detailed studies on how and why clusters are so economically competitive. The cluster concept details that firms realize significant economic benefits by locating near other firms in the same industry or related industries. Networks of related suppliers and sub-contractors grow, developing expertise. Specialized, industry-specific tertiary services such as law, finance, and marketing also spring up to serve the cluster.

Some well-known historical clusters include Silicon Valley in California, the watch-making cluster in Switzerland, the fashion/design cluster around Milan, Montreal's aerospace industry, and Finland's telecommunications industry.

For over a century, cheap energy prices have allowed materials to be transported vast distances to highly-capitalized manufacturing plants located near major consumer markets. The automobile industry is the classic model of this structure. But, as energy costs seem set to increase dramatically in the next few decades, the costs of transporting materials vast distances to manufacturing centres will become – and are already becoming – less viable. Since transportation and inventory costs add no value to the final product,



industrial companies will seek ways to shorten their supply lines by bringing their suppliers and sub-contractors closer together.

It is likely that this century will witness a transformation whereby the formation and development of industrial clusters will become more intense and critical. In such a situation, universities and research institutes are very important as incubators and “growth poles” in a knowledge-based economy. Government support for research and development, linkages between academics and industry, and ease of commercialization are critical factors in building up highly competitive technology clusters. Again, the value of investment in education and training for a knowledge-based economy cannot be overstated. Carly Fiorina, former CEO of Hewlett Packard, told a group of US governors in 2002, “Keep your tax incentives and highway interchanges; we will go where the highly skilled people are.”



Local governments must appreciate the significance of clusters. Other economic development strategies rely on attracting investment with low taxes or other public subsidies and incentives. Cluster-based economic development, on the other hand, is very stable. Being part of the cluster is the competitive advantage for firms. As a result, host communities are shielded from the negative impacts of tax competition. Of course, a reasonable business tax environment is important, but it is by no means a critical factor in the location of industrial clusters.

Research on locational decision-making by leaders of small- and medium-sized enterprises (SMEs) suggests that predominant factors include: presence of suppliers, access to capital and skilled labour, advanced local research institutes, quality transportation infrastructure, and quality public services.

Historically, government economic development agencies in Canada have attempted to create clusters by attracting large “anchor firms” with subsidies, tax breaks and other incentives. Smaller firms, so it was thought, would be attracted to set up near these large firms. Attempts in this vein have not often proven successful, as they are often far too dependent on the success of one large anchor firm rather than the broader cluster.

The case of Nortel, once Canada’s great hope in telecommunications, illustrates the perils of this approach. Given the potential problems of mismanagement, market competition, mergers and takeovers, it seems unwise to place all of our economic development eggs in one basket. The history of regional economic development in Canada, through agencies such as Western Economic Diversification (WED) and the Atlantic Canada Opportunities Agency (ACOA), is not particularly encouraging.

Research on successful cluster initiatives around the world shows that usually the impetus and leadership for the cluster comes from within the industry – not from government. Attempts by governments to create clusters in advanced capitalist economies have not been successful. However, government support for, and involvement in, cluster initiatives is very important in aligning public policies in ways that support the clusters’ growth and diversification.

How then does the state encourage the development of cluster formation? Investment in research and development and universities is obviously a key means of channeling public resources into areas where there is likelihood of commercial spin-offs. Other policies, such as quality public education and skills-training programs, modern transportation infrastructure, and a supply of inexpensive property zoned for commercial and industrial use, all help to lay the foundation for dynamic companies.

Communities can also work to help bolster their existing businesses. This may or may not eventually lead to cluster formation, but it does help to nurture existing companies and jobs. One option is to strengthen the competitiveness of existing industrial firms by attempting to attract suppliers to locate near the companies who are already operating in the community. Some business leaders in British Columbia have suggested they would be open to such approaches from their local government, if they were asked to participate. Not all firms would participate in such initiatives, but those that do are more likely to maintain and expand their operations in the community.



One approach to encourage this type of cluster formation is for economic development officers and local government officials to meet with every significant manufacturing company in the municipality and ask if they would like to see their largest suppliers brought closer. If the answer is affirmative, representatives of both the local company and the local government could jointly approach the supplier firm. When local officials work together with local business leaders – to identify opportunities and sell the benefits of their community – they have an advantage because they are building on existing relationships rather than trying to attract companies with whom they lack any connection.

VIII. IMPORT SUBSTITUTION

Cluster development tends to be most successful in larger, more economically diversified communities. In contrast, smaller rural communities are often dependent on a single industry or large employer. The challenge facing these communities is economic diversification. As Michael Shuman, research and public policy director of the Business Alliance for Local Living Economies (BALLE), has written:

A rural community needs to avoid dependence on large firms. Instead, it should focus their efforts on developing multiple new business sectors that expand the local skill base, increase entrepreneurship, and reduce a town's vulnerability to global commodity markets. It needs, in short, to develop new clusters.



Case Study: Hardwick, United States

Hardwick, Vermont has built a new economic cluster around local food. "Cutting-edge restaurants, artisan cheese makers, and organic orchardists turning fruit into pies are some of the new businesses that have added 75-100 jobs" in a community of approximately 3,000. Non-profits, such as the Center for an Agricultural Economy and institutions like the University of Vermont, have played a key role in working with organic farmers and small food producers on solutions to issues such as marketing, research and transportation.

By focusing on high-value, specialty organic agriculture and food processing, Hardwick's farmers are building a market for quality local food that traditional economic models would not have predicted. As Andrew Meyer, who was instrumental in bringing farmers and entrepreneurs together noted, "... if Vermont is going to have a future in agriculture we need to look at what works in Vermont, and that is not commodity agriculture."

A key factor in Hardwick's success has been cooperation among the farmers and small-scale food processors in the cluster. The benefits of this cluster arrangement include: cross-promotion, marketing, and access to small-scale capital through local networks.

Case Study: Güssing, Austria

In the early 1990s, Güssing was a dying rural community of 4,000 people in Austria. Its traditional logging and farming industries were in steep decline. The mayor saw an opportunity to create a district heating system, fueled by local wood waste. His goal was to completely abandon fossil-fuel-based energy and to supply the town of Güssing – and subsequently the whole district – with regionally available renewable energy sources. First, all public buildings in the town were provided alternatives and required to stop using fossil fuels. As result of the energetic optimization of buildings in the town, expenditure on energy was reduced by almost 50 per cent. Subsequently, a wood-burning plant was built, providing heat for 27 houses. Later, a facility was constructed that turns rapeseed into car fuel.

In 1998, with Vienna's Technical University, a pilot project to gasify wood chips under high temperatures was built in Güssing. The process had gas fueling a Jenbacher engine, which produces electricity. Its by-product, heat, is then used to produce warm water for the district heating system. Embracing these technological advances encouraged research and development to continue. Today, Güssing hosts a team of trained technicians and imported scientists.

The renewable-energy project did in fact expand to the region. Currently, there are 27 decentralized power plants within Güssing County. Güssing now has an annual energy turnover of about €14-million. The region has developed into an important location for industries with high-energy consumption, such as parquetry production or hardwood drying. The highlight is Blue Chip Energy, the first high-efficiency solar cell production in Austria. The company is a joint venture with Solon AG, who came to Güssing only because they can power the plant with clean energy from the renewable resources.



Rural communities interested in pursuing import substitution strategies can look to examples such as Hardwick and Güssing, as well as those described in the source documents listed at the end of this paper. As Michael Shuman argues:

“Both the Hardwick and Güssing examples demonstrate that substituting homegrown business for imports does not mean de-linking from the global economy. In fact, it’s just the opposite. By focusing first and foremost on local demands for food and energy, and by creating cutting-edge businesses to meet these demands, both communities were naturally able to grow new, powerful export-oriented industries.”

Import substitution strategies are neither cheap nor easy for a struggling rural community. It takes time and resources to conduct “leakage” analysis, and to identify the most promising new clusters. There is also the further challenge of bringing together entrepreneurs, educational institutions and economic development programs to

advance these new clusters. It’s always a challenge to sell new ideas to consumers, investors and policymakers. But it is less expensive and more valuable to do this rather than continuing with traditional economic development strategies, most of which attempt to lure big companies with massive subsidies and tax giveaways.

The economic development ideas presented in this chapter are promising economic development tools for local governments, and for the province as a whole. These ideas become even more powerful when they are combined with successful economic development initiatives already in place at the local level. Such strategies aim to diversify our economy, improve local multiplier effects with high-value industries, keep money circulating longer in our communities, and attract and retain business investment and human resource talent. Together, they provide a blueprint for a more self-sufficient, more entrepreneurial, and more sustainable economy.

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APPENDIX A • Think City Survey

i. Survey Methodology

Think City undertook this project with the assistance of an advisory committee that included our key partners, including Simon Fraser University's Public Policy Program and CUPE BC. This group helped to develop the survey questions and provided advice on survey methodology. During the fall of 2009, Think City assembled a contact list of mayors, councillors, and senior city staff for all local governments in the province.

The survey was created using Survey Monkey, a widely used survey website. In November of 2009, a description of the survey, its purpose, and a secure link to the survey were distributed by email to mayors, councillors, and senior city staff in every local government in British Columbia.

Three follow up emails were sent over the next three months to encourage as much participation from local government officials as possible. After three months, in February of 2010, the survey was closed and the results were tabulated.

In total, 193 individuals participated in the survey. Among them, 97 local governments in the province are represented, comprising 51 per cent of all local governments. Large, medium and small municipalities from every region of the province are represented.

Think City would like to thank everyone who took the time to participate and share your knowledge and experience with us. Here are the results of the survey.

ii. Survey Results

Question 1: Residential property taxes account for which percentage of your total revenues?

Average	49.1%
Median	48%

Question 2: Business property taxes account for which percentage of your total revenues?

Average	19.9%
Median	15%

Question 3: Development cost levies account for which percentage of your total revenues?

Average	3.9%
Median	1%

Question 4: In the current fiscal climate, is your local government contemplating: (check all that apply)

Taxation increases	74.7%
Taxation cuts	6.7%
Increases in expenditure	34.3%
Cuts in expenditure	39.3%
No significant changes	24.2%

Question 5: Has your local government received revenue from any new sources in the last four years?

Yes	56.4%
No	43.6%

Question 6: If you answered “Yes” to Question 5, please briefly describe those new revenue sources.

Think City looked carefully at all the answers to this question to identify current steps that local governments are taking to diversify their revenue sources, and reflected many of these best practices in chapters three and four.

Question 7: Given the current economic downturn, has your local government had difficulty collecting taxes from large, industrial taxpayers?

Yes	15.2%
No	84.8%

Question 8: Does your local government have an economic development strategy that incorporates tools such as local procurement, local hiring and/or community economic development?

Yes	59.8%
No	40.2%

Question 9: If your government had new revenues equal to five per cent of your current budget, what would be your top three priorities for that new revenue?

Infrastructure/maintenance	37%
Financial reserves/tax reduction	15%
Recreation, sports, arts and culture	13%
Tourism/economic development	9%
Environmental programs/projects	8%
Housing and social programs	6%
Policing and fire services	6%
Improving current programs/staffing	6%

Question 10: The Province of Saskatchewan has agreed to transfer an amount equal to one percentage point or one-fifth of its five per cent provincial sales tax (PST) to local governments in Saskatchewan. The Province of British Columbia should use Saskatchewan's policy as a model and transfer a share of the new harmonized sales tax (HST) to local governments in BC.

Strongly agree	66.3%
Agree	22.7%
Disagree	1.8%
Strongly disagree	0.6%
Don't know	8.6%

Question 11: British Columbia's carbon tax is estimated to generate \$1.85 billion in its first three years. Instead of requiring that 100 per cent of this money be used to cut other taxes for individuals and business, the provincial government should direct these funds towards public transit, energy saving retrofits of public buildings, and other local initiatives to cut greenhouse gas emissions.

Strongly agree	46.6%
Agree	31.3%
Disagree	9.8%
Strongly disagree	4.9%
Don't know	7.4%

Question 12: Energy generation and sales represents an opportunity for some local governments to create a new source of revenue. Our local government is looking for ways to use our systems, assets, and natural resources to create energy for internal use and/or external sales.

Strongly agree	27.8%
Agree	40.7%
Disagree	17.9%
Strongly disagree	5.6%
Don't know	8.0%

Question 13: In the United States, many local governments issue tax-free bonds backed by tolls, utility revenues, and other revenue streams. These municipal revenue bonds are typically used to finance large capital projects. If this option was made available to local governments in BC, our local government would be interested in exploring it.

Strongly agree	19.4%
Agree	28.8%
Disagree	19.4%
Strongly disagree	10.6%
Don't know	21.8%

Question 14: Large public sector pension funds such as the Ontario Teachers' Pension Plan, the Caisse de depot et placement du Québec, and the Ontario Municipal Employees Retirement System invest in private equity, real estate development, government bonds and other securities. British Columbia should similarly coordinate its public sector pension plans to provide a pool of investment capital for business development and local and provincial government financing.

Strongly agree	14.9%
Agree	28.6%
Disagree	22.4%
Strongly disagree	8.7%
Don't know	25.4%

Question 15: Some economists have noted that municipal taxes and fees may have a regressive distribution (meaning that they impact lower income households disproportionately). Local governments should look at their tax policies through the lens of tax fairness for lower-income people.

Strongly agree	13.7%
Agree	39.1%
Disagree	26.7%
Strongly disagree	6.2%
Don't know	14.3%

APPENDIX B • Survey Respondents

In total, Think City received 193 individual responses to our survey. 97 local governments are represented, comprising 51 per cent of all local governments in British Columbia. Large, medium and small municipalities from every region of the province are represented. The following local governments submitted one or more responses.

City of Abbotsford

City of Armstrong

City of Burnaby

City of Campbell River

City of Chilliwack

City of Coquitlam

City of Cranbrook

City of Dawson Creek

City of Enderby

City of Fernie

City of Fort St John

City of Greenwood

City of Kamloops

City of Langley

City of Nelson

City of North Vancouver

City of Parksville

City of Penticton

City of Pitt Meadows

City of Port Alberni

City of Port Coquitlam

City of Port Moody

City of Powell River

City of Prince Rupert

City of Revelstoke

City of Rossland

City of Salmon Arm

City of Surrey

City of Vancouver

City of Vernon

City of Victoria

City of White Rock

Corporation of the District of Oak Bay

District of 100 Mile House

District of Barriere

District of Coldstream

District of Delta

District of Elkford	Regional Municipality of Northern Rockies
District of Highlands	Resort Municipality of Whistler
District of Invermere	Town of Comox
District of Kitimat	Town of Creston
District of Lake Country	Town of Gibsons
District of Maple Ridge	Town of Golden
District of North Cowichan	Town of Ladysmith
District of North Vancouver	Town of Lake Cowichan
District of Port Edward	Town of Osoyoos
District of Port Hardy	Town of Port McNeill
District of Saanich	Town of Princeton
District of Sechelt	Town of Sidney
District of Sicamous	Township of Esquimalt
District of Sooke	Township of Langley
District of Squamish	Village of Belcarra
District of Summerland	Village of Burns Lake
District of Tofino	Village of Cache Creek
District of Tumbler Ridge	Village of Canal Flats
District of Ucluelet	Village of Fruitvale
District of Vanderhoof	Village of Gold River
District of West Kelowna	Village of Hazelton
District of West Vancouver	Village of Kaslo
District of North Vancouver	Village of Keremeos
Regional District of Cariboo	Village of Lions Bay
Regional District of Central Kootenay	Village of Lumby
Regional District of Nanaimo	Village of McBride

Village of Montrose

Village of New Denver

Village of Port Alice

Village of Port Clements

Village of Pouce Coupe

Village of Silverton

Village of Telkwa

Village of Valemount

About the Authors

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James Fletcher is a researcher and writer. He specializes in issues of sustainability, local governance, planning and urban design, and public engagement. He has a BA in geography and is an associate member of the Planning Institute of British Columbia. James is a candidate for the School of Public Policy at Simon Fraser University.

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Doug McArthur is a professor in the School of Public Policy at Simon Fraser University in Vancouver, British Columbia. He teaches and writes on public policy theory and process, forestry, resources, northern development, negotiations, aboriginal policy, and governance. For many years Doug was a senior public servant in the British Columbia, Saskatchewan and Yukon governments. He is a frequent commentator on public policy issues.

About Think City

Launched in 2002, Think City believes citizens can make the best decision about the kind of city they want, when they are given the time, support and tools they need.

Think City works to:

- a) help citizens realize the issues facing their communities and develop collective solutions;
- b) facilitate the strengthening of civil societies within communities and across British Columbia;
- c) educate citizens on ways to protect their environment, strengthen local economies, and ensure the protection of individual rights and access to basic services; and
- d) provide communities with educational tools to assist in the long-term development of healthier societies.

As a result of our work, Think City has developed expertise in producing large-scale citizen participation exercises through public forums, workshops, surveys and hallmark conferences. More recently, Think City has expanded on its role as a civic issues convenor to begin developing policy solutions through our Dream Vancouver process that was launched in October 2007.

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