

# Municipal Port Property Taxation Fairness Commission: Final Report

Presentation to  
Metro Vancouver  
September 21, 2010

# Outline of Presentation

- Property taxes on port operators: was there a problem?
- Property tax capping: was it a reasonable solution?
- Payments in lieu of property taxes (PILTs)
- Relationship between Port Metro Vancouver and port municipalities

# Property Taxes: General Approach

- Evaluate extent to which there was a problem
- Arguments made by port operators:
  - Tax burden on port properties was too high and has been increasing over time
  - High tax rates discourage investment
  - Higher tax rates in Vancouver compared to US would reduce the competitiveness of Port Metro Vancouver (PMV)

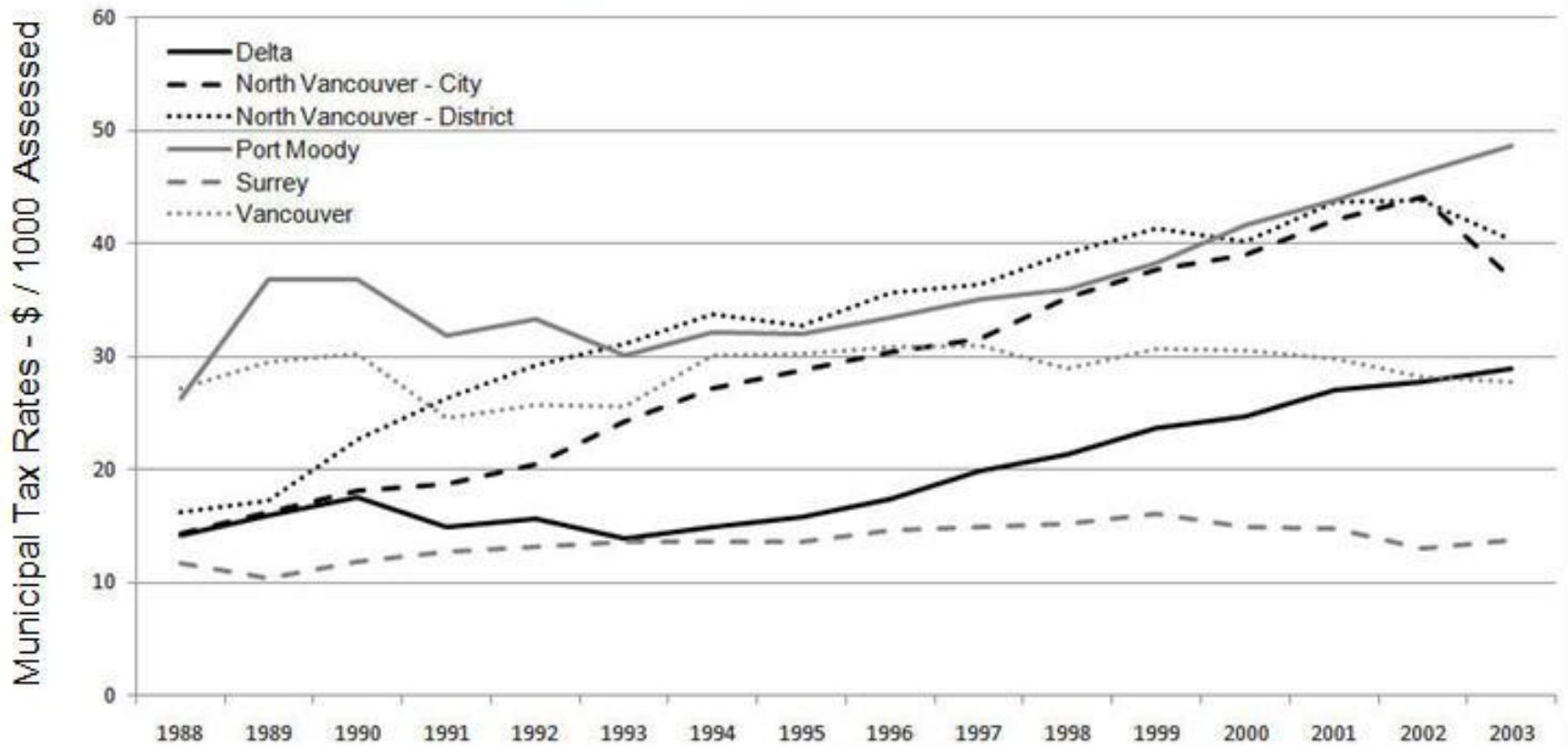
# Property Taxes on Port Operators

- Property tax rates, tax ratios, tax shares
- Property taxes paid by port operators
- Property tax burden in context
- Investment climate
- Competitiveness of BC port terminals

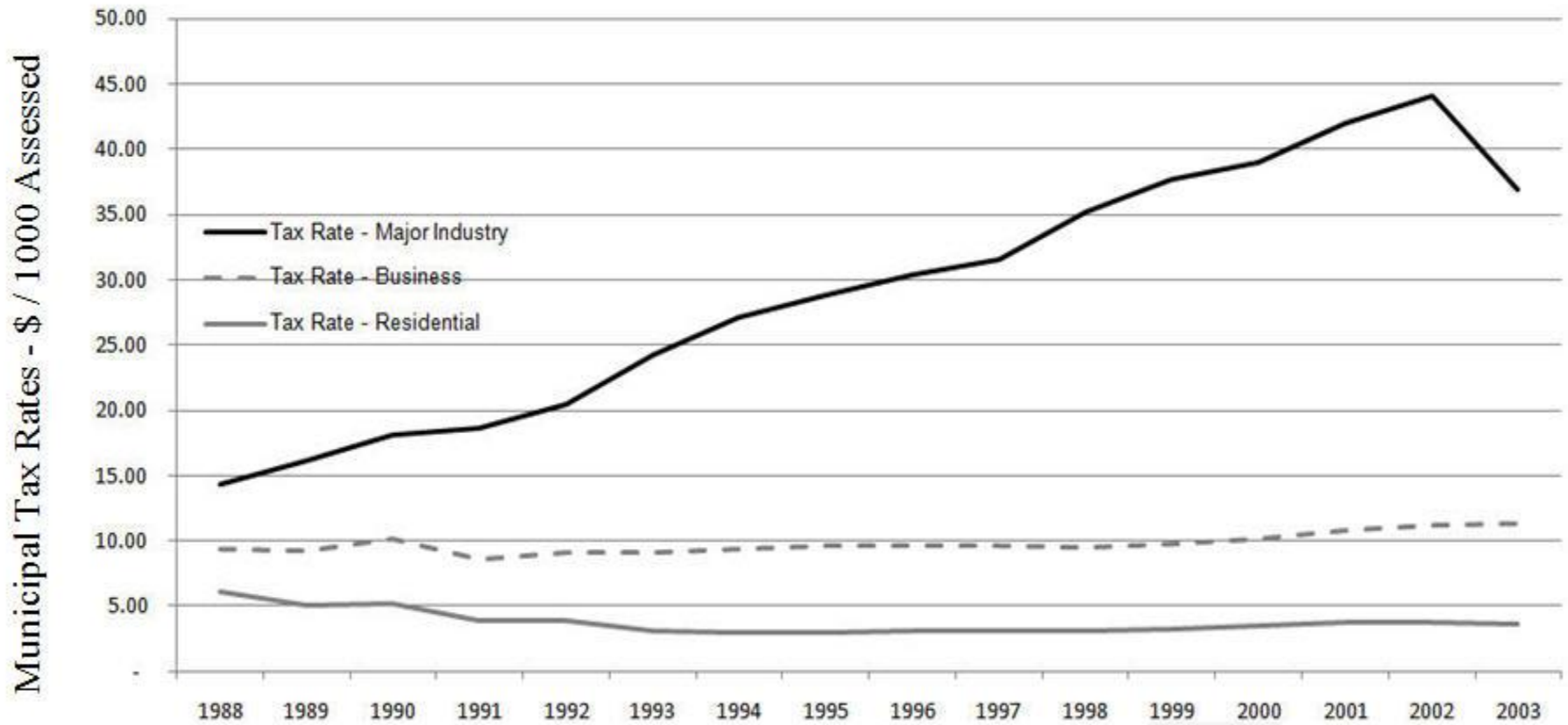
# Findings on Property Tax Rates, Ratios, and Burdens

- Municipal tax rates on major industrial properties have increased since 1985 in all municipalities but more in some than in others
- Municipal tax ratios on major industrial properties have increased
- In most municipalities for most time periods, increases are consistent with municipal policy of keeping the tax share constant for Class 4
- Tax rates vary widely across communities in Metro Vancouver
- Relative municipal tax burden on port properties has only increased in some municipalities

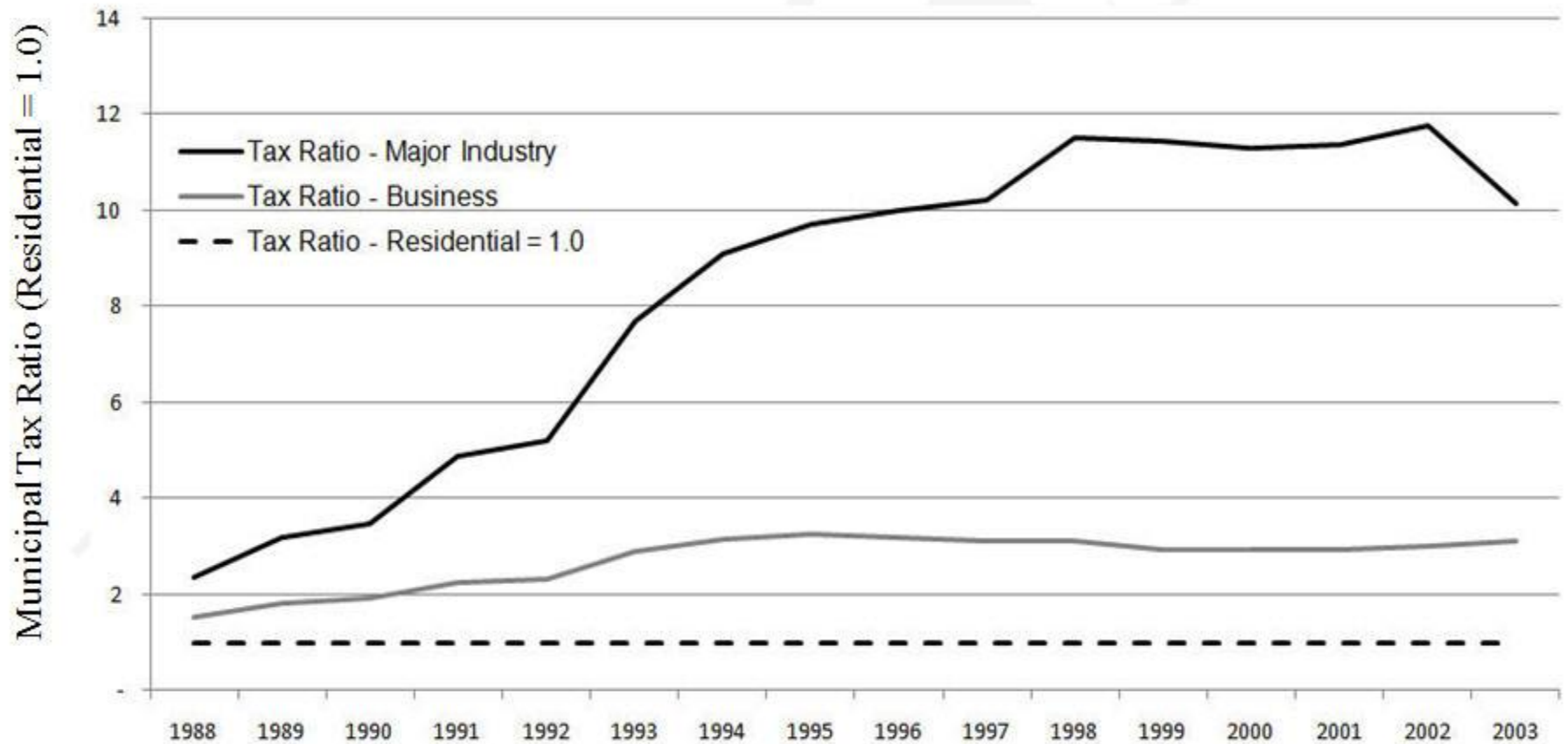
## Municipal Tax Rates for Major Industry Properties in Selected Municipalities



## Municipal Tax Rates for Major Industry, Business and Residential – City of North Vancouver

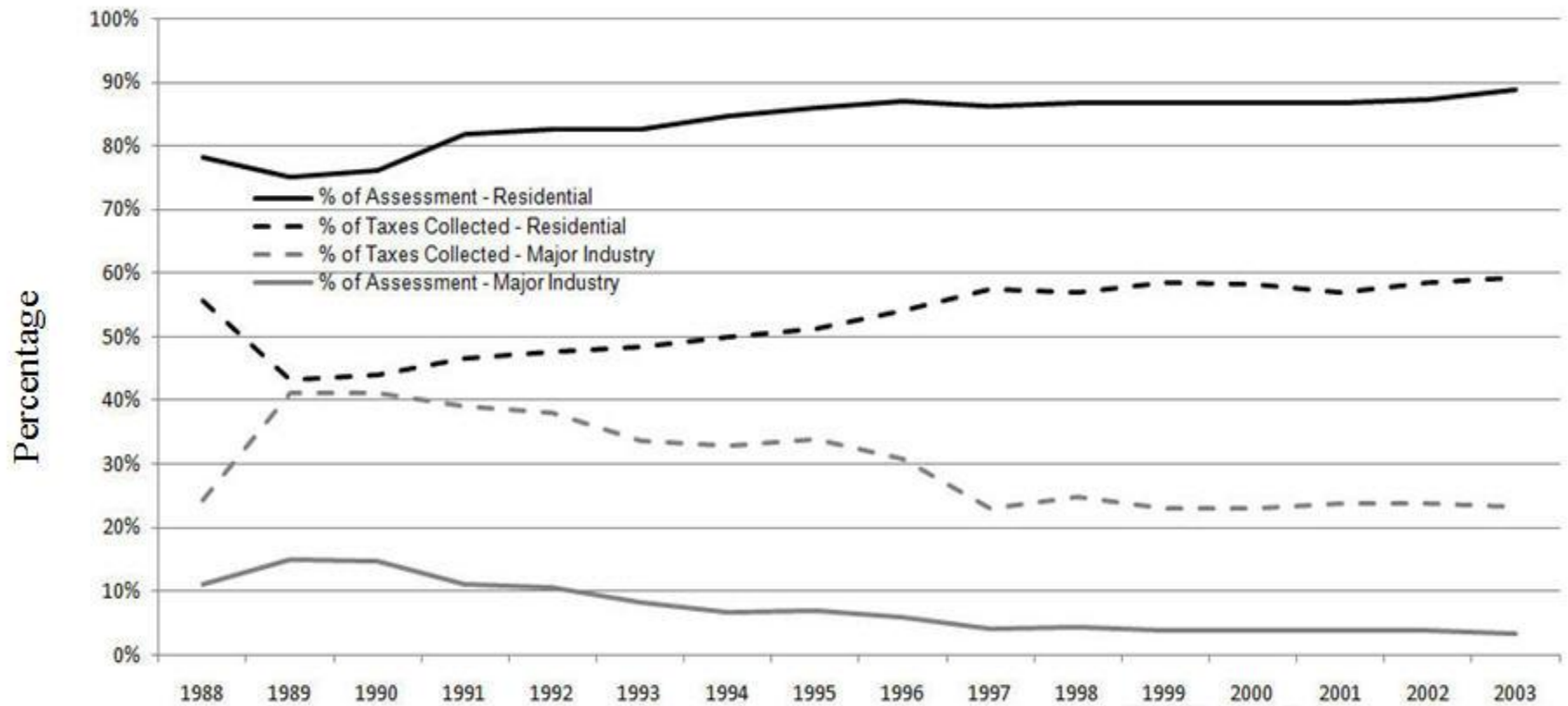


## Property Tax Ratios (Relative to Residential) for Major Industry and Business – City of North Vancouver



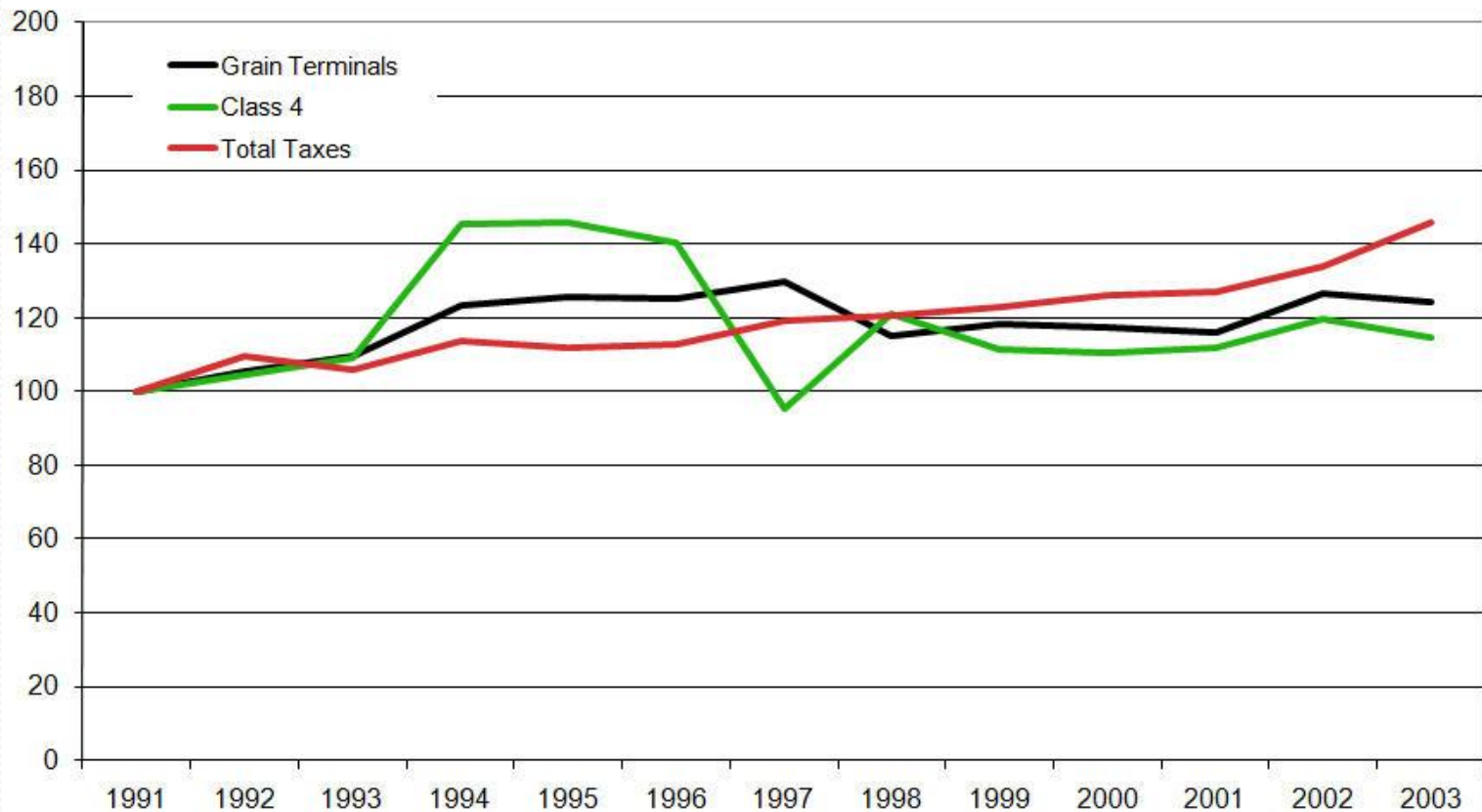


## Distribution of Residential and Major Industry Assessment and Municipal Taxes Collected as % of Total – Port Moody

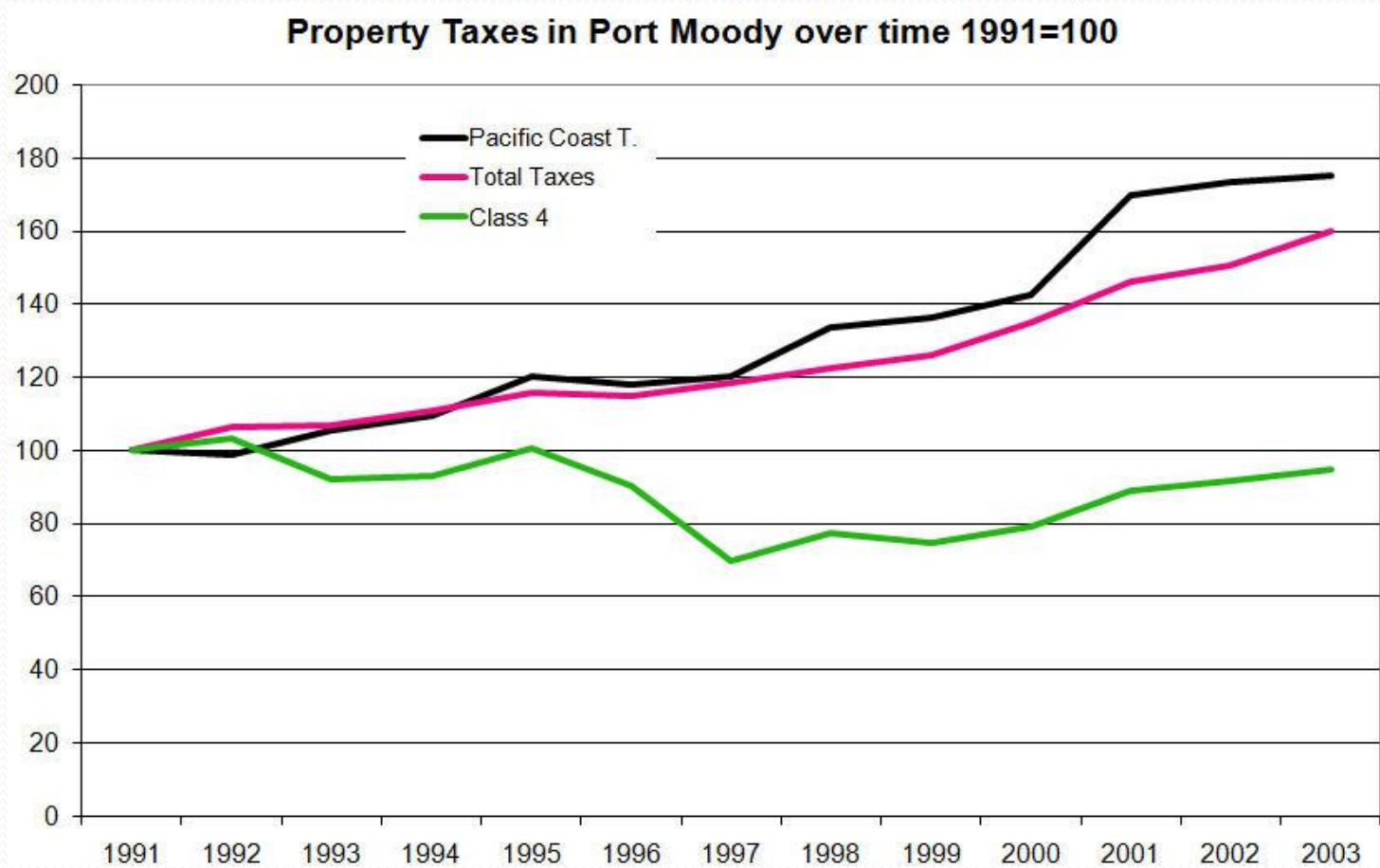


# Property Taxes Paid by Grain Terminals in Vancouver

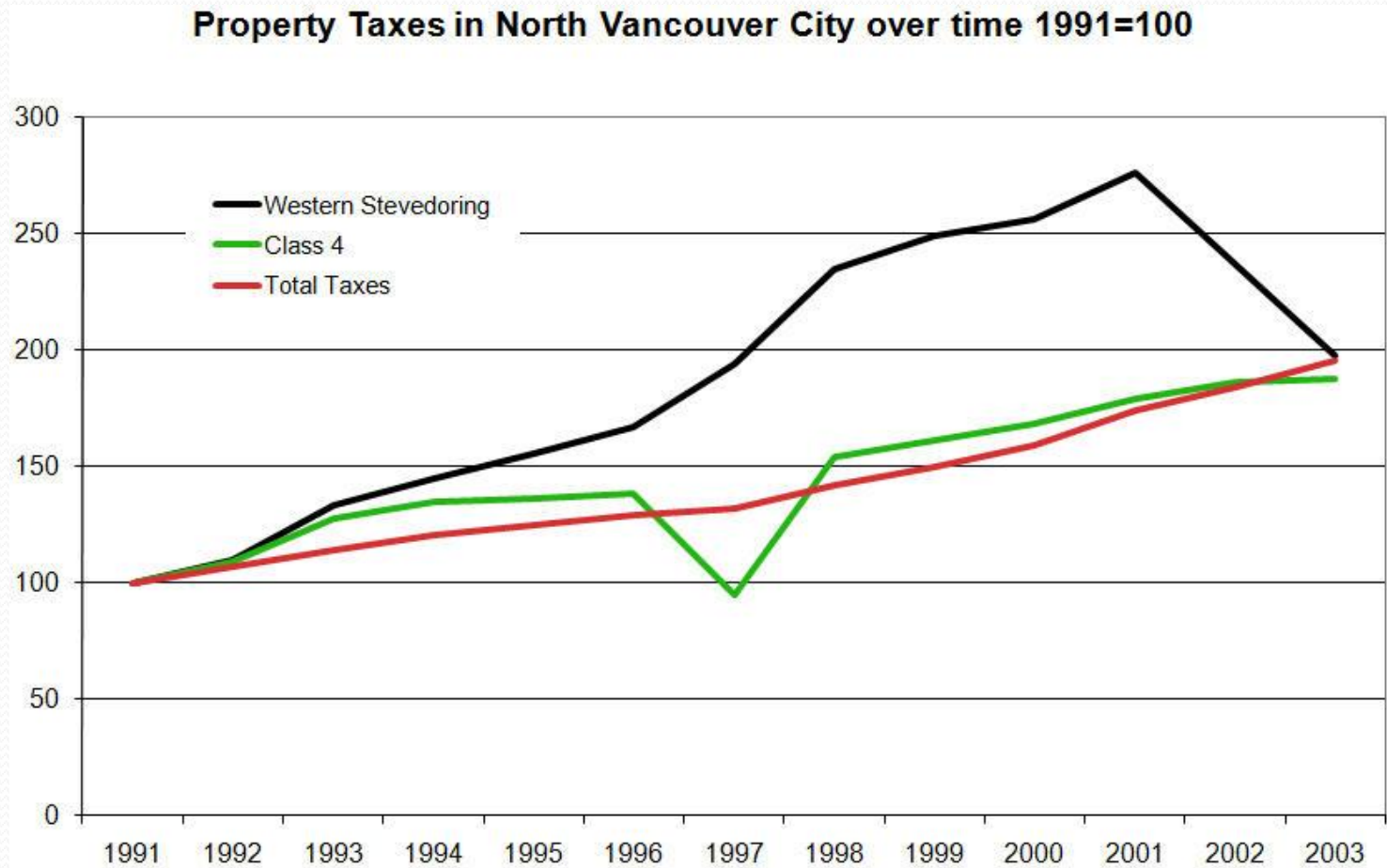
Property Taxes in Vancouver over time 1991=100



# Property Taxes Paid by Pacific Coast Terminals in Port Moody



# Property Taxes Paid by Western Stevedoring in City of North Vancouver



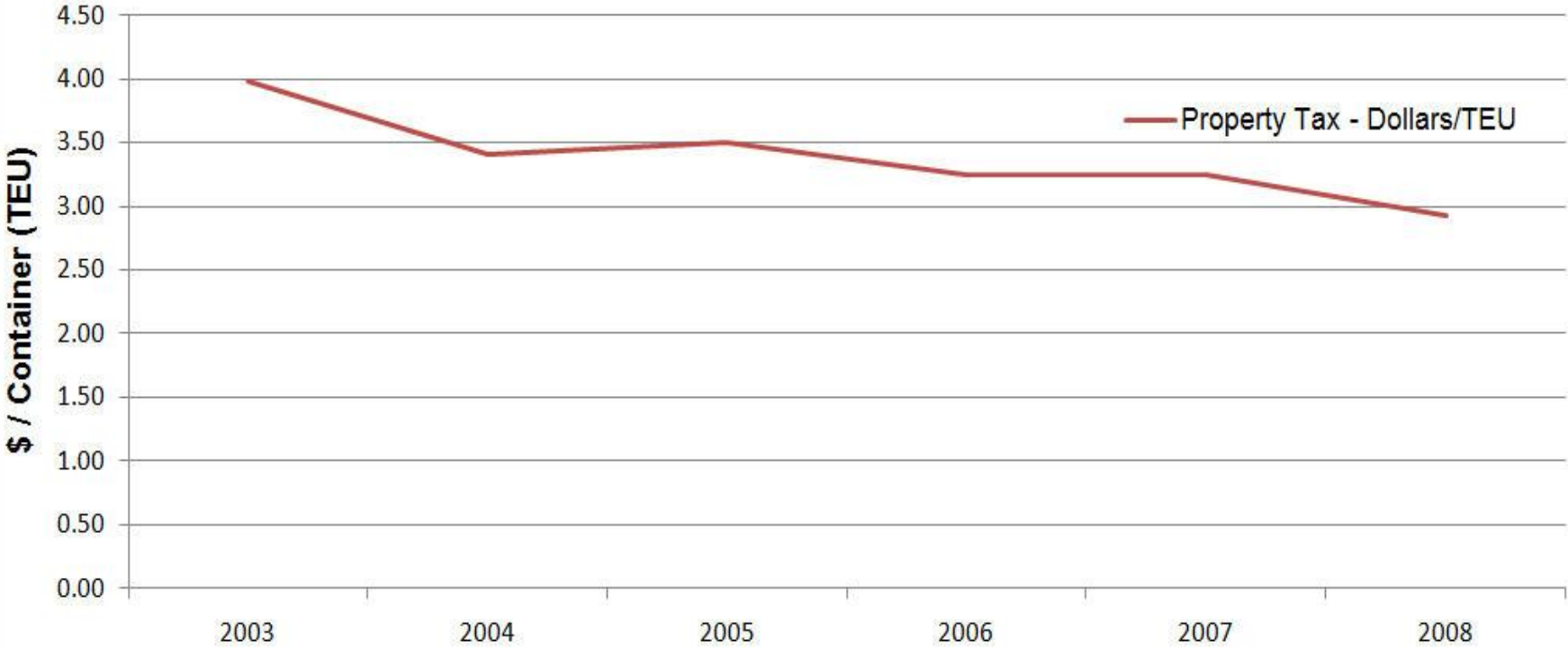
# Port Property Tax Burden in Context

- Growing gap between property tax rates flows from the constant property tax share policy
- Although the property tax is not the same as a user fee, the argument that property taxes should match services has some merit as a way to apportion taxes among different property classes
- But, it is difficult to reach agreement on the services received and the appropriate level of taxes by property class
- Impact of property tax on competitiveness

# Property Tax Burden in Context

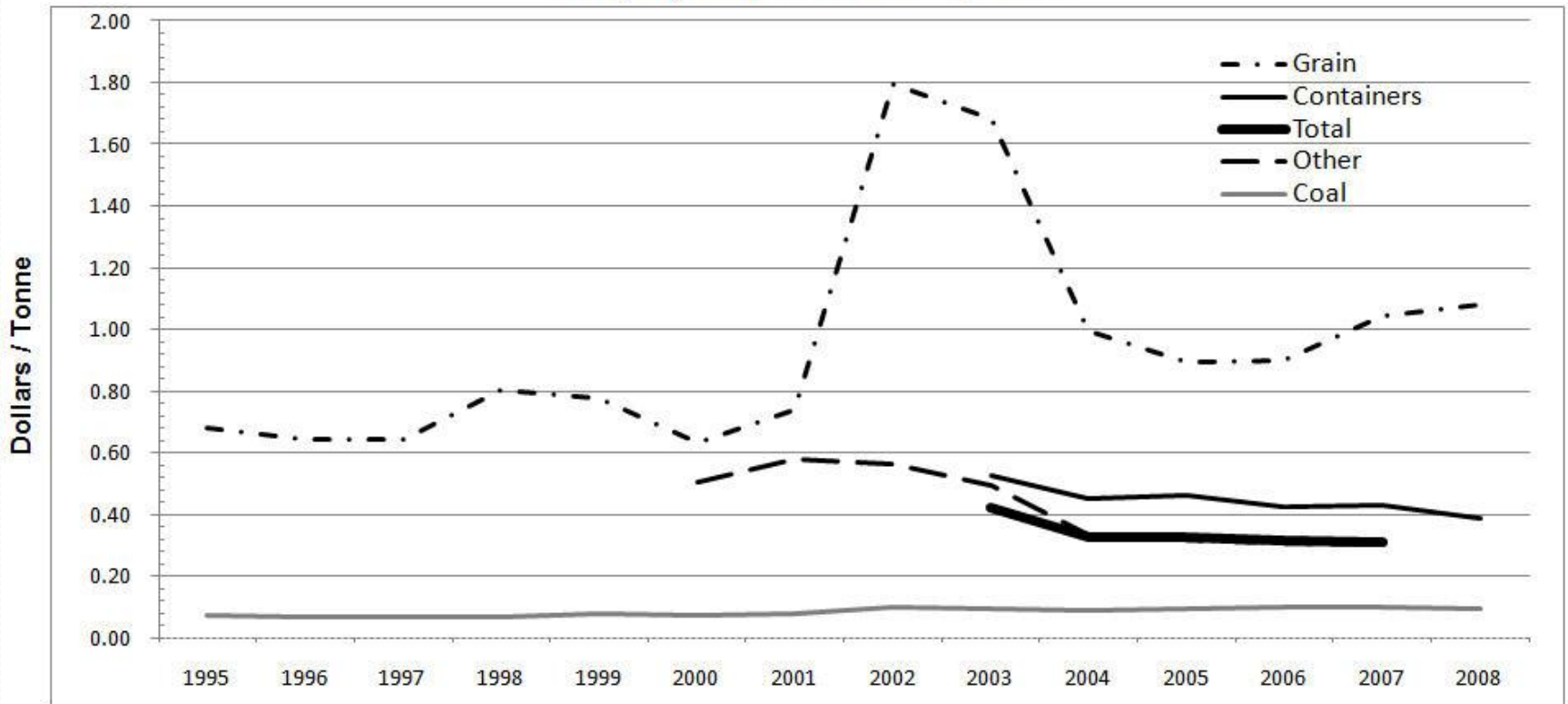
- Efforts made to relate port property taxes to revenues and costs
- Port operators claimed property taxes represent large portion of costs
- Limited data made it difficult to estimate significance of property taxes

### Property Tax per Container (TEU)



# Property Taxes: Average Cost per Shipment

Property Tax per Tonne of Shipments





# Investment Climate

- Fixed property tax share policy has led to property tax rate increases
- Reasonable concern that ever increasing property tax rates will eventually have a negative impact on port investment
- New investment does not necessarily provide direct financial benefits to municipalities
- Difficult to know whether property tax rates by 2003 had already had a negative impact on investment or whether this was seen primarily as a prospective issue

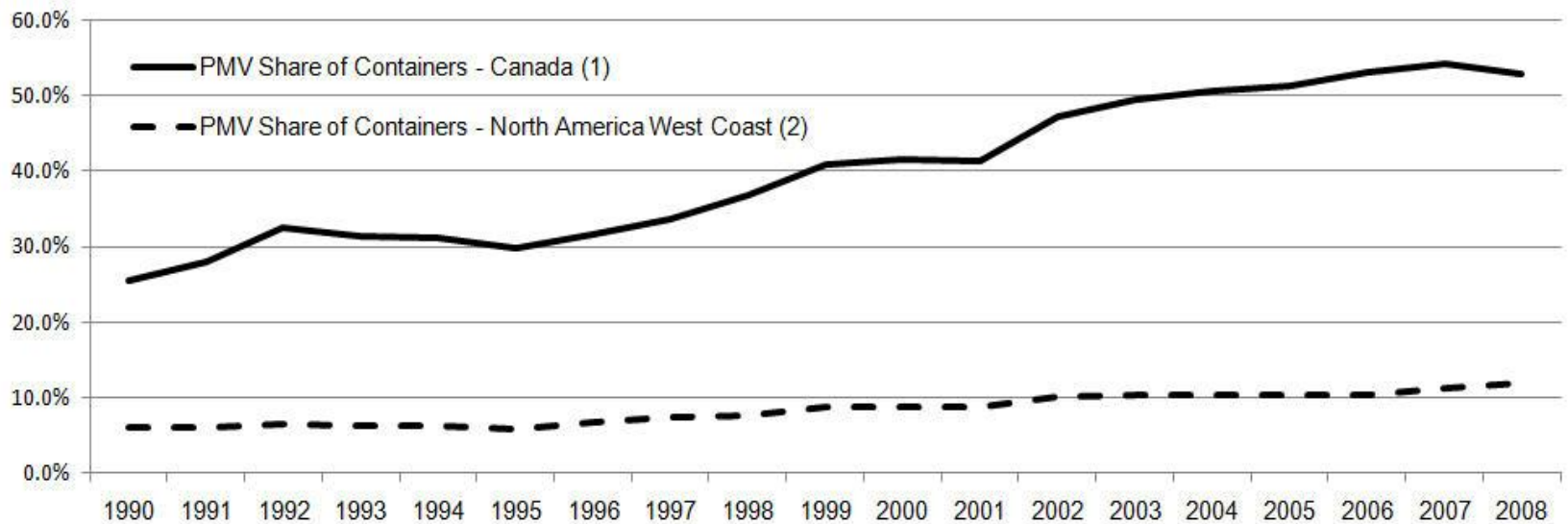
# Findings on Competitiveness

- Tax rates levied on US port operators are lower than in BC
- Uncertain how much property taxes are lower in the US because assessed values include items that are taxable in the US but not in Canada e.g. business personal property
- Property taxes on container ports are a relatively small element of total costs
- Not clear that property taxes are a significant factor in overall competitiveness of BC ports

# Different Tax Systems in BC and Selected US States

British Columbia	US States used for Comparison
Different tax rates levied against different property classes	Uniform tax rates across property classes
Assessed value for port property is set by regulation for land; depreciated replacement cost is used for improvements	Assessed value based on market value of the real property and improvements
Business personal property is not included in the tax base	Business personal property is included in the tax base
No significant restrictions on tax rates or assessment except for certain port properties in select jurisdictions	Significant restrictions on tax rates and/or assessment increases

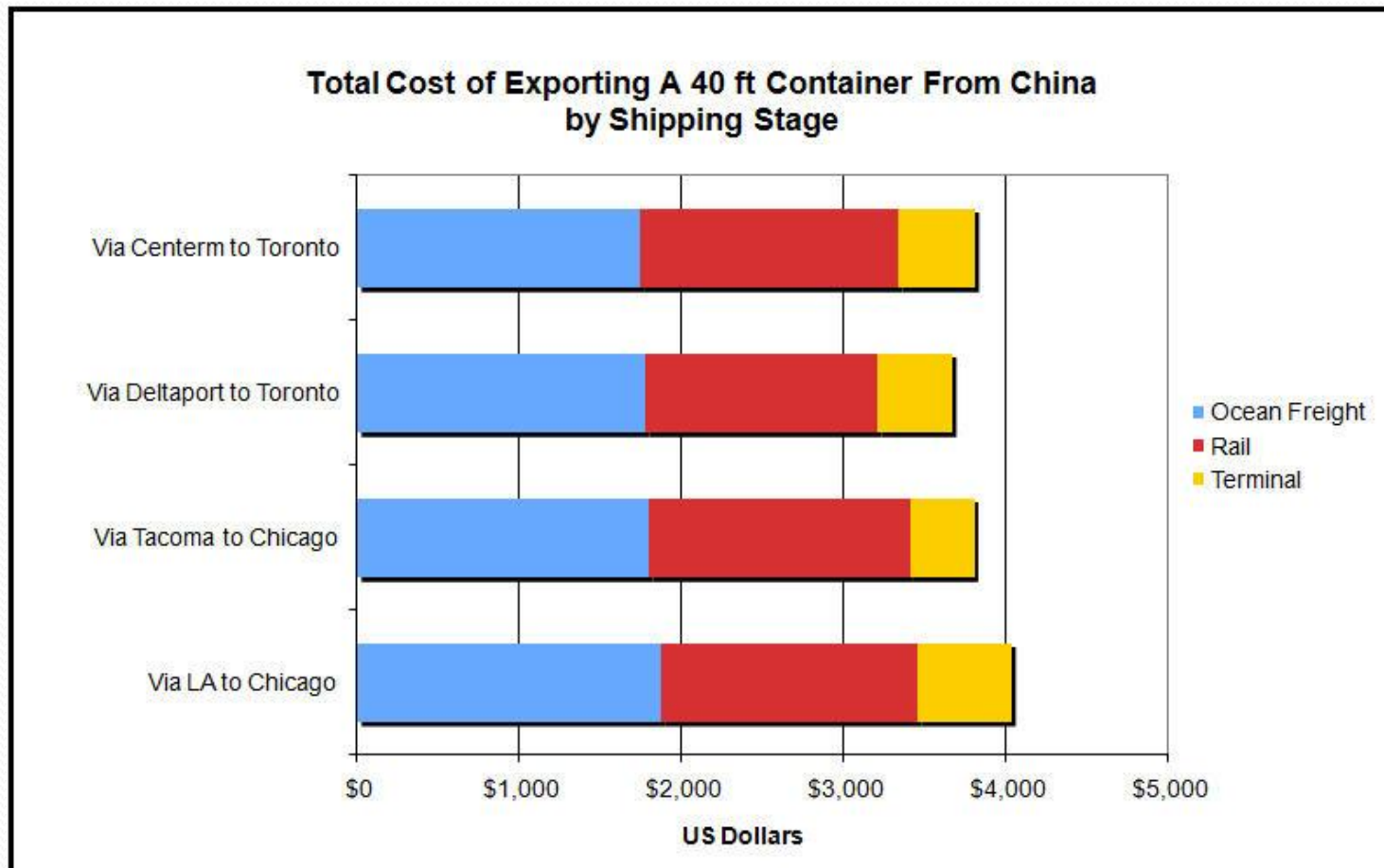
## PMV Share of Container Market - Canada and North America West Coast



(1) Port Metro Vancouver, Prince Rupert, Halifax, Montreal, Saint John, St. John's, Toronto

(2) Port Metro Vancouver, Prince Rupert, Long Beach (CA), Los Angeles, Portland (OR), Seattle, Tacoma

# Competitiveness of Moving Containers to Central Canada/US



# Summary of Findings on Port Property Taxes

- Pockets of problems for individual port property taxpayers in some port municipalities in 2003 but problem not widespread
- Most municipalities, in most time periods, followed policy of fixed property tax shares for class 4 properties
- Unclear about significance of property tax to port operators but limited information suggests property taxes represent small portion of total costs

# Summary of Findings on Port Property Taxes

- Prospect of ever increasing property tax rates discouraging new investment was a concern
- Difficult to determine impact of property tax on competitiveness because difficult to compare property tax burden in Canada and US

# Was Tax Capping a Reasonable Solution?

- Impact on municipalities
  - Municipal autonomy
  - Compensation
  - Investment
- Could compensation formula be improved?
- Other approaches



# Sources of Revenue for Local Governments

Municipalities	2007 D. North Vancouver	2007 Port Moody	2007 Vancouver	2007 C. North Vancouver	2007 Delta	2007 Surrey	2007 Richmond	2007/08 Gen Rev Tacoma
Property Taxes	54%	54%	47%	34%	54%	39%	31%	22%
Business Taxes								21%
Sales Taxes								22%
Total Tax Base	54%	54%	47%	34%	54%	39%	31%	66%
Sale of Services	39%	29%	43%	21%	27%	29%	27%	24%
Provincial/State	1%	1%	3%	1%	2%	2%	4%	3%
Other Governments	1%	4%	0%	3%	1%	0%	0%	2%
Development	0%	8%	1%	0%	6%	22%	7%	3%
Assets Sales	0%	0%	3%	35%	1%	2%	27%	0%
Actuarial Changes	0%	0%	0%	0%	1%	0%	0%	0%
Other Investment Income	3%	4%	3%	6%	3%	5%	4%	0%
Other Revenue	0%	0%	0%	0%	4%	0%	0%	3%
	100%	100%	100%	100%	100%	100%	100%	100%

# 2009 Estimated Tax Loss Due to Capping and Compensation

## Analysis of Annual Capped Property Tax Loss for Municipalities – 2009 (\$ millions)

### With 2009 Property Assessments

	Uncapped Revenue	Capped Revenue	Capping Property Tax Loss
(1) Impact using 2003 Rates	16.5	13.9	2.6
(2) Impact using 2009 Rates	16.8		2.9

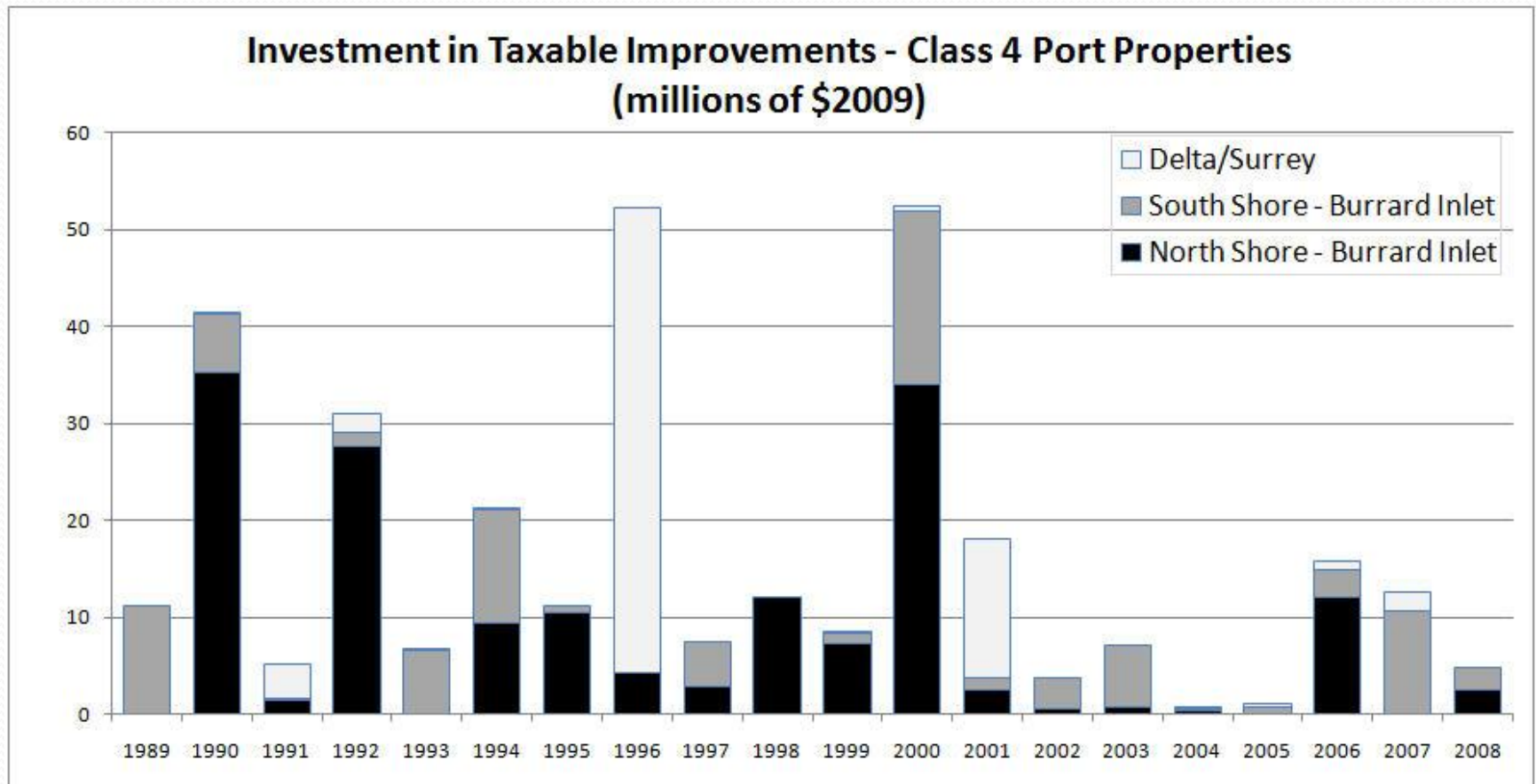
	Constant 2003 Share	Capped Revenue	Capping Property Tax Loss
(3) Maintain 2003 Tax Share	21.5	13.9	7.6

2009 Provincial Compensation 3.07

# Findings on New Investment

- Reduced port property tax rates have had limited impact on taxable investment
- May be too soon to determine impact on new investment because of short life of cap and the current economic situation
- More significant impact on total investment (incl. government investment on infrastructure); some of this investment may have occurred anyway

# Findings on New Investment



# Findings on New Investment

## Information provided by Port Property Operators

- Private investments following capping of port property tax
- Not all of these investments are taxable

Announced and/or Underway		\$ million
Delta	TSI - Deltaport - Berth 3	350
North Vancouver - City	Neptune	75
North Vancouver - District	Kinder Morgan - Vancouver Wharves	140
Surrey	Fraser Surrey Docks	190
Vancouver	P&O Ports - Centerm	130
Vancouver	TSI - Vanterm	25
		<hr/>
		910
		<hr/>



# Findings on New Investment

- APGCI Initiative:

Initiative	Number of Projects	APGCI Funding (\$millions)	Total Value (\$millions)
Pitt River Bridge/Mary Hill Interchange	1	\$ 90.0	\$ 198.0
South Fraser Perimeter Road	1	365.0	1,070.0
Roberts Bank Rail Corridor	9	75.0	307.0
North Fraser Perimeter Road	1	65.0	165.0
Regional Traffic Management Centre and Smart Corridors Strategy	1	7.0	15.0
Westminster Highway and Nelson Road	1	4.7	9.4
Chester Road	2	0.7	1.6
Shortsea Shipping	5	20.8	43.5
Highway 91 and Knight Street (Richmond) and Nordel Way (Delta)	2	1.8	4.1
North Shore Trade Area	5	75.0	225.0
South Shore Trade Area	2	49.7	125.0
	30	\$ 755	\$ 2,164

# Could Compensation Formula be Improved?

- Municipalities should be fully compensated for the effects of capping
- *Recommendation IV-1: The compensation formula should be modified so that the total municipal revenue from port properties (including property taxes and provincial compensation) is adjusted annually by an index of the growth in municipal property taxes (net of new improvements) in Metro Vancouver.*

# Could Compensation Formula be Improved?

- Any new investment would reduce the compensation payment needed from the Province.
- If investment is not forthcoming, municipal revenue would not suffer.



# Other Approaches

- Voluntary agreements
- Provincial school tax rebates in municipalities that agreed not to offset rate reduction by a rate increase on existing properties
- Cap on new investment only
- Link property tax on port properties to tax rate on other property classes (e.g. Class 6 or Class 1)
- Throughput tax, revenue or gross receipts tax, business value added tax (need to be province-wide )

# Summary of Findings on Property Tax Cap

- To the extent that the Province perceived that port property taxes were too high, the solution that was chosen was not unreasonable. Compensation for the forgone revenues from capping is the key to the reasonableness of the policy.
- A voluntary solution first would have been preferable
- Municipalities should be fully compensated for the effects of capping

# Payments in Lieu of Taxes

- Legal context
- Differences in municipal applications and payments by PMV
- Reasons for differences
- Evaluation of PILTs

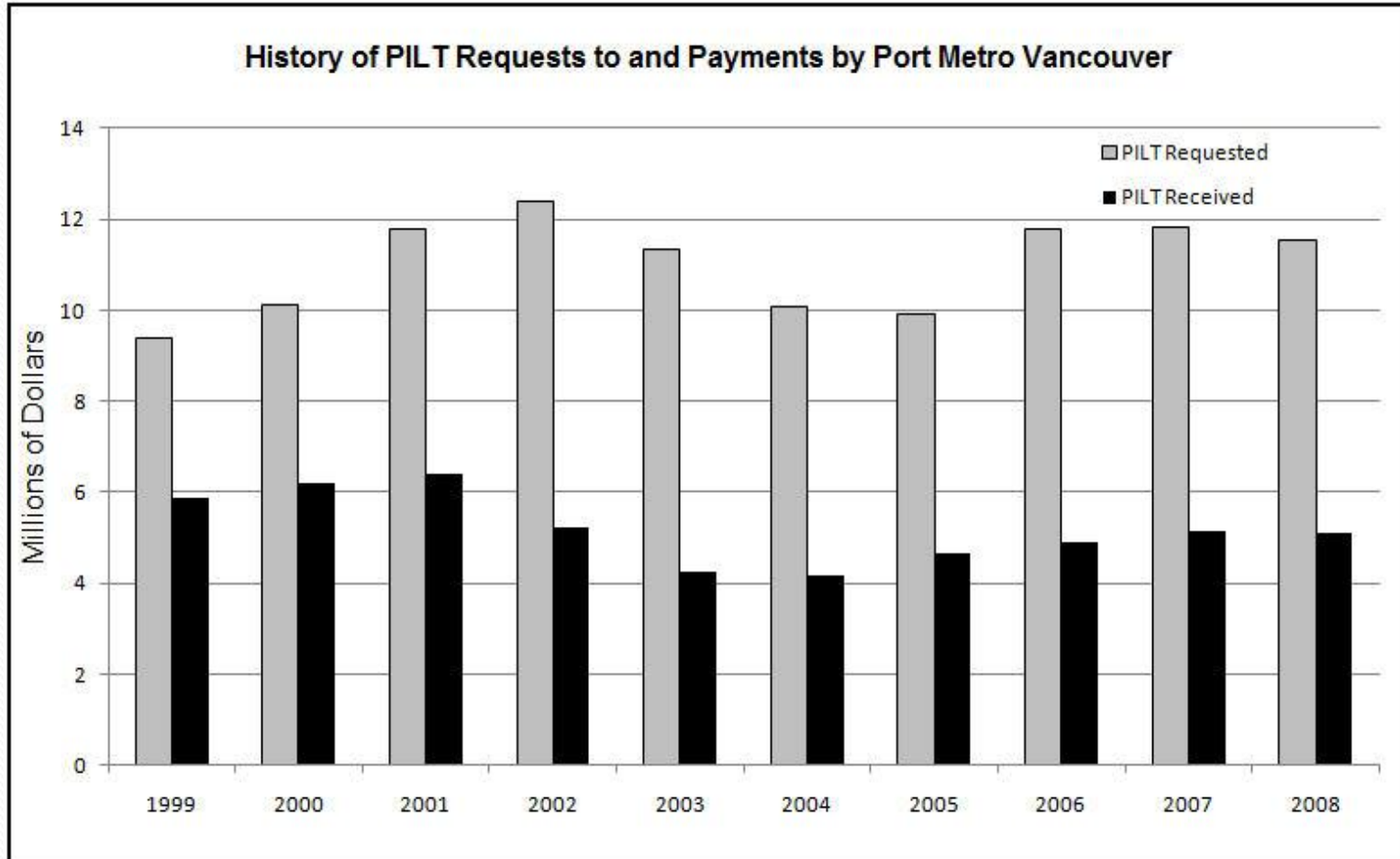
# Payments in Lieu of Taxes

- PMV is required to make PILTs
- Federal government accepts municipal tax rates but has discretion over assessed values
- PMV and BC Assessment Authority (BCA) work under different statutes
- PMV does not have to accept BCA valuations

# Payments in Lieu of Taxes

- Three port authorities took different approaches to PILTs
- Amalgamation has required PMV to develop a consistent approach
- Payment falls short of what is requested

# PILTs: Requests versus Payments



# Case Study of City of North Vancouver

## Summary of Differences between CNV (BCA) and PMV for 2008 PILT Request for the City of North Vancouver \$814,600 vs \$422,200

Tax Rate Differences	17%
Tax Class Allocation Differences	14%
Property Assessment	
• Base Rate, Property Size	10%
• Water Rate – PMV Use of 25% of Land Base rate for Water, rather than 30% used by BCA	15%
• Nominal Value – Use of \$0.25/sq ft for Properties considered by PMV to be Unusable or Unleaseable	13%
• Specific Property Issues	31%

# Evaluation of PILTs

- Federal minister retains final discretion over payments in lieu of property taxes
- Based on principles of equity and neutrality, PILTs should reflect the property taxes that would be paid if these federal properties were taxable
- Consistent with PILT Act and recent Supreme Court Decision in Montreal



# Supreme Court Decision in Montreal

- “... calculations must be based on the tax system that actually exists at the place where the property in question is located.
- “.... as if the federal property were taxable property belonging to a private owner.”

# Evaluation of PILTs

- *Recommendation V.1: Port Metro Vancouver should make payments in lieu of property taxes on its properties as if these properties were taxable.*
- *Recommendation V.2: If Port Metro Vancouver does not makes payment comparable to what the property taxes would be, it should explain the reasons for the difference.*

# Evaluation of PILTs

- Municipalities need stability and predictability
- *Recommendation V.3: Port Metro Vancouver and the port municipalities should agree to timelines for submitting and processing PILT requests so that municipalities and Port Metro Vancouver have certainty around the timing of payments.*

# Evaluation of PILTs

- Federal appeal process has weaknesses; provincial process does not apply
- Unilateral process: PMV defines the policy, sets the values and makes the PILTs
- A process is needed to resolve disputes over valuation

# Evaluation of PILTs

- *Recommendation V.4: Port Metro Vancouver and the BC Assessment Authority should agree to work together to resolve differences in valuation for federal payments in lieu of property taxes on port properties.*
- *Recommendation V.5: Where differences in valuation cannot be resolved, Port Metro Vancouver and the BC Assessment Authority should establish a valuation dispute resolution panel for federal payments in lieu of property taxes. Panel members should be selected jointly by Port Metro Vancouver and the BC Assessment Authority and both parties should agree to be bound by the decisions of the panel.*

# Relationship between PMV and Port Municipalities

- Comparison of governance model with US ports
- Relationship between PMV and port municipalities

# Comparison of PMV and US Port Governance

- There are significant differences in the governance of Canadian and US ports
  - US ports are municipally-owned
  - Major Canadian ports are federal authorities
- Municipalities in Canada have less of stake in their ports than their US counterparts

# Differences between BC Ports and Ports in Selected US States

British Columbia	US States used for Comparison
No direct federal funding	Direct federal funding
Port authorities pay stipend to federal government	No stipend to federal government
Port operators pay property taxes	Ports exempt from local property tax but may pay leasehold excise taxes
Payments in lieu of property taxes	No payments in lieu of property taxes
No direct taxing authority	Direct taxing authority
No local taxes in support of port	Local taxes in support of port
No tax-supported obligation bonds	Tax-supported obligation bonds



# Relationship between PMV and Port Municipalities

- Adding one more member to the board of directors will not make a significant difference
- Need for formalized mechanisms to promote collaboration between PMV and port municipalities with respect to fiscal issues, land use, and infrastructure planning.
- Some important process initiatives have been undertaken within the current governance framework:
  - Creation of port cities committee
  - Annual conference of port and municipal elected officials to discuss issues around land use and taxation

# Relationship between PMV and Port Municipalities

- A process needs to be established that builds relationships between Port Metro Vancouver and the port municipalities and improves communication at the level of the elected officials, senior staff, and technical staff respectively and at both the municipal and regional level.
- The process should involve:
  - regular updates of port activities
  - a method for resolving disputes over land use, property taxes and PILTs

# Relationship between PMV and Port Municipalities

- *Recommendation VI.1: Rather than focus on port governance, the Port Cities Committee and individual municipalities should concentrate on ways to improve their working relationship with Port Metro Vancouver.*