


Local Government Leadership Academy
Revenue and Economic Development
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 BARRISTERS AND SOLICITORS
 February 2, 2018

Introduction



- Innovative revenue sources
- Economic development best practices

Innovative Revenue Sources

Introduction

- Local Governments: ever-increasing load
- Federal/Provincial: download responsibilities, decrease services
- Yet local government must balance budget, limited amount of capital borrowing power
- Diversified and new revenue sources required for services and infrastructure

Current Revenue Sources

- Major revenue source: property tax
- Other revenue: user fees, development, contracts, gifts, grants from other orders
- Additional sources proposed:
 - Tax sources (income, sales, fuel, and hotel occupancy, gas, vehicle, parking, amusement)
 - PILT from federal, provincial governments
 - Intergovernmental transfers
 - Enterprise, resources

Revenue Sources: Revenue per Capita

	BC	Alberta	Ontario	Quebec	Canada
Property Tax	874	1,252	1,238	1,137	1,096
User Fees	535	715	569	280	481
Own Source	1,590	2,265	1,995	1,500	1,739
Grants	106	564	750	242	475
Total	1,696	2,830	2,745	1,742	2,214

(Source: Dr. H. Kitchen and UBCM, 2013)

Innovative Revenue Sources

Taxes per Capita

	LA	Atlanta	Chicago	Boston	Detroit	Toronto
Property	\$461	\$1,038	\$444	\$962	\$383	\$1,005
General Sales	153	558	147	0	0	0
Selective Sales	205	332	415	65	142	0
Income	0	0	0	0	480	0
Other	194	175	85	65	35	0
Total	\$1,013	\$2,103	\$1,091	\$1,092	\$1,040	\$1,005

Revenue Sources- Outside Canada

- Income tax: Europe, US, Japan, S. Korea, Turkey, etc.
- VAT/sales tax: Europe, US, Japan, Turkey
- Taxes on fuel, hotel, or other specifics: NOT in Canada, UK, Australia, France or Scandinavia
- Tax on permission (e.g. to pollute)
- Property tax: Canada 93%; EU average <20%, US 70%

Revenue Sources

Unique to British Columbia

- Traffic fine - \$60M/year
- Fair Share
- Northern Rockies Revenue Sharing
- Columbia Basin Trust
- Small communities/regional districts

Property Tax Weaknesses

- Property tax doesn't grow with economy or distribute fairly
- Significant infrastructure upgrades needed soon
- Low levels of Provincial support

Property Tax Strengths

- Property tax is stable and predictable
- Low per capita costs
- Competitive tax levels

Revenue Sharing Weaknesses

- Funding not stable or predictable
- Legislation is no guarantee
- Accountability and efficiency hurt by involvement of two governments and absence of proper pricing
- Not predictable or stable

Revenue Dependencies

Access to one or more revenue sources dependent on:

- Local governments' administrative capacity
- Types of expenditures that must be funded
- Willingness of a senior government to assign taxes to local government
- Constitutional and legislative requirements

Innovative Revenue Sources

Options for Long Term

- Property tax room (divert some from provincial general revenue)
- Sales tax (1% = \$550M = 20% of property tax)
- Income tax (1% = \$60M = 2.5% of property tax)
- Fuel, hotel, entertainment, parking, MV, resort, toll
- PILT and GILT (and note BC Ferry Corp case)
- Franchise tax, enterprise, add revenue to P3's

Innovative Revenue Sources

Options for Long Term (cont'd...)

- Eliminate need for "appropriation" (already eliminated for investments, debt payments and P3's)
- Establish revenue sharing by agreement + legislation so communities can sue if not honoured
- Matching dollars from 3 orders of government
- Long term commitments of 15-20 years, 5 year reviews
- Add "own source" revenue - share more of the property tax "room"

Innovative Revenue Sources

Options for Short Term – S. 192 CC

- Fees
- Taxes [Property Value Taxes]
- Taxes [Parcel Taxes]
- Taxes [Local Service Taxes];
- Taxes [taxation of utility company property]
- Fines and other penalties revenues raised by other means authorized under this or another Act;
- Revenues: Agreement, enterprise, gift, grant or otherwise

Innovative Revenue Sources (cont'd)

- Revenue Sharing under contract
- Proactive generation of gifts, bequests and grants
- Parcel tax
- Franchise fees
- Public private partnerships (P3's)
- Agreements with First Nations
- Grants

Innovative Revenue Sources (cont'd...)

- Amenity contributions
- Higher fines
- Fees
- Sale or lease or licence of interest in highways
- Air space parcels
- Park revenue
- Long term lease of land

Innovative Revenue Sources (cont'd...)

- Revenue from agreement: s. 8(1) and 192 (h) CC
- *Jack's Towing v. Abbotsford* (2007, BCSC): Revenue sharing with contractor for exclusivity
- No risk
- Land: Commercial lease, festivals/concerts, tourism/resort activities
- Procurement: Service contracts

Innovative Revenue Sources (cont'd...)

- Charitable Gifts, bequests, grants
- LG = "qualified donee" for purposes of ss. 149.1 and 149.2 *Income Tax Act*
- Establish Mayor or Chair led committee or non-profit society or foundation to raise funds
- Money, art, gifts-in-kind
- Pool, arena, park, community centre, theatre

Innovative Revenue Sources

(cont'd...)

- Parcel Tax
- Impose a parcel tax in the entire municipality for a good cause (capital replacement, arena, pool, park)
- Can be imposed on all parcels that have opportunity of being provided with service – even if not so provided [s. 201 (2) CC]

Innovative Revenue Sources

(cont'd...)

- Franchise fees
- Exclusive franchise for gas, electric, district energy, public transit, water, sewage
- 21 year maximum term
- Going rate is 3% of gross
- S. 22 CC – AAP required

Innovative Revenue Sources

(cont'd...)

- Public private partnerships
- Arena, pool, offices, community centre, road, bridge, electric power, solid waste, liquid waste, water, economic development, rec facilities, primary care
- Private capital
- Private operation, maintenance and repair
- Private employment
- Off-book financing
- Ultimately facility/land reverts to LG

Innovative Revenue Sources

(cont'd...)

- Agreements with First Nations
- FN want a government to government relationship, so impose the full cost of the services
- Do not base fees on assessed values on Reserve or on rates set by FN Council – base fees on actual fmv
- If third party lessee is on services agreement, beware rule against assistance

Innovative Revenue Sources

(cont'd...)

Revenue per Capita

	BC	Alberta	Ontario	Quebec	Canada
Grants	106	564	750	242	475

- What I learned in Tanzania
- Grantsmanship

Innovative Revenue Sources

(cont'd...)

- Amenity contributions
- Economics: local governments create wealth by rezoning
- "lift" = increased value after rezoning
- LG get share of the "lift"
- Amenity zoning
- Phased development agreements

Innovative Revenue Sources
(cont'd...)

- Prosecution - higher fines: \$10,000; minimum fines
- MTI: \$1000
- Continuing offences – maximum fine each day that offence continues
- Bylaw adjudication scheme

Innovative Revenue Sources
(cont'd...)

- Fees
- User pay – not a regressive imposition
- Impose full cost of overhead and administration
- Every facility, work, activity or service qualifies
- Use of property
- Exercise of authority to regulate (e.g., grow op inspections)
- Soil deposit or removal fees (e.g., gravel)

Innovative Revenue Sources
(cont'd...)

- Sale or lease or licence of interest in highways
- Licence agreement: restaurant patio, balcony, deck, temporary event
- Encroachment agreement: signage, awning
- Stop up, close, and sell unused road allowances (beware of Registrar Order)
- Integrate roads into developments

Innovative Revenue Sources
(cont'd...)

- Air space parcels – highways, other City land
- Park revenue – restaurants, parking, concessions
- Long term lease of City land versus sale

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Economic Development

- Revitalization Tax Exemption Bylaw (s. 266)
- Tax exemptions – land, improvements, both, in whole or part
- Revitalization tax program/agreement
- Ten year maximum
- Bylaw conditions must be satisfied
- Powell River – Catalyst Paper Mill
- Squamish – Oceanfront Development

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Revitalization Tax Bylaw - Continued

- Revitalization tax bylaw –
 - Consistent with financial plan
 - Public notice (s. 227)
 - Program bylaw required
 - Agreement with each owner required
 - CFO certifies compliance

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Tax Increment Financing

- Tax increment financing (TIF)
- creation of geographic district where baseline of property tax established
- baseline amount of tax will continue, future tax generated above baseline assessment applied directly to improvements in district, which in turn lead to further development and increases in tax base

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Tax Increment Financing - Continued

- TIFF (c'd)
- defined lifetime, usually 10 – 20 years, after which incremental assessments revert back to general revenues
- Borrow against future incremental revenue to pay for catalyst project
- BIA differs – requires additional levy
- E.g., Calgary brownfields

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Economic Development Tools

- Business services vehicle (e.g., CEPCO/Chilliwack)
- Regulatory flexibility
- Business incubator
- Tax incentives - special assessment districts
- Grants – s. 21 CC
- Marketing assistance
- One-stop permit issuance
- Small business development center
- Tax abatements
- Tax increment financing
- Infrastructure improvements
- Zoning/permit assistance

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Public Private Partnerships

Build-Own-Operate (BOO)

Description:

- Private partner finances, builds, owns and operates the work or service
- No time limit on BOO
- Public regulatory control of some aspects of operations and pricing, since no competition

Applications:

- Heathrow Airport, operated by British Airports Authority

Advantage:

- Long term entitlement to operate facility is incentive for developer to invest significant capital

Disadvantage:

- No competition, therefore necessary to make rules and regulations re operations and to control pricing

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Public Private Partnerships (c'd)

Build – Operate – Transfer (BOT)

Description:

- Private developer obtains exclusive franchise to finance, build, operate, maintain, manage and collect user fees for fixed period to amortize investment
- At the end of franchise, title reverts to public authority

Applications:

- Model for Pearson Airport privatization proposal and fixed bridge link to Prince Edward Island

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Public Private Partnerships (c'd)

Advantages:

- Access to private sector experience, management, equipment, innovation and labour relationships may result in cost savings
- Risk shared with the private sector

Disadvantages:

- Little public control, compared to BT0 structure
- Possible difficulty in replacing private sector partner or terminating agreements if bankruptcy or performance default

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Public Private Partnerships (c'd)

Build – Transfer – Operate (BTO)

Description:

- Private developer finances and builds work or service and on completion transfers title to government
- Government then leases or licenses work or service back to private developer under long term lease under which private developer operates and obtains reasonable rate of return

Applications:

- California private toll road operators
- Ontario Highway 407

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Public Private Partnerships (c'd)

Advantages:

- Compared to B.O.T. model, avoid legal, regulatory, and tort liability issues
- Under Occupiers' Liability Act, tort liability can be avoided
- Government control of operational performance, service standards, and maintenance
- Ability to terminate agreements if service levels or performance standards not met, although facility would continue to permit repayment of capital contributions and loans and introduction of new private partner
- Construction, design and architectural savings, and likely long term operational savings

Disadvantages:

- Possible difficulty in replacing private sector entity or terminating agreements in event of bankruptcy or performance default

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Public Private Partnerships (c'd)

Buy -Build-Operate (BBO)

Description:

- Existing public facility is transferred to private developer that renovates or expands then owns and operates
- Permanent private ownership

Applications:

- New York/Albany County Airport
- Ice arenas
- Regional municipality of Hamilton-Wentworth sewage treatment plant

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Public Private Partnerships (c'd)

Advantages:

- Government can use franchise agreement and agreement of purchase and sale to control access, noise, safety, quality, pricing and other matters
- Private sector capital to renovate or expand facility

Disadvantages:

- Need to identify degree of regulatory control at time of transfer
- Lack of competition in regard to service provided

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Public Private Partnerships (c'd)

Lease-Develop-Operate (LDO)

Description:

- Private developer given long term lease to operate and expand an existing facility
- Private developer agrees to pay for facility renovation or expansion in return for recovery of investment and reasonable rate of return

Applications:

- Affordable housing, seniors' housing, recreational facilities

Advantages:

- Avoid potential legal problems related to private ownership of publicly financed work or service
- Assignment of operational risk to private developer