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Revenue Sharing in Northwest British Columbia

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Introduction

Over the past several years, local governments in British Columbia have consistently petitioned the provincial government to develop revenue-sharing policies that would provide for a more equitable distribution of wealth to communities across BC.

Most recently, local governments tabled a number of resolutions at the Union of BC Municipalities (UBCM) 2012 Convention that call for a variety of actions around revenue sharing. Those resolutions include:

- **Resolution B11:** "That UBCM encourage the provincial government to review the Local Government Grants Act with a view to establish a process that would recognize new revenues including (but not limited to) a 1% point of HST or PST to be distributed to local governments on a per-capita basis".
- **Resolution B69:** "That UBCM petition the provincial and federal governments to establish a committee to discuss, establish, and implement a funding formula that ensures a percentage of taxes already collected from citizens, business and industry be given back to local governments".
- **Resolution B20:** "That UBCM advocate for a revenue sharing agreement for communities in northwest BC to offset local impacts of industry for which they are unable to tax directly".

In northwest BC, the need for a revenue-sharing policy between local governments and the Province is becoming more and more apparent. Industrial activity in the area is booming and targeted to grow at an exponential rate over the next decade with several major projects planned in the region. In order to develop infrastructure and increase services to support the planned activity, local governments will require additional revenue sources.

This Report

This report has been prepared to assist the City of Terrace and the Regional District of Kitimat Stikine in developing a revenue-sharing policy for the northwest region. The report is organized as follows:

Section 1 – Local Government provides an overview of local governments in BC (how they are governed, what services they deliver, and how they pay for those services).

Section 2 – Revenue Sharing in BC provides a brief description of the historical legislative framework in BC regarding revenue sharing, and provides some examples in the Province of current revenue sharing models.

Section 3 – Rationale outlines the rationale for developing a revenue sharing model in the northwest.

Section 4 – Options

Section 5 – Next Steps

Some Definitions

For the purposes of this report, the following definitions for "northwest region", "local government" and "revenue-sharing" are provided as follows:

Northwest Region is defined geographically as the Regional District of Kitimat Stikine and the municipalities within it and may be expanded to include the Regional District of Skeena Queen Charlotte and municipalities.

Local Government refers to municipalities, regional districts, and improvement districts that have been created through provincial legislation such as the Local Government Act, the Municipal Act, and the Community Charter.

Revenue Sharing is defined broadly as a funding arrangement that allows the provincial government to share revenue (including additional tax revenue and resource royalties) with local governments.

Generally, provincial revenue is "shared" with local governments through "government transfers" that take the form of either conditional or unconditional grants. Those grants are either applied universally to "all" municipalities or "all" regional districts (although the amounts may vary depending on certain factors such as population size) or are applied based on specifically defined criteria (i.e. for certain sizes of municipalities, or for municipalities from a certain region of the province). Government transfers are also distinguished by whether they are allocated out of general revenues or tied to some specific resource stream (i.e. gaming revenue, tax revenue, carbon credits, grants in-lieu of taxes, sales tax, traffic fines).

Section I - Local Government

There are 160 municipalities in BC. Municipalities serve about 87% of BC's population and range in population from fewer than 250 people to large cities approaching 600,000[1]. The median population size is 4,800. In geographic size, municipalities in BC range from 60 to 155,000 hectares.

There are four classes of municipalities: village, town, district and city – these definitions are population-based, and the authorities of each class are the same.

In addition to the 160 municipal governments, there are 27 regional districts in BC. Regional districts are managed by a board of directors composed of appointees from municipalities and a director elected from each electoral area.

Improvement districts are local authorities that provide local services such as water, fire protection, street lighting, garbage collection, and drainage for residents in a community. Improvement districts vary in size from small subdivisions to larger communities and they are typically located in rural areas of the province. Over the years, many improvement districts have either incorporated as municipalities or have transferred the services they provide to municipalities or regional districts.

Local Government Services:

Provincial legislation provides local governments with broad powers to deliver and regulate certain activities or "spheres" of service. In most cases, the ability of local governments to provide a service is "permissive", which means that a local government can choose what services it will provide. The only exception to this rule is the requirement of municipalities to maintain and service local roads, and the requirement to provide policing services for those municipalities that exceed a population of 5,000.

[1] BC Ministry of Community, Sport and Cultural Development web page http://www.cscd.gov.bc.ca/lgd/pathfinder-mun.htm

Under the Community Charter, municipalities have flexible authority to exercise regulatory powers in 16 broadly worded spheres of jurisdiction or regulatory spheres. These are:

- municipal services;
- public places;
- trees;
- fire-crackers,
- fireworks and explosives;
- bows and arrows,
- knives and other weapons;
- cemeteries and crematoriums;
- health,
- safety or protection of persons or property;
- nuisances and disturbances;
- public health;
- animals;
- protection of the natural environment;
- buildings and other structures;
- removal and deposit of soil or other material; and
- signs and advertising; discharge of firearms; and business.

In most of these spheres, municipalities may exercise their authority autonomously (i.e. municipal services, public places, trees). In other spheres (i.e. public health; protection of the natural environment; wildlife; standards that are or could be dealt with by provincial building regulations; and prohibition of soil removal or prohibition of the deposit of soil or other material), the province must be involved before the municipality can adopt bylaws.

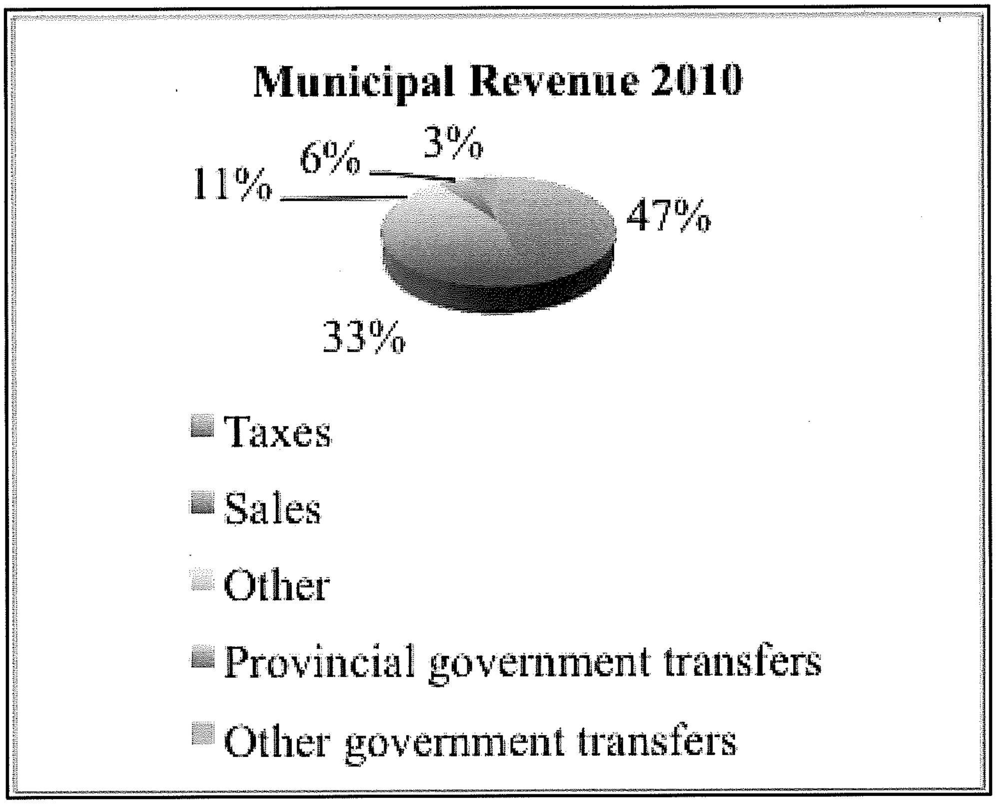
Regional districts generally provide political and administrative frameworks for region-wide services such as regional parks, emergency telephone services such as 9-1-1, inter-municipal or sub-regional services such as recreation facilities where residents of a municipality and residents in areas outside the municipality benefit from the service, and waterworks.

Local Government - Financing

Local governments in BC are responsible for ensuring they receive sufficient revenue to pay for the services that they provide. Planning for revenues and expenditures is accomplished through 5-year financial plans (adopted annually) and annual municipal reports.

The main source of revenue for local governments is property taxation (approximately 47% of the almost $7.9 billion raised by local governments in 2011 came from property taxes), but revenue also comes from sales of service (i.e. water rates, business license fees, parking tickets); other (government business enterprise, sale of assets, investment income, developer contributions); and government transfers.

	Municipalities	% of Revenue
Property & Other Taxes	$3,730,197,595	47%
Service Sales	$2,583,041,998	33%
Provincial Government Transfers	$478,409,201	6%
Federal Government Transfers	$215,185,847	3%
TOTAL REVENUE	**$7,867,228,027**	**100%**



Property Taxes:

There are two main types of property taxation: property value taxes and parcel taxes. Approximately 95% of all property taxes are levied in the form of a property value tax, which is a tax on the assessed value of a property expressed as a rate per $1,000 of assessment. A parcel tax can be imposed on any designated area of land that does not include a highway. Parcel taxes must be imposed by a bylaw that includes the service, term and basis of the tax.

Municipalities have the authority to set the tax rate for properties within their jurisdiction (although properties are valued through the BC Assessment Authority). There are currently nine classes of property in BC: two residential classes (Residential and Supportive Housing) and seven non-residential classes (including Business, Utility, Light Industry and Major Industry), and municipalities can set the tax rates for each class.

On average, the tax burden has incrementally shifted over the past decade from non-residential taxpayers to residential tax payers – residential property tax revenue now accounts for approximately 60% of total municipal tax revenue, up from 55% 10 years ago[2].

Senior governments are exempt from taxation so pay annual grants-in-lieu of taxes to local governments.

Service sales:

Local governments can raise money through user fees and charges, which may be levied to recover the cost of services or for using municipal property. Examples include user fees for: sewer, water, garbage collection, building permits, sale of assets, and developer costs. Charges can also come from public transit, using recreation facilities, and renting local government property. Fees can apply outside the municipality's boundary if the local government is providing a service to that area.

Other Income:

Local governments can also raise revenue through investment income and by economic development activities (local governments can incorporate a corporation or acquire shares in existing corporations – some examples of local government corporations include forestry and housing).

Government transfers:

Senior government transfers account for approximately 10% of total revenue raised by local governments in BC. Of that, approximately 6% comes from the provincial government through either unconditional or conditional grants.

Unconditional Grants

Unconditional grants are provincial transfers that have either little or no restrictions on their use and are not typically related to any specific project or purpose. The use of such funds is therefore at the discretion of local governments.

Over the years, unconditional grants in BC have moved away from having universal application (applying across the board to all local governments) and are now more issue and case-specific. This means that although dollars granted to local governments may not have any "strings attached", the criteria by which the local government receives the money are quite specific.

[2] Ministry of Community, Sport and Cultural Development. Municipal Revenue Sources. August 2012.

For example, before the mid-1990s, unconditional grants were provided – for the most part – to all municipalities in BC by using a consistently applied formula (the Municipal Basic Grant and the Municipal General Grant programs provided approximately $20 million and $118 million per year respectively to local governments in BC). After 1995-98, funding for those two programs was eliminated and replaced with the Small Communities Grant program, which targeted communities with a population under 20,000. Since then, additional unconditional grant programs have been developed, but most of those – with the exception of the Regional District Grant – are very specific in nature with respect to who can qualify for the grant.

Unconditional grant programs in BC include:

- **Small Community Grant Program** – targets communities up to 5,000 people; program incrementally phases out between 5,000-20,000 population and does not apply to communities over 20,000. Total provincial allocation under this program is approximately $49 million.

- **Regional District Grant** – all Regional Districts receive this grant; amount varies from $60,000-$200,000, with an average grant of $160,000. Total provincial allocation under this program is approximately $5 million.

- **Traffic Fine Revenue Sharing Grant** – this program was introduced in 1999 to assist municipalities with community safety initiatives, and it transfers provincial revenue from violation tickets to municipalities. Municipalities with a population over 5,000 that provide own policing services are eligible for this grant. Approximately 70 municipalities qualify for grant, and a majority of the funds (64%) are applied to the lower mainland. Total provincial allocation under this program is approximately $57 million.

- **Climate Action Incentive Program** – provides funding to local governments that are signatories of the Climate Action Charter, which is a joint provincial/local government commitment to address greenhouse gas emissions. Each signatory local government receives a grant equivalent to 100% of carbon tax paid, and municipalities must provide Province with a report on progress towards carbon neutrality. Total provincial allocation under this program is approximately $5 million.

- **Peace River Regional District MOU Grant** – introduced in 2005, this program addresses revenue requirements for the fast growing northeast area that is covered by the MOU. It provides revenue to local governments that service oil and gas industry yet do not have access to revenue because infrastructure located outside boundaries. Grants are transferred to Peace River Regional District and redistributed to several participating communities. Total provincial allocation under this program is approximately $$35 million[3].

- **Miscellaneous** – There are some provincial miscellaneous unconditional grants that are designed to assist local governments with special situations (includes resort municipality initiative, rail tax mitigation, and some restructure grants. Total provincial allocation under this program is approximately $15 million.

Conditional Grants

Conditional grants are transfers earmarked for specific projects or purposes and may not be used for any other purpose. The majority of conditional grant funding is intended for core capital works of local governments (e.g. water and sewer infrastructure) and planning. To receive funding through conditional grant programs, local governments must typically apply and meet certain criteria based on the specific objective of the program. Funding is usually targeted to cover only a certain percentage of a particular project, with local governments required to raise the remaining funds.

Both the federal and provincial governments are the principal providers of conditional grants in BC (the federal government usually provides its portion of grants through an intermediary body, such as the Province or the UBCM).

Conditional grant programs in BC include:

- **Infrastructure grants** – most of these programs are temporary and designed to address specific capital needs. Some are funded entirely by the Province, and others are jointly funded with the federal government. Since 2000, there have been approximately 10 different infrastructure conditional grant programs administered by the province[4], totaling approximately $883 million of provincial dollars.
- **Provincial Planning grants** – these support local governments with planning related to long-term service and infrastructure requirements. Through this program, the Province provides individual grants of up to $10,000 to local governments for the purpose of developing long-term comprehensive plans. Since 2000, the Province has provided $13.4 million in planning grants, which have funded 1,434 individual studies.
- **Grants through UBCM** – these include small programs such as the Healthy Communities Program, West Nile Prevention Initiative, and Tourism and Marketing Program.

[3] Annual grant includes base amount of $20 million plus an amount for assessment inflation of oil and gas infrastructure in region. In 2012, grant was approximately $35 million.

[4] Ministry of Community, Sport and Cultural Development. Local Government Grants Inventory. August 2012.

The UBCM also administers the Gas Tax Fund (GTF), which is a substantial fund that provides $1.63 billion of federal funding to BC local governments from 2005-2015 to support environmentally sustainable municipal infrastructure.

The GTF is the result of the "Agreement on the Transfer of Federal Gas Tax Revenue under the New Deal for Cities and Communities (2005-2015) that was signed by Canada, BC, and the UBCM. The Fund consists of a number of separate programs targeted at various objectives (all supporting the overall goal of reducing greenhouse gas emissions and building sustainable communities).

Section 2 - Revenue Sharing Models

This section provides an overview of revenue-sharing models in BC and other jurisdictions in order to provide context and background information in the development of a revenue-sharing model in the northwest.

Part 1 of this section looks specifically at revenue-sharing models in Canada and highlights the components of each model that might be applicable to a revenue-sharing program in the northwest, and Part 2 examines some revenue-sharing programs with First Nations in BC and Canada.

The information contained in this section demonstrates that there are a variety of revenue-sharing models and transfer payment policies in existence across Canada. Some models are clearly tied to specific revenue raised in a region, others are tied to revenues raised from a particular industry or resource sector, and still others are tied to a province-wide tax base. There are also varieties in how revenue-sharing programs are distributed – some are on an application-basis, some have formulas built in so that transfers are automatic, and still others have are built around a base amount that does not change much from year.

Part I – Revenue-Sharing Models with Local Governments across Canada

Generally, revenue-sharing programs/transfer payments can be categorized into the following four groups:

Group 1: Generally Accessible from General Revenue

- These are programs that are sourced from general government revenues that all local governments can access either automatically through some pre-established formula or through an application process. Funding under these programs can either be allocated on an unconditional ('no-strings-attached') basis or conditionally.
- An example in BC of this type of program is the Regional District Grant (which provides funds unconditionally to all Regional Districts in the Province) or some of

the Infrastructure Grants in BC (which are provided conditionally to local governments).

Group 2: Specifically Accessible from General Revenue

- These are transfer payments that come from general revenue that only certain local governments can access based on criteria established by the program.
- An example in BC of this type of program is the Small Community Grant, which is applied to small communities (under 20,000 people) by a pre-established formula (these grants are unconditional). Many of the conditional grant programs in BC also fall into this group.

Group 3: Generally Accessible from a Specific Revenue Stream

- These programs provide dollars to communities from a specifically identified revenue source (i.e. gaming revenue, sales tax, resource revenue).
- An example in BC of this type of arrangement is the Gas Tax Fund, which is a conditional grant program that Canada has negotiated with all provincial and territorial governments. The intent of the Gas Tax Fund is to provide provinces and territories with an amount equivalent to a portion of the federal excise tax on gasoline (gas tax). The UBCM administers various programs under this Fund with the Province, and some of the programs under the Fund are generally accessible – on an application basis – by all local governments in BC.
- Other examples in this category would be provincial programs that share gaming revenue or sales tax revenue with local governments (and in many cases with First Nations).

Group 4: Specifically Accessible from a Specific Revenue Stream

- These are programs that come from a specific revenue source (i.e. resource revenue, traffic tickets, carbon tax credits) that are accessible only by governments that meet a certain criteria established by the program.
- An example in BC of this type of program is the Traffic Fine Revenue Sharing Grant (which can be accessed by communities that have a population over 5,000 and that have their own police service), and the Peace River Regional District Grant (based on grants-in-lieu of taxes for activity in the northeast and that is accessible by communities within the Peace River Regional District).

For the purposes of this report and the development of a revenue-sharing model in the north-west, the programs that are most relevant are those contained within Group 3 and Group 4. The following table provides a summary of specific programs from each of those groups, highlights the main elements of each program, and extrapolates some key components from those models that are applicable to the development of a model for the north-west.

Group 3: Generally Accessible Grants/Transfers Sourced from a Specific Revenue Stream		
Program / Jurisdiction	**Description**	**Key Points for NW Model**
Canada-wide Program **Gas Tax Fund** Administered in BC by the Province and UBCM	Intent is to provide Provinces and Territories with an amount equivalent to a portion of the federal excise tax on gasoline. Represents a $13 billion investment from 2005 to 2014. Every municipality in Canada receives a portion of the Fund. The federal government collects about $5 billion in fuel taxes per year. About 40% of the taxes collected are returned to local governments through federal gas tax transfers.	Precedent demonstrates that portion/percentage of taxes can be shared.
Saskatchewan **Municipal Operating Grants Program**	Program shares 1 point of PST to all municipalities in the Province.	Precedent demonstrates that portion/percentage of taxes can be shared.
Manitoba **Building Manitoba Fund**	Municipalities share from tax revenue collected in the Province. Formula is either (i) 1% of PST; or (ii) 4.15% of personal and corporate income taxes estimated for year, 2 cents per litre of provincial gasoline tax estimated for year, and 1 cent per litre of provincial diesel fuel tax estimated for year, whichever is greater.	Precedent demonstrates that portion/percentage of taxes can be shared. Also demonstrates that transfers can be made based on revenue projections.

Nova Scotia **Equalization and Town Foundation Grants**	Legislated operating grant to assist municipalities whose costs of delivering a core set of services exceed ability to pay when compared to similar municipalities. Town Foundation grant provides towns with a base amount ($50,000) in recognition of challenges faced due to local road responsibilities. Grants calculated using an equalization formula that measures municipal need (by developing standard expenditures per dwelling unit for certain municipal services), and the ability of municipalities to fund that need*. *Note: Communities have recently objected to what they perceive to be an unfair distribution of funds. For example, Cape Breton received 52% or $16.7 million of all the equalization money given out this year and the next largest received $1.2 million.	Precedent demonstrates that government can develop mechanism to accommodate need for 'equalization' (ability of municipality to pay for services versus demand and need for those services).

Group 4: Specifically Accessible Grants/Transfers Sourced from a Specific Revenue Stream		
Program / Jurisdiction	**Description**	**Key Points for NW Model**
British Columbia* **Peace River Regional District MOU Grant – "Fair Share Agreement"** * Similar programs exist in other Provinces across Canada	Established in 2005, the BC-Peace River Regional District MOU provides at least $20 million annually to Peace River Regional District, indexed to changes in rural industrial property tax base. Grant provides funds to regional district because municipalities in that region cannot access taxes in areas that would ordinarily be within their industrial property tax base (industrial tax base located outside boundaries of region municipalities). Funds divided among local governments within regional district through a formula determined by the region. In total, the MOU has delivered approximately $219.5 million to communities and rural areas in the northeast.	Sets precedent that programs can be developed to accommodate unique region-specific issues. Acknowledges that local governments should be compensated for the services and infrastructure costs associated with resource development activities. Also recognizes that development growth puts a strain on local government infrastructure.

British Columbia **Traffic Fine Revenue Sharing Grant**	Introduced in 1999 to assist municipalities with community safety initiatives. Transfers provincial revenue from violation tickets to municipalities. Total amount apportioned based on annual police costs. Approximately 70 municipalities receive grants; 64% to lower mainland municipalities Applies to communities with populations in excess of 5,000 people that provide own policing services.	Sets precedent that specific revenue collected by the Province can be shared with local governments.
British Columbia **Casino and Community Gaming Center Revenue Sharing**	The provincial government shares revenue from gaming venues with local governments hosting those venues. Program was originally established to assist local communities with infrastructure and social services. In 2010/11, the Province received about $1.10 billion in net gaming revenue; host communities receive 10% of the net revenue to be used for any purpose.	Precedent acknowledges need to share revenue with local governments to help offset infrastructure, social service, and other costs associated with activity in that area.
British Columbia **Climate Action Incentive Program**	Funding to local governments that are signatories of the Climate Action Charter, which is a joint provincial/local government commitment to address greenhouse gas emissions. Each signatory local government receives a grant equivalent to 100% of carbon tax paid	Not applicable.

Part 2 – Revenue-Sharing Models with First Nations

In British Columbia, the provincial government has committed to negotiate revenue and benefit sharing agreements with First Nations through interim agreements in a variety of sectors.

Revenue-sharing is viewed by First Nations and government as one way to accommodate impacts to Aboriginal rights and title from resource extraction and industrial activity in traditional territories. Similar to local governments, First Nations have also consistently asserted that local communities should retain some of the benefits from resource activity in order to compensate for industrial impacts.

The following table outlines the various agreements that have been negotiated between the Province and First Nations over the past several years, and also highlights some agreements with First Nations across the country. The agreements clearly demonstrate that revenues from specific resources can be shared by the Province through Agreements that outline the terms and methods of revenue-sharing.

AGREEMENT	DESCRIPTION
Forest and Range Opportunity Agreements 120 First Nations in BC	Interim agreements between the Ministry of Forests and eligible First Nations designed to provide "workable accommodation" of aboriginal interests that may be impacted by forestry decisions. Provides revenue and direct award of timber tenure to First Nations.
Forest Consultation and Revenue Sharing Agreements 66 First Nations in BC	Introduced in 2010 as replacements to Forest and Range Opportunity agreements (first introduced in 2003). Provides revenue sharing to First Nations communities based on forestry harvest activities in their traditional territories. Communities can direct economic benefits to support community initiatives and social programs that they identify as priorities. Annual payments are fixed duration with possibility of renewal. FCRSA model transitions from per-capita funding to model based on harvesting activity in a First Nation's traditional territory.
Economic and Community Development Agreements (ECDA) 3 Agreements in BC	ECDA's share mineral tax revenue from new mines and major mine expansions. Terms of each agreement decided project-by-project. Factors considered in determining the amount of revenue to be shared include: size of the mine, size of the First Nation, economic needs of both the First Nation and the area as a whole To date, three ECDAs have been signed: Nak'azdli and Mount Milligan Mine (12.5% of mineral taxes collected go to Band), McLeod Lake Band and Mount Milligan Mine (15% of mineral taxes to Band), and Tk'emlúps and Skeetchestn Indian Bands (37.5% of mineral taxes to Band) in relation to the New Afton Mine.

AGREEMENT	DESCRIPTION
Economic Benefits Agreements Agreement signed between Province and Doig River, Prophet River, and West Moberly First Nations (members of Council of Western Treaty 8 Chiefs) in March 2008	Agreement provides an initial equity payment of $13.3 million and revenue-sharing payments between $3.4 and $13.4 million per year for 15 years. Revenue-sharing payments will be linked to the level of activity from oil and gas, mining, and forestry in the region. Amount of annual payments is determined each year and is based on a complex formula linked to the amount of activity and the revenue from resource development in those sectors.
Fort Nelson Economic Benefit Agreement Agreement signed between Province and Fort Nelson First Nation in 2012	Provides the Fort Nelson First Nation with a share of the revenues generated from resource development in their treaty territory, including the natural gas activities in the Horn River Basin.
Voisey Bay Mine Agreement signed between Newfoundland, Canada, and Innu of Labrador in 2002	The Labrador Inuit receive five percent of any revenue received by the Province from the Voisey's Bay Project.
Nunatsiavut First Nation Agreement with Province RE: Provincial Tax Sharing	Agreement shares a portion of provincial tax revenues with First Nation. Provides for the sharing of 40% of revenues derived from community from personal income tax, HST, gas tax and tobacco tax.
Gaming Revenue Grants with First Nations	Most Provinces (except BC) share gaming revenue with First Nations. Some provide a percentage of revenue directly back to First Nations or contribute to a Fund for access by First Nations.
Alaska Native Claims Settlement Act	Following the discovery of the largest oilfield in North America at Prudhoe Bay along Alaska's North Slope, the Alaska Native Claims Settlement Act came into being in 1971. Along with land and cash, the settlement provided for the allocation of 2% of the gross value of the resource to the Alaska Native Development Fund, a deal worth close to a billion dollars for Alaska's 60,000 First Nations.

Section 3 - Rationale

There are six compelling reasons why the Province should work with local governments in the northwest to develop a revenue-sharing program for that region. Those reasons are as follows:

1. The industrial activity planned for the region over the next several years is immense. In order to maintain adequate services and plan for growth, local governments in the northwest need more support and more resources.
2. The potential impacts to the region from the planned industrial activity are substantial. Existing infrastructure will be strained, environmental problems will likely emerge (i.e. emissions, water quality issues, impacts to fish and wildlife, etc), and economic issues will need to be considered (i.e. how can transient workers be accommodated when they do not bring in any extra revenue to local governments?).
3. The northwest region of the Province has been in an economic depressed state for the past decade. More resources are necessary to equalize the standard of living in the area and to build infrastructure that can support the planned industrial activity.
4. Existing revenues to local governments are inadequate – in particular, provincial transfer payments are small relative to the overall provincial budget (only 1.2% of the provincial budget), and the amount of money local governments receive in the northwest from the Province is insufficient. This means that local governments in the region are forced to increase other revenue sources – such as property taxes, service charges, and user fees – and this creates strain on existing residents and makes it difficult to develop long-term sustainable communities.
5. There are several precedents that support the feasibility of revenue-sharing, and those precedents demonstrate that government can develop solid policies around the issue when it makes sense to do so.
6. Revenue-sharing tied to resource development provides incentive for local governments to support that activity because communities can easily point to direct benefits that can offset any potential negative impacts.

This section of the report provides the detailed information, rationale, and evidence that support each of these six reasons.

Reason I - Increased Industrial Activity

The economic activity projected for northwest BC over the next several years is unprecedented. Massive amounts of capital expenditures are planned for the region due to new projects in mining, oil and gas, power, and transportation.

In total, the estimated capital expenditure in the region for the next 5-10 years is between approximately $44 and $52 billion. The breakdown of projects (shown in more detail in Appendix 1) is:

- 9 new mining projects;
- 5 new LNG projects and 1 oil pipeline/terminal project;
- 1 major modernization of the RTA aluminum smelter in Kitimat;
- 6 power infrastructure projects; and
- 4 Port transportation developments.

Additionally to these projects there are 4 expressions of interests by 4 different LNG groups to construct an LNG terminal in Prince Rupert. These projects will have a major impact on the northwest region and significantly change the economic landscape of British Columbia.

The provincial government will benefit fiscally from revenues that will flow both directly and indirectly from the planned projects in the northwest. The overall growth in the economy will bring new revenues to the Province in the form of increased income taxes, sales taxes, fees and licenses, and royalties. At the same time, local governments in the northwest region will bear the burden of supporting the growth and will feel the most direct impacts from the activity.

Revenue-sharing is therefore necessary and one way that the Province can assist local governments in mitigating risk and developing new infrastructure (such as new and upgraded municipal roads, new and upgraded water and sewer, increased policing, new recreational facilities, housing, and increased operating costs). If new infrastructure is not built and if local governments do not receive any additional revenues to support that infrastructure and offer new services, then there is a risk that companies planning to invest in the region will consider re-locating their operations elsewhere to communities that can support healthy workforces and industry activity.

Reason 2 - Potential Negative Impacts

Although major industrial activity offers economic benefits to the Province, it also poses some risk and could create negative impacts on the region environmentally, socially, and culturally. From an environmental perspective, it is unavoidable that growth of the magnitude planned for the northwest will create changes and impacts to the environment.

There are a myriad of environmental issues associated with each of the individual projects planned for the region, and although each project will require a thorough environmental review and approvals before proceeding, the cumulative impacts to the environment in the region are inevitable and will need to be mitigated. Local governments and communities will be left to deal with those impacts and require the support to address them.

Socially, there are always risks associated with an influx of new people and products into a relatively undeveloped area. Those impacts will be felt locally and will require resources to manage. Similarly, from a cultural "quality-of-life" perspective, the impacts from the planned activities in the northwest are potentially quite significant and may strain existing residents who currently live in the region.

Reason 3 - Northwest Region Has Been Economically Depressed

Over the past decades, the northwest region has suffered economically because of a number of factors, including: decline in traditional sectors such as fishing and forestry, closure of six sawmills and two pulp mills, and an overall downturn in the economy.

That economic stress has created burdens on local governments who have had to choose to either:

(i) increase taxes and other revenue sources that inevitably become a burden on residents; or

(ii) limit the amount of money spent on infrastructure and services in the community

The result, in the northwest, has been that communities are in an "infrastructure and social deficit" when compared to other regions of the province. Many municipal roads are old and in disrepair, sewer and water systems are in many cases old and inadequate, and recreation facilities are minimal and dated. The following table represents estimates of current infrastructure deficits for the City of Terrace and the Kitimat–Stikine Regional District.[5] The estimates suggest that expenditures of approximately $44 million in Terrace, $56 million in the Regional District would be required to replace or repair infrastructure in

[5] TCA Backlog December 31, 2011

those communities over the next several years. District of Kitimat has estimated their infrastructure deficit, attached to water, sewer, buildings and equipment, has been growing at a rate of $700,000 annually, over $7 million in the last decade. These expenditures and deficits will actually increase exponentially as new projects ramp up and apply pressures to the existing infrastructure.

INFRASTRUCTURE BACKLOG *		
	City of Terrace	Kitimat-Stikine RD (including Hazelton and Stewart)
Buildings and Structures	7,722,004	3,400,000
Motor Vehicles & Equipment	1,510,926	1,350,000
Land Improvements (Parks & Recreation)	601,644	11,200,000
Sewer Infrastructure	4,749,353	25,200,000
Storm Infrastructure	396,533	2,400,000
Transportation (Roads)	17,732,214	700,000
Landfills & Transfer Stations		9,600,000
Water Infrastructure	11,828,062	2,550,000
Total Deficit Amount	$44,540,737	56,350,000

* *TCA Backlog Formula: Replacement cost of fully amortized assets that are still in service.*

* *Source: City of Terrace, Kitimat Stikine Regional District*

Socially, communities have higher unemployment, lower education levels, less healthy citizens, and more crime when compared to communities in other parts of the Province. The following table provides information on certain socio-economic indices and demonstrates the disparity between the northwest region and other parts of the Province. In virtually every category listed (crime, health, education, children at risk, and youth at risk), communities in the Kitimat-Stikine district rank among the lowest, and the overall rating is at the very bottom of the scale (a "2" out of a 26-point scale). By comparison, the City of Vancouver's overall ranking is 24, and the City of Victoria is 26.

Socio-Economic Indices *(ranked between 1 and 26, with 1 being the worst, 26 the best)*[6]

Statistic	Kitimat-Stikine*	Fraser-Ft George**	Peace River***	Greater Vancouver	Victoria Capital Region
Population	39,702	96,928	64,280	2,404,911	374,675
Economic Hardship	2	6	21	15	26
Crime	9	3	7	11	23
Health	4	13	6	26	25
Education	3	9	6	26	24
Children at Risk	3	11	14	26	23
Youth at Risk	3	5	16	22	25
Overall Rating	2	7	10	24	26
Other Indicators					
Teen Pregnancies	4	9	7	26	18
Death due to Accidents per 1,000	11.3	8.8	12.3	4.6	6.0
Fraser Institute Ranking of Schools*	3.3	6.4	4.0	10.0	9.7
Life Expectancy	78	79.3	78.9	83.2	82.4

** Ranking lists only highest ranked schools in the area and ranking is 1 to 10 with a 10 ranking being the best.*

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[6] Regional Socio-Economic Index 2011, http://www.bcstats.gov.bc.ca/StatisticsBySubject/SocialStatistics/SocioEconomicProfilesIndices/SocioEconomicIndices/RDReports.aspx

* Hazelton, Kitimat, Terrace (+ 6 other communities)

** Prince George (+5 other communities)

*** Dawson Creek, Fort St. John (+ 8 other communities)

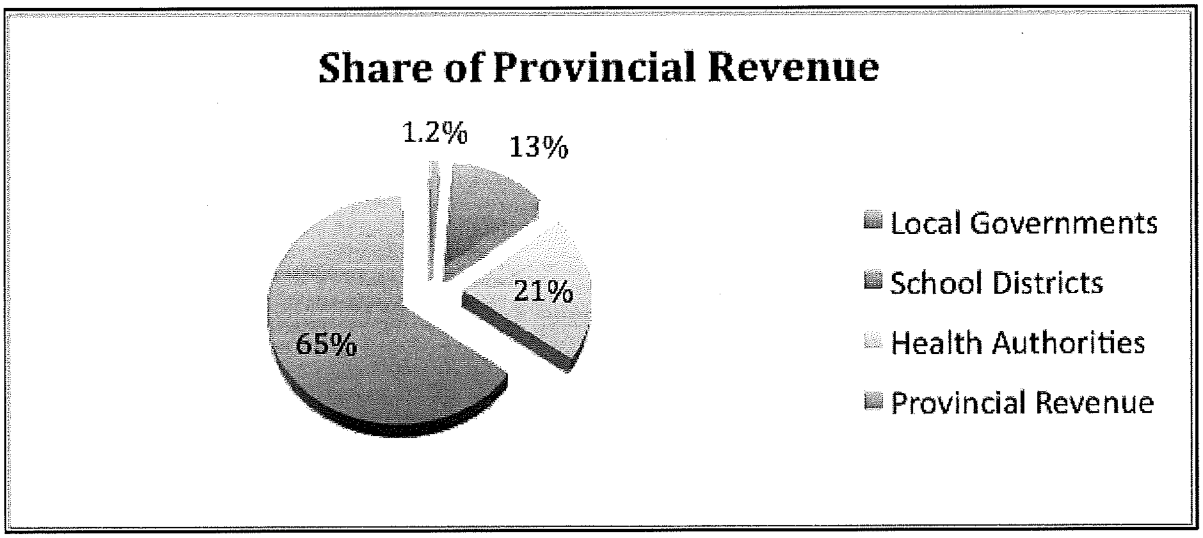
Reason 4 - Existing Revenues to Municipalities are Inadequate

In 2011/2012, total Provincial revenue was $40.998 billion. Forty-seven percent of that revenue was raised through taxation, 19% through federal contributions, and the remainder through other revenue sources. Natural resource revenue accounted for 7% of total provincial revenues.

SOURCE	AMOUNT	% OF REVENUE
Taxation	$19,203,000,000	47%
Federal Contributions	$7,707,000,000	19%
Fees & Licenses	$4,725,000,000	11.5%
Miscellaneous	$2,830,000,000	7%
Natural Resources	$2,811,000,000	7%
Crown Corporation Income	$2,680,000,000	6.5%
Investment Income	$1,042,000,000	2.5%

Of the total provincial budget, only approximately $481 million was transferred to local governments and First Nations in the form of grants, subsidies, and entitlements – this amount represents only 1.2% of the overall budget.

If transfer payments to local governments remain at a low level, communities will be forced to either raise other revenues sources from residents or limit services. When compounded with the prospect of exponential growth in a community, those options become completely untenable.



In addition to generally inadequate levels of transfer payments, an analysis of local government revenue sources demonstrates that communities in the northwest in particular fall short when it comes to receiving government revenues through transfer payments.

The following table provides a breakdown of revenue sources for nine different local governments – four located in the northwest (Terrace, Kitimat, Hazelton, and Prince Rupert), two in the lower mainland and Vancouver Island (Vancouver and Victoria), one in north-central BC (Prince George), and two communities in the north-east (Dawson Creek and Fort St. John).

For comparison purposes, the table demonstrates that the "Fair Share Communities" of northeast BC have benefited significantly from the additional transfer payments from the Province than the communities in the northwest. Dawson Creek for example, with a population size almost identical to Terrace, has an annual budget in excess of 2.5 times the size of Terrace (Dawson Creek's budget is $52,456,088, and Terraces is $20,271.866). The primary reason behind this discrepancy is that Dawson Creek receives almost three times the amount of government transfer dollars than Terrace ($13.4 million versus $3.6 million).

The impacts, therefore, of the Fair Share agreement to local government in the northeast are huge, and will significantly affect the ability of those governments to deliver services and maintain infrastructure.

It is also interesting to note that Fort St. John – another Fair Share community – received significantly more money in transfer payments than Prince George, even though Prince George has a population almost three times the size of Fort St. John.

One of the results of these discrepancies is that rural local governments outside of the Fair Share Agreement are forced to rely more heavily on other sources of income to support their expenditures (82% of Terrace's income must come from taxes and other revenue, while Kitimat must cover 92% of its budget through its own source revenue).

City	Population	Provincial Transfers	Net Municipal Taxes	Other Revenue	Total Revenue	Transfers as % of Total Revenue
Terrace	12,044	$3,654,208	$12,175,243	$4,442,415	$20,271,866	18%
Kitimat	9,098	$2,304,000	$20,272,663	$5,843,172	$28,419,835	8%
Hazelton	314	$862,612	$212,999	$194,874	$1,270,485	68%
Prince Rupert	12,815	$2,033,520	16,512,673	13,099,820	33,572,514	6%
Prince George	75,828	$14,693,000	$83,209,000	$62,961,000	$160,863,000	9%
Dawson Creek	12,257	$13,443,219	$12,500,744	$26,512,125	$52,456,088	26%
Fort St. John	20,408	$17,986,254	$21,833,293	$20,464,924	$60,284,471	30%
Vancouver	651,048	$39,193,000	$619,885,000	$742,602,000	$1,401,680,000	3%
Victoria	84,031	$7,830,714	$109,857,885	$78,050,913	$195,739,512	4%

Reason 5 - Precedents Support Feasibility of Revenue Sharing

As the list of examples in section 2 of this report demonstrates, there are many precedents of revenue-sharing models in Canada that can be used as rationale and justifications for the development of a model in northwest BC.

Indeed, the precedents validate a number of points and principles regarding the feasibility of revenue-sharing programs that northwest communities support. Those principles include:

- It is viable to allocate certain percentages of taxes or other revenues to specific programs for revenue-sharing purposes.
- It is possible to share revenues based on projected revenues.
- Policy frameworks have been established that accommodate the need to 'equalize' payments among different communities.
- Revenue-sharing programs can be designed to accommodate specific regions.
- It is reasonable that local governments should be compensated for service and infrastructure costs that they will incur as a result of increased activity in their region.
- It is recognized the development growth puts a strain on municipal infrastructure.

Reason 6 - Revenue-Sharing Provides Incentives and Encourages Support of Projects

Similar to encouraging support from First Nations, local government support for projects is somewhat dependent on proving that the benefits to resource and industrial activity outweigh the risks and the costs.

Section 4 - Considerations

In order to determine next steps that will develop a revenue-sharing model for the northwest, local governments in the region have considered the following key questions to help ensure that an appropriate and effective program is structured, designed and implemented. Some comments are provided under each question to provide some initial parameters around the discussion.

1. Should a model be designed so that revenue sharing is tied in some way to a specific resource (i.e. LNG thru-put, mineral royalties, power generation), or would local governments prefer a model that would tie revenue sharing to a more generic source of economic activity (i.e. sales tax, fuel taxes)?

- In February 2013, the provincial government stated that it "fully expects to provide local governments with a piece of the expected tax revenues from potential LNG developments and that revenue-sharing would eventually extend beyond gas pipelines and LNG facilities to include mineral and other development stemming from the completion of BC Hydro's Northwest Transmission Line". [7]

2. In the implementation of the revenue-sharing program, would revenue flow to local governments based on a royalty scheme (where payments could go up or down depending on level of activity and market conditions), or is the preference for a 'grants-in-lieu' model that is more formula-driven and predictable?

- The northeast "Fair Share" Agreement uses the grants-in-lieu approach, whereas revenue sharing agreements with First Nations on mining are tied directly to revenue generated by industry (through mining tax revenue).
- There may be greater benefit for communities to tie revenue-stream to resource activity, in which the potential up-side of that scheme could be significant, but it also carries more risk (market could go up and down, projects may end or never get built, and money would not flow until projects in operation).

[7] Minister Bill Bennett. Terrace Standard February 6, 2013.

3. When should a revenue-sharing program start? Does it need to wait until a certain number of projects are constructed and/or in operation?

- Given that the government has already committed to share revenues based on specific industrial activity, the timing associated with when revenues will flow into a fund will need to be determined (i.e. does it wait until a project is in operation or can revenues flow prior to operation so that communities can prepare for impacts?).

4. How do local governments want the revenue shared and managed? How will the program be accessed?

- As indicated in this report, there is a tremendous amount of flexibility around how models are structured, managed, and shared among various local governments.
- There is significant evidence to suggest that there is disparity among various communities in BC, so local governments may want to look at whether it makes sense to implement some form of equalization component into a revenue-sharing model that would dictate how dollars are allocated among various communities.

5. What local governments will be able to access a revenue-sharing program? Will there be criteria built into the program (i.e. population levels, degree of impact) or will the program be broadly applied?

- Under the Fair Share model, funds are primarily managed on a per-capita basis so that every local government receives some level of funding.
- However, other models contain multiple programs that are targeted to certain communities and threshold of qualification. For example, the Small Community Grant Program applies only to communities under 20,000; in order to access the Traffic Fine program, a community has to have a population over 5,000 and maintain their own police force. For unconditional grants in BC, only the Fair Share Program and Regional District Program are accessible to all local governments.

6. Will the revenue be allocated on an application-basis or a formula basis?

- This question needs to be considered in the context of the administrative structure that will be put in place to implement the program (i.e. will a Regional District coordinate the program, or is it better suited to an institution such as the Northern Development Initiative?).
- Local governments will also want to consider their own internal capacity when considering this question (i.e. is there a capacity and/or desire to review applications for funding on a regular basis?).

7. Will the grants be conditional or unconditional?

   - Local governments in the northwest will need to decide if they want the dollars from a revenue-sharing program allocated to a certain purpose to meet certain goals (i.e. environmental remediation, infrastructure), or will the program grant money on an unconditional basis? Revenue-sharing models across Canada take varying approaches to this question, depending on the priorities and structure of the delivery agent.

Section 5 - Next Steps

This report clearly demonstrates that revenue-sharing models can be developed and that there are no legal or administrative barriers preventing the establishment of a revenue-sharing program for the northwest. Moreover, it is clear based on precedents already established that models can be structured in a variety of ways, and that the timing of when benefits flow can be flexible and even commence before dollars from a specific industry flow to government.

Based on the provincial commitment to share revenue from industrial activity in the northwest and given precedents and policies around revenue sharing in other parts of the province and Canada, it is recommended that the City of Terrace and the Kitimat-Stikine Regional District undertake the following next steps in order to further develop a revenue sharing policy for the region:

1. Re-confirm the provincial commitment to share revenues from industrial activity (specifically LNG and from developments resulting from the Northwest Transmission Line) with local governments.
2. Meet with the Province to determine how revenues for distribution will be calculated. For example, will revenues be based on a straight percentage/volume of activity such as LNG through-put or fixed percentage from mining tax revenues (and therefore be subject to market fluctuations) or will revenues be based on a flat fee (grant) calculated on a variety of criteria tied to overall activity? The flat fee (grant) approach is less risky as it will provide a more predictable and stable revenue stream.
3. Meet with the Province to explore options to "front-end load" revenue sharing so that local governments receive benefits early in order to adequately plan and mitigate the social, environmental, and infrastructure impacts that will result from the massive development envisioned in the region. Revenue sharing should coincide with construction phases of major projects rather than commencement of operation. There are precedents for this approach (i.e. First Nations Royalty Revenue Sharing Program).
4. Offer to utilize an existing accredited institution such as the Northern Development Trust or the Regional District to manage any initial transfer of dollars from a revenue-sharing program as the administrative body until another entity, if required, is identified to manage those funds. The NDI is a creation of the provincial government with a

governance and administrative structure that is already acceptable to the Province and would be a credible manager of any fund.

5. Immediately develop and implement a communication strategy for advancing Regional Revenue Sharing as to make this a local and provincial issue.
6. In parallel develop a revenue sharing proposal to be submitted to the Province.

Appendix I - List of Projects

	MINING				
	PROJECT	PROPONENT	DESCRIPTION	TIMELINE	INVESTMENT
1	Arctos Anthracite Coal Project	Fortune Minerals Ltd.	–Coal mine and processing plant –Capacity: three million tonnes per year	Unknown	$768 million
2	Brucejack Gold and Silver Mine	Pretivm Resources Inc.	–Advanced exploration stage gold project. –Average annual production: 325,000 ounces of gold over the first 12 years and 287,000 ounces of gold over the life of mine	Estimated completion: 2015	$436 million
3	Galore Creek	NovaGold Teck Resources	–One of the world's largest copper/gold/ silver deposits –Capacity: 95,000 tonne per day	Estimated start date: 2018.	$5 billion
4	Kitsault Mine	Avanti Mining Inc.	–One of top 5 molybdenum development assets worldwide. –Production 120,000 tonnes of ore/day	Estimated start: 2012. Estimated completion: 2015	$794 million
5	KSM Copper Gold Molybdenum Mine	Seabridge Gold	–Gold, copper and silver mine	Estimated start: 2017	$4.7 billion USD
6	Kutcho Creek Project	Kutcho Copper Corp.	–High-grade copper, zinc, gold, and silver deposit.	Application to be submitted to BC EAO in 2012	$245.9 million
7	Red Chris Mine	Imperial Metals	–Copper/gold open pit mine producing 30 000 tonnes of ore per day over 25 years.	Start: 2012	$228 million
8	Schaft Creek Copper, Gold, Silver and Molybdenum Mine	Copper Fox Metals Inc.	–A large undeveloped copper/gold/ molybdenum/silver deposit.	Unknown	$3.7 billion
9	Turnagain Nickel Sulfide Mine	Hard Creek Nickel Corporation	–Large sulphide nickel property –Average output is expected to be 35 000 tonnes of nickel per year	Estimated start: 2016	$1.3 billion
			Total Investment		**$17.9 billion**

OIL & GAS

	PROJECT	PROPONENT	DESCRIPTION	TIMELINE	INVESTMENT
10	BG Group LNG	BG Group	–LNG export terminal	Estimated start: 2015 Estimated completion: 2020	$12 billion
11	Douglas Channel Energy Partnership	Douglas Channel Energy Partnership	–Barge based LNG export facility	Start date: 2012 Estimated completion: 2013	Unknown
12	Enbridge Northern Gateway Pipelines	Enbridge Inc.	–Two 1,177 km pipelines from Edmonton to a deepwater terminal in Kitimat to ship oil to Asia –Export 525,000 barrels of oil day –Import 193,000 barrels of condensate/day	Estimated start date: 2013. Estimated completion: 2016	$5.5 billion
13	Kitimat LNG & Pacific Trails Pipeline	Apache Chevron	–LNG export terminal that will include storage and marine facilities and pipeline –Capacity: 5 million metric tonnes/year	Estimated start: 2012 Estimated completion: 2015	$4.1 billion
14	Royal Dutch Shell LNG	Shell Canada Korea Gas Mitsubishi PetroChina	–LNG export terminal –Capacity: 12 million tonnes/year	Just beginning regulatory process in 2012	$8-12 billion
15	PETRONAS-Progress LNG	PETRONAS Progress Energy	–LNG export terminal –Capacity 7.4 million tonnes/year	Estimated completion: 2019	$8-12 billion
			Total Investment		**$20 – 28 billion**

REFINERY & VALUE ADDED

	PROJECT	PROPONENT	DESCRIPTION	TIMELINE	INVESTMENT
16	Kitimat Works Modernization Project	Rio Tinto Alcan	–Modernization of the aluminum smelter in Kitimat –Increase capacity by more than 48% to 420,000 tonnes/year	Start date: 2011. Completion date: 2014	$2.5 billion
			Total Investment		**$2.5 billion**

POWER INFRASTRUCTURE

	PROJECT	PROPONENT	DESCRIPTION	TIMELINE	INVESTMENT
17	Dasque Hydroelectric Project	Swiftpower Corp.	–20 MW hydroelectricity project –Provide power to Skeena Substation to the BCTC transmission line.	First quarter of 2013	$60 million
18	Forest Kerr Project	Altagas	–195 MW run-of-river hydroelectric project to power the Northwest Transmission Line	Estimated completion: mid-2014	$725 million
19	Long Lake Hydro Project	Regional Power Inc. Premier Power Corp.	–Rock filled dam, supplying power connecting to the BC Hydro grid, 137 GWh of power/year	Estimated completion: December 2012	$100 million

20	McLymont Creek Hydroelectric Project	AltaGas	–Run-of-river hydroelectric project, 55-70 MW capacity –Will join Northwest Transmission Line, feeding into the Forrest Kerr and Volcano Creek hydroelectric projects.	Estimated completion: 2015	$200 million
21	Northwest Transmission Line	BC Hydro	–333 km, 287 KV line –Provide clean power to potential industrial developments and provide an interconnection point for other clean energy projects.	Start: 2012 Estimated completion: Spring 2014	$385 - $525 million
21	Volcano Creek Hydroelectric Project	Altagas	–Hydroelectric project, less than 50 MW	Estimated completion: 2015 Currently applying for permits	$40 million
			Total Investment		**$785–925 million**

TRANSPORTATION / LOGISTICS

	PROJECT	PROPONENT	DESCRIPTION	TIMELINE	INVESTMENT
22	Canpotex Potash Export Terminal	Canpotex and Prince Rupert Port Authority	–Potash export terminal to supply Canadian potash, providing about 13 million tonnes of potash per year	Estimated Start: 2013. Estimated completion: 2016	$800 million
23	Gateway 2020 Port Development Project	Prince Rupert Port Authority	–Proposed development to provide capacity to support Canada's growing trade with the Asia pacific region –Project will include an access road, rail loop, utilities, onshore terminal infrastructure and marine components	Estimated start: 2012 Estimated completion: 2020	$2.5 billion
24	Port of Stewart	District of Stewart	–Port for distribution of ore and logs	Unknown	$15 million
25	Westview Wood Pellet Terminal	Pinnacle Renewable Energy Group	–Wood pellet receiving, storage and shipping facility	Start: 2012 Completion: 2013	$42 million
			Total Investment		**$3.4 billion**

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