

PROPOSED FISCAL COMPENSATION MODEL TO LOCAL GOVERNMENT*

APPENDIX TO FISCAL INTERESTS AND TREATY NEGOTIATIONS BACKGROUND BRIEFING NOTE TO LMTAC FIRST PRINCIPLE #36: *Cost Neutral Agreements for Local Governments*

First Principle #36 – Cost Neutral Agreements for Local Governments

No demand must be placed on Local Government tax revenues or revenue sources resulting from treaty settlements, particularly on the ability of Local Government to derive tax revenue from sources such as property taxes, service fees, utility charges and grants-in-lieu from Crown lands. Any revenue loss to Local Governments arising from treaty settlements must be fully compensated.

A. Draft Compensation Formula to Calculate Local Government Lost Revenue

Annual Local Government Lost Revenue =

***Land Quantum Transferred From Local Government X
Current Land, B.C. Assessment, Assessed Value (at Current Property Classification) X
Current Local Government Tax Rate***

What the Formula addresses:

- The municipal tax component for municipal lands, unoccupied Crown Lands, and Crown Corporation Lands.
- Treaty related scenarios — although this does not preclude non-treaty scenarios or examples.

What the Formula does not address:

- Municipal service delivery costs, as these are anticipated to be addressed through the negotiation of service agreements directly between the First Nation and municipality.
- Regional district service delivery costs, as these are anticipated to be addressed through post-treaty regional governance discussions whereby First Nations may become members of the regional district.

B. Formula Assumptions

- Compensation is to be paid in the form of an on-going *payment-in-lieu*, calculated annually based on the land quantum transferred from the local government, current land assessment for the current property classification for the transferred lands, and the current local government tax rate for that land use.

- Compensation is to be paid as of the *Effective Date* of a treaty, when lands are transferred from municipal to First Nation jurisdiction; and at the time that post-treaty additions to *Treaty Settlement Lands* occur.
- Parity between First Nation and local governments in their ability to development lands for economic opportunities.
- Prior to lands being transferred, service arrangements will be negotiated between First Nations and local governments for payment of services provided. Fees for service will not be unbundled, and will include both hard and soft services.
 - Hard Services (i.e. water, sewer, refuse collection, recycling, etc.) — These types of agreements refer to additional services outside the general tax levy that are directly related to the cost for the various services. Local governments may enter into agreements to provide for full cost-recovery.
 - Soft Services (i.e. police, fire, library, parks, etc.) — Although revenue generated by service arrangements for soft services (included within the general tax levy) may be deducted from a *payment-in-lieu*, if funds for soft services are not also collected with respect to the *Treaty Settlement Lands* (TSL), then First Nation governments would be at a competitive advantage to the local government.
- If local governments do not receive fair payment for services, then cost-recovery will need to be further explored as appropriate on a case-by-case basis and added to the annual *payment-in-lieu*.
- The fiscal compensation model should be adapted to each local government scenario.

C. Rationale

- A *payment-in-lieu* is a “proxy” tax calculation and only includes the municipal tax component.
- *Payments-in-lieu* already exist; therefore, this proposal is not suggesting something new or precedent-setting.
- The municipal tax assessment is based on the existing *BC Assessment Authority* (and its annual cycle) and is in-line with *Community Charter* provisions related to local government taxation authority.
- As is the case for local government tax revenue calculations, the *payment-in-lieu* compensation calculations would also be done annually in order to accommodate changes in property classifications over time.
- A reliable/predictable property base is integral to each municipality’s planning process. Municipalities work according to a 35-40 year redevelopment period for lands in transition from current property classifications.
- The model is based on a local government development-planning horizon, starting on the basis that compensation will be paid to municipalities by the Province into perpetuity, given that the loss incurred by local government for loss of tax assessable lands is in perpetuity.
- Services are provided for the benefit of the greater community, therefore service delivery cannot be unbundled.