Ports Competitiveness Initiative
ADM and Working Group Committee

July 6, 2007
2:00pm to 3:00pm

Executive Boardroom (Deputies Wing) – 617 Government
Victoria BC

Agenda

1. Update on Ministers Meeting

2. Distribution of discussion paper

3. Cabinet Submission
   - Recommended option

s.12

4. Next Steps
   - To August 1, 2007
   - After August

5. Any additional business

Questions to get answered by PCI Working Group

1. Should the discussion paper go out to anyone else?
2. What option should be recommended
3. s.12
4. Cabinet submission signing – all minister or MFIN on behalf of all.
5. How to ensure all Ministers are comfortable with the recommended option.
6. After August 1 decision – proceeding with informing stakeholders and managing communications issue. Thursday/Friday

Ports Competitiveness Initiative
Current Status and Future Options

Discussion Paper

June 2007

~~Prepared by the Ministries of:~~
Finance
Community Services
Economic Development
Small Business and Revenue
Transportation

Table of Contents

Executive Summary

Purpose

In 2003 the provincial government introduced the Ports Competitiveness Initiative (PCI). The PCI provides property tax relief to port operators of major industrial ports involved in the cargo transportation business of bulk, break-bulk or container transport.

This discussion paper reflects the commitment to review the PCI after three years. The purpose of the review is to measure the success of the initiative and determine how to proceed after the initial five-year rate cap and compensation program ends in 2008. This discussion paper has the following components:

- Background regarding the rationale and development of the PCI,
- Current Status of the components of the PCI,
- Findings from stakeholder consultations sessions,
- Evaluation of the PCI to date, and
- Options for addressing ports competitiveness in the future.

Background

British Columbia's deepwater seaports are strategically important to trade and the provincial economy. Ports in Canada are operated through public and private sector enterprises and are the primary interface between ground and water-based transportation. Ports are key components of the transportation infrastructure, allowing many Canadian businesses to export and import goods, and are central to Canada's connection with the global economy.

In 2001, a review of the competitiveness of British Columbia's ports was completed[1]. Entitled, Options to Improve the Competitiveness of Ports in British Columbia, this report indicated that British Columbia's major industrial ports were facing critical factors that could hamper their long-term competitiveness. It was concluded that the competitive position of British Columbia's ports industry may erode in the future if critical issues were not addressed. These issues included: labour costs and practices, financing costs, operational productivity, expansion capacity, infrastructure costs, intermodal transportation, exchange rates and property taxes. Some of these issues are strictly under federal jurisdiction. However, the property tax issue is under municipal and provincial jurisdiction and therefore was addressed through the PCI.

The PCI included a number of elements:

- A cap on municipal tax rates for existing ports facilities of $27.50 per $1,000 of assessed value, for five years from 2004 to 2008.

[1] Perrin, Thorau & Associates Ltd. Options to Improve the Competitiveness of Ports in British Columbia. March 2001.

- A 10-year cap on municipal tax rates for new ports improvements of $22.50 per $1,000 of assessed value. The cap applies to new construction started before Jan. 1, 2009.
- Annual compensation to affected municipalities, equal to the impact of the tax cap on existing ports facilities in 2003. The compensation program expires in 2008.
- Restoration of a tax exemption for berth corridors. Traditionally, berth corridors had been tax exempt, but became taxable as a result of assessment appeal decisions. In 2003, municipalities collectively received $1.4 million by taxing berth corridors. The exemption also reduced provincial school tax revenues by $650,000 per year.[2]
- A remission of provincial school tax on berth corridors was provided for 2002 and 2003.
- A commitment to review the grant-in-lieu of taxes paid by Vancouver Wharves through the general review of grants in lieu paid by Crown corporations, underway at that time.
- A policy review of the valuation of ports lands for assessment purposes by the Minister of Small Business and Revenue.
- A commitment to review the ports competitive initiative after three years. In order to measure the success of the initiative and determine how to proceed after the initial five-year rate cap and compensation program ends.

Status of PCI Components

Each component of the initiative was aimed at addressing separate but related issues and was designed to work in concert to improve the competitiveness of major industrial ports in British Columbia. The major components of the initiative that allowed for the designation of eligible ports properties, rate caps on existing property and new investment, and compensation to affected municipalities were accomplished through the introduction of the *Ports Property Tax Act (PPTA)*. Berth corridors were exempted from taxation through the creation of the Port Improvements (Berth Corridor) Tax Exemption Regulation under the *Community Charter*. Land valuation changes were accomplished through amendments to the *Assessment Act* and associated regulations. The remaining items were addressed through existing policy and legislative tools. The PCI has now been fully implemented.

Status of the Ports Industry

Current Position

British Columbia's port terminals compete for container business with ports throughout North America; however, their most direct competition is the other west coast ports, such

[2] Berth corridors are the docking facilities required at container and break bulk facilities. Container and break bulk refers to cargo that is loaded directly into the hold of a ship piece-by-piece. To be eligible for the exemption they must be located on Canadian Port Authority land.

as the Ports of Seattle, Tacoma and Long Beach. Bulk and break-bulk facilities primarily handle export products and are very important for export trade.

The burgeoning economies of Asia are driving trade to and from North America. Container traffic to the west coast of North America is expected to increase over 300% by 2020. While presenting significant opportunities for the ports industry, British Columbia gateway ports and corridors must be competitive. They must be reliable, cost effective, efficient, safe, secure and sustainable, all factors considered by both shippers and consumers.

Related Initiatives

Pacific Gateway Strategy

The Pacific Gateway Strategy is a major undertaking to capitalize on west coast ports, airports, road and rail links to establish competitive, full-service trade corridors between Asia and North America. The Pacific Gateway Strategy sets out the following vision: *British Columbia is the preferred gateway for Asia-Pacific trade and has the most competitive port system on the west coast of the Americas.*

Government is aggressively pursuing infrastructure and policy initiatives to achieve this vision and the PCI continues to support this vision.

Lower Mainland Port Amalgamation

In June 2006, the Federal Minister of Transport, Infrastructure and Communities invited the Fraser River Port Authority, the North Fraser Port Authority and the Vancouver Port Authority to examine port amalgamation. The Lower Mainland port amalgamation process is currently underway and is estimated to be complete by early 2008.

Mergers and Acquisitions

There have been significant changes in the ownership of British Columbia port terminals in recent years. Five major mergers and acquisitions of major British Columbia port terminals have occurred since the enactment of the *Ports Property Tax Act*. This activity demonstrates confidence in the ports industry in British Columbia.

New Investment[3]

There have been a total of approximately $634 million of private sector investment and $485 million of public sector investment in British Columbia's major ports since 2003. There is also an additional $1.2 billion in planned private sector future investment (2008-2014).

[3] This is a discussion of all new investment to date, which has been primarily in machinery and equipment and systems upgrades, which do not trigger new taxable assessments.

It is roughly estimated that this $1.8 billion in new investment will include an estimated $279 million in assessable investments[4]. If these investments proceed they will generate new revenues for local governments and all taxation authorities that rely on the property tax system for revenues.

Other Factors

Other factors relevant to this review include:

- *Community Charter* Changes - Broadened Revitalization Tax Exemption Tool
  Recent amendment to the *Community Charter* enables municipalities to use a broader tax exemption tool to encourage many forms of revitalization within their communities.

- Stronger Position of the Canadian Dollar
  The strong position of the Canadian dollar reduces the competitive position of the ports industry.

- Low Unemployment
  Rising labour costs and availability of workers also has an impact on overall competitiveness.

On the other hand, the increase in demand for ports capacity may be so large as to offset at least part of the competitive pressure from the increased dollar and tight labour market.

Stakeholder Consultations

Ministry officials met with a number of stakeholders in order to gather perspectives regarding the PCI. Over the course of these consultations a number of broad themes emerged from the stakeholder groups. As well, there was often considerable divergence in opinion regarding the future of the PCI between the ports industry and the local governments.

Local Governments

Ministry officials met with all local governments who have designated ports properties within their municipal boundaries. These include: Delta, the City of North Vancouver; the District of North Vancouver; Port Moody, Prince Rupert, Squamish, Surrey and Vancouver. Local governments provided the following perspectives on the PCI:

- View the tax caps as an infringement on their autonomy by restricting their discretion to set tax rates. Local governments believe that they should be responsible and accountable for competitiveness issues without Provincial government intervention.

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[4] Estimate reflects actual cost of construction.

The appropriateness of economic development, relevant to the entire province, being financed by local taxpayers was raised as an issue.

- Most local governments voiced support for the ports industry and recognized the role ports play in the economic health of the province. Prince Rupert is particularly supportive of their port and have closely tied their economic development objectives with the development of the new container port at the Port of Prince Rupert.

- Local government, like industry, is also particularly concerned about predictability and stability of the tax base. In terms of preference, most local governments would like to see the tax rate cap eliminated. However, a number also indicated that they could support continued rate caps provided that the compensation was rebased to reflect rising municipal costs and indexed in the future. Most were very concerned that the Province would retain the cap but eliminate compensation in the future.

Industry/Ports Operators

For the ports operators the key message was that property taxation predictability is imperative. As well, they were universal in their desire to see the rate cap continue. They believe that the cap has levelled the competitiveness "playing-field" between all the major cargo ports in British Columbia and resulted in new investments in ports infrastructure.

Port operators and the port authorities were very supportive of the new port land valuation methodology, which was introduced in the spring 2007 legislative session by the Ministry of Small Business and Revenue. They believe that the methodology in conjunction with the cap provide the kind of property tax stability they require.

The operators also emphasized that five years was insufficient time to get capital planning, approval and new construction commenced. Operators have requested a 20 year extension of the rate cap.

Evaluation

The goal of the PCI was to secure the competitive position of the major industrial ports of British Columbia and to provide reasonable protection of revenues for local governments. All elements of the PCI have now been fully implemented.

Investment in port operations is determined by a large number of variables linked to profitability and security of investment, of which PCI property tax measures are one component. Consultations with port operators and port authorities suggest that the PCI measures have been successful in increasing investment for the following reasons:

- The caps provide a clear indication that the provincial government is supporting a stable environment to invest (i.e. certainty) and industry has made significant investments in response.

- Lower tax levels for new and existing investment reduces costs and makes investment more attractive, demonstrated by significant new port investments.

Local governments, on the other hand, suggest that any increased taxes resulting from the elimination of the PCI represent such a small portion of over-all business costs, that their impact would be negligible on investment.

It would be difficult to undertake meaningful quantitative economic analysis of the link between PCI measures and investment, for the following reasons:

- Investment decisions are based on opportunity projections, security of investment and total anticipated costs, which vary significantly from port to port in British Columbia and from jurisdiction to jurisdiction.
- It would be difficult to quantify the "certainty" offered by caps.
- The proportion of property taxes to total costs is relatively small, although it could be important at the margin.
- The commercial reality in the industry is that lease arrangements are long term (17-40 years), meaning that the impact of the caps and lower tax rates on investment cannot easily be assessed in the short-term (3-5 years).

However, while no exact link between PCI measures and investment can be made, economic reasoning supports the principle that reducing fixed costs (e.g. taxes) provides incentives for investment and that caps imposed by the provincial government provide a degree of certainty for investors.

Since the time PCI measures were introduced, port investment has been substantial and industry has claimed this is, in part, due to the PCI. It is clear that progress has been made in achieving the original purpose of the PCI which is to encourage new investment and to improve the competitive position of British Columbia ports. However, the competitive position of the ports industry could still be jeopardized by the high Canadian dollar and high labour costs.

Options

The following list of options have been identified and evaluated in the discussion paper.

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

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

Option 2b – Continue the tax rate cap for 10 years and provide the same municipal compensation.

Option 2c- Continue the tax rate cap for 10 years, and rebase and index the municipal compensation.

Option 3 – Continue the tax rate cap for 10 years but allow the cap on new investment to expire.

Option 4 – Option 2c 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.

Next Steps

This paper is provided to solicit additional stakeholder input regarding the PCI Review. Please provide comments by July 23, 2007, at the latest.

Comments can be provided to:

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Introduction

In 2003 the provincial government introduced the Ports Competitiveness Initiative (PCI). The PCI provides property tax relief to port operators of major industrial ports involved in the cargo transportation business of bulk, break-bulk or container transport. These major trading ports in British Columbia are the points of departure and entry to the pacific coast markets.

Recognizing the importance of international trade to the Canadian economy, the PCI aimed to encourage investment and improve the competitive advantage of port terminals through measures to reduce property taxes. Port terminals are important because they support other industries through efficient movements of goods, which, in turn, support local, regional, provincial and national economic and social objectives.

The purpose of the initiative was to secure the competitive position of major industrial port facilities and to encourage much-needed new investments in ports infrastructure. The major components of the initiative are: a cap on municipal tax rates for existing ports facilities at $27.50 per $1,000 of assessed value from 2004 to 2008; a 10-year cap on municipal tax rates for new ports facilities, where new construction is undertaken before Jan. 1, 2009; and annual compensation to affected municipalities, equal to the impact of the tax cap on existing ports facilities in 2003.

Government also committed to a review of the PCI after three years. The purpose of the review is to evaluate the success of the initiative and to determine how to proceed after the initial five-year tax rate cap and compensation program ends.

Beginning in March 2007, the Ministry of Finance along with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation have engaged stakeholders to solicit their input on the PCI and gather perspectives on how government should proceed once the tax rate caps and municipal compensation packages expire in 2008.

On March 9, 2007, a number of stakeholders were invited to a roundtable meeting, to review a draft terms of reference for the review and to gather perspectives on the proposed methods for reviewing the PCI. Since March, representatives from these ministries have met with 13 stakeholder groups to discuss the PCI. This discussion paper has been informed by these consultations as well as by existing and new information regarding the ports industry in the Province of British Columbia.

The purpose of the discussion paper is to provide: background regarding the rationale and development of the PCI; current status of the components of the PCI; findings from stakeholder consultations sessions; evaluation of the PCI to date, and options for addressing ports competitiveness in the future.

Background

British Columbia's deepwater seaports are strategically important to trade and the provincial economy. Ports in Canada are operated through public and private sector enterprises and are the primary interface between ground and water-based transportation. Ports are key components of transportation infrastructure, allowing many Canadian businesses to export and import goods, and are central to Canada's connection with the global economy.

Canada's major ports are designated under the *Canada Marine Act* as Canada Port Authorities (CPA) and consist of 19 Port Authorities known as the National Ports System. These Port Authorities are designated as being critical to domestic and international trade. The 19 ports handle more than fifty percent of all Canadian marine cargo, approximately 280 million tonnes annually, with a value of more than $120 billion dollars[5].

Canada is heavily dependent on international trade; it is the seventh-largest exporter and eighth-largest importer among trading nations. One-third of the nation's total production is exported. As a result, Canada's transportation system is vital to the competitiveness of the Canadian economy.

British Columbia's ports handle half of Canada's maritime exports and 85% of the western province's marine exports, ranging from grain, coal and forest products to minerals and petroleum. The British Columbia port system currently handles about $35 billion a year in trade and contributes approximately $4 billion annually in economic output to the Canadian economy, $3 billion of which occurs in British Columbia[6].

In 2001, a review of the competitiveness of British Columbia's ports was completed[7]. Entitled, Options to Improve the Competitiveness of Ports in British Columbia, this report indicated that British Columbia's major industrial ports were facing critical factors that could hamper their long-term competitiveness. It was concluded that the competitive position of British Columbia's ports industry may erode in the future if critical issues were not addressed. These issues included: labour costs and practices, financing costs, operational productivity, expansion capacity, infrastructure costs, intermodal transportation, exchange rates and property taxes. Some of these issues are strictly under federal jurisdiction. However, the property tax issue is under municipal and provincial jurisdiction and therefore was addressed through the PCI.

British Columbia has 8 classes of property: Class 1 - Residential, Class 2 - Utilities, Class 4 - Major Industry, Class 5 - Light Industry, Class 6 - Business/Other, Class 7 - Managed

[5] Association of Canadian Port Authorities. http://www.acpa-ports.net

[6] Government of British Columbia. BC Ports Strategy. March 2005.

[7] Perrin, Thorau & Associates Ltd. Options to Improve the Competitiveness of Ports in British Columbia. March 2001.

Forest Land, Class 8 - Recreational Property/Non-profit Organization, and Class 9 - Farm Land. Properties with mixed use can also receive split classification.

Class 4 - Major Industry includes land and improvements of major industrial properties, including: lumber and pulp mills, mines, smelters, large manufacturers of specified products, ship building and loading terminals for sea-going ships.

Municipalities and the Province can set different tax rates for each class of property at their discretion. Other tax authorities, such as regional districts, must use fixed ratios to set rates for each class.

Property taxes are the major source of revenue controlled by local government and provide about 50 % of revenues, for local governments in British Columbia.

Municipalities have considerable discretion in setting tax rates for municipal purposes. Under section 197(1) (a) of the *Community Charter* (s. 374(2) of the *Vancouver Charter*), municipalities can set a separate rate for each class of property with few constraints; this is referred to as the variable tax rate system, which was introduced in British Columbia in 1982.

In addition to the issues identified in the Options to Improve the Competitiveness of Ports in British Columbia, ports terminals differ significantly from other Class 4 – Major Industry assets in three significant ways – costly improvements and the requirement to be located on expensive waterfront lands; immovability; and, location in predominantly urban communities.

Ports tend to have very costly improvements. A smaller overall proportion of assets are machinery and equipment, which is exempt from property taxation. Therefore a much higher percentage of the initial capital investment goes into taxable assessment than for other types of major industrial property. As well, the requirement to occupy high value waterfront land in developed areas close to all transportation points creates high costs for port operations. Typically, mobility allows market forces to work if costs in one area are too high. However, port terminals are captive because they must be located next to navigable waterways. In British Columbia, there is limited tidewater land base appropriate for port terminal use. The final difference between ports and other major industrial properties relates to the fact that many major industrial ports facilities are located within major urban centres. Unlike many small resource communities with Class 4 - Major Industry assets, the financial health of these port facilities is often not critical to the financial health of the host communities.

In the fall of 2003, an inter-ministry committee was established to examine the issue of ports competitiveness and propose options to address high property taxation on ports while mitigating potential revenue losses to local governments. The objectives of the committee were to examine solutions to:

- Ensure the ongoing competitiveness of British Columbia's ports,
- Encourage new port investment,

- Reduce the property tax burden on port operators, and
- Mitigate potential cost impacts to local governments.

In May 2003, an initial proposal was approved to present to local governments and port operators for discussion. Vince Collins was appointed lead negotiator. Throughout June and July, Vince Collins and/or representatives from the Ministry of Finance met with both the affected municipalities and the major port operators in order to discuss the proposal. Based on feedback from the stakeholders and further discussion within the inter-ministry committee, the option was refined. In October government announced the details of the PCI.

Recognizing the multiple forces coming to bear on the competitiveness of major ports, the Province chose a multi-pronged approach. For that reason, the PCI included a number of elements:

- A cap on municipal tax rates for existing ports facilities of $27.50 per $1,000 of assessed value, for five years from 2004 to 2008.
- A 10-year cap on municipal tax rates for new ports improvements of $22.50 per $1,000 of assessed value. The cap applies to new construction started before Jan. 1, 2009.
- Annual compensation to affected municipalities, equal to the impact of the tax cap on existing ports facilities in 2003. The compensation program expires in 2008.
- Restoration of a tax exemption for berth corridors. Traditionally, berth corridors had been tax exempt, but became taxable as a result of assessment appeal decisions. In 2003, municipalities collectively received $1.4 million by taxing berth corridors. The exemption also reduced provincial school tax revenues by $650,000 per year.[8]
- A remission of provincial school tax on berth corridors was provided for 2002 and 2003.
- A commitment to review the grant-in-lieu of taxes paid by Vancouver Wharves through the general review of grants in lieu paid by Crown corporations, underway at that time.
- A policy review of the valuation of ports lands for assessment purposes by the Minister of Small Business and Revenue.
- A commitment to review the ports competitive initiative after three years. In order to measure the success of the initiative and determine how to proceed after the initial five-year rate cap and compensation program ends.

Each component of the initiative was aimed at addressing separate but related issues and was designed to work in concert to improve the competitiveness of the Class 4 major industrial ports of British Columbia. The major components of the initiative that allowed for the designation of eligible ports properties, rate caps on existing property and new

[8] Berth corridors are the docking facilities required at container and break bulk facilities. Container and break bulk refers to cargo that is loaded directly into the hold of a ship piece-by-piece. To be eligible for the exemption they must be located on Canadian Port Authority land.

investment, and compensation to affected municipalities were accomplished through the introduction of the *Ports Property Tax Act (PPTA)*. Berth corridors were exempted from taxation through the creation of the Port Improvements (Berth Corridor) Tax Exemption Regulation under the *Community Charter*. Land valuation changes were accomplished through amendments to the *Assessment Act* and associated regulations. The remaining items were addressed through existing policy and legislative tools.

Status Report

Designated Properties

The ports initiative is limited to property located adjacent to a navigable waterway, which is associated with the storage and transfer of cargo for seagoing ships and barges, and deep-sea (Class 4) transportation facilities. These are intermodal sites between the land and water traffic.

Two of the key parameters in determining eligible facilities were intermodalism and broad economic benefit. Terminals had to be strictly points of change in the mode of transportation from rail/truck to ship, and in some cases vice versa. Terminal facilities that are ancillary to industrial production are not strictly intermodal because the goods to be transported are produced on-site or nearby. The initiative was strictly limited to transportation properties not production. As well, in order to ensure the initiative produced a broad economic benefit, the terminals had to benefit a broad range of businesses and not a single company. This is why the PCI focused on those operations that transport cargo for multiple concerns: such as, transportation companies that operate the container and break-bulk terminals that move products for multiple industries; consortiums that operate the bulk mineral/coal/sulphur/wood chip terminals, moving products for the member companies; and publicly traded cooperatives that operate most of the bulk agricultural terminals, moving products for the cooperative members.

The initiative does not include the following:

- solely Class 5 (light industry) port terminals because the Class 5 tax rate is significantly lower than the Class 4 rate in most municipalities. Class 5 terminals mainly transport coastal barge and import traffic.
- inland ports and intermodal yards between rail and truck traffic because these do not relate directly to deep-sea traffic.
- dry docks, repair facilities, shipbuilding facilities, and other support facilities for the shipping industry because these are not transportation nodes.

Under the *PPTA*, 20 major industrial ports were designated for the purposes of the tax rate cap. Appendix 1 provides a list of the designated folios.

The following facilities in the following communities have been designated:

City of North Vancouver
James Richardson International (Grain)
Saskatchewan Wheat Pool (Grain)
Lynnterm West Gate (Forest Products, Steel, and Break Bulk)
Lynnterm East Gate (Forest Products, Steel, and Break Bulk)
Neptune (Coal and Agricultural Products)

City of Vancouver
Centerm (Container Cargo, Pulp and General Cargo)
Cascadia (Grain)
Vanterm (Container)
Pacific Elevators (Grain and Agricultural Products)
Agricore United (Grain and Grain Products)

Corporation of Delta
Westshore (Coal and Coke)
Deltaport (Container Cargo)
Fraser Surrey Docks (Container Cargo, General Cargo, and Lumber Products)

City of Prince Rupert
Prince Rupert Grain (Grain)
Ridley (Coal)

City of Port Moody
Pacific Coast Terminals (Sulphur and Bulk Liquids)

City of Surrey
Fraser Surrey Docks (Container Cargo, General Cargo, and Lumber Products)

District of North Vancouver
Fibreco (Wood Chips)
Lynnterm East Gate (Forest Products, Steel, and Break Bulk)
Dow Chemical (Caustic soda solution, ethylene dichloride and glycol)

District of Squamish
Squamish Terminal (Forest and Steel)

These facilities are used for imports of containerized cargo and shipping of bulk goods such as coal, wheat and other agricultural products; they also ship forest products such as lumber and pulp.

Tax Rate Caps

Cap on Existing Land and Improvements ($27.50/$1000)

This initiative provides a flat tax rate to all eligible terminal operators on their municipal property tax. This eliminated large tax rate differentials between terminal operators, resulting from their locations in different municipalities. For example, the Class 4 terminals in Vancouver and Fraser River Port Authorities are located throughout six different lower mainland municipalities, which in 2003 had very different tax rates. The single capped rate and the lower rate on new investment provided the terminal operators a greater degree of certainty for business planning and forecasting.

During the initial consultations regarding the PCI, port operators advocated for a very low tax cap ($20/1000 on existing property and $15/1000 on new investment), feeling these rates were comparable to Seattle and Tacoma. Municipal tax rates varied considerably in 2003 from $14/1000 (Surrey) to $54/1000 (Squamish). The average industrial tax rate for ports in the lower mainland was $32/1000 in 2003.

The rate of $27.5/1000 was similar to rates in other Canadian jurisdictions. The rate cap is applicable to all designated facilities. With the exception of the City of Surrey, all local governments with designated ports properties have Class 4 – Major Industry rates of $27.50 or higher.

Class 4 Municipal Purpose Tax Rates Per $1000 of Assessed Value		
Community	**2003**	**2007**
North Van City	36.88477	38.40844
North Van District	40.37832	49.85971
Squamish	54.12939	27.50000
Vancouver	27.71701	30.25422
Port Moody	48.68740	53.13380
Delta	28.86130	27.78320
Surrey	13.67102	14.80962
Prince Rupert	45.53170	27.50000

Overall the goal was to provide a stable, predictable and reasonable tax level so that port authorities and terminal operators had sufficient certainty to make long-term capital investments.

Cap on New Investment in Taxable Improvements ($22.50/$1000)

The ports initiative is time limited to 5 years. However, the tax rate on new investment applies for 10 years from the time the investment is made. The rate of $22.50/1000 strikes a balance between the port operators' need for certainty and a reasonable level of taxation, and the municipalities' need for predictable revenue and an ability to share in the benefits of increased economic activity. Class 4 new investments is equal to the change in adjusted assessment of the taxable improvements from one year to the next on a designated port property. The value of new investment is depreciated annually at a rate of 5% to level of 20% of the initial investment. This allows the terminal or port authority to recover its investment in a shorter time period, thus encouraging the initial investment.

2007 is the first year that the new investment tax cap has been triggered for two facilities:

Westshore (Delta): $398,000

Fibreco (District of North Vancouver) $7,510,000

Compensation to Local Governments

Recognizing that this initiative was driven primarily by provincial and national objectives, the government committed to compensate municipalities for lost taxation revenues. This ensured that local taxpayers would not be solely financially responsible for a program that has benefits beyond the host community. Enshrined within the *PPTA* was a commitment to compensate impacted local governments with the following annual payments:

Municipality	Annual payment
The Corporation of Delta	$291,240
The Corporation of the City of North Vancouver	$1,254,813
The Corporation of the District of North Vancouver	$709,324
City of Port Moody	$494,005
City of Prince Rupert	$1,383,536
District of Squamish	$345,144
City of Vancouver	$41,616

The total cost of the compensation is $4.5 million annually or $22.6 million over the 5 year term of the *PPTA*. Compensation does not apply to revenue lost due to the new investment tax cap or the berth corridor exemption. The compensation is paid annually from provincial general revenue.

Class 4- Major Industry tax rates are highly variable in the communities impacted by the *PPTA* tax cap. The table below lists all the Class 4- Major Industry tax rates from 2003 to 2007.

Class 4 Tax Rates/$1000 of Assessed Value 2003 to 2007								
Year	North Van City	North Van District	Squamish	Vancouver	Port Moody	Delta	Surrey	Prince Rupert
2003	36.88477	40.37832	54.12939	27.71701	48.6874	28.8613	13.67102	45.53170
2004	35.50688	42.65235	55.11144	28.58468	53.1939	27.9966	15.72960	43.46660
2005	36.56443	42.68615	55.12483	28.31661	54.7639	28.5448	15.67948	35.00026
2006	38.55035	47.65611	58.86106	28.46539	53.6967	27.0778	14.88408	35.68785
2007	38.40844	49.85971	27.50000	30.25422	53.1338	27.7832	14.80962	27.50000

Determining any tax revenue impacts on local governments subject to the tax rate cap is a very difficult exercise because of the number of assumptions needed. For example, it is uncertain what kind of rate setting tax policies local governments may have implemented if they were not subject to the cap. Additional complicating factors include non-market change (new construction) in other property classes, the impacts of appeals on a number of ports properties as well as the new land valuation strategy. Under most reasonable scenarios, however, the total impact on municipal budgets of the rate cap and compensation is less than 1 % of municipal purpose taxation revenues over the period.

Under some scenarios, particularly for municipalities that faced significant reductions in assessed values on designated ports properties due to assessment appeals, it is possible that the compensation actually had a positive impact. This is because the compensation was based on the original higher assessed values that subsequently declined on appeal.

Including provincial compensation, local governments have received the following revenues on designated ports properties.

Actual Local Government Revenues on Designated Properties Municipal Purpose Variable Taxes and Provincial Compensation (if applicable)					
	2004	2005	2006	2007	Total 2004-2007
North Van City	$4,241,838	$4,200,421	$3,986,828	$4,021,203	$16,450,290
North Van District	$1,817,964	$1,829,042	$1,817,244	$2,008,824	$7,473,073
Squamish	$705,119	$704,377	$702,259	$705,037	$2,816,791
Vancouver	$4,401,494	$4,724,564	$4,764,026	$4,586,844	$18,476,927
Port Moody	$1,169,295	$1,178,205	$1,169,185	$1,178,700	$4,695,385
Delta	$3,345,327	$3,429,955	$3,434,306	$3,525,830	$13,735,418
Surrey*	$323,558	$321,414	$317,611	$322,790	$1,285,373
Prince Rupert	$3,411,084	$3,393,924	$3,395,299	$3,427,831	$13,628,137

*Surrey receives no provincial compensation.

Berth Corridor Exemption

There are three types of terminal facilities: container, break bulk and bulk. Container cargo consists of standard container units that can be transferred directly from the ship to rail or truck. Break Bulk is non-containerized cargo that must be loaded directly into the hold of a ship piece-by-piece (e.g. bundled lumber). Bulk cargo is anything that can be poured into the hull of a ship (coal, sulphur, wood chips, chemicals, petroleum products). The vast majority of major industrial terminals are for bulk cargo.

Prior to 2002, berth corridor of several container and break bulk facilities was exempt from property taxation. The reason for the exemptions was based on the unique nature of container and break facilities and their relationship with the port authorities.

Unlike bulk facilities that rely on conveyor systems to move goods, break-bulk and container facilities must rely on large gantry cranes to incrementally load ships. These facilities require significant dock/wharf infrastructure to support the ship loading, such as gantry cranes that are used at all container facilities and some break bulk facilities. Most bulk docks range from $100,000 to $2.5 million in assessment while most of the container/break-bulk docks are assessed at over $6 million, with some as high as $17 million.

Thus, port authorities have a vested interest in the upkeep of these important docks. For this reason, the port authorities generally do not lease out this part of the dock; instead, they enter into operating agreements with terminal operators. The specifics of each agreement vary. However, in most cases, the port authorities collect all berthage and wharfage fees and are responsible for maintenance of the wharf. The operator generally maintains the gantries.

Historically, these agreements were not regarded as triggering taxable occupancy by the terminal operator on the berth corridor. In 2002 an Assessment Appeal Board decision and subsequent confirmation by the British Columbia Supreme Court ruled that *TSI Terminal Systems Inc.*, which operates Vanterm Container Terminal, was a taxable occupier of the berth corridor at Vanterm under the *Assessment Act*. After this decision, the terminal operators of other berth corridors were deemed taxable occupiers, which significantly increased their tax burden.

As part of the PCI, the province decided to restore the tax exempt status of the key berth corridors. The improvements eligible for the berth corridor exemption are those specifically related to docking deep-sea vessels. The improvements are listed in Schedule 2, Section 3 of the federal *Payment in Lieu of Taxes Act* and include: docks, wharves, piers, piles, dolphins, floats, breakwaters, retaining walls and jetties. In addition to this list, the berth corridor exemption also includes rail tracks for the wharf-side gantry cranes (the cranes themselves are exempt equipment).

The decision to exempt berth corridors was made to remain consistent with historic approaches to the property taxation of ports and to reflect current approaches used by competing port jurisdictions. The berth corridor exemption is limited to specific properties located on National Port Authority property. It does not include strictly private terminals, which either own their own land or lease from a party other than a National Port Authority (e.g. Squamish Terminals & Vancouver Wharves). The following berth corridors are currently exempt from tax:

Port Facility	**Municipality**
Lynnterm West Gate	City of North Vancouver
Lynnterm East Gate	City of North Vancouver
	District of North Vancouver
~~Centerm~~	~~City of Vancouver~~
Vanterm	City of Vancouver
Deltaport	Corporation of Delta
Fraser Surrey Docks	Corporation of Delta
	City of Surrey

The Province also committed to forgive the provincial school property taxes imposed on those berth corridors for 2002 and 2003. In total, $1,098,051 in provincial school property tax was remitted with respect to berth corridors at these port facilities in 2002 and 2003.

Facility	Operator	Municipality	Remission Amount
Delta Port	TSI	Delta	$437,000
Fraser Surrey Docks	Fraser Surrey Docks Ltd	Surrey	$118,550
Lynnterm East	Western Stevedoring	North Vancouver (City)	$4,888
Lynnterm East	Western Stevedoring	North Vancouver (District)	$25,625
Vanterm	TSI	Vancouver	$318,188
Centerm	P & O Ports Canada	Vancouver	$193,800
Total			$1,098,051

The remission of the above amounts has been approved by Cabinet and will be remitted to the operators.

Grant in Lieu of Taxes and Vancouver Wharves

Vancouver Wharves is a major deep-sea terminal owned by the Province that provides services to shippers that move product to and from all regions of Western Canada and the Pacific Northwest. Since 1998, Vancouver Wharves paid a fixed grant-in-lieu of $2 million to the District of North Vancouver and has not paid any school property tax to the province.

Government recently reviewed its grants-in-lieu policy and decided that because Vancouver Wharves directly competes with the private sector it should pay grants comparable to the property taxes paid by its competitors. This means Vancouver Wharves will pay the District of North Vancouver $2.4 million in 2007, up more than $400,000 from previous years. As well, the grant will be adjusted in response to changes in the Wharves' assessed value in the future.

Vancouver Wharves has now been leased to a taxable occupier that will in future pay municipal property taxes on the leased property. Although a final determination has not been made, it appears likely that the operator will qualify for the capped tax rate and new valuation approach.

Port Land Valuation

In 2002, port land assessments increased substantially which resulted in large increases in assessed values for several port facility operators. A number of operators appealed their assessments starting in 2003.

In April 2005, the Property Assessment Appeal Board provided a decision on the Western Stevedoring appeal and ruled that the comparative value methodology used by BC Assessment was not appropriate. In its place, the Property Assessment Appeal Board recommended and applied a methodology that can be generally described as a multiplier of rent (the rent paid by the operator to the Port Authority) to determine assessed value. This had the effect of reducing the Western Stevedoring assessment on its leased lands by about 50 per cent. The Supreme Court of British Columbia upheld the decision of the Property Assessment Appeal Board in March 2006.

As a result of this decision, to improve certainty and consistency for the port operators and municipalities, the Ministry of Small Business and Revenue introduced a legislated valuation methodology for the valuation of major industrial ports.

The amendments to the *Assessment Act* and *Regulations* change the way major port land is valued for 2008 and subsequent years, and is essentially consistent with the Western Stevedoring decision. The assessed land value will now be determined by a formula that reflects restrictions on the use of port land and, over time, land values will be increased in line with the Consumer Price Index (CPI), not the value of neighbouring industrial lands.

The approach applies only to Crown-owned port properties that are taxed as major industry and are currently designated under the *PPTA*. The immediate impact of the methodology is the reduction in assessed values for ports located around Burrard Inlet; however, all ports and local governments benefit in the future from the greater predictability offered by the legislated formula.

These changes resulted in reductions in property tax revenues of $1.4 million distributed among three municipalities (Vancouver, City of North Vancouver and District of North Vancouver). In addition, the provincial revenue from school property taxation was reduced by $0.7 million.

Summary of PCI Components

In conclusion, all elements of the PCI have been implemented. The table below summarizes each of the elements and provides its current status.

Ports Competitiveness Initiative Status of Components		
Component	**Rationale**	**Status**
Five year cap on municipal tax rates for existing ports facilities of $27.50 per $1,000 of assessed value.	The cap was enacted to create predictability and stability for the industry and to maintain the competitive position of the industry.	20 major industrial ports located in 8 municipalities are subject to the cap.
10-year cap on municipal tax rates for new ports facilities of $22.50 per $1,000. The cap applies to new construction started before Jan. 1, 2009.	The new investment cap was put in place to encourage important investments in infrastructure at major industrial ports.	2007 is the first year the new investment rate cap will be triggered.

Ports Competitiveness Initiative Status of Components		
Component	**Rationale**	**Status**
Annual compensation to affected municipalities, $4.5 million annually.	Local taxpayers should not be expected to bear all the financial costs associated with a matter which has economic significance for the entire Province	Municipalities receive annual compensation as laid out in the *Ports Property Tax Act.*
Tax exemption for berth corridors.	The berth corridor was previously exempt from taxation; as well, the exemption creates consistent treatment of berth corridors with other jurisdictions.	Berth corridors can be designated for tax exemption under a *Community Charter* regulation.
Remission of provincial school tax for the tax on berth corridors back to 2002.	Part of the restoration of the traditional tax exempt status of berth corridors.	A remission was approved by Cabinet and the school taxes payable on the berth corridors were returned to the operators.
Review of the grant-in-lieu of taxes paid by Vancouver Wharves.	Government committed that all Crown Corporations would pay property taxes equal to full taxation.	Vancouver Wharves is paying a grant in lieu equal to the amount of taxes it would pay if it were an eligible port property and designated under the *PPTA*.
Policy review of the valuation of ports lands for assessment purposes.	Port land values had been the source of a number of multiple year appeals, creating uncertainty for operators and local governments	Legislation has been enacted that creates legislated land values for ports properties. Base values were determined and these values will be indexed annually using CPI as the inflationary index.

Status of the Ports Industry

Current Position

British Columbia port terminals compete for container business with ports throughout North America. The main competitors are the Ports of Seattle, Tacoma, Oakland, and Los Angeles-Long Beach. In 2003, the Los Angeles-Long Beach complex ranked third in the world container trade. Competition for bulk commodity exports is confined to U.S. Pacific Northwest ports such as Portland. There is limited U.S. port competition for break-bulk cargoes.

The burgeoning economies of Asia are driving trade to and from North America. Container traffic to the west coast of North America is expected to increase over 300% by 2020. This presents significant opportunities for the British Columbia ports industry, given its geographic advantage of having the closest North American ports to Asia. However, a geographic advantage is not enough, British Columbia gateway ports and corridors also must be competitive. They must be reliable, cost effective, efficient, safe, secure and sustainable, all factors considered to be important by both shippers and consumers. British Columbia and Canada have responded to this opportunity.

Related Initiatives

Pacific Gateway Strategy

The Pacific Gateway Strategy, led by the Ministry of Transportation in collaboration with industry and other levels of government, is a major undertaking to capitalize on west coast ports, airports, road and rail links to establish competitive, full-service trade corridors between Asia and North America. The Strategy sets out a shared vision: *British Columbia is the preferred gateway for Asia-Pacific trade and has the most competitive port system on the west coast of the Americas.* For marine traffic, the Strategy sets 2020 targets of:

- 9 million TEUs[9] in container traffic (from 2 million in 2005);
- 95 million tonnes of bulk & break bulk exports (from ~70 million in 2005).

To achieve these targets, the Pacific Gateway Strategy Action Plan (April 2006) identifies infrastructure and policy initiatives that must be undertaken. All parties are now working on a more detailed Implementation Plan to ensure that future investments, operational efficiencies and supportive policies are put in place to optimize existing capacity and deliver needed new capacity.

Achievement of the targets would mean that by 2020 the British Columbia ports industry would handle $75 billion in trade (from $35 billion now), contribute an additional $6.6 billion ($4.7 billion in British Columbia) to the Canadian economy and generate 45,000 new jobs (32,000 in British Columbia).

Lower Mainland Port Amalgamation

In June 2006, the Federal Minister of Transport, Infrastructure and Communities invited the Fraser River Port Authority, the North Fraser Port Authority and the Vancouver Port Authority to examine port amalgamation. Canada Port Authorities are non-share capital corporations incorporated under the 1998 Canada Marine Act and mandated to operate in the public interest, according to business principles. Further to the results of an assessment by the port authorities, the federal Minister of Transport, Infrastructure and

[9] Twenty-foot equivalent units- This is the number of 20-foot containers that a vessel can carry.

Communities recommended the three port authorities should be integrated to form the Vancouver Fraser Port Authority.

The Lower Mainland port amalgamation process is currently underway and is estimated to be complete by early 2008. The new port authority should enable the Lower Mainland ports to position themselves to compete more effectively with other North American ports instead of with one another for Asia-Pacific trade.

Mergers and Acquisitions

There has been much activity involving ownership of British Columbia port terminals in recent years. Five major mergers and acquisitions of major British Columbia port terminals have occurred since the enactment of the *Ports Property Tax Act*.

In September 2005, the Vancouver Port Authority & Terminal Systems Inc. (TSI) signed a $272 million agreement to enter into a 50-year operating lease upon completion of the proposed expansion of the Deltaport container terminal (Third Berth project).

In March 2006, Dubai Ports acquired P&O Ports (operators of Centerm) as part of a $6.8 billion US acquisition. Dubai Ports is a company owned by the government of Dubai in the United Arab Emirates. It is one of the largest marine terminal operators in the world with 42 port facilities spanning 22 countries.

In January 2007, the Ontario Teacher's Pension Plan purchased TSI (the operator of Deltaport and Vanterm) as part of a four terminal $8.6 billion US acquisition.

In April 2007, the Texas-based Kinder Morgan signed a $40-million lease agreement with the BC Railway Company for the North Vancouver bulk terminal, Vancouver Wharves. Under the 40 year lease agreement, Kinder Morgan is to run the terminal operation and buy the terminal assets including the on-site rail system, storage and handling equipment. Kinder Morgan is one of the largest energy transportation and utility companies in North America, and owns 42,000 kilometres of pipelines throughout North America, including the oil pipelines of Terasen Gas. The company also operates over 150 terminal facilities throughout the U.S., including bulk commodity terminals in Washington, Oregon and California, as well as terminals that serve oil tankers.

In March 2007, RREEF Infrastructure (the global alternatives asset management business of Deutsche Bank's Asset Management Division) purchased Maher Terminals (the privately held operator of container terminals at Port of Elizabeth, New Jersey and the new container terminal at the Port of Prince Rupert). RREEF provides Maher Terminals with an increased ability to compete on a global level. RREEF is a major player in financial matters world wide and the purchase has increased the prospect for more expansion and a large presence on the world stage due to the financial capacity of the Deutsche Bank.

New Investment[10]

There has been a total of approximately $634 million of private sector investment and $485 million of public sector investment in British Columbia's major ports since 2003. There is also an additional $1.2 billion in planned private sector future investment (2008-2014). The investment will be focused on expanding container capacity and will likely not be evenly spread across municipalities.

Private Investment

- $155 million – P&O Ports investment in infrastructure, equipment and operating systems at Centerm at the Port of Vancouver (completed September 2006).
- $25 million – Terminal Systems Inc. (TSI) investment in new infrastructure and technology to expand Vanterm at the Port of Vancouver to 0.6 million TEUs (completed 2005).
- $190 million – Fraser Surrey Docks investment in infrastructure, expanding their capacity by 0.6 million TEUs (completed in late 2005).
- $60 million – Maher Terminals contribution to the first phase of construction of the new Fairview Container Terminal at the Port of Prince Rupert.
- $25 million – Canadian National Railway contribution to the first phase of construction of the new Fairview Container Terminal at the Port of Prince Rupert.

This table provides an estimate by year of new investments at designated ports facilities. These numbers include assessable and non-assessable investments for the purposes of property taxes. It is roughly estimated that this $1.8 billion in new investment includes an estimated $279 million in assessable investments[11]. If these investments proceed, they will generate new revenues for local governments and all taxation authorities that rely on the property taxation system for revenues.

Estimated New Private Sector Investments in Designated Ports Properties	
2004	$ 15,047,000
2005	$ 53,688,000
2006	$ 386,093,000
2007	$ 180,001,000
2008	$ 105,580,000
2009	$ 59,215,000
2010	$ 52,745,000
2011	$ 816,295,000
2012	$ 75,620,000
2013	$ 7,620,000
2014	$ 6,870,000
Total	**$ 1,758,774,000**

Public Investment

- $400 million – Vancouver Port Authority investment to add a third berth and expand the Roberts Bank Deltaport container terminal's capacity to 1.6 million TEUs from

[10] This is a discussion of all new investment to date, which has been primarily in machinery and equipment and systems upgrades, which do not trigger new taxable assessments.
[11] Estimate reflects actual cost of construction.

1.2 million TEUs (completion expected in 2009). A future investment of $900 million is proposed to further develop Roberts Bank by adding 2 new berths and a new container terminal (adding an additional 0.7 million TEUs by 2012 and 2 million TEUs by 2020).

- $85 million – Prince Rupert Port Authority, federal and provincial contribution to the first phase of construction of the new Fairview Container Terminal at the Port of Prince Rupert. A future investment of an estimated $380 million is planned (adding an additional 1.5 million TEUs capacity to the terminal by 2010).

Other Factors

***Community Charter* Changes - Broadened Revitalization Tax Exemption Tool**

A recent amendment to the *Community Charter* enables municipalities to use a broader tax exemption tool to encourage many forms of revitalization within their communities. These changes build on the existing municipal tax revitalization tax exemption authority, but broaden it in a number of ways, including:

- eliminating the restriction that the exemption can only be on an increase in value resulting from construction or alteration of an improvement;
- enabling municipalities to take into account different circumstances and activities that distinguish a property and make it eligible for a tax exemption;
- changing the maximum term for an exemption from 5 years to 10 years; and
- eliminating the restriction that such an exemption can only be provided in a designated area of the municipality.

Changes to Section 226 of the *Community Charter* also require municipalities to consider revitalization tax exemption program bylaws in conjunction with objectives and policies as set out under Section 165(3.1)(c) of the *Community Charter*. The consideration of these objectives and policies during the development of revitalization tax exemption program bylaws is intended to ensure that municipalities consider overall policies in relation to permissive tax exemptions when exercising revitalization tax exemption powers.

A key goal of the broadened revitalization tax exemption tool is to enable municipalities to use the tool to meet the social, economic, environmental or other needs of their communities. This could mean:

- a municipality using a tax exemption to revitalize its economic base by partially exempting a pulp mill from disproportionately high industrial taxes, thereby supporting the pulp mill's reinvestment in the community and helping keep jobs;
- a municipality choosing to support the revitalization of a brownfield site, by exempting the property while it is being cleaned up, thereby hastening its redevelopment;

- a municipality wanting to revitalize the affordable housing stock in the community, by providing exemptions to commercial buildings that convert their upper floors to rental units;
- a municipality revitalizing its waterways, by exempting adjacent developments that use "green" approaches to managing storm water drainage, thereby protecting the waterways from pollutants; and/or,
- a municipality adding to the scope of a more traditional downtown revitalization, by exempting aging business properties that are reconstructed or otherwise reinvigorated.

A municipality may choose to do some or all of these things in different parts of the municipality. Municipalities, therefore, now have a much broader tool available to them in order to engage in economic development and competitiveness initiatives within their municipal boundaries.

Strengthened Position of the Canadian Dollar

The strong position of the Canadian dollar reduces the competitive position of the ports industry. In 2003, when the ports initiative was announced, the Canadian dollar was valued at 64.5 US cents/Canadian dollar. The British Columbia Economic Review and Outlook in the Budget and Fiscal Plan – 2003/04 to 2005/06 forecasted the dollar to be at 67.5 US cents/Canadian dollar. In June 2007 the Canadian dollar reached 94 US cents/Canadian dollar. Some analysts are even predicting that the Canadian dollar may reach parity with the US dollar.

In 2003 the low value of the Canadian dollar was a key factor in improving the competitive position of the ports industry. Since then, this competitive advantage has been eroded through the strength of the dollar, and Canadian ports are now facing increased pressure from their U.S. competitors.

Labour Market

Rising labour costs and availability of workers also has an impact on overall competitiveness. In 2003 British Columbia had an unemployment rate of 8.0%. However, by 2006 the unemployment rate has dropped to 4.8%, much lower than the national average of 6.8%. The unemployment rate in British Columbia fell to 3.9 % in March 2007, reaching a 31-year record low. Availability and cost of labour will continue to factor prominently in overall ports competitiveness.

On the other hand, the increased demand for ports capacity may be so large as to offset at least part of the competitive pressure from the increased dollar and tight labour market.

Consultations Findings

Ministry officials met with a number of stakeholders in order to gather opinions regarding the PCI. Meetings are referenced in table below.

Summary of PCI Review Stakeholder Consultations
March 9 – Roundtable PCI Review Meeting (all stakeholders)
April 13 – Individual Consultation Session with Vancouver Port Authority
April 20 - Individual Consultation Session with: City of Vancouver BC Wharf Operators Association
April 24 - Individual Consultation Session with: City of Prince Rupert Prince Rupert Port Authority
April 25 - Individual Consultation Session with: City of North Vancouver District of North Vancouver
May 4 - Individual Consultation Session with: City of Port Moody Fraser River Port Authority
May 17 - Individual Consultation Session with: City of Delta City of Surrey District of Squamish Squamish Terminal

Over the course of these consultations a number of broad themes emerged from the stakeholder groups. As well, there was often considerable divergence in opinion regarding the future of the PCI between the ports industry and local governments.

Local Governments

Ministry officials met with all local governments with designated ports properties within their municipal boundaries. These included: Delta, the City of North Vancouver; the District of North Vancouver; Port Moody, Prince Rupert, Squamish, Surrey and Vancouver.

Most local governments do not like the cap and view the tax caps as an infringement on their autonomy by restricting their discretion to set tax rates. Local governments believe that they should be responsible and accountable for competitiveness issues without Provincial government intervention. The appropriateness of economic development, relevant to the entire province, being financed by local taxpayers was raised as an issue.

Concerns over the impact ports have on local government operations were mentioned a number of times. These concerns related to increased road maintenance as a result of truck traffic to the ports, air and particulate pollution, policing and the general conflict that comes with major industry being located within a major urban core.

Local governments were either neutral or supportive of the restoration of the berth corridor exemption component of the PCI. A number of local governments raised concerns regarding the new ports land valuation strategy and the impacts this and the recent assessment appeal decisions have had on their revenues.

Concerns were raised frequently regarding the depreciation of major industrial assets and the role this plays in rising tax rates. Most local governments that were consulted with use a "fixed-share" approach to variable tax rate policy. This means local governments try to keep the proportions of revenues raised between the classes consistent. As well, concerns over the use of tax ratios as a measure of taxation fairness/competitiveness were frequently mentioned.

As well, most local governments raised issues regarding the role of the federal government and its lack of perceived involvement in advancing ports in British Columbia. Almost every local government also raised the issue of lack of transparency regarding how their payments in lieu of taxes from the federal government on tax exempt port authority lands are derived.

Most local governments voiced support for the ports industry and recognized the role ports play in the economic health of the province. The District and City of North Vancouver expressed concern about whether significant new investment will occur on the North Shore because of infrastructure and other constraints. Prince Rupert is particularly supportive of their port and has closely tied their economic development objectives with the development of the new container port at the Port of Prince Rupert.

Local government, like industry, is also particularly concerned about predictability and stability of the tax base. They want to be able to conduct financial planning with some assurances regarding assessed values and possible restrictions on their rate setting abilities.

Local government was not overly supportive regarding the success of the PCI, primarily citing lack of new investment as the indicator.

In terms of preference, most local governments would like to see the tax rate cap eliminated. However, a number also indicated that they could support continued rate caps provided the compensation was rebased to reflect rising municipal costs and indexed in the future. Most were concerned that the Province would retain the cap but eliminate the compensation in the future.

Industry/Ports Operators

For the ports operators, the key message throughout the consultations was that property taxation predictability is imperative. As well, they were universal in their desire to see the rate cap continue. They believe that the cap has levelled the competitiveness "playing-field" between all the major cargo ports in British Columbia, and improved their competitiveness with the U.S. west coast ports. Port operators also maintain the rate cap has resulted in new investments in ports infrastructure. One terminal in particular cited property taxes that accounted for 10 to 12% of gross revenues prior to the cap and the revised land valuation strategy With these changes the same terminal reports that property taxes now account for 4.6% of gross revenues.

Port operators and the port authorities were very supportive of the new port land valuation methodology introduced by the Ministry of Small Business and Revenue. They believe that the legislated methodology, in conjunction with the cap, provide the kind of property tax stability they require.

The operators also emphasized that five years was insufficient time for capital planning, approval and construction. Operators have requested a 20 year extension of the rate cap. As well, the operators emphasized the impact of the globalization of the ports industry on investment decisions. Owners of ports operations typically have many business opportunities throughout North America and the world. Each new development must compete for investment dollars within a global tax and other costs competitiveness frameworks. Capital investments that have the lowest future risk of escalating operational costs are the most likely to achieve new investment.

Industry is also keen for the Province to continue to play a leadership role in the development and advancement of the competitive position of the ports industry in British Columbia. They believe that it is vitally important to the overall health of the industry and the Pacific Gateway that the Province continue to take an active role in ports competitiveness.

Evaluation

All elements of the PCI have now been fully implemented. The goal of the PCI was to secure the competitive position of the major industrial ports of British Columbia and to provide reasonable protection of revenues for local governments.

Investment in port operations is determined by a large number of variables linked to profitability and security of investment, of which PCI tax measures are one component. Generally, Port Authorities and Operators are not in agreement with local governments in regard to the positive link between investment in port operations and PCI measures.

Consultations with port operators and Port Authorities suggest that the PCI measures have been successful in increasing investment for the following reasons:

- The caps provide a clear indication that the provincial government is supporting a stable environment to invest (i.e. certainty) and industry has made significant investments in response.
- Lower tax levels for new and existing investment reduces costs and makes investment more attractive, demonstrated by significant new port investments.

The message from industry is that while lower taxes do increase investment at the margin, the more significant benefit of PCI measures is that the caps create stability for investment by creating predictability of local government tax burdens.

Local governments, on the other hand, have suggested that any increased taxes resulting from removal of the PCI measures would be such a small portion of over-all business costs, that their impact on investment would be negligible. In addition, they argue that because of their close proximity to port operations, they possess the policy expertise to assess an appropriate level of taxation which should provide industry with the security of investment that is required.

It would be difficult to undertake meaningful quantitative economic analysis of the link between PCI measures and investment, for the following reasons:

- Investment decisions are based on opportunity projections, security of investment and total anticipated costs which vary significantly from port to port in British Columbia and from jurisdiction to jurisdiction.
- It would be difficult to quantify the "certainty" offered by caps.
- The proportion of property taxes to total costs is relatively small although it still could be important at the margin.
- The commercial reality in the industry is that lease arrangements are long term (17-40 years), meaning that the impact of the caps and lower tax rates on investment cannot easily be assessed in the short term (3-5 years).

However, while no exact link between PCI measures and investment can be made, the following are important considerations in support of a positive link:

- Economic reasoning supports the principle that reducing fixed costs (e.g. taxes) provides incentives for investment and that caps imposed by the provincial government would provide a degree of certainty for investors.
- Property taxes at British Columbia ports appear to be higher than other west coast jurisdictions, including Seattle, where the US federal government has authorized independent port authorities to set tax rates.
- Residential property taxes in British Columbia municipalities generally compare favourably to other Canadian jurisdictions; whereas British Columbia's port property taxes are high compared to eastern jurisdictions.

Since the time PCI measures where introduced, port investment has been substantial and industry has claimed this is, in part, due to the PCI.

Options

There are a number of options to consider regarding the future of the PCI. The following options have been identified and are evaluated in the table below.

- Option 1 – Allow the *Ports Property Tax Act* to expire. Local governments would regain full authority to set class 4 tax rates that applied to ports. The land valuation changes and the berth corridor exemptions would remain in place.
- Option 2a – Continue the tax rate cap for a further 10 years but do not provide further municipal compensation.
- Option 2b – Continue the tax rate cap for 10 years and provide the same municipal compensation.
- Option 2c- Continue the tax rate cap for 10 years and rebase and index the municipal compensation.
- Option 3 – Continue the tax rate cap for 10 years but allow the cap on new investment to expire.
- Option 4 – Option 2c 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.

Options Analysis			
Option	**Analysis**	**Feasibility**	**Estimated Cost (to Province)**
Option 1 – Allow the *Ports Property Tax Act* to expire.	Restores full municipal autonomy. Creates uncertainty for ports operators. Some proposed new investments may be in jeopardy with this option. Municipalities and port operators could negotiate special arrangements under the new revitalization provisions of the *Community Charter*.	The act is currently designed to expire on its own. Does not provide tax stability to port operators.	None
Option 2a – Continue the tax rate cap for a further 10 years but do not provide further municipal compensation.	This option would provide certainty for port operators but would create the largest fiscal impact on local governments. May result in either reductions in municipal budgets or reallocation of the tax burden among other ratepayers.	Requires legislative amendments. Provides tax stability to port operators.	None
Option 2b – Continue the tax rate cap for 10 years and provide the same municipal	Creates certainty for ports operators. This option does not account for rising local government expenses.	Requires legislative changes.	$45 million over 10 years

Options Analysis			
Option	**Analysis**	**Feasibility**	**Estimated Cost (to Province)**
compensation.	Could result in shifting tax burden to other ratepayers although to a lesser extent than option 2a.	Provides tax stability to port operators. Provides revenue compensation and predictability to local governments	
Option 2c- Continue the tax rate cap for 10 years, and rebase and index the municipal compensation.	Accounts for rising local government costs. Does not significantly shift tax burden onto other ratepayers. Provides predictability and stability for ports operators.	Requires legislative changes. Provides tax stability to port operators. Provides enhanced revenue compensations and predictability to local governments	$>45 million over 10 years
Option 3 – Same as option 2c but allow the lower cap on new investment to expire.	This option reduces support for new investment. However, it eliminates the complexity associated with accounting for new investment annually. Municipalities would gain more revenue from new investment in their community.	Requires legislative changes. Continues to provide tax stability to port operators. Provides revenue compensations and predictability to local governments	$>45 million over 10 years
Option 4 – Option 2c 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.	This option allows local governments to address competitiveness concerns themselves, while providing some measure of predictability for port operators. Municipalities would be provided with a financial incentive for participating in port economic development.	Allows local governments, port operators and the province to form a partnership. Would require individual negotiations and agreements. Requires that operators and local governments reach consensus.	> $45 million over 10 years

Next Steps

This paper is provided to solicit additional stakeholder input regarding the PCI Review. Please provide comments by July 23, 2007 at the latest.

Comments can be provided to:

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Appendix 1: Designated Ports Properties		
Assessment Roll Number	**Municipality**	**Terminal Name**
08 221 178077.000	The Corporation of the City of North Vancouver	James Richardson International
08 221 178080.000	The Corporation of the City of North Vancouver	Saskatchewan Wheat Pool
08 221 178087.000	The Corporation of the City of North Vancouver	Lynnterm West Gate
08 221 178087.200	The Corporation of the City of North Vancouver	Lynnterm West Gate
08 221 178088.000	The Corporation of the City of North Vancouver	Neptune
08 221 178101.000	The Corporation of the City of North Vancouver	Lynnterm East Gate
08 221 178102.000	The Corporation of the City of North Vancouver	Lynnterm East Gate
08 316 010-1750-5010-4	The Corporation of the District of North Vancouver	Fibreco
08 316 010-1750-5020-1	The Corporation of the District of North Vancouver	Fibreco
08 316 090-0111-6000-4	The Corporation of the District of North Vancouver	Lynnterm East Gate
08 316 090-0111-6001-2	The Corporation of the District of North Vancouver	Lynnterm East Gate
08 316 090-0111-6010-1	The Corporation of the District of North Vancouver	Dow Chemical
08 338 500-0000268.000	District of Squamish	Squamish Terminal
09 200 028-561-192-30-2003	City of Vancouver	Centerm
09 200 028-561-226-34-4010	City of Vancouver	Cascadia
09 200 028-561-226-34-4015	City of Vancouver	Cascadia
09 200 028-561-226-34-4020	City of Vancouver	Cascadia
09 200 028-561-230-30-4050	City of Vancouver	Vanterm
09 200 028-561-250-76-4014	City of Vancouver	Pacific Elevators
09 200 028-561-275-40-4050	City of Vancouver	Agricore United
11 306 D-410-031-07-0	The Corporation of Delta	Westshore
11 306 D-499-100-10-0	The Corporation of Delta	Deltaport

Appendix 1: Designated Ports Properties		
Assessment Roll Number	**Municipality**	**Terminal Name**
11 306 D-900-300-00-1	The Corporation of Delta	Fraser Surrey Docks
12 225 05575-000	City of Port Moody	Pacific Coast Terminals
14 326 3340-97102-X	City of Surrey	Fraser Surrey Docks
25 227 W000606.010	City of Prince Rupert	Prince Rupert Grain
25 227 W000606.200	City of Prince Rupert	Ridley
25 227 W000606.210	City of Prince Rupert	Ridley

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"CONFIDENTIAL - CABINET DOCUMENT"
Ministry Document Number: ___
Draft Number: __2_
Copy Number: __1_

MINISTERS:

Carole Taylor, Minister of Finance (lead)
Ida Chong, Minister of Community Services
Kevin Falcon, Minister of Transportation
Colin Hansen, Minister of Economic Development
Rick Thorpe, Minister of Small Business and Revenue

TITLE:

Ports Competitiveness Initiative Review

ISSUE: FOR DECISION

In 2003 the provincial government introduced the Ports Competitiveness Initiative (PCI). The PCI provides property tax relief to operators of major industrial ports involved in the business of bulk, break-bulk or container transport by capping municipal tax rates on eligible facilities at $27.50/$1000 of assessed value. The PCI also compensates local governments for lost revenues as a result of the tax rate cap. When the PCI was introduced government committed to review the PCI after three years. ~~The purpose of the review is to gauge the success of the initiative and determine how to proceed after~~ the initial five-year rate cap and compensation program ends in 2008.

This submission summarizes of the PCI Review s.12,s.17
s.12,s.17

BACKGROUND:

Introduction

Over the past several months the Ministry of Finance in conjunction with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation have been engaged in a review of the Ports Competitiveness Initiative (PCI). The PCI provides property tax relief to operators of major industrial ports involved in the business of bulk, break-bulk or container transport by capping municipal tax rates on eligible facilities at $27.50/$1000 of assessed value. It also provides a lower cap of $22.50/$100 of assessed value on new investment and compensates local governments, totalling $4.5 million annually, for lost revenues as a result of the tax rate cap.

The purpose of the review has been to examine the success of the PCI and determine how to proceed after the initial five-year rate cap and compensation program ends in 2008.

After an initial round of consultations, a discussion paper entitled Ports Competitiveness Initiative Current Status and Future Options was circulated to stakeholder groups for comment on June 22, 2007. Stakeholders had until July 23, 2007 to provide comments of the discussion paper.

This Cabinet submission has the following components:

- Background regarding the rationale and development of the PCI,
- Status of the ports industry,

s.12

Rationale for the PCI

The major trading ports involved in bulk, break-bulk and container transport in British Columbia are the points of departure and entry to the pacific coast markets. These port terminals are important because they support other industries through efficient movements of goods, which, in turn, support local, regional, provincial and national economic and social objectives. These ports are also critical to the Province's Pacific Gateway Strategy, which has the following vision:

> *British Columbia is the preferred gateway for Asia-Pacific trade and has the most competitive port system on the west coast of the Americas.*

Government choose to act in the area of municipal property taxation primarily because of a 2001 a review of the competitiveness of British Columbia's ports. Entitled, Options to Improve the Competitiveness of Ports in British Columbia[1], this report indicated that British Columbia's major industrial ports were facing critical challenges that could hamper their long-term competitiveness. It concluded that the competitive position of British Columbia's ports may erode in the future if critical issues were not addressed. These issues included: labour costs and practices, financing costs, operational productivity, expansion capacity, infrastructure costs, intermodal transportation, exchange rates and property taxes. Some of these issues are strictly under federal jurisdiction. However, the

[1] Perrin, Thorau & Associates Ltd. Options to Improve the Competitiveness of Ports in British Columbia. March 2001.

property tax issue is under municipal and provincial jurisdiction and therefore was addressed through the PCI.

Property Taxation

British Columbia has 8 classes of property:

- Class 1 - Residential,
- Class 2 - Utilities,
- Class 4 - Major Industry
- Class 5 - Light Industry
- Class 6 - Business/Other
- Class 7 - Managed Forest Land
- Class 8 - Recreational Property/Non-profit Organization, and
- Class 9 - Farm Land.

Class 4 - Major Industry includes land and improvements of major industrial properties which include lumber and pulp mills, mines, smelters, large manufacturers of specified products, ship building and loading terminals for sea-going ships.

Municipalities and the Province can set different tax rates for each class of property. Under section 197(1) (a) of the *Community Charter* (s. 374(2) of the *Vancouver Charter*), municipalities can set a separate rate for each class of property with few constraints; this is referred to as the variable tax rate system, which was introduced in British Columbia in 1982. Other tax authorities, such as regional districts, must use fixed ratios to set rates for each class. Property taxes are the major source of revenue controlled by local government and provide about 50 % of revenues, for local governments in British Columbia.

Municipal tax rates varied considerably in 2003, and continue to vary in 2007, for communities with Class 4 – Major Industry ports facilities, as illustrated at the table to the left. However, those local governments with no Class 4 assets beyond the designated ports properties have chosen to set their rate at the capped level of $27.50/$1000.

Class 4 Municipal Purpose Tax Rates Per $1000 of Assessed Value		
Community	**2003**	**2007**
North Van City	36.88477	38.40844
North Van District	40.37832	49.85971
Squamish	54.12939	27.50000
Vancouver	27.71701	30.25422
Port Moody	48.68740	53.13380
Delta	28.86130	27.78320
Surrey	13.67102	14.80962
Prince Rupert	45.53170	27.50000

Overview of the Ports Competitiveness Initiative

Recognizing the importance of international trade to the Canadian economy, the PCI aimed to:

- encourage new investments in ports infrastructure, and
- secure the competitive position of major industrial port facilities through measures to reduce property taxes.

The Province chose a multi-pronged approach to achieve these objectives. For that reason, the PCI included a number of elements:

- A cap on municipal tax rates for existing ports facilities of $27.50 per $1,000 of assessed value, for five years from 2004 to 2008.
- A 10-year cap on municipal tax rates for new ports improvements of $22.50 per $1,000 of assessed value. The cap applies to new construction started before Jan. 1, 2009.
- Annual compensation to affected municipalities, equal to the impact of the tax cap on existing ports facilities in 2003. The compensation program expires in 2008.

- Restoration of a tax exemption for berth corridors. Traditionally, berth corridors had been tax exempt, but became taxable as a result of assessment appeal decisions. In 2003, municipalities collectively received $1.4 million by taxing berth corridors. This revenue was new to municipalities and the inclusion of the berth corridors was under appeal by the port operators. The exemption also reduced provincial school tax revenues by $650,000 per year.[2]
- A remission of provincial school tax on berth corridors was provided for 2002 and 2003 to reflect the fact that they had only recently become taxable.
- A commitment to review the grant-in-lieu of taxes paid by Vancouver Wharves through the general review of grants in lieu paid by Crown corporations, underway at that time.
- A policy review of the valuation of ports lands for assessment purposes by the Minister of Small Business and Revenue.
- A commitment to review the ports competitive initiative after three years. This review was designed to gauge the success of the initiative and determine how to proceed after the initial five-year rate cap and compensation program ends.

Each component of the initiative was aimed at addressing separate but related issues and was designed to work in concert to improve the competitiveness of the Class 4 major industrial ports of British Columbia. The major components of the initiative that allowed for the designation of eligible ports properties, rate caps on existing property and new investment, and compensation to affected municipalities were accomplished through the introduction of the *Ports Property Tax Act (PPTA)*. Berth corridors were exempted from taxation through the creation of the Port Improvements (Berth Corridor) Tax Exemption Regulation under the *Community Charter*. Land valuation changes were accomplished through amendments to the *Assessment Act* and associated regulations. The remaining items were addressed through existing policy and legislative tools. All components of the initiative have now been fully implemented. See Appendix 1 for a complete list of the status of each component.

Municipal Compensation

Recognizing that this initiative was driven primarily by provincial and national objectives, the government committed to compensate municipalities for lost taxation revenues. This ensured that local taxpayers would not be solely financially responsible for a program that has benefits beyond the host community. A commitment to compensate impacted local governments was included in the *PPTA*.

Municipality	Annual payment
The Corporation of Delta	$291,240
The Corporation of the City of North Vancouver	$1,254,813
The Corporation of the District of North Vancouver	$709,324
City of Port Moody	$494,005
City of Prince Rupert	$1,383,536

[2] Berth corridors are the docking facilities required at container and break bulk facilities. Container and break bulk refers to cargo that is loaded directly into the hold of a ship piece-by-piece. To be eligible for the exemption they must be located on Canadian Port Authority land.

District of Squamish	$345,144
City of Vancouver	$41,616

Compensation levels were derived by calculating the loss of tax revenue by the local government as a result of the imposition of the rate cap. Compensation calculations used 2003 assessed values and did not provide any compensation for the reductions in tax revenues as a result of the berth corridor exemption.

The total cost of the compensation is $4.5 million annually or $22.6 million over the 5 year term of the *PPTA*. Compensation does not apply to revenue lost due to the new investment tax cap or the berth corridor exemption. The compensation is paid annually from provincial general revenue.

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Consultations?

Beginning in March 2007, the Ministry of Finance along with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation have engaged stakeholders to solicit their input on the PCI and gather perspectives on how government should proceed once the tax rate caps and municipal compensation packages expire in 2008.

On March 9, 2007, a number of stakeholders were invited to a roundtable meeting, to review a draft terms of reference for the review and to gather perspectives on the proposed methods for reviewing the PCI. Since March, representatives from these ministries have met with 13 stakeholder groups to discuss the PCI. In June a discussion paper summarizing the review and the results of consultations as well as providing a number of options for consideration was provided to stakeholders for further comment. Stakeholders were provided until July 23, 2007 to provide comments on the options proposed.

The table below provides a summary of all the stakeholder consultations to date.

Summary of PCI Review Stakeholder Consultations
March 9 – Roundtable PCI Review Meeting (all stakeholders)
April 13 – Individual Consultation Session with Vancouver Port Authority
April 20 - Individual Consultation Session with: City of Vancouver BC Wharf Operators Association
April 24 - Individual Consultation Session with: City of Prince Rupert Prince Rupert Port Authority
April 25 - Individual Consultation Session with: City of North Vancouver District of North Vancouver
May 4 - Individual Consultation Session with: City of Port Moody Fraser River Port Authority
May 17 - Individual Consultation Session with: City of Delta City of Surrey District of Squamish Squamish Terminal
June 23 – July 23, 2007 Opportunity for all stakeholders to provide comments on the discussion paper

Recommended Decision:

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SIGNATURE:

Carole Taylor, Minister of Finance (lead)

Ida Chong, Minister of Community Services

Colin Hansen, Minister of Economic Development

Rick Thorpe, Minister of Small Business and Revenue

Kevin Falcon, Minister of Transportation

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APPENDICES TO SUBMISSIONS

Appendix 1 Ports Competitiveness Initiative Status of Components		
Component	**Rationale**	**Status**
Five year cap on municipal tax rates for existing ports facilities of $27.50 per $1,000 of assessed value.	The cap was enacted to create predictability and stability for the industry and to maintain the competitive position of the industry.	20 major industrial ports located in 8 municipalities are subject to the cap.
10-year cap on municipal tax rates for new ports facilities of $22.50 per $1,000. The cap applies to new construction started before Jan. 1, 2009.	The new investment cap was put in place to encourage important investments in infrastructure at major industrial ports.	2007 is the first year the new investment rate cap will be triggered.
Annual compensation to affected municipalities, $4.5 million annually.	Local taxpayers should not be expected to bear all the financial costs associated with a matter which has economic significance for the entire Province	Municipalities receive annual compensation as laid out in the *Ports Property Tax Act.*
Tax exemption for berth corridors.	The berth corridor was previously exempt from taxation; as well, the exemption creates consistent treatment of berth corridors with other jurisdictions.	Berth corridors can be designated for tax exemption under a *Community Charter* regulation.
Remission of provincial school tax for the tax on berth corridors back to 2002.	Part of the restoration of the traditional tax exempt status of berth corridors.	A remission was approved by Cabinet and the school taxes payable on the berth corridors were returned to the operators.
Review of the grant-in-lieu of taxes paid by Vancouver Wharves.	Government committed that all Crown Corporations would pay property taxes equal to full taxation.	Vancouver Wharves is paying a grant in lieu equal to the amount of taxes it would pay if it were an eligible port property and designated under the *PPTA*.
Policy review of the valuation of ports lands for assessment purposes.	Port land values had been the source of a number of multiple year appeals, creating uncertainty for operators and local governments	Legislation has been enacted that creates legislated land values for ports properties. Base values were determined and these values will be indexed annually using CPI as the inflationary index.

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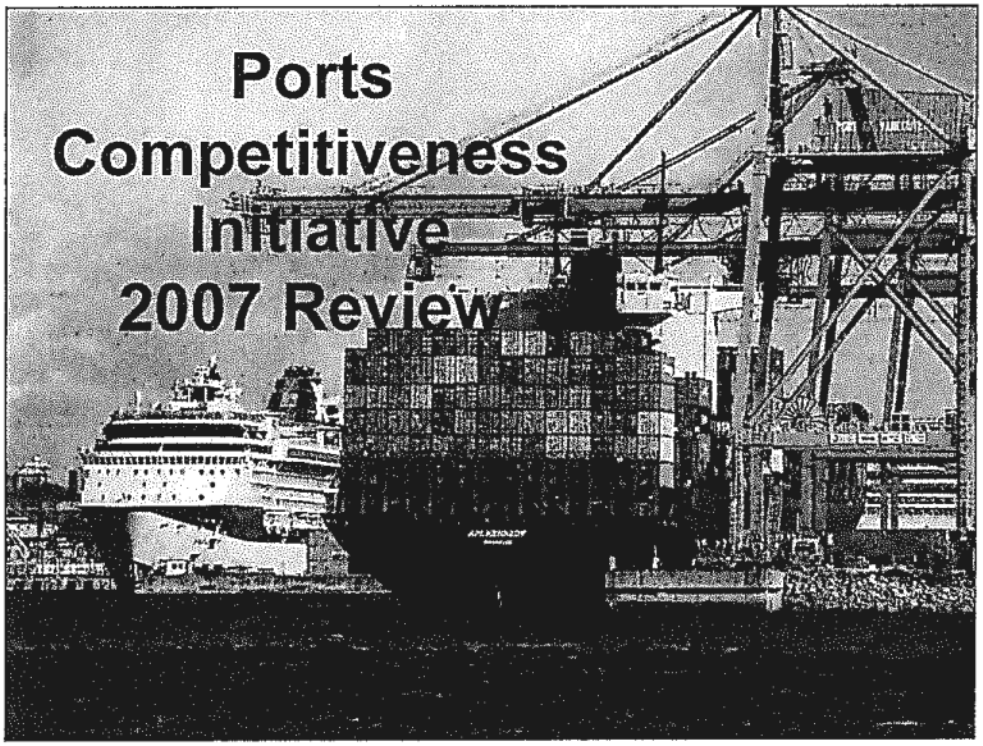
Ports
Competitiveness
Initiative
2007 Review

Ports Competitiveness Initiative (PCI)

Purpose of Presentation:

- Background regarding the rationale and development of the PCI,
- Status of the ports industry,

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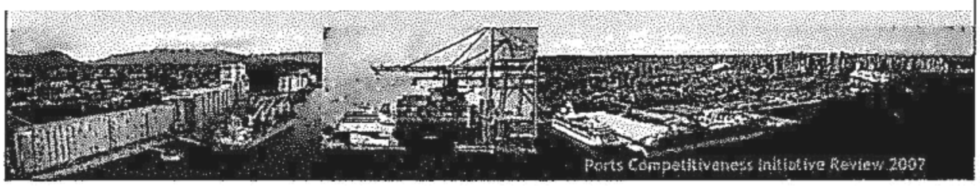


Since March government has been engaged in a review of the Port Competitiveness Initiative. This review was committed to when the PCI was introduced in 2003. The focus of the review has been to determine how to proceed once the PCI expires at the end of 2008.

Ports an Overview

- British Columbia's deepwater seaports are strategically important
- Ports in Canada are operated through public and private sector enterprises
- Ports are a key component of transportation infrastructure
- 2001 report determined that these ports were facing critical factors that could impact long-term competitiveness

British Columbia's deepwater seaports are strategically important to trade and the provincial economy.

Ports in Canada are operated through public and private sector enterprises and are the primary interface between ground and water-based transportation.

Ports are a key component of transportation infrastructure that allow many other Canadian businesses to export and import goods and are a key to Canada's linkages with the global economy.

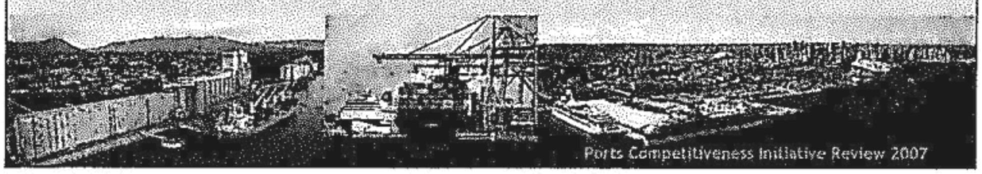
British Columbia's ports handle half of Canada's maritime exports and 85% of the western province's marine exports from grain, coal and forest products to petroleum and petrochemicals. The B.C. port system currently handles about $35 billion a year in trade and contributes approximately $4 billion annually in economic output to the Canadian economy, $3 billion of which occurs in British Columbia.

In 2001, a review of the competitiveness of British Columbia's ports was completed. This report indicated that British Columbia's major industrial ports were facing critical factors that could hamper their long-term competitiveness. It was concluded that British Columbia's competitive position may erode in the future if critical issues were not addressed.

Factors Impacting Competitiveness of Ports

These issues included:

- **labour costs and practices**
- **financing costs**
- **operational productivity**
- **expansion capacity**
- **infrastructure costs**
- **intermodal transportation**
- **exchange rates**
- **property taxes**



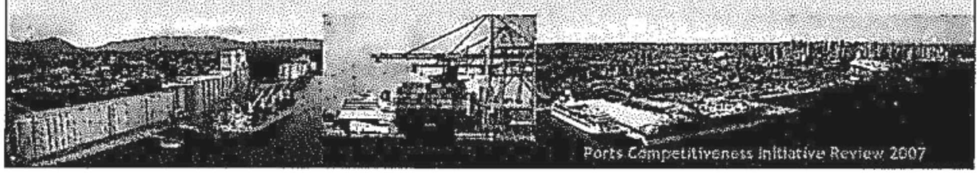
These issues included: labour costs and practices, financing costs, operational productivity, expansion capacity, infrastructure costs, intermodal transportation, exchange rates and property taxes. Some of these issues are strictly under federal purview. However, the property tax issue is under municipal and provincial purview and therefore was addressed through the PCI.

PCI – the Provincial Solution

PCI addresses one key component of competitiveness.

Major components of the initiative are:

- Cap municipal tax rates for existing ports facilities at $27.50 per $1,000 of assessed value from 2004 to 2008;
- 10-year cap on municipal tax rates for new ports facilities, where new construction is undertaken before Jan. 1, 2009;
- Annual compensation to affected municipalities, equal to the impact of the tax cap on existing ports facilities in 2003.



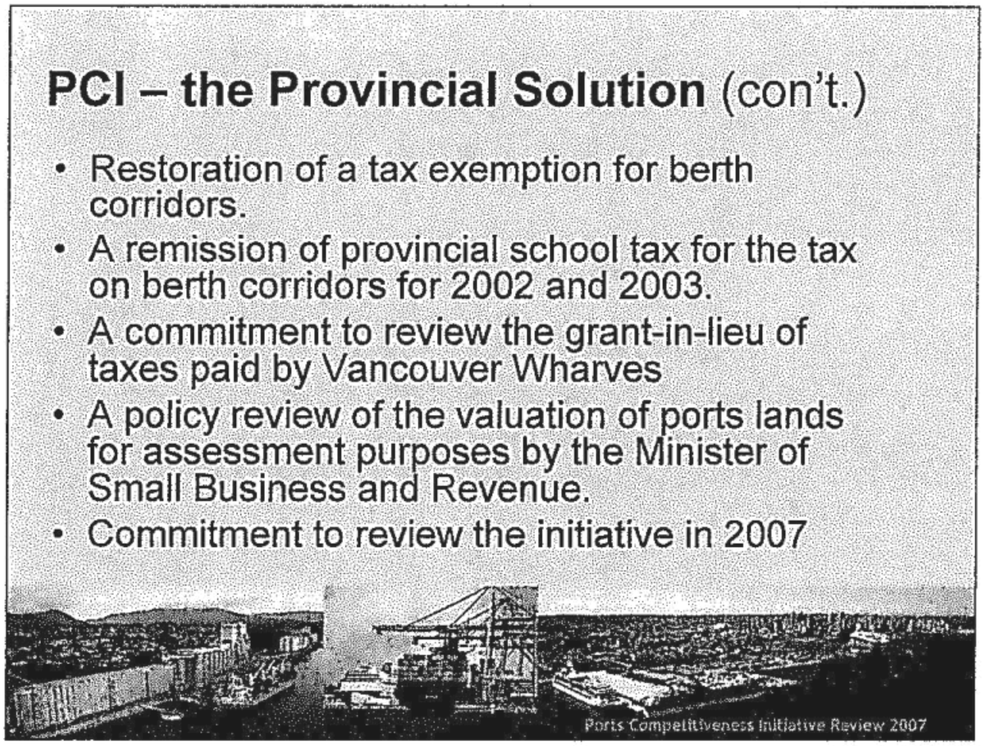
To secure the competitive position of major industrial import and export port facilities and to encourage much-needed new investments in ports infrastructure.

Recognizing the multiple forces coming to bear on the competitiveness of major ports, the Province chose a multi-pronged approach. For that reason, the PCI included a number of elements:

A cap on municipal tax rates for existing ports facilities of $27.50 per $1,000 of assessed value. The cap is limited to five years from 2004 to 2008.

A 10-year cap on municipal tax rates for new ports facilities of $22.50 per $1,000. The cap applies to new construction started before Jan. 1, 2009.

Annual compensation provided to affected municipalities, equal to the impact of the tax cap on existing ports facilities in 2003. The compensation program expires in 2008.



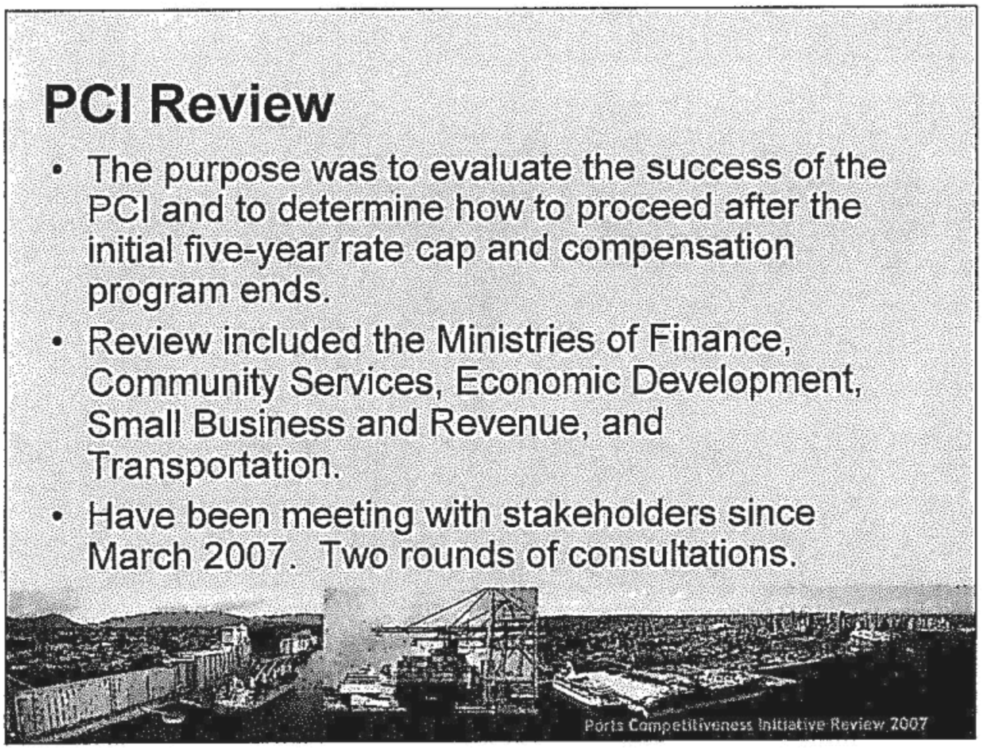
Restoration of a tax exemption for berth corridors. Traditionally, berth corridors have been tax exempt. Berth corridors became taxable as a result of assessment appeal decisions. In 2003 municipalities collectively received $1.4 million by taxing berth corridors. The exemption also reduced provincial school tax revenues by $650,000 per year. (Berth corridors are the docking facilities required at container and break bulk facilities. Container and break bulk refers to cargo that is loaded directly into the hold of a ship piece-by-piece.)

A remission of provincial school tax for the tax on berth corridors was provided for the school tax portion of provincial property taxes collected for 2002 and 2003.

A commitment to review the grant-in-lieu of taxes paid by Vancouver Wharves through the general review of grants in lieu paid by Crown corporations, underway at that time.

A policy review of the valuation of ports lands for assessment purposes by the Minister of Small Business and Revenue.

A commitment to review the ports competitiveness initiative after three years. With the purpose of the review to measure the success of the initiative and determine how to proceed after the initial five-year rate cap and compensation program ends.



The purpose of the review was to evaluate the success of the initiative and to determine how to proceed after the initial five-year rate cap and compensation program ends.

Beginning in March 2007, the Ministry of Finance along with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation have been engaging with stakeholders to solicit their input on the Ports Competitiveness Initiative and gather perspectives on how government should proceed once the tax rate caps and municipal compensation packages expire in 2008.

There have been 2 rounds of consultation:

March to June – gathering information and input for a discussion paper

June to July – all stakeholders invited to comment on the discussion paper

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ADVICE TO MINISTER

CONFIDENTIAL ISSUES NOTE **Ministry of Finance** **Date: July 27, 2007 (Update)** **Minister Responsible: Carole Taylor**	**Ports Competitiveness Review Update**

KEY FACTS REGARDING THE ISSUE:

Update: On August 2, 2007 Finance Minister Taylor announced that the Province plans to introduce legislation that will provide a ten-year extension to its tax relief for British Columbia's 20 major industrial ports.

After consultation with the ports industry and affected local governments, the Province intends to extend the ports Competitiveness Initiative to 2018. If approved by the Legislative Assembly, as of 2006 the Ports Competitiveness Initiative will include:

- a continued tax rate cap of $27.50/$1000 of assessed value for existing investments for 10 years;
- a continued tax rate cap of $22.50/$1000 on new investments for 10 years on improvements constructed before December 31, 2018;
- increased municipal compensation and indexed payments from 2009 to 2018 to the rate on inflation; and
- the option for municipalities to negotiate 10-year agreements with port operators using new provisions in the Community Charter.

Ports Competitiveness Initiative Review
In 2007, the Ministry of Finance led a review of the Ports Competitiveness Initiative (PCI), property tax relief strategy for Lower Mainland port operators, which was introduced in October 2003.

The initial stage of the review involved consultations with local governments and ports operators, including Vancouver, Delta, Surrey, Port Moody, Prince Rupert, Squamish, the City of North Vancouver, and the District of North Vancouver, along with the BC Wharf Operators' Association, and relevant port authorities.

The Ministry developed a discussion paper based on input received through the consultations, which took place from March through May. **The paper was sent to stakeholders (as identified above) on June 22.**

The paper provided the original rationale for the PCI, an evaluation of whether the objectives of the PCI have been accomplished, a summary of stakeholder perspectives, a summary of the current state of the ports industry in B.C., an analysis of the impact of the tax rate cap on local governments and port operators, and possible options and their implications for the future of the PCI.

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Review Timeline (approximate):

March 9, 2007	Initial meeting with municipalities and ports operators
March-April	Continued consultations
Mid-June	Discussion paper completed
End of June	Discussion paper released to stakeholders
Mid- July	Deadline for stakeholder feedback on discussion paper

End of July	Final report and recommendations completed
August	Final report and recommendations submitted to Cabinet

BACKGROUND:

The purpose of the review was to evaluate the success of the Ports Competitiveness Initiative and to determine how to proceed after the initial five-year tax rate cap and compensation program expires at the end of 2008. The review also included members from: Small Business and Revenue; Transportation; Community Services; and Economic Development.

On October 15, 2003, the government announced the Ports Competitiveness Initiative. This initiative included the following elements – all of which have been fully implemented:

- A cap on municipal tax rates for existing port facilities of $27.50 per $1,000 of assessed value. The cap is limited to five years from 2004 to 2008.
- A 10-year cap on municipal tax rates for new ports facilities of $22.50 per $1,000. The cap applies to new construction before Jan. 1, 2009.
- Annual compensation provided to affected municipalities, equal to the impact of the tax cap on existing ports facilities in 2003. The compensation program costs the Province $4.5 million annually and expires in 2008.
- Restoring a tax exemption for berth corridors. Traditionally, berth corridors have been tax exempt. They became taxable as a result of assessment appeal decisions. In 2003, municipalities collectively received $1.4 million by taxing berth corridors. The exemption also reduced provincial school tax revenues by $650,000 per year.
- A remission of provincial school tax for the tax on berth corridors was provided for the school tax portion of provincial property taxes collected for 2002 and 2003.
- A commitment to review the grant-in-lieu of taxes paid by Vancouver Wharves through the general review of grants-in-lieu paid by Crown corporations, which was underway at that time. [The review was completed in 2006 and it was decided that because Vancouver Wharves directly competes with the private sector it should pay grants comparable to the property taxes paid by its competitors. Because a long term lease has been signed with a private sector operator, in the future Vancouver Wharves will pay full property tax.
- A separate policy review of the valuation of ports lands for assessment purposes by the Minister of Small Business and Revenue. [This review was completed in 2006. The new property assessment formula for major ports was introduced in April 2007.]
- **A commitment to review to Ports Competitiveness Initiative after three years (in 2007).**

ADVICE AND RECOMMENDED RESPONSE:

- **In 2003, we introduced the Ports Competitiveness Initiative to provide property tax relief and stability for Lower Mainland port operators and enable them to be more competitive with ports along the U.S. West Coast.**
- **At that time, we committed to assessing the program in 2007 to measure its success.**

- **We have concluded a comprehensive review process, which included consultations with affected municipalities and port operators.**
- **I would like to thank the municipalities and port operators for their valuable input throughout this review.**

- **British Columbia's ports are an integral part of the Pacific Gateway strategy, providing a vital transportation and international trade link to the Asia Pacific.**
- **Our ports also contribute billions of dollars to the provincial economy each year and provide thousands of jobs for British Columbians.**
- **That's why we are committed to ensuring our ports remain competitive and, at the same time, are able to support B.C.'s continued economic growth.**

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File Created:	March 21, 2007	
File Updated:	July 27, 2007	
File Location:	FIN admin/issues notes 2007	

Program Area	Comm. Director	Deputy	Minister's Office
AD/GA/AR	RP	TV	

Ports Competitiveness Initiative Extension
Qs & As

Last updated: July 31/07

Q. What is the Ports Competitiveness Initiative (PCI)?

A. Introduced in 2003, the Ports Competitiveness Initiative aims to encourage new investments in ports infrastructure and secure the competitive position of British Columbia's 20 major industrial ports.

The initiative provides property tax relief to 20 major industrial ports by capping municipal tax rates on eligible facilities and compensates local government for the resulting impact. In 2007, the Province reviewed the initiative and decided to introduce legislation to extend it for a further 10 years.

Q. What kinds of ports are eligible?

A. The PCI provides property tax relief to operators of major industrial ports involved in the cargo transportation business of bulk, break-bulk or container transport. These major trading ports in British Columbia are the points of departure and entry to the pacific coast markets.

Q. Why is the initiative important?

A. The PCI recognizes the importance of international trade to the Canadian economy by encouraging investment and improving the competitive advantage of port terminals through measures to reduce property taxes.

British Columbia's ports are a key component of our transportation infrastructure, making them critical to the Province's Gateway Strategy. They contribute billions of dollars to our economy, and provide thousands of jobs to British Columbians. Port terminals also support other industries through the efficient movement of goods, which supports local, regional, provincial, and national economic and social objectives.

In 2001, it was determined that ports were facing critical factors that could impact their long-term competitiveness, such as labour costs, exchange rates, and property taxes. Our port terminals compete for business with ports throughout North America, especially those in Seattle, Tacoma, Oakland, and Los Angeles-Long Beach.

Q. Why are we extending the initiative?

A. There is a great deal of planned investments in British Columbia's ports. It is clear that the industry's competitive position has been maintained since the initiative was introduced in 2003. However, it is possible that this competitive position could be eroded. The continuation of the PCI will assist the industry in making important and necessary infrastructure investments at BC ports.

Q. Why is the initiative only being extended by 10 years and not longer, as the industry requested?

A. Extending the initiative for 10 years balances the need to provide certainty to British Columbia's major industrial ports with the Province's desire to periodically review the initiative.

ADVICE TO MINISTER

CONFIDENTIAL DRAFT ISSUES NOTE **Ministry of Finance** **Date: November 27, 2007** **Minister Responsible: Carole Taylor**	**Ports Competitiveness Review – City of Vancouver**

KEY FACTS REGARDING THE ISSUE:

On November 27, a staff report from the City of Vancouver ("Update on Ports Issues") on the Ports Competitiveness Initiative (PCI) is scheduled to be presented to City Council. The report notes that the PCI has cost the city approximately $800,000 in property taxes since 2004. (*Notes:* *The staff report also covers the topic of ports amalgamation in the Lower Mainland. Also, a media article on the report is attached below.)*

The report states that "the extension of the PCI will almost certainly involve further tax revenue losses for the City." When the PCI was implemented in 2003, the City of Vancouver's Class 4 (Heavy Industrial) property tax rate was $27.70/$1000, very close to the cap of $27.50/$1000. As a result, Vancouver currently receives compensation of $42,000 annually from the Province. Since 2003, Vancouver's Class 4 property tax rate has increased to $30.25/$1000. It is estimated that Vancouver's property tax revenues exceeded $520 million in 2006.

The report urges Council to send a letter to the Premier and the ministers of Finance, Community Services, Transportation, Economic Development, and Small Business and Revenue to express their objection to elements of the PCI that involve provincial intervention into municipal property taxation policy. The report notes "while the Ports Competitiveness Initiative no doubt is a great help to port industries, it contravenes the fundamental principle of local government autonomy over property tax policy."

Staff met with the City of Vancouver on April 20, as part of the PCI review and consultation process led by the Ministry of Finance. The Ministry developed a discussion paper based on input received through the consultations, which was sent to stakeholders for feedback. Vancouver's City Manager responded to the discussion paper on July 30.

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BACKGROUND:

On September 11, 2007, the Finance Minister announced that the Province plans to introduce legislation that will provide a ten-year extension to its tax relief for British Columbia's 20 major industrial ports.

After consultation with the ports industry and affected local governments, the Province intends to extend the Ports Competitiveness Initiative to 2018. If approved by the Legislative Assembly, as of 2009 the Ports Competitiveness Initiative will include:

- a continued tax rate cap of $27.50/$1000 of assessed value for existing investments for 10 years;
- a continued tax rate cap of $22.50/$1000 on new investments for 10 years on improvements constructed before December 31, 2018;
- increasing municipal compensation (by inflation since 2004) and indexing payments from 2009 to 2018 to the rate of inflation; and
- the option for municipalities to negotiate 10-year agreements with port operators using new provisions in the Community Charter, without losing access to the provincial compensation.

Ports Competitiveness Initiative Review

In 2007, the Ministry of Finance led a review of the Ports Competitiveness Initiative (PCI), property tax relief strategy for Lower Mainland port operators, which was introduced in October 2003.

The initial stage of the review involved consultations with local governments and ports operators, including Vancouver, Delta, Surrey, Port Moody, Prince Rupert, Squamish, the City of North Vancouver, and the District of North Vancouver, along with the BC Wharf Operators' Association, and relevant port authorities.

The Ministry developed a discussion paper based on input received through the consultations, which took place from March through May. The paper was sent to stakeholders (as identified above) on June 22.

The paper provided the original rationale for the PCI, an evaluation of whether the objectives of the PCI have been accomplished, a summary of stakeholder perspectives, a summary of the current state of the ports industry in B.C., an analysis of the impact of the tax rate cap on local governments and port operators, and possible options and their implications for the future of the PCI.

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ADVICE TO MINISTER

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ADVICE AND RECOMMENDED RESPONSE:

- **In 2003, we introduced the Ports Competitiveness Initiative to provide property tax relief and stability for Lower Mainland port operators and enable them to be more competitive with ports along the U.S. West Coast.**
- **At that time, we committed to assessing the program in 2007 to measure its success.**
- **We have concluded a comprehensive review process, which included consultations with affected municipalities and port operators.**
- **I would like to thank the municipalities and port operators for their valuable input throughout this review.**
- **British Columbia's ports are an integral part of the Pacific Gateway strategy, providing a vital transportation and international trade link to the Asia Pacific.**
- **Our ports also contribute billions of dollars to the provincial economy each year and provide thousands of jobs for British Columbians.**
- **That's why we are extending the ports competitiveness initiative for another ten years, while also increasing the compensation available to municipalities to minimize the impact on their ability to provide needed services.**
- **We are committed to ensuring our ports remain competitive and, at the same time, are able to support B.C.'s continued economic growth.**

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File Created:	November 26, 2007	
File Updated:		
File Location:		

Program Area	Comm. Director	Deputy	Minister's Office

***Media article below**

July 31/07

BRITISH COLUMBIA
The Best Place on Earth

"CONFIDENTIAL - CABINET DOCUMENT"

MINISTER:

Carole Taylor, Minister of Finance

TITLE:

Ports Competitiveness Initiative Review

ISSUE: FOR DECISION

In 2003 the provincial government introduced the Ports Competitiveness Initiative (PCI). The PCI provides property tax relief to operators of major industrial ports involved in the business of bulk, break-bulk or container transport by capping municipal tax rates on eligible facilities at $27.50/$1000 of assessed value. The PCI also compensates local governments for lost revenues as a result of the tax rate cap. When the PCI was introduced government committed to review the PCI after three years. The purpose of the review is to gauge the success of the initiative and determine how to proceed after the initial five-year rate cap and compensation program ends in 2008.

This submission summarizes the results of the PCI Review s.12
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RECOMMENDATION:

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BACKGROUND:

Introduction

Over the past several months the Ministry of Finance in conjunction with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation have been engaged in a review of the Ports Competitiveness Initiative (PCI). The PCI provides property tax relief to operators of major industrial ports involved in the business of bulk, break-bulk or container transport by capping municipal tax rates on eligible facilities at $27.50/$1000 of assessed value. It also provides a lower cap of $22.50/$1000 of assessed value on new investment and compensates local governments, totalling $4.5 million annually, for lost revenues as a result of the tax rate cap.

The purpose of the review has been to examine the success of the PCI and determine how to proceed after the initial five-year rate cap and compensation program ends in 2008.

After an initial round of consultations, a discussion paper entitled Ports Competitiveness Initiative Current Status and Future Options was circulated to stakeholder groups for comment on June 22, 2007. Stakeholders had until July 23, 2007 to provide comments of the discussion paper.

This Cabinet submission has the following components:

- Background regarding the rationale and development of the PCI,
- Status of the ports industry,

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Rationale for the PCI

The major trading ports involved in bulk, break-bulk and container transport in British Columbia are the points of departure and entry to the pacific coast markets. These port terminals are important because they support other industries through efficient movements of goods, which, in turn, support local, regional, provincial and national economic and social objectives. These ports are also critical to the Province's Pacific Gateway Strategy, which has the following vision:

> *British Columbia is the preferred gateway for Asia-Pacific trade and has the most competitive port system on the west coast of the Americas.*

Government choose to act in the area of municipal property taxation primarily because of a 2001 a review of the competitiveness of British Columbia's ports. Entitled, Options to Improve the Competitiveness of Ports in British Columbia[1], this report indicated that British Columbia's major industrial ports were facing critical challenges that could hamper their long-term competitiveness. It concluded that the competitive position of British Columbia's ports may erode in the future if critical issues were not addressed. These issues included: labour costs and practices, financing costs, operational productivity, expansion capacity, infrastructure costs, intermodal transportation, exchange rates and property taxes. Some of these issues are strictly

[1] Perrin, Thorau & Associates Ltd. Options to Improve the Competitiveness of Ports in British Columbia. March 2001.

under federal jurisdiction. However, the property tax issue is under municipal and provincial jurisdiction and therefore was addressed through the PCI.

Property Taxation

British Columbia has 8 classes of property:

- Class 1 - Residential,
- Class 2 - Utilities,
- Class 4 - Major Industry
- Class 5 - Light Industry
- Class 6 - Business/Other
- Class 7 - Managed Forest Land
- Class 8 - Recreational Property/Non-profit Organization, and
- Class 9 - Farm Land.

Class 4 - Major Industry includes land and improvements of major industrial properties which include lumber and pulp mills, mines, smelters, large manufacturers of specified products, ship building and loading terminals for sea-going ships.

Municipalities and the Province can set different tax rates for each class of property. Under section 197(1) (a) of the *Community Charter* (s. 374(2) of the *Vancouver Charter*), municipalities can set a separate rate for each class of property with few constraints; this is referred to as the variable tax rate system, which was introduced in British Columbia in 1982. Other tax authorities, such as regional districts, must use fixed ratios to set rates for each class. Property taxes are the major source of revenue controlled by local government and provide about 50 % of revenues, for local governments in British Columbia.

Class 4 Municipal Purpose Tax Rates Per $1000 of Assessed Value		
Community	**2003**	**2007**
North Van City	36.88477	38.40844
North Van District	40.37832	49.85971
Squamish	54.12939	27.50000
Vancouver	27.71701	30.25422
Port Moody	48.68740	53.13380
Delta	28.86130	27.78320
Surrey	13.67102	14.80962
Prince Rupert	45.53170	27.50000

Municipal tax rates varied considerably in 2003, and continue to vary in 2007, for communities with Class 4 – Major Industry ports facilities, as illustrated at the table to the left. However, those local governments with no Class 4 assets beyond the designated ports properties have chosen to set their rate at the capped level of $27.50/$1000.

Overview of the Ports Competitiveness Initiative

Recognizing the importance of international trade to the Canadian economy, the PCI aimed to:

- encourage new investments in ports infrastructure, and
- secure the competitive position of major industrial port facilities through measures to reduce property taxes.

The Province chose a multi-pronged approach to achieve these objectives. For that reason, the PCI included a number of elements:

- A cap on municipal tax rates for existing ports facilities of $27.50 per $1,000 of assessed value, for five years from 2004 to 2008.
- A 10-year cap on municipal tax rates for new ports improvements of $22.50 per $1,000 of assessed value. The cap applies to new construction started before Jan. 1, 2009.

- Annual compensation to affected municipalities, equal to the impact of the tax cap on existing ports facilities in 2003. The compensation program expires in 2008.
- Restoration of a tax exemption for berth corridors. Traditionally, berth corridors had been tax exempt, but became taxable as a result of assessment appeal decisions. In 2003, municipalities collectively received $1.4 million by taxing berth corridors. This revenue was new to municipalities and the inclusion of the berth corridors was under appeal by the port operators. The exemption also reduced provincial school tax revenues by $650,000 per year.[2]
- A remission of provincial school tax on berth corridors was provided for 2002 and 2003 to reflect the fact that they had only recently become taxable.
- A commitment to review the grant-in-lieu of taxes paid by Vancouver Wharves through the general review of grants in lieu paid by Crown corporations, underway at that time.
- A policy review of the valuation of ports lands for assessment purposes by the Minister of Small Business and Revenue.
- A commitment to review the ports competitive initiative after three years. This review was designed to gauge the success of the initiative and determine how to proceed after the initial five-year rate cap and compensation program ends.

Each component of the initiative was aimed at addressing separate but related issues and was designed to work in concert to improve the competitiveness of the Class 4 major industrial ports of British Columbia. The major components of the initiative that allowed for the designation of eligible ports properties, rate caps on existing property and new investment, and compensation to affected municipalities were accomplished through the introduction of the *Ports Property Tax Act (PPTA).* Berth corridors were exempted from taxation through the creation of the Port Improvements (Berth Corridor) Tax Exemption Regulation under the *Community Charter*. Land valuation changes were accomplished through amendments to the *Assessment Act* and associated regulations. The remaining items were addressed through existing policy and legislative tools. All components of the initiative have now been fully implemented. See Appendix 1 for a complete list of the status of each component.

Municipal Compensation

Recognizing that this initiative was driven primarily by provincial and national objectives, the government committed to compensate municipalities for lost taxation revenues. This ensured that local taxpayers would not be solely financially responsible for a program that has benefits beyond the host community. A commitment to compensate impacted local governments was included in the *PPTA*.

Municipality	Annual payment
The Corporation of Delta	$291,240
The Corporation of the City of North Vancouver	$1,254,813
The Corporation of the District of North Vancouver	$709,324
City of Port Moody	$494,005

[2] Berth corridors are the docking facilities required at container and break bulk facilities. Container and break bulk refers to cargo that is loaded directly into the hold of a ship piece-by-piece. To be eligible for the exemption they must be located on Canadian Port Authority land.

City of Prince Rupert	$1,383,536
District of Squamish	$345,144
City of Vancouver	$41,616

Compensation levels were derived by calculating the loss of tax revenue by the local government as a result of the imposition of the rate cap. Compensation calculations used 2003 assessed values and did not provide any compensation for the reductions in tax revenues as a result of the berth corridor exemption.

The total cost of the compensation is $4.5 million annually or $22.6 million over the 5 year term of the *PPTA*. Compensation does not apply to revenue lost due to the new investment tax cap or the berth corridor exemption. The compensation is paid annually from provincial general revenue.

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SIGNIFICANT IMPLICATIONS:

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CONSULTATIONS?

Beginning in March 2007, the Ministry of Finance along with the Ministries of Community Services, Economic Development, Small Business and Revenue and Transportation have engaged stakeholders to solicit their input on the PCI and gather perspectives on how government should proceed once the tax rate caps and municipal compensation packages expire in 2008. All of these ministries are in agreement regarding the recommended option.

On March 9, 2007, a number of stakeholders were invited to a roundtable meeting, to review a draft terms of reference for the review and to gather perspectives on the proposed methods for reviewing the PCI. Since March, representatives from these ministries have met with 13 stakeholder groups to discuss the PCI. In June a discussion paper summarizing the review and the results of consultations as well as providing a number of options for consideration was provided to stakeholders for further comment. Stakeholders were provided until July 23, 2007 to provide comments on the options proposed.

The table below provides a summary of all the stakeholder consultations to date.

Summary of PCI Review Stakeholder Consultations
March 9 – Roundtable PCI Review Meeting (all stakeholders)
April 13 – Individual Consultation Session with Vancouver Port Authority
April 20 - Individual Consultation Session with: City of Vancouver BC Wharf Operators Association
April 24 - Individual Consultation Session with: City of Prince Rupert Prince Rupert Port Authority
April 25 - Individual Consultation Session with: City of North Vancouver District of North Vancouver
May 4 - Individual Consultation Session with: City of Port Moody Fraser River Port Authority
May 17 - Individual Consultation Session with: City of Delta City of Surrey District of Squamish Squamish Terminal
June 23 – July 23, 2007 Opportunity for all stakeholders to provide comments on the discussion paper

RECOMMENDED DECISION:

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SIGNATURE:

Carole Taylor.

Carole Taylor, Minister of Finance (lead)

DATE: July 31 2007.

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Comments

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Appendix 1 Ports Competitiveness Initiative Status of Components		
Component	**Rationale**	**Status**
Five year cap on municipal tax rates for existing ports facilities of $27.50 per $1,000 of assessed value.	The cap was enacted to create predictability and stability for the industry and to maintain the competitive position of the industry.	20 major industrial ports located in 8 municipalities are subject to the cap.
10-year cap on municipal tax rates for new ports facilities of $22.50 per $1,000. The cap applies to new construction started before Jan. 1, 2009.	The new investment cap was put in place to encourage important investments in infrastructure at major industrial ports.	2007 is the first year the new investment rate cap will be triggered.
Annual compensation to affected municipalities, $4.5 million annually.	Local taxpayers should not be expected to bear all the financial costs associated with a matter which has economic significance for the entire Province	Municipalities receive annual compensation as laid out in the *Ports Property Tax Act*.
Tax exemption for berth corridors.	The berth corridor was previously exempt from taxation; as well, the exemption creates consistent treatment of berth corridors with other jurisdictions.	Berth corridors can be designated for tax exemption under a *Community Charter* regulation.
Remission of provincial school tax for the tax on berth corridors back to 2002.	Part of the restoration of the traditional tax exempt status of berth corridors.	A remission was approved by Cabinet and the school taxes payable on the berth corridors were returned to the operators.
Review of the grant-in-lieu of taxes paid by Vancouver Wharves.	Government committed that all Crown Corporations would pay property taxes equal to full taxation.	Vancouver Wharves is paying a grant in lieu equal to the amount of taxes it would pay if it were an eligible port property and designated under the *PPTA*.
Policy review of the valuation of ports lands for assessment purposes.	Port land values had been the source of a number of multiple year appeals, creating uncertainty for operators and local governments	Legislation has been enacted that creates legislated land values for ports properties. Base values were determined and these values will be indexed annually using CPI as the inflationary index.

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Vancouver Wharves

Summary of June 12, 2007 Meeting

Attendees

<u>BC Assessment</u>
Paul Borgo *(via teleconference)*
Catherine MacDonald
Jim McClure *(via teleconference)*
Gregg Paton
Sean Grant

<u>Ministry of Community Services</u>
Joshua Craig

<u>Ministry of Finance</u>
Jane Allison
Angela Deering

<u>Ministry of Small Business and Revenue</u>
Brian Currie

Meeting Overview

Purpose of the meeting was to discuss the pending taxable occupancy of Vancouver Wharves and to discuss the possibility of designating the property under the *Ports Property Tax Act* for the tax rate cap and the *Assessment Act* for the legislated land valuation strategy.

Current information indicates that the property is not yet taxably occupied. It was noted that any changes to the assessment roll must be made before December 31 but can be made to have effect from July 1 (if that is the actual date of occupation).

Attendees discussed information requirements needed to proceed with the analysis required for designation to be recommended.

Next Steps

Attendees committed to the following actions:

Ministry of Finance

- Obtain a ratified and dated lease document.
- Obtain documents pertaining to rents.
- Obtain maps of the site.
- Call the District of North Vancouver to inform them of the current consideration of Vancouver Wharves.

Ministry of Small Business and Revenue

- Will advise if consultant is available to calculate base values using the same methods as the other designated facilities.

BC Assessment

- Will provide folio numbers and assessed values of the property.

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