

AGENDA FOR THE REGULAR FINANCE / POLICY COMMITTEE OF THE WHOLE MEETING
TO BE HELD IN THE BOARD ROOM, CITY HALL,
ON MONDAY, 2006-JUL-24, COMMENCING AT 4:30 P.M.

1. **CALL THE REGULAR FINANCE / POLICY COMMITTEE OF THE WHOLE MEETING TO ORDER:**

2. **ADOPTION OF THE AGENDA:**

3. **ADOPTION OF MINUTES:**

- (a) Minutes of the Regular Finance / Policy Committee of the Whole Meeting held in the Board Room, City Hall, on Monday, 2006-MAY-01 at 4:30 p.m.

4. **PRESENTATIONS:**

5. **INTRODUCTION OF LATE ITEMS:**

6. **DELEGATIONS PERTAINING TO AGENDA ITEMS: (10 MINUTES)**

7. **REPORTS OF ADVISORY BODIES:**

8. **STAFF REPORTS: (blue)**

CORPORATE SERVICES:

(a) Competition Council Report on Major Industry Taxation

Pg. 1-9

Staff's Recommendation: That Council write to the Province indicating the need for consultation on this issue prior to the Province taking any action.

(b) Contract for Upgrade of SAP System

Pg. 10

Staff's Recommendation: That Council approve the contract for the 2006 SAP Upgrade to Sylogist Ltd. for an expected cost of \$311,340.

10. **CORRESPONDENCE:**

11. **NOTICE OF MOTION:**

12. **CONSIDERATION OF LATE ITEMS / OTHER BUSINESS:**
13. **DELEGATIONS PERTAINING TO ITEMS NOT ON THE AGENDA:**
(10 MINUTES)
14. **QUESTION PERIOD:** *(Agenda Items Only)*
15. **PROCEDURAL MOTION:**

STAFF REPORT

REPORT TO: D. W. HOLMES, GENERAL MANAGER OF CORPORATE SERVICES

FROM: B. E. CLEMENS, DIRECTOR OF FINANCE

RE: COMPETITION COUNCIL REPORT ON MAJOR INDUSTRY TAXATION

RECOMMENDATION:

It is recommended that Council write to the Province indicating the need for consultation on this issue prior to the Province taking any action.

EXECUTIVE SUMMARY:

The BC Competition Council has produced a report that recommends that local governments reduce the amount of property taxes charged to major industry taxpayers (more specifically, to the pulp and paper industry). If municipalities fail to take action, the report recommends that the Province impose a tax rate cap, or take similar action to restrict local governments' ability to tax major industry.

The Union of British Columbia Municipalities (UBCM) has produced a response to this report, concluding that:

1. There was no consultation or facts gathered from local governments;
2. The report lacks clarity, contains errors, and is imprecise in its conclusions;
3. There is an appearance of bias and a failure to look at the wider context.

City Staff agree with the conclusions in the UBCM memo. The *Community Charter* promises consultation with local government on important issues, and it is clear that absolutely no consultation took place during the formulation of the recommendations by the Competition Council.

Further, municipalities view the imposition of a rate cap as a restriction of the local government autonomy guaranteed by the *Charter*. In spite of promises made during the development of the *Charter*, municipalities have a limited range of possible revenue sources. Placing restrictions on the ability to set tax rates will reduce municipal revenue options.

☐ Council
☒ Committee of the Whole
☒ Open Meeting
☐ In-Camera Meeting
Meeting Date: 2006-Jul-24

BACKGROUND:

In February 2005, the Province announced that a new BC Competition council would be formed to review the province's competitiveness both on a sectoral as well as a regional basis, identify barriers to economic growth, and solutions to overcome them that can be taken by industry or government. Premier Campbell announced the establishment of the council on March 30. The co-chairs are Dan Miller and David Thompson and the council includes seven other private sector members, and one government representative.

Industry Advisory Committees (IACs) were appointed to prepare a report for each of the sectors and submit it to the Competition Council, which reviews the reports and submits recommendations to the Province for each sector.

The Pulp and Paper IAC, which is made up of five industry representatives, two presidents of consulting firms specializing in the sector, a union representative and the Deputy Minister of Forests, was the first to complete its report. They made a number of recommendations, the ones that are of most interest to municipalities are:

1. A 50% reduction in average major industry property taxes and real protection from unreasonable burden is required as a first step in the process.
2. This rate reduction and protection for major industry taxpayers must be consistently applied across the province and be of an enduring nature in order to succeed.

The Competition Council reviewed the report and made the following recommendations:

"The Council agrees with the conclusions of the IAC Report that the tax burden is not consistent with the services received from the municipalities and that high property taxes are a disincentive to new investment in B.C."

In order to deal with this issue, the Council recommends the following possible solution:

- (a) *Municipalities should reduce the tax burden on the pulp and paper sector, particularly where the ratio of industry vs. Residential rates is high.*

If this is not done:

- (b) *The Province could reduce the number of categories of municipal tax into, say, one category of business tax that would include industry and services.*
- (c) *An imposition by the Province of a ratio by which the municipal tax rate on industry and business cannot exceed that of the tax rate on residential homes."*

While these conclusions apply to the pulp and paper industry, it is likely that they will be echoed by other reports as they are completed. The Wood Products IAC is the only other IAC to have completed its report to date, which endorses the recommendation of the Pulp and Paper IAC. It contains the following recommendation.

On 2006-MAY-25, the UBCM hosted a meeting to discuss the Competition Council recommendations and the possible municipal response. The conclusions are summarized in the attached memo from Marvin Hunt, President of UBCM, dated 2006-JUN-28. In summary, the UBCM concluded:

1. There was no consultation or facts gathered from local governments;
2. The report lacks clarity, contains errors, and is imprecise in its conclusions;
3. There is an appearance of bias and a failure to look at the wider context.

The UBCM has asked that local governments consider this report and make their views known to the UBCM, to the Province, and locally.

The UBCM memo points out problems with the conclusions reached by the Competition Council. The Competition Council report was prepared without any consultation with local governments, resulting in an imbalanced report that fails to consider the impact that industry has in the community, or the services provided to industry by local governments.

The lack of consultation is contrary to the intent of the *Community Charter*, which states that "... consultation is needed on matters of mutual interest". This clearly includes an issue as critical as property taxation.

In spite of promises made prior to the completion of the *Community Charter*, the *Charter* failed to deliver any new revenue tools for local government. Municipalities must continue to rely on property taxation as their primary source of revenue. This is in contrast to municipalities in the US that are able to access income taxes and other revenue sources.

Should the Province introduce regulations to control how local governments set tax rates (e.g. through a cap on industrial rates), they will reduce local government autonomy to control their own tax policy.

This process has already begun. About ten years ago, the Province put a cap on the utility class (railways, telephone lines, hydro lines, etc). This was done in response to BC based rail companies that complained that property taxes were making them uncompetitive. Changes were also made to the *Assessment Act* to exempt certain structures. The outcome was that property taxes were reduced for a few companies (rail, hydro, telephone), but these taxes would have ultimately been made up by increasing taxes for everyone else – including major industry. In addition, the Province has capped property tax rates for certain industries contained in port areas (this does not affect Nanaimo).

At the May 25th meeting of UBCM members, one of the most common messages was that the Province has its own tools to deal with many of the other issues raised by the autonomy provided to them in the *Community Charter*.

The other consistent message was that local governments were seriously concerned about the lack of consultation. Many municipalities had stories about what they have been doing to limit increases to major industry tax rates.

As Council is aware, the City recognized many years ago that our major industry tax rate was out of line with other communities in BC. Beginning in 1994, Council approved reductions in the major industry tax rate to make it more comparable with other jurisdictions in BC. Council adopted a policy that the City's tax rate would be at the average of BC cities in (in 1993, Nanaimo was 161% of the average). Over time, this was achieved and has been maintained to this date. One of the strategies employed has been a tax shift, i.e. that residential tax rates receive a greater share of any annual tax increase. In recent years, this has meant that residential taxes have been increased by a half a percent more than other categories. For example, in 2006, the residential tax rate increase is 3.7%; major industry and other categories are 3.2%. In previous years, sometimes a larger shift was required.

Over the years, both staff and Council have met with Harmac Pacific (Pope & Talbot), who are Nanaimo's largest taxpayer and comprise a significant portion of the major industry tax base. Although they would obviously prefer to pay lower taxes, Harmac has recognized the efforts that Council has made to minimize industrial tax increases and keep Nanaimo's tax rate competitive with other BC municipalities.

The UBCM has asked that municipalities write to the Province and to the UBCM with their views on this report.

Respectfully submitted,



B.E. Clemens
Director of Finance

BEC/sm
Council: 2006-JUL-24
G:\Administration\Council\Reports\2006JUL14 Staff Report

TO: UBCM Members
 FROM: Marvin Hunt, President
 DATE: June 28, 2006
 RE: UBCM COMMENTARY ON COMPETITION COUNCIL REPORT

UNION OF
 BRITISH
 COLUMBIA
 MUNICIPALITIES

Suite 60
 10551 Shellbridge Way
 Richmond
 British Columbia
 Canada V6X 2W9
 604.270.8226
 Fax 604.270.9116
 ubcm@civicnet.bc.ca

On May 25th, 2006, UBCM hosted a member consultation on the Competition Council interim report.

We wrote to the Competition Council to see if they were interested in hearing our views. They advised that consultation with local government was not part of their mandate.

We worked hard on crafting a response to this issue and I enclose our advice to the Premier on the Competition Council interim report.

We understand the Council moved ahead with its final report to the government on June 26, 2006. The final report contains the same recommendations regarding property tax as the previous report except that the focus has now been broadened by the Council – where before the recommendations referred to the pulp and paper sector, they now encompass the full major industrial sector, with the potential, through the proposed solutions, to include all businesses.

Every municipality and regional district has to be concerned about what is at play.

Minister Ida Chong has assured us that government will not act on the recommendations of the Competition Council without consultations.

I would encourage you to consider this matter and make your council/board views known to UBCM, to the Province and locally.

Another matter I am equally concerned about is the provincial government review of assessment issues. I will correspond with you on this development immediately following the July UBCM Executive meeting when we hope to know more about the review of the *Assessment and Assessment Authority Acts*.

625:001:MH:Commentary on Competition Council Report

City Manager	<input checked="" type="checkbox"/>	Mayor & Council	<input checked="" type="checkbox"/>
Deputy City Mgr.	<input checked="" type="checkbox"/>	Directors	<input type="checkbox"/>
GM Corp Svcs	<input checked="" type="checkbox"/>	Fire	<input type="checkbox"/>
GM Comm Svcs	<input checked="" type="checkbox"/>	RCMP	<input type="checkbox"/>
GM Dev Svcs	<input checked="" type="checkbox"/>		
FOR ACTION	<input checked="" type="checkbox"/>	FOR INFO	<input checked="" type="checkbox"/>
BEC; D. Kiedyk			

1. No consultation or facts gathered from local governments.

We were told by a co-chair that the mandate of the Council was not to consult – just gather the facts. Yet the Council did consult – but only with industry. Hence they have only a partial set of "facts" and not the complete picture.

As far as we can ascertain, the Council never consulted any local government in an organized fashion about their taxation policies or any other matter, nor did it consult UBCM. If the Council did, it would have got a significantly different picture.

This procedure is a situation where those charged with reporting to the government only listen to the proponents, place those proponents in charge of marshalling the evidence and then basically agree with their findings, having done none of their own investigations and denying the local governments the opportunity to present their case. This is an issue of natural justice and procedural fairness.

Competitiveness isn't just from the industry perspective. Our members build the communities that industries' employees call home. The communities need to have a quality of life that attracts and retains a skilled and trained workforce, and their families. That voice was missing. The competitiveness of BC's industrial communities is not just low industrial taxes – it is being able to attract and retain workers and their families – a competitive advantage.

Building competitive communities is also about providing the local infrastructure – the roads, water and sewer systems; the regional airports; the protective services; the hospitals, etc., that are supported by local tax dollars and are essential, directly and indirectly, to industry.

Industry can also have a larger impact on existing infrastructure than one might think. We are told, for instance, that one fully loaded logging truck has the same impact on our streets as 3000 cars. To read the Advisory Committee report you would think its all a one-way relationship – industry pays disproportionate taxes and has benign impact on communities.

2. The report is shoddy and imprecise.

The reports both of the Council and their Advisory Committee do not in our opinion meet the minimum threshold to be the basis on which to make an informed decision regarding a significant public policy issue.

First, let's examine the Competition Council's recommendation on municipal taxation.

The Council agrees with the conclusions of the IAC Report that the tax burden is not consistent with the services received from the municipalities and that high property taxes are a disincentive to new investment in B.C.

In order to deal with this issue, the Council recommends the following possible solution:

- (a) *Municipalities should reduce the tax burden on the pulp and paper sector, particularly where the ratio of industry vs. residential rates is high.*

If this is not done:

- (b) *The Province could reduce the number of categories of municipal tax into, say, one category of business tax that would include industry and services.*
(c) *An imposition by the Province of a ratio by which the municipal tax rate on industry and business cannot exceed that of the tax rate on residential homes.*

On close reading the recommendations are either imprecise, shoddy or both. Each of the three recommendations references different taxpayers:

- a) references "the pulp and paper sector";
b) references "business" for all municipalities; and
c) references "industry and business," again for all municipalities.

These are very different target sectors, each with very different ramifications.

Immediately following the recommendation is yet another imprecise or shoddy reference:

It is estimated that of the 200 municipalities in B.C., 15 would lose a major source of revenue and would require some form of assistance from the Provincial government.

First, we know that there aren't 200 municipalities in all of BC as we understand the term - there are 157 municipalities.

But second, that isn't the only lack of clarity in this section regarding the impacts on municipalities:

- i) Given the lack of clarity as to what sectors the recommendations apply to, it is very unclear how the estimate of 15 municipalities affected in a major way was reached as no such estimate appears in the Advisory Committee report.
ii) If this estimate does come from only those 20 communities with pulp and paper mills noted by the Advisory Committee, a major impact on 15 out of 20 would be huge.
iii) If the 15 communities come from the pool of all industrial communities, there are 73 of these according to the Adams report, so this would mean a major impact on 21% of industrial communities.
iv) If this is the case it becomes more uncertain where the estimate of 15 municipalities comes from given that the focus of the report and the recommendations are ostensibly only about the pulp and paper industry and it may be that the number of municipalities impacted by the recommendations on the broader business and/or industrial sector would climb far higher if all businesses or industries were considered.

Given the imprecision of both the recommendations and the potential number of municipalities affected we really cannot be sure of the impact of implementing the recommendations.

Also shoddy is the logic of the conclusions the report came to regarding property taxes. Whether or not the conclusions regarding the impact of property taxes on industry competitiveness are valid, the report does not support them. It references high social rents and the property tax burden without presenting any supporting evidence that taxes are having a negative effect on the industry. There is no proof presented that business has turned away from BC because of property taxes. We would also note that in the recent FCM report on the fiscal imbalance it is reported that 50 cents of every tax dollar collected in Canada goes to the federal government, while 42 cents goes to the provincial and territorial governments and local governments are left with eight cents.

In fact, the report lists many other reasons for the poor performance of the industry -- declining demand and oversupply of newsprint, import pressure from Asia, the strengthening Canadian dollar, the labour situation, subsidies received by competitors among them -- but the first time taxes are mentioned is in the conclusions on the current reality in BC when "the historical and continuing extraction of excess social rent" from industry is listed as a barrier to accessing capital. Nowhere is there any data presented to show that social rents in BC are excessive, let alone a barrier to accessing capital.

The only attempt at providing information on the burden of property taxation, Appendix C of the IAC report, which is heavily based on the Bish report, contains some simple numerical comparisons showing that industries in BC are taxed at a higher ratio compared to the residential rate than in the US, Alberta, Nova Scotia and Ontario. However, these ratios by themselves do not prove that the property tax burden is onerous, not to mention that the Adams report has countered many of the conclusions of the Bish report.

Despite this lack of proof, the excessive and onerous tax burden is simply presented throughout the report as a given, which speaks to the next point about bias.

3. Appearance of bias and other concerns.

UBCM has advocated the development of an "agreed" major industrial assessment and taxation analysis since the industry funded Bish report.

We commissioned Peter Adams to write a report on Major Industry Assessment and Taxation, and we think he did a credible and balanced job. Unlike the Bish report, we haven't heard any criticism of Adams' methodology.

But we went a step further in May 2005 and invited the Ministry of Community Services to agree to a joint undertaking. While it appeared they were initially interested in developing a data analysis that industry, governments and local government could agree to, we were unable to ever move this forward.

So our members look at an Advisory Committee that has four industry members; two forest industry consultants; one union representative and a provincial Deputy Minister and they say -- where was the voice of communities? They question the apparent neutrality of members who have long held views on municipal taxation, who have in

their business lives financed the same critique of municipal taxation that found its way into the Advisory Committee Report. One UBCM member observed at our recent member consultation: what result would you expect when you ask a group of taxpayers, such as this, if these taxes are too high? What do you get when you ask any taxpayer if taxes are too high?

Conclusion

We are committed to a competitive BC economy. The proactive actions of municipalities support this. But BC needs communities that are places that attract and retain a skilled work force and they need an infrastructure that supports the local industry. If it was all about competitiveness of industry this is a single purpose agenda that doesn't speak to the way we build and finance communities. We think it is all about finding the right balance.

The solution isn't found in an industry led committee recommendation; it isn't found in provincial one-size-fits-all solutions, it is found in industries and local governments talking about the unique needs of their communities and how industry should contribute to sustaining those communities and how local government can respond to challenging circumstances in a global market.

In conclusion, the report provides no basis for government to make a significant public policy decision.

- The report is one-sided.
- It is shoddy and imprecise.
- It shows bias toward industry and no appreciation of the relationship between industry and the wider community in the BC context, which makes up more than just property taxes.

Sincerely,



Marvin Hunt
President

STAFF REPORT

REPORT TO: B. E. CLEMENS, DIRECTOR OF FINANCE

FROM: R. J. REIMER, MANAGER OF FINANCIAL SYSTEMS & REPORTING

RE: CONTRACT FOR UPGRADE OF SAP SYSTEM

RECOMMENDATION:

That Council approve the contract for the 2006 SAP Upgrade to Sylogist Ltd. for an expected cost of \$311,340.

BACKGROUND:

The City purchased SAP software for use as its Enterprise Resource Software in 2001. Sylogist Ltd. is SAP's western Canadian partner for clients of the City's size. Sylogist Ltd. provided the majority of technical and functional consulting for the implementation of SAP in 2002. Sylogist Ltd. has also provided the vast majority of all technical and functional consulting for all maintenance and enhancements to SAP since the implementation. When Council approved the purchase of SAP in 2001 it was known that the software would require a major upgrade every 5 years in accordance with SAP's maintenance schedule. This has been allowed for in the Five Year Financial Plan.

This system upgrade requires highly skilled SAP technical and functional consulting with knowledge not only of SAP Municipal client installations and its fund accounting complexities, but also specific knowledge of the City's installation as each installation is unique. Sylogist Ltd. is the only company that has intimate knowledge of the City's SAP system and is therefore the only company that can perform this upgrade.

The City has and continues to seek other companies that target the medium sized municipal SAP market so that it has options when engaging consultants for functional support including upgrades. Although the City has had some success finding alternatives for smaller projects there are currently no other suitable candidates for providing technical and functional support for a project such as upgrading the City's SAP system at this time.

Respectfully submitted,


Raymond J. Reimer
Manager of Financial Systems and Reporting

RJR/ck
g:\administration\council\reports\2006 sap upgrade report to council.doc

TO: CITY MANAGER
FORWARDED FOR CITY MANAGERS
REPORT TO COUNCIL


DIRECTOR OF FINANCE

☐ Council
☒ Committee of the Whole
☒ Open Meeting
☐ In-Camera Meeting
Meeting Date: 2006-Jul-24