

The Ports Property Tax Act (PPTA), was enacted which, introduced tax caps beginning with taxation year 2004. The general tax rate (municipal portion) for designated port properties in British Columbia (Class 4 Major Industry) was subject to a cap of \$27.50 per thousand dollars of assessed value. It was intended that this cap remain in place for a five-year period (i.e. ending in the 2008 taxation year). In addition to this, a cap of \$22.50 per thousand dollars of assessed value was introduced for any new construction started by January 1st, 2009. The cap on new construction was intended to remain in place for a ten-year period.

For cities whose Class 4 tax rate was higher than the cap (\$27.50), the Province of BC issued a temporary offsetting grant for a corresponding five year period to compensate for the reduced tax revenue. A breakdown of the individual tax rates and corresponding compensation received is outlined in the table below:

City	2003 Class 4 Tax Rate	2007 Class 4 Tax Rate	Annual Compensation
<i>North Van City</i>	36.88477	38.40844	\$1,254,813
<i>North Van District</i>	40.37832	49.85971	\$ 709,324
<i>Squamish</i>	54.12939	27.50000	\$ 345,144
<i>Vancouver</i>	27.71701	30.25422	\$ 41,616
<i>Port Moody</i>	48.68740	53.13380	\$ 494,005
<i>Delta</i>	28.86130	27.78320	\$ 291,240
<i>Surrey</i>	13.67102	13.47612	NIL
<i>Prince Rupert</i>	43.53170	27.50000	\$1,383,536
Total			\$4,519,678

All cities in the province that are affected by the PCI have received annual compensation from the Province except for the City of Surrey. This is due to the fact that Surrey's Class 4 tax rate is well below the cap of \$27.50 per \$1,000 of assessed value.

Prior to 2002, berth corridors were exempt from taxation. However, the corridors became taxable in 2002, due to changes in the Assessment Act that were based on an Assessment Appeal Board decision. The Province restored the exempt status of the berth corridors in 2004 by adding new regulations to the *Community Charter (Section 220 (1) (r))*.

Ports generally occupy high value waterfront land in developed areas close to transportation corridors. In 2002, port land assessments significantly increased which prompted several port operators to appeal their assessments. In April 2005, the Assessment Appeal Board ruled that the comparative value methodology used by BC Assessment Authority was not appropriate for ports. The Board applied a methodology that based the assessed value of the properties on the rent paid by the operator to the Port Authority. The *Assessment Act* has now been amended to allow for port land valuation changes. These changes will come into effect for the 2008 taxation year.

The Province committed to review the PCI three years after its introduction so as to determine how to proceed after the termination of the first five years of the initiative ending in 2008.

DISCUSSION

The Ministry of Finance in conjunction with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation have now undertaken the Ports Competitiveness Initiative Review and their discussion paper is attached as *Appendix A*. Staff from these ministries have met with all parties, including representatives from the affected municipalities such as the City of Surrey.

The port operators stressed that property taxation predictability was imperative. They unanimously agreed that they would like to see a continuation of the tax cap because it has, in their view, levelled the competitiveness between all major cargo ports in British Columbia, which has resulted in new investments in port infrastructure. They have asked that the rate cap be extended for a 20-year period.

Most local governments support the ports industry and recognize their important contribution to the economic health of the province. They are also concerned with the predictability and stability of the property tax base. However, the concerns that have been brought forward, from the local government perspective, as stated in the report are:

- Tax caps are viewed as an infringement on local government's autonomy because it restricts their discretion to set tax rates;
- The appropriateness of province-wide economic development being financed by local taxpayers;
- The preference of most municipalities is to have the caps eliminated. However some indicate that they could support continued rate caps provided that the corresponding grants were increased to reflect rising municipal costs and indexed in the future, and
- The concern of those municipalities currently receiving the grant to offset the reduced tax revenue is that this assistance would end in 2008 with no alternative mechanism in place to recover the reduced tax revenue.

The discussion paper identifies the following options:

Option 1 – Allow the *Ports Property Tax Act* to expire. Local governments would regain full authority to set Class 4 tax rates that apply to ports. The land valuation changes and the berth corridor exemptions would remain in place;

Option 2 (a) – Continue the tax rate cap for a further 10 years but do not provide further municipal compensation;

Option 2 (b) – Continue the tax rate cap for 10 years and provide the same level of municipal compensation;

Option 2 (c) – Continue the tax rate cap for 10 years, and rebase and index the municipal compensation (grant);

Option 3 – Continue the tax rate cap for 10 years but allow the cap on new investments to expire, or

Option 4 – Option 2 (c) plus provide local governments with the option of negotiating a 10 year agreement with port operators using the new revitalization provisions in the *Community Charter* and continue to offer compensation if an agreement is reached.

The Ministry is now soliciting stakeholder input regarding this review.

Impact On The City of Surrey

In Surrey, the 2007 assessed values for Class 4 (Major Industry) properties total \$76,127,600. The portion of those assessments that are subject to the tax cap (port properties) is valued at \$21,796,000 (approximately 29% of the total class). The City of Surrey's Class 4 tax rate for 2007 is 13.47612 per \$1,000 of assessed value (although the attached discussion paper states that the 2007 rate is 14.80962). The total tax revenue generated by Class 4 properties is \$1,025,905, of which \$293,726 is generated from the port properties. Since Surrey's Class 4 tax rate is well below the cap, the City does not receive an offsetting grant from the Province.

Comments on the Discussion Paper:

1. The City of Surrey is a strong supporter of the ports industry and recognizes that it plays an important role in the local, provincial and federal economy through the facilitation of trade with the rest of the world;
2. Cities in the United States have substantial revenue sources beyond property taxation that are not available to municipalities in BC (e.g. sales tax, income tax, etc). This provides them with an opportunity to rely less on property taxation and use low property taxes as a means to attract and retain business. Property taxes represent 67% of the total general operating revenue for the City of Surrey;
3. Continuation of the rate cap for an additional 10 years would not directly affect the City of Surrey yet it would provide a greater degree of tax stability for the port operators and consistency amongst the various BC port facilities;
4. It is understood that some compensation to those cities whose Class 4 tax rate was above the tax cap was required for a period of time to allow those municipalities time to re-align their individual tax bases. However moving forward, the method of distribution for any provincial compensation should be aligned with each port's contribution to the overall economic development in the Province. Since the port lands are now assessed based on the rent payments that the operators pay to the Port Authorities, it would make more sense to distribute future compensation based on the assessed values of port properties as determined by BC Assessment Authority rather than the current method of distribution which is based on historic (2003) individual tax rates charged by the various municipalities that contain ports, and
5. The 2007 Class 4 tax rate for The City of Surrey should be corrected to read 13.47612 and any calculations that have been included in the discussion paper, should also be corrected.

In summary, the City of Surrey recognizes the importance of the port industry and for that reason has kept the Class 4 tax rate (major industry) at reasonable levels and well below the current cap. In order that the port industry in British Columbia remain competitive with other west coast ports, Surrey supports the continuation of a tax cap into the future. However, the current distribution method for provincial compensation only supports those municipalities that have increased their Class 4 tax rates beyond those levels considered to be reasonable. It is therefore recommended that any future provincial compensation not be tied to municipal tax rates but instead be allocated more equitably to all municipalities with port industries, through the use of assessed values. It is therefore recommended that Council support Option 2 (b) as outlined in the discussion paper but modified to allow for the distribution of future compensation from the Province of BC to be based on the assessed values of port properties.

CONCLUSION

In 2003 the provincial government introduced the Ports Competitiveness Initiative (PCI) to provide temporary property tax relief to the operators of major industrial ports until a review of the legislation could be conducted. The Ministry of Finance in conjunction with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation have now undertaken this review and the Ministry of Finance is soliciting stakeholder input on the attached discussion paper.

The City of Surrey supports the ports industry and recognizes that it plays an important role in the economic well being of British Columbia and Canada. This Report provides comments on the issues outlined in the attached discussion paper as well as other concerns that are beyond the scope of the review. It is recommended that Council:

1. Support Option 2 (b) as outlined in the discussion paper but modified to allow for the distribution of future compensation from the Province of BC to be based on the assessed values of port properties, and
2. Direct Staff to forward a copy of this Report to the Minister of Finance, in response to the Minister's request for comments from stakeholders.

Vivienne Wilke, CGA
General Manager,
Finance & Technology

Attachments

“APPENDIX A”



171467

Her Worship Mayor Dianne L. Watts
mayor@surrey.ca

Dear Mayor Watts:

I am pleased to provide you with a copy of a discussion paper entitled Ports Competitiveness Initiative Current Status and Future Options.

This paper is a product of the Ports Competitiveness Initiative (PCI) Review, which was undertaken by the Ministry Finance in conjunction with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation.

Over the past months, staff from these ministries have meet with the following parties involved in the PCI to gather their perspectives:

- BC Wharf Operators Association
- City of Delta
- City of North Vancouver
- City of Port Moody
- City of Prince Rupert
- City of Surrey
- City of Vancouver
- District of North Vancouver
- District of Squamish
- Fraser River Port Authority
- Prince Rupert Port Authority
- Squamish Terminals
- Vancouver Port Authority

The paper provides a summary of the current status of the PCI, summarizes the input received from stakeholder groups and puts forward a number of options for consideration regarding the future of the PCI.

I am providing all stakeholders with an opportunity to comment on this discussion paper and the options presented in the paper. Please provide your comments by July 23, 2007.

I look forward to hearing your perspectives on this important matter.

Sincerely,

A handwritten signature in cursive script that reads "Carole Taylor".

Carole Taylor
Minister of Finance

Attachment

pc: Suzanne Fillion
sfillion@surrey.ca



Shortcut to PCI Current Status and Future Options Discussion Paper June 2007.pdf.lnk