Michell, Jennifer FIN:EX

From:	Renee Lukasser <reneel@rdks.bc.ca>
Sent:	Tuesday, October 17, 2017 10:48 AM
To:	Wanamaker, Lori FIN:EX
Cc:	OfficeofthePremier, Office PREM:EX; Minister, FIN FIN:EX; Minister, MAH MAH:EX; Minister, FLNR FLNR:EX; Rice.MLA, Jennifer LASS:EX; Rustad.MLA, John LASS:EX; Ross.MLA, Ellis LASS:EX; Meggs, Geoff PREM:EX; Flanagan, Paul FIN:EX; Purnell, Richard FIN:EX; Faganello, Tara MAH:EX; Grant, Sean MAH:EX; Consultant, Rob Botterell, Botterrell Law Corp., & Lidstone & Co.
Subject:	Northwest BC Resource Benefits Alliance Business Case
Attachments:	L. Wanamaker- NW Resource Benefits Alliance-10.16.17.pdf; Revenue Sharing Business Case Oct 17 Final.pdf
Categories:	Actioned: Oct 19, FYI

Dear Ms. Wanamaker,

Please find attached a letter dated October 16, 2017 and the Northwest BC Resource Benefits Alliance Business Case.

Thank you,

Bob Marcellin, CAO

Regional District of Kitimat-Stikine
300-4545 Lazelle Avenue
Terrace, BC V8G 4E1
(250) 615-6100 or toll free 1-800-663-3208

http://www.rdks.bc.ca/
https://www.nwresourcebenefits.ca/

Regional District of
Kitimat-Stikine

NORTHWEST BRITISH COLUMBIA
RESOURCE BENEFITS ALLIANCE
300-4545 Lazelle Avenue, Terrace, BC V8G 4E1

Our file no. 2280 03 01 A

October 16, 2017

Lori Wanamaker
Deputy Minister
Ministry of Finance
PO BOX 9417 STN PROV GOVT
Victoria, BC V8W 9V1
Lori.Wanamaker@gov.bc.ca

Dear Ms. Wanamaker,

Re: Northwest BC Resource Benefits Alliance Business Case

We are pleased to provide you with the attached Business Case for a revenue sharing arrangement with the Northwest BC Resource Benefits Alliance (RBA).

As we discussed when we met with you several weeks ago, the Business Case explains in detail the extent to which the Northwest lags behind other regions of BC and the reasons for that discrepancy. It also points out how inequitable the current situation is and discusses the tremendous opportunity represented by unlocking the economic potential from bringing Northwest local governments up to a reasonable fiscal standard.

We are proposing interest-based, collaborative discussions which we hope will lead to a mutually beneficial arrangement by the end of March, 2018 and have suggested three tasks that we would like your participation in as we move forward.

Bob Marcellin, CAO of the Regional District of Kitimat-Stikine, will be in touch shortly to arrange a follow-up meeting with the RBA team. In the meantime, if you or your staff has any questions, please feel free to contact Bob or Rob Botterell, Chief Negotiator for the RBA.

Yours truly,

Bill Miller
Chair, RBA and
Chair, Regional District of
Bulkley-Nechako

Phil Germuth
Vice-Chair, RBA and
Chair, Regional District of
Kitimat-Stikine

Barry Pages
Vice Chair, RBA and
Chair, North Coast
Regional District

Enclosure

cc: Honourable John Horgan, Premier; Honourable Carole James, Minister of Finance; Honourable Selina Robinson, Minister of Municipal Affairs and Housing; Honourable Doug Donaldson, Minister of Forests Lands Natural Resources and Rural Development; Honourable Jennifer Rice, Parliamentary Secretary for Emergency Preparedness; John Rustad, MLA, Nechako Lakes; Ellis Ross, MLA, Skeena; Geoff Meggs, Premier Chief of Staff; Paul Flannigan, Executive Director Tax Policy, Ministry of Finance; Richard Purnell, Senior Director Tax Policy, Ministry of Finance; Tara Faganello, Assistant Deputy Minister, Ministry of Municipal Affairs and Housing; Sean Grant, Director Local Government Finance, Ministry of Municipal Affairs and Housing; Rob Botterell, Resource Benefits Alliance Advisor

NORTHWEST BRITISH COLUMBIA
RESOURCE BENEFITS ALLIANCE

Revenue Sharing Business Case Northwest BC

October 17, 2017

Table of Contents

Purpose

The purpose of this business case is to set out the reasons why a revenue sharing arrangement between the Northwest BC Resource Benefit Alliance (RBA) and the Province of BC would be mutually beneficial and to propose a collaborative framework for interest-based negotiations to reach an agreement over the next six months.

Resource revenues from the Northwest have been paying for urban infrastructure and other provincial priorities outside the Northwest for decades. The inequity of this alone is a powerful justification for revenue sharing, but the RBA business case is more nuanced and specific than that. This business case combines several elements to justify the rationale for revenue sharing:

- **The Northwest is a have-not region:**
  - There is a gap between the current level of local services and local infrastructure and the standard that is available in most BC communities, whether rural or urban.

- **That gap is due to:**
  - a long history of resource development across the region with most industry not subject to municipal taxation because resource operations tend to be located outside municipal boundaries;
  - the infrastructure and service demands placed on local governments by major projects; and
  - the fact that those demands happen throughout the life-cycle/business-cycle (prior to investment, during construction, during operation and when operations wind down, decommissioning, and markets go soft).

- **The inequity represented by the gap is made worse because most of the province enjoys a very significant comparative advantage over the Northwest, due to:**
  - revenue-sharing arrangements in the case of the Peace River Agreement in the Northeast and the Columbia Basin Trust in the Southeast;
  - the fact that most commercial and industrial activity in major urban areas takes place within municipal boundaries; and
  - higher levels of provincial (as opposed to local) spending on operations and infrastructure investment in urban areas, funded in part by economic activity in the Northwest.

- **Major projects produce significant incremental provincial government revenues during construction and operation:**
  - major project capital spending in the Northwest over the past five years of over $13 billion has significantly exacerbated ongoing underfunding of Northwest local governments but generated provincial revenue in the hundreds of millions of dollars; and
  - with 10 to 20 non-LNG projects[1] representing $20 to $40 billion of spending over the next 10 years, the Northwest needs to be ready for a high level of demand on local governments to continue.

[1] While the potential for LNG development at $10 billion plus per project remains, the issue for the Northwest is that even without LNG there is tremendous potential for major capital projects to be developed in the region.

- **Both the provincial and regional economies stand to benefit significantly as a result of revenue sharing:**
    - the Northwest has significant unrealized potential based on its affordability, the fact that is a natural transportation corridor accessing both North American markets as well as Asia with a two-day shorter transit time, and its natural beauty;
    - there is very significant potential to generate increased and diversified local economic activity both related to major projects and in other fields such as tourism and hospitality, processing extracted resources, value added manufacturing, and related support services;
    - that economic development focus will enhance ongoing work with First Nations to achieve reconciliation;
    - given the disproportionate representation of indigenous people needing services living within our communities, revenue sharing will also contribute more to our efforts to pursue reconciliation within our communities; and
    - the Northwest can relieve some of the pressure on the rest of the province by providing affordable and sustainable communities that are ready to grow.

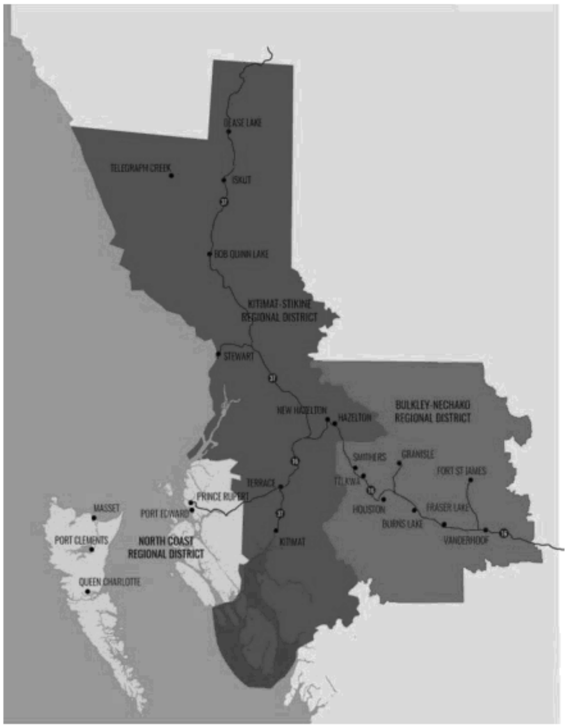
This potential can be unlocked by ensuring economic development is a top priority when deciding how to use revenue sharing contributions, through a well-governed regional decision-making and accountability mechanism. But, unless the increasing fiscal disparity of Northwest local governments is addressed, the communities will be unable to provide needed infrastructure and local services, and as a result, the community support required to advance major project based development activity. Some communities, such as Telkwa, are in danger of collapsing.

In essence, Northwest local governments are severely underfunded because of, on the one hand, demands from major projects not subject to local taxation and on the other hand, the inequity of other revenue sharing arrangements and major economic activity within urban areas. Revenue sharing, largely but not solely funded by incremental major project-related revenues, would be directed with economic development as a top priority, supporting major projects and generating local economic development. This will enhance and diversify the Northwest and provincial economies, and further equip the Northwest with the tools and resources to work closely with First Nations on reconciliation.

The business case is organized to:

- provide some background about the RBA;
- set out each of the elements of the business case in detail with supporting analysis based on publicly available information; and
- propose a collaborative framework for interest-based negotiations within which the parties can confirm that our interests are aligned and negotiate an agreement over the next six months to reverse the Northwest's have-not status demonstrated by the business case.

Background



The RBA was formed in 2014 for the purpose of developing a revenue sharing arrangement with the BC provincial government. The RBA is comprised of all of the local governments in Northwest BC, covered by the North Coast Regional District (formerly Skeena-Queen Charlotte RD), Regional District of Kitimat-Stikine and the Regional District of Bulkley-Nechako.

It includes all of the municipalities together with 17 electoral areas surrounding them and the three regional districts. The 18 member municipalities are:

- Burns Lake;
- Fort St. James;
- Fraser Lake;
- Granisle;
- Hazelton;
- Houston;
- Kitimat;
- Masset;
- New Hazelton;
- Port Clements;
- Port Edward;
- Prince Rupert;
- Queen Charlotte;
- Smithers;
- Stewart;
- Telkwa;
- Terrace; and
- Vanderhoof.

The RBA region, referred to simply as the "Northwest," is effectively the sum of two of the province's eight Development Regions: North Coast and Nechako.

Business Case

The business case for a revenue sharing arrangement is, in essence, that the Northwest is an unsustainable have-not region, without the resources needed to provide local government services, and social and physical infrastructure to its residents at the level found throughout the rest of BC. The gap is even greater when compared with regions that benefit from revenue sharing arrangements. This instability is not only in spite of tremendous past, present and potential resource-based activity, but in fact has been to a large part caused by that activity. The gap can be primarily, but not solely, addressed with a reasonable share of incremental provincial revenue arising from major projects in the region. Doing so will make the region sustainable and unlock the significant economic potential currently not being realized of the Northwest.

Failure to act soon will result in deteriorating local government fiscal situations and failing communities, which will negatively affect continued major resource development in the region.

This section sets out the business case in detail with supporting evidence.

The Northwest is a "Have-Not" Region

The reason the Northwest needs revenue sharing is because the region as a whole, and especially the local governments in the region, have less revenue than would be reasonably expected for an area in British Columbia. That is what the RBA means by the Northwest being a have-not region. It has happened because:

- Northwest local governments do not have access to the same level of revenues that other local governments have;
- the province has not returned a sufficient portion of the revenues it receives from the region; and
- this has a ripple effect on the ability of local governments to access other federal and provincial funding.

The Northwest is a have-not region from both an economic and local government fiscal perspective. Northwest communities lag from an economic perspective, in spite of the significant level of capital spending and industrial resource activity in the region, as set out in Appendix A.

The charts below tell the story for the local government perspective. In each case the Northwest has been compared with the Northeast, other rural areas and urban areas of the province on a per capita basis.[2] All comparisons combine municipal and regional district financial results to ensure that all local government activity within the boundaries of each regional district is captured. Per capita comparisons allow local governments of different sizes to be compared.

Revenue

The inability of the Northwest to provide services, social infrastructure and physical infrastructure at levels consistent with the rest of the province arises because of the shortfall in revenue generating capacity.

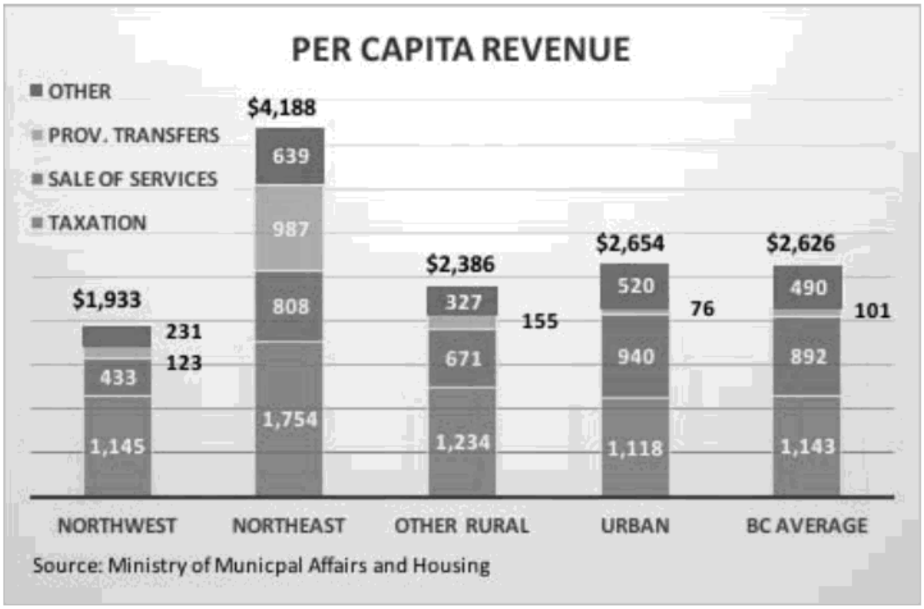
Chart 1 divides local government revenues into four categories:

- **Taxation**, which includes grants in lieu, covers municipal and regional district property tax revenue;
- **Sales of services revenue**, which includes all revenue earned from charging fees to users of local government services, including use of water, wastewater and other infrastructure, use of recreational facilities, garbage collection and solid waste management, and sports and cultural programming;
- **Provincial transfers**, which are direct contributions from the provincial government; and
- **Other revenue**, which is the residual category covering all other revenue sources including federal transfers, transfers from regional and other governments, investment income, income from business, developer contributions, disposition of assets, other revenue and MFS debt payments. Of these, developer contributions are the most significant province-wide.

---

[2] All data is from the Ministry of Municipal Affairs and Housing Local Government Statistics (http://www.cscd.gov.bc.ca/lgd/infra/statistics_index.htm) for 2016 and combines municipal with regional district results. Each regional district is categorized based on its population within municipalities. Regional districts with a population of less than less than 50,000 in its member municipalities is categorized as rural and those with more than 50,000 are categorized as urban. All comparisons are per capita using "2011 Census including population changes certified by the Minister" for 2015 as the denominator.

Chart 1



Total per capita revenue in the Northwest lags the provincial average by 26% and the Northeast enjoys almost twice as much revenue per capita as the Northwest.

Of course, lower actual revenue does not necessarily mean that revenue capacity is lower, although it would not make sense for local governments to forego revenues when there is a significant gap between the demand for, and the ability to, provide services and social and physical infrastructure. Breaking that down by the source of the revenue helps to confirm that, for the Northwest, there is a genuine lack of revenue generating capacity.

Taxation revenue per capita in the Northwest is about equal to the provincial average on a per capita basis, a little lower than the average for rural areas and slightly higher than the average for urban areas (Chart 1).

Charts 2 and 3 (below) show that the Northwest lags the rest of the province in terms of overall assessed value in municipalities (Chart 2) and the average value of a "representative house" (Chart 3). In spite of that, as was just mentioned in Chart 1, per capita taxation revenue in the Northwest equals the provincial average. This indicates that Northwest local governments have relatively high property tax rates which put a relatively high burden on local residents, businesses and industries.

In other words, there is little capacity to increase property taxes to increase revenues and still have some measure of tax competitiveness.

Chart 2

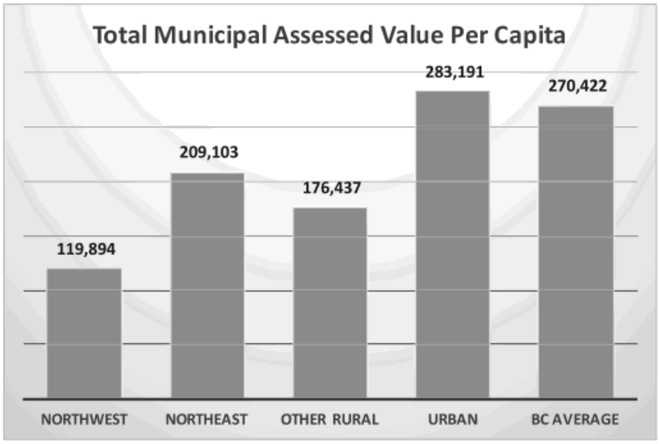
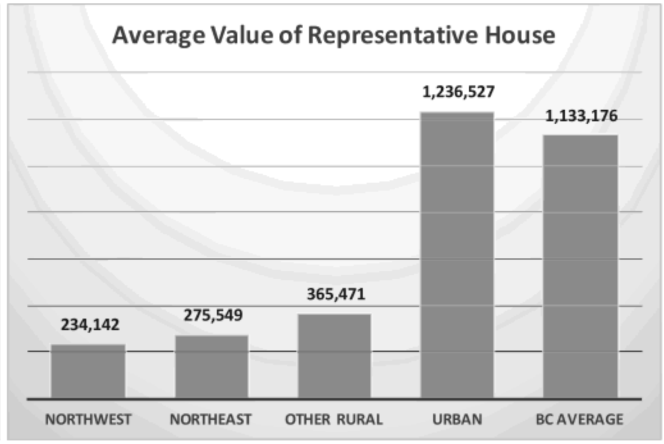


Chart 3



Sales of services revenue per capita is significantly higher in urban areas than rural areas, because of more infrastructure, facilities and programming for which user fees can be charged. The Northwest generates only about 2/3 of the rural average because the Northwest has even less infrastructure upon which user fees can be charged than other rural areas, whether that is water, waste water, or recreational facility infrastructure. Similarly, there is a lack of community programming in the Northwest because there is not the fiscal capacity to support those programs. It is rare for user fees on such programs to cover the full cost and there is no capacity to develop and subsidize the programs in many cases. In other cases, the fact that property taxes are relatively high has led local governments to minimize user fees on those programs and services that are provided.

There is little capacity to increase sale of services revenues in the Northwest, at least until the region's overall fiscal capacity is significantly enhanced.

Provincial government transfer revenue is not a very material revenue source for most local governments in the province, accounting for only 4% of per capital provincial average revenue. It has been broken out separately in Chart 1 because of the degree to which the Northeast stands out, as discussed further below. That is due to the Peace River Agreement which accounts for about $700 per capita or $50 million per year.

Other revenue per capita is higher in urban than rural areas, primarily due to developer contributions and investment income. However, once again the Northwest lags significantly behind other rural areas because there is no investment income and charging developers would impede what little development takes place, given already high levels of property taxation. With a more balanced fiscal situation, developer contributions could become a fair and beneficial revenue source in the Northwest. The Northeast, in contrast, has per capita other revenue in excess of urban areas and almost three times that in the Northwest.

Spending

Chart 4

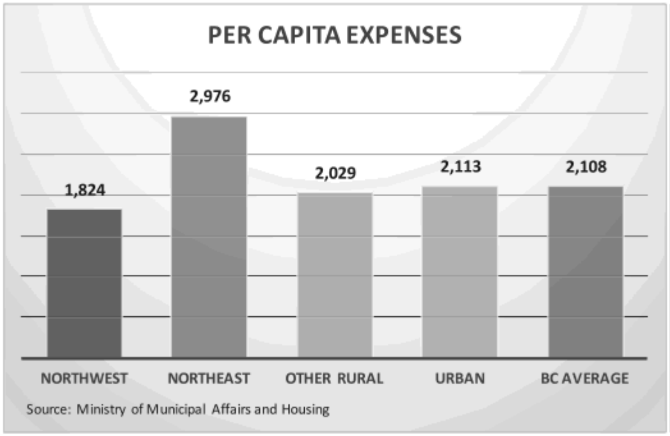
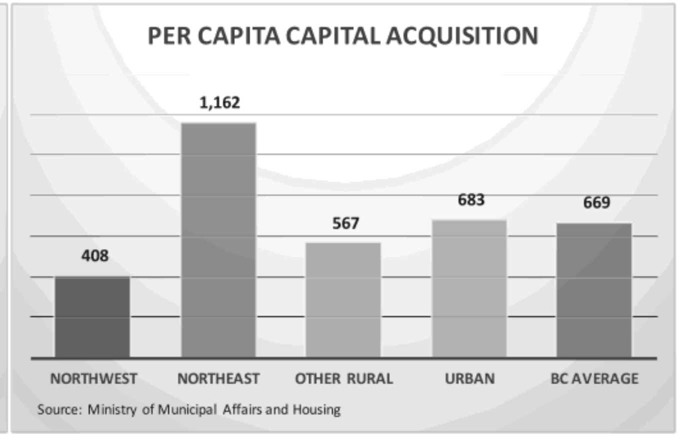


Chart 5



The Northwest spends less that the rest of the province on services and on infrastructure because of its lower per capita revenue. Charts 4 and 5 show that Northwest local governments lag significantly beyond the rest of the province in their capacity to provide services needed by their communities and to build the physical infrastructure needed to enable communities to function effectively and grow. The Northwest is able to spend only 87% of provincial average local government spending on operating costs and only 61% of provincial average local government per capita capital acquisition.

Infrastructure

Chart 6

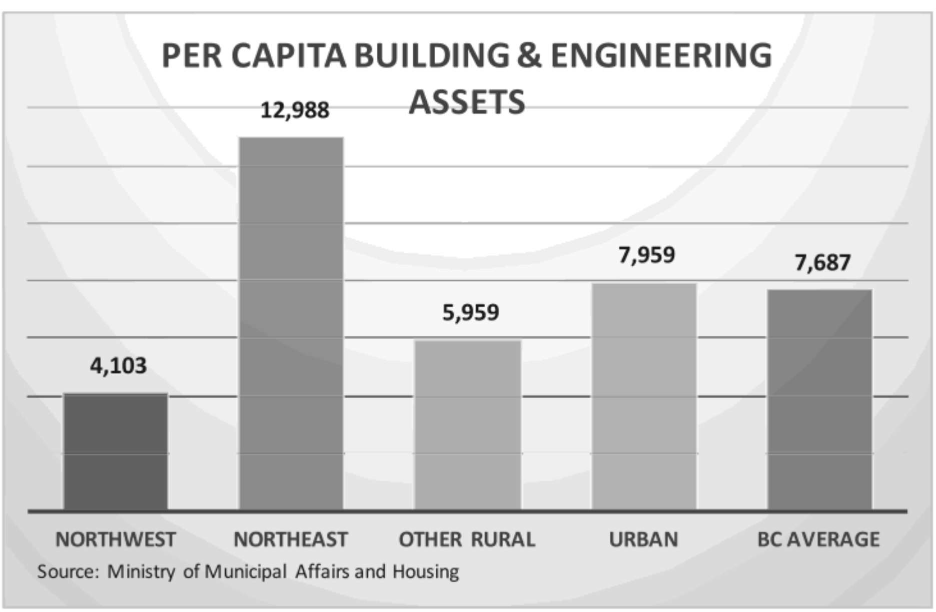


Chart 6 shows that as a result of lower capital acquisition spending over time, the total per capita value of infrastructure[3] in the Northwest is about one half of the provincial average and only 2/3s of that in other rural areas of the province, except for the Northeast. That is perhaps the clearest evidence that the Northwest is a have-not region and that it is not up to the same infrastructure standard as the rest of the province, including other rural areas.

A survey of Northwest local governments has identified needed projects that are not in current capital plans with a value of over $600 million or $6,300 per capita. That is admittedly a rough estimate since most of these projects have not had sufficient development work done to provide preliminary cost estimates.

Given that local governments across the Province continue to invest in infrastructure at a significant rate, it is likely that the Northwest would need to increase the value of infrastructure by an amount in the order of $6,000 per capita to get to the provincial average over a 10 to 15 year period. That suggests that the current rough estimate of the gap is not unreasonable when ones considers the time it would take to close it.

Analysis

What does this information mean about the situation in the Northwest? It shows that the region is well behind the rest of the province, including other rural areas, in being able to provide local government services, and social and physical infrastructure throughout the region.

The fact that operating spending is well below other regions indicates the region is not supplying needed services that are being routinely provided elsewhere, including:

- providing programming to the community in areas like recreation and culture;
- providing contributions to local not-for-profit organizations that then provide the social infrastructure to communities at needed levels; as well as,
- not fully meeting program demands from policing to urban planning.

Even more clear is how far behind the region is in terms of physical infrastructure, both in terms of level and condition. The region has a relatively low stock of buildings and engineering assets, a situation that will continue to get worse because annual capital acquisition funding is considerably below that in other comparable regions. The result is a lack of water and wastewater infrastructure throughout the region, fewer paved roads and existing ones that are in poor condition and a lack of recreation infrastructure that is taken for granted in most other rural areas.

In fact, the service and infrastructure shortfall is even worse than suggested by per capita analysis. That is due to the pressures placed on Northwest local governments by the construction and operation of major projects outside of municipal boundaries. These major projects bring in a large proportion of fly-in fly-out workers (the size and impact of recent and potential major projects activity is described further below), and while those workers do not demand the same level of services as permanent residents, they do place real demands on local government services. This includes the use of both social infrastructure and existing

[3] Infrastructure is defined as buildings and engineering assets (including water, sewer, drainage, roads and other engineering structures).

physical infrastructure. The projects themselves also place demands on local government services and physical infrastructure, over and above the demands faced in regions where more of the economic activity occurs within municipalities.

The District of Fort St. James is an example of this exact reality:

The Mount Milligan Mine is 90 km from the District of Fort St. James. During the height of construction, the mine employed a staff of approximately 1,025, with 350 permanent staff currently employed in operations. During construction, many of the contract crews chose to base out of Fort St. James, and many other workers lived in camp at the mine. As a result, there was increased activity in Fort St. James as it was used as the central service, business, recreation and shopping center by both groups. This posed significant service demands on the municipality.

Services

Local government services saw a noticeable increase in demand during the mine start up. Part of the effort was to study the infrastructure needs and prepare plans if the population of the district should increase. For example, engineering studies were undertaken to determine if sufficient water and sewer treatment capacity existed and what upgrades would be required if significant growth happened. Similar work was completed to investigate and plan out new possible subdivisions.

Infrastructure

Fort St. James saw an increased use of its physical and social infrastructure, including:

- road systems, including maintenance, as industrial related traffic travelled through its downtown core;
- an increase for emergency services such as rescue services;
- health services as the local hospital and medical clinics had to, and still must, be able respond to the increased demand; and
- since the mine site only provides housing, many workers sought out, and continue to seek out, other needs off-site.

This increased demand has resulted in District buildings, including the recreational buildings such as the arena, seeing extra use as well.

Given this, the biggest challenge for Fort St. James is the inability to generate extra tax revenue to respond to this ongoing increased demand. Since workers are housed at the mine site, the municipality is unable to generate residential tax revenue from those workers. Industrial tax revenue is also not increasing.

The reason why the Northwest cannot meet these demands is a lack of revenue. It is not a case of failing to access available taxation revenues. Proportional to the population, Northwest taxation revenue is relatively high even though total assessed value is relatively low.

Local governments throughout the region in the majority of communities where there is little industrial activity are concerned about the impact of high tax rates on residents, especially when compared to neighbouring communities in the Northeast where people get so much more for their tax dollars.

Why then, if average property taxes are high, is overall revenue so low?

It is due to the inability to generate sales of service revenue, and to a lesser extent developer contributions and investment income. These are also symptoms of the fact that the Northwest is a have-not region. Essentially, because of the region's lack of resources, it cannot afford the infrastructure and programming that would generate sales of services revenue at the per capita rates seen in other regions. The Northwest has less infrastructure to generate sales of services revenues than other regions in the areas of water, sewer, recreation, and programming.

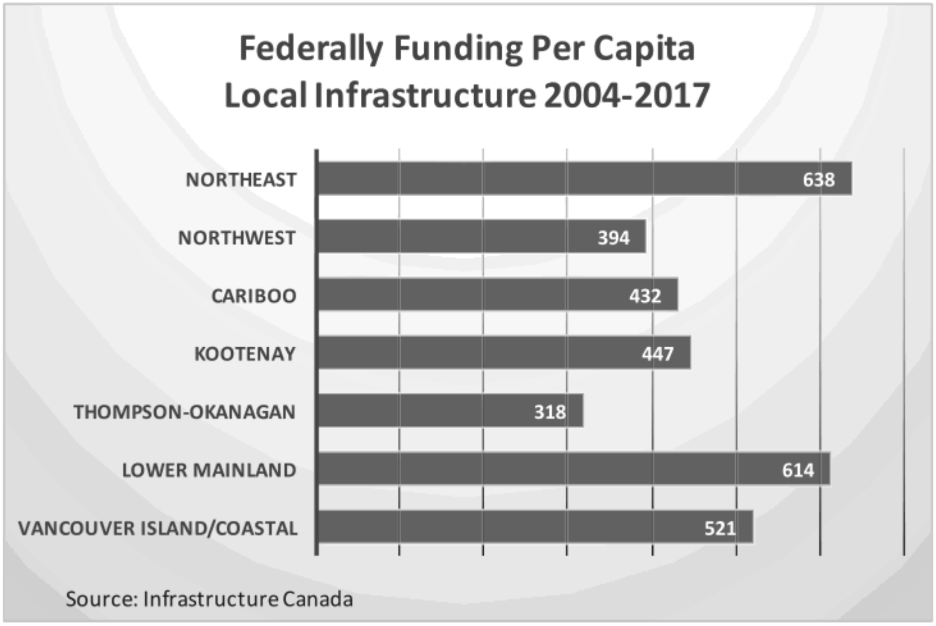
An example of this is the community of Telkwa:

> Telkwa applied in the latest funding round to the Clean Water and Wastewater Fund (17% municipal matching) for funding for an urgently needed water tower with a total cost of $2.4 million ($400,000 local contribution).
>
> Instead Telkwa was offered $1.6 million funding under the 33% municipal matching Build Canada fund ($800,000 local contribution).
>
> Telkwa was unable to accept the offered funds as it could not afford its contribution. While the issue was ultimately resolved, it is not uncommon for local governments to not even apply for funding because they cannot afford the local government funding share.

The Northwest also can't afford the staff capacity to set-up and operate programs common in other regions that would then be partially funded by user fees. Many of the programs that are in place have low or no user fees in recognition of the already high property taxes paid in relation to the services provided.

The negative feedback from lack of resources to inability to generate revenue also applies to the ability to compete in cost-shared infrastructure and other funding programs. Chart 7 shows that while Northwest communities have been almost as successful as most rural regions of the province in accessing federal infrastructure funding, per capita federal infrastructure funding to local governments is only two thirds of the funding in the Northeast and Lower Mainland. The very areas where infrastructure stocks are relatively high are the areas most able to secure additional funding.

Chart 7



Standards

While the RBA believes that these facts clearly show that the Northwest does not have the financial resources to meet a reasonable standard for services and infrastructure in BC, it does not fully address the size of the gap. It is not clear that use of provincial average per capita resource levels or the per capita average for rural areas provides an appropriate benchmark.

What standard of services and infrastructure should the residents of a community be able to expect? In terms of infrastructure, the Northwest has not had the capacity to undertake a comprehensive survey of infrastructure needs and develop a plan to fill those needs, including life cycle asset management. In terms of services, although every local government in the region knows that it is not meeting the service demands of its communities, there is not a comprehensive understanding of the size of that gap.

The RBA is suggesting that together with the province, work be undertaken to develop a benchmark for the level of services and infrastructure that communities in BC should be able to expect, in order to help the RBA and Northwest communities close the gap with the assistance of revenue sharing.

Why the Northwest is a Have-Not Region

As mentioned earlier on, major capital projects built and operated outside of municipal and regional district service area boundaries affect both local government revenues and spending. That is, these projects put significant demands on local governments and communities throughout the Northwest without providing either taxation or sale of service revenue to local governments.

Impact of Major Projects on Communities

The nature of these projects effectively acts to distort the per capita spending and revenues discussed above. At one time, major projects were primarily constructed and operated by workers who lived with their families in local communities. In some cases, those were single-employer towns build by the proponent, like Granisle, while in other cases nearby towns were expanded to accommodate the workforce, often with support from the employer. Now employers and the provincial government both prefer these projects to be supported by worker camp accommodations and a fly-in, fly-out workforce with little connection to the region or communities. While the fly-in fly-out model makes sense given the costs of developing and maintaining one-employer towns, the model has a profound effect on Northwest communities. Local social and physical infrastructure is put under pressure but the workforce population is not counted in the region because it is itinerant in nature. If the true population of the region were used as the denominator in calculating per capita revenue, spending and infrastructure, the large gap that is already apparent would be much larger.

Put another way, because there is a large workforce that is not counted in the population, per capita revenue and spending should be higher than other regions, not lower, in order to meet reasonable standards for service delivery and infrastructure to the whole population. While itinerant workers living in camps do not demand the same level of services as permanent residents, they do still place material demands, for example on first responders. To satisfy those demands, per capita service levels based on permanent residents would need to be higher than in regions with few fly-in fly-out workers.

Note also that these projects put pressure on local governments from the time they are proposed to long after they shut down. Those pressures change from planning and infrastructure provision when the projects are proposed and constructed, to social infrastructure during construction and operation phases, to economic adjustment and other social needs as the operations wind down. This applies equally to activities in one place, like mines, mills and production facilities, and to resource extraction activities such as timber harvesting. Even when municipal tax and user fee revenue is generated from major projects during operation, considerable pre- and post-operation costs are not covered.

Major projects within municipal boundaries can also affect other communities within the region without any ability to generate offsetting revenue. A considerable proportion of the major project activity over the past five years has occurred in Kitimat and the corridor between Kitimat and Terrace. While Kitimat has borne much of the direct impact of activity in and near the municipality, Terrace as a regional service centre has also been affected.

For that reason, the RBA has asked the two municipalities for an indication of what the impacts have been.

The District of Kitimat provided the following comments:

> From 2011 to 2015, Kitimat experienced a period of economic expansion as a result of the Rio Tinto/Alcan aluminum smelter modernization project and preliminary work associated with liquefied natural gas and oil refinery proposals. During this period, we experienced a major influx of temporary workers who relied on the community for – and had a significant impact on – our services, and infrastructure.

Services - Our local government services were stretched during the noted period. In order to keep up, the District of Kitimat had to increase its annual spending by approximately 25%. This increase was necessary for a number of reasons, one of which was to allow for added staffing to meet new and changing demands. One example is the RCMP, who reported a marked increase in crime in Kitimat during the noted period compared to previous years. Another example is the District's Community Planning & Development Department, which has tripled in size in order to handle the influx of development applications and inquiries, Kitimat's long-range planning needs and other demands.

Infrastructure – Kitimat's aging infrastructure, as well as that of the broader region, was stressed during the noted period. The condition of our main thoroughfare, Haisla Boulevard, as well as that of provincial Highway 37 between Kitimat and Terrace, deteriorated as heavy trucks and increased vehicle traffic used this route to access our heavy industrial (M1) lands. Our only bridge connecting our industrial area to Kitimat town site was also taxed during this period and proved to have inadequate capacity.

In 2016, Kitimat started experiencing a correction in economic activity due to the completion of some major projects and the delay of others. Nevertheless, some of the impacts identified above, and others not specifically mentioned, are still being felt and are likely to be experienced again in the future when a major project is announced.

The City of Terrace indicated the following:

Being only 40 minutes down the highway, Terrace experienced similar effects to Kitimat as a result of the Rio Tinto/Alcan aluminum smelter modernization project and preliminary work associated with LNG and oil refinery proposals in or near their community. We also had the construction of the Northwest Transmission Line that was based out of Terrace and a number of mining exploration projects and new mines being developed. This created an influx of workers who utilized our services.

Services – Knowing that we had to do our best to prepare for the anticipated surge of economic development and related population growth, the City invested a considerable amount of staff time and tax dollars to ensure our long-range planning documents were up to date. This included an update to the OCP, the Keith Estates Neighbourhood Concept Plan, a Parks & Recreation Master Plan, a Transportation Master Plan, DCC Scoping Study, Water Master Plan, Sewer Master Plan, and a Wastewater Treatment Plant Condition & Capacity Assessment. We increased our Development Services Planning staff by two FTEs to help manage the increase in development applications.

Infrastructure - A marked increase in vehicle traffic was evident in Terrace during the KMP and NTL projects. This impacted the safety of vehicle movement on the Sande Overpass which is part of the Highway 16 corridor through the community. The additional challenge of road/rail conflict has also been a concern for the City for many years with the Sande Overpass being the only grade separation in place over the CN railway tracks running through the community and essentially cutting it in half. Many of the proposed industrial projects have identified the use of rail for transporting pipe and/or other components for their projects in Kitimat, Prince Rupert/Port Edward, and in the Nass Valley north of Terrace. Any increase in rail traffic will directly impact Terrace in a negative way. The population growth expected with industrial development will also increase vehicle and pedestrian traffic considerably and the combination of these two things will lead to more and more road/rail conflict. The need for a second grade separation and a pedestrian overpass will become critical.

The biggest challenge for the City of Terrace is that none of this development will occur within our municipality. Therefore, we have no ability to generate tax revenue from these projects to support our community services and infrastructure. With Highway 16, Highway 37 and Highway 113 all coming into our community, having the Northwest Regional Airport within our municipality, and being the service and supply centre for the region, people will choose to live and do business here. This will directly result in vehicle and rail traffic increases, and our community will continue to be negatively impacted.

As important as the increased service and planning demands are, there is also a huge increase in demand for the time and attention of local government staff to deal with issues, meet with proponents and respond to community concerns. Senior staff become increasingly over-stretched, however without additional revenue needed to support actual service demand increases, it is impossible to add senior staff resources.

The relationship and reconciliation with First Nations in the region is a critical area of work that RBA local governments are trying to address but feel that there are not enough resources to be effective.

Several municipalities pointed out the significant impact that work camps already have on municipalities. The influx of young, well-paid males far from home looking for entertainment, affects policing and first responders, medical service demand, social service demand, noise and nuisance complaints and more.

Example: Increase in 911 Calls

A concrete example of the increase in service demands is the increase in 911 calls in the two locations over the period mentioned above:

- In Kitimat, 911 calls increased by 50% from 2010 to 2014 before returning to only 4% above 2010 levels in 2016.
- In Terrace, the maximum increase was 22% above 2010 levels, hit in 2012 before reducing to about 7% higher than 2010 in 2016.

This demonstrates how municipal service level demand can increase in response to development, whether within or beyond the municipal boundary. It is often as difficult to ramp down services as it is to ramp them up during times of service demand volatility, adding to local government pressures.

It's not just workers from camps coming to town that affect communities but also services required by camps themselves. The District of Stewart provided an example of an ambulance not being available to transport a local child in medical distress to Terrace. Paramedics had exceeded their operational hour limitations because of being called out to a camp several hours away, and there was no back-up capacity due to the small size of the community.

Significant Recent Development Activity

As shown in Table 1 (below), since 2012 about $13 billion in major project construction spending has occurred in the Northwest, across several industries. The majority of this activity has taken place outside municipal boundaries. Appendix B provides a list of the projects.

As a result of these major projects, the provincial government has benefited from tax revenue generated during construction and the ongoing economic activity associated with the operation of the resulting assets over time. Using multipliers generated by the BC input-output model, it is estimated that the construction activity alone has generated about $480 million in provincial revenue over the past five years, none of which has been returned to the Northwest.[4]

The operation of the assets generates substantial additional revenue every year. It should be noted that this estimate of capital spending and provincial revenue generated does not include pre-FID preparatory work on potential LNG plant sites in Kitimat, Prince Rupert and Port Edward or substantial capital spending on projects that have subsequently been put on hold prior to completion. In Kitimat alone that is estimated to be about $500 million capital spending during the period.

Table 1

Industry	**Capital Cost ($ million)**
Manufacturing	5,350
Mining	3,615
Clean Energy	2,312
Ports and Transportation	1,457
Total	**12,734**

Source: 2012 to 2016 Major Project Inventory Reports,
http://www2.gov.bc.ca/gov/content/employment-business/economic-development/industry/bc-major-projects-inventory

While the provincial government has gained significant incremental revenue as a result of economic activity over the past five years, communities in Northwest BC have faced significant service demand increases without sufficient increased local government revenue to cover the cost. Increased service demand began well in advance of the main increase in economic activity and continues despite the fact that, for now, the development boom has cooled somewhat.

The incremental revenue that the provincial government receives from the operation of assets built over the past five years provides a reasonable basis for initial revenue sharing to enable the Northwest to prepare for the coming development boom. Provincial surpluses accumulated over that time, in part due to this incremental revenue associated with building these assets, were used to pay down taxpayer supported debt and are not directly available. However, that activity in the Northwest has contributed to BC's extraordinarily healthy fiscal position, which makes it now possible to remedy this inequity.

[4] Note that multipliers were taken from public submissions to the Environmental Assessment process that included input-output model results. As discussed below, the RBA would like to work with the Province to develop mutually agreed multipliers for various types of projects using the BC Input-Output Model.

More Development is Imminent

The most recent Major Project Inventory report indicates that there are 49 potential major projects in Northwest BC with a total construction cost of $178 billion. Of those, eight[5] are LNG plants and related pipelines, representing 55% of the potential cost and 41 are non-LNG projects representing 45% of the cost.

The RBA recognizes that not all of these potential projects will proceed, especially in the next 10 years. Whether and when these projects proceed depends on many factors, but the most significant factor overall is international market conditions. While it is impossible to predict accurately what will happen in the global economy, what is known is that resource markets are volatile and cyclical, and that there are a significant number of potential projects in the pipeline that could proceed quickly under the right economic conditions.

Presently the global economy is growing at a relatively strong rate and demand for many commodities has grown. The prospects for LNG in BC have weakened, but the market for LNG seems to have recently strengthened somewhat. There are no guarantees, but it would be imprudent not to be prepared for what could be a significant new boom in the Northwest.

In an effort to develop reasonable scenarios for future major project development, the RBA has applied local knowledge to assign likelihoods of each project in the Major Project Inventory commencing within the next 10 years at a low, medium and high level of overall development activity. Table 2 provides the results of this exercise for non-LNG and LNG projects. Revenue and employment implications have been generated using multipliers from BC Input-Output Model results contained in filings associated with environmental assessment applications.

Table 2

NW BC Summary of Potential Projects
10 Years 2017 - 2026

	Low	Moderate	High
Non-LNG Projects			
Number of Projects	8	14	21
Capital Cost (2015 $ milion)	16,240	27,136	40,607
LNG Projects			
Number of Projects	-	1	2
Capital Cost (2015 $ milion)	-	13,450	23,000

Even a low number of non-LNG projects would have capital costs similar to a large LNG plant and associated pipeline. Appendix C is a list of some of the potential projects. During the ten-year period, even if only eight of 41 non-LNG projects proceed there will be considerable provincial government revenue generated, including from the operation of recently completed

[5] Excluding the cancelled PNW (Petronas) and Nexen-Aurora LNG projects and associated pipelines.

projects. If there is at least one LNG project and a few more non-LNG projects, there would be very significant activity in the region.

In conclusion, whether or not there are LNG plants built in the Northwest, there is very likely to be considerable economic activity in the region, generating significant provincial government revenues.

Fundamental Inequity

In addition to the fact that the Northwest needs a revenue sharing deal because it is a have-not region, there is also clearly a question of fundamental inequity.

In part, the inequity arises because there are two regional revenue sharing arrangements that benefit the Northeast (Peace River Agreement) and the Southeast (Columbia Basin Trust). Appendix D compares these two revenue sharing arrangements with the arrangement the Northwest is proposing. The following table summarizes the comparison:

	FSA/PRA	**CBT**	**RBA**
Purpose	Access rural industrial tax base to pay for local government services	Receive a share of Columbia River Treaty Revenues for region	Access share of provincial revenues to reverse have-not status, ensure local sustainability and enhance current and future NW BC social and economic conditions
Funding Commenced	1995	1994	N/A
Type of Funding	Annual fixed contribution	Endowment, partially invested in electricity generation, generated annual income for distribution	TBD but intention is contribution proportional to economic activity
Revenue Notionally Shared	Rural industrial property tax	Compensation from US for Columbia River flow management	Capital construction of major projects, and resource industry operations
2016 Contributions	$50 million/$700 per capita	$50 million/$330 per capita	TBD
Beneficiaries	Local governments, allocated based on per capita amount, municipal industrial tax revenue	Organizations in the region, no direct payments to local governments but pressure on local governments reduced by benefits	Local governments, allocation TBD
Industries Involved	Oil & gas, some mining	Hydro-electric generation	Wide range of resource industries including clean energy, energy transmission, forestry, mining, refining, manufacturing, etc.

The charts above clearly demonstrate the inequity: The Northeast is significantly above the provincial average while the Northwest is significantly below it for every indicator. While there may be other factors involved, the fact that Northeast has received $600 million in contributions under the Fair Share Agreement and the Peace River Agreement since 1994, and currently receives $50 million per year, explains much of the discrepancy. Their per capita operating budget is more than 1.5 times the Northwest, their per capita capital acquisition spending is almost three times of the Northwest and the per capita value of their local infrastructure is over three times that of the Northwest.

As a result, the Northwest is at a significant disadvantage in competing with its neighbor on any number of fronts. The impact of this inequity at the community level is starkly apparent when two pairs of similarly-sized towns are compared in Table 3: Telkwa and Taylor; and Terrace and Dawson Creek.

Chart 3

Comparison of Select Municipalties

	Telkwa	Taylor	Terrace	Dawson Creek
Population	1,350	1,373	11,486	11,583
Revenue ($ 000)	2,389	9,107	23,471	53,852
Taxes on Representative House	2,549	1,794	2,704	2,647
Per capita Provincial Transfers	435	1,882	108	1,431
Per capita Capital Acquisition	398	1,333	213	1,154
Per capita Building and Engineering Assets	8,219	18,300	5,176	15,713

The Columbia Basin also enjoys a significant advantage as a result of the Columbia Basin Trust (CBT). While a completely different mechanism is used that does not include annual direct contributions from the provincial government, and does not directly increase local government funding, the Trust provides a level of social and economic development infrastructure and capacity to the Southeast that is extremely beneficial to the region. As described more fully in Appendix D, the Columbia Basin Trust provided a significant endowment, as well as the opportunity to invest in electricity generation assets to the Trust. The income from the Trust is used through a number of programs to benefit the region, especially in terms of social infrastructure and economic development, providing up to $50 million in value to the region each year. At its heart, the Columbia Basin Trust is a revenue sharing mechanism, intended to provide the region with a share of the benefits arising from use of the Columbia River to generate electricity.

While the CBT does not increase local government revenue in the region, the effect is to enhance the overall level of services and infrastructure available to the population of the area. Each year a significant amount is invested by the Trust in ways that clearly benefit the residents of the region and effectively reduce demands on local governments. The RBA does not believe, because of the current significant resource gap that already exists in the Northwest and the inability of local governments to do their job effectively because of it, that a trust model would be an appropriate solution for the Northwest. However, the fact that the CBT exists and provides such significant benefits to the region while the Northwest continues to fall behind, represents a significant inequity.

There is also a fundamental inequity that arises because wealth generated in the Northwest, and other rural regions, effectively funds higher levels of services and infrastructure available in the urban areas, especially the Lower Mainland. That was an important consideration when revenue sharing was instituted in both the Northeast and Columbia Basin. The charts above show this in terms of local government finance, but they do not include the tremendous levels of direct provincial capital and operating spending in urban areas. In every area of provincial responsibility, from post-secondary education to health services to various social services to transportation, urban provincial expenditure dwarfs the amount spent in rural areas, and it is enabled by the wealth generated outside urban areas. That does not mean such spending should be equal, but the fact is that almost none of the economic gain arising from activity in the Northwest remains in the Northwest. That is a significant inequity.

Of course, that begs the question of how much provincial revenue is generated in the Northwest, which is a technically challenging question. The RBA believes that it is important to both the interests of the provincial government and the RBA to answer that question using a rigorous and defensible method agreed to by the Province and the RBA. This is one of the projects that the RBA is proposing that the two parties work together on, as discussed below under Next Steps.

The Opportunity

The RBA is not seeking revenue sharing just to reverse its have-not status or to enable it to compete on a level field with other regions. The evidence is clear that, properly managed, revenue sharing contributions to the Northwest would serve to spur economic development that could substantially grow and diversify the Northwest economy. It would provide a payback to the provincial government, while benefitting the region and contributing to reversing the Northwest's have-not status.

The Northwest is a beautiful, affordable region that, if encouraged to grow, can play an important role as an alternative to the increasing unaffordability of BC's major urban areas, relieving some of that pressure. But right now, the Northwest cannot accommodate growth because the region cannot afford to plan for it, or fulfill the demands it places on communities.

There are opportunities for the Northwest to provide more local goods and services to major projects built and operated in the region. As that happens, it will create opportunities to export those goods and services in support of similar projects and industries elsewhere. Northern Ontario is a prime example of an area where mining operations have spawned expertise in many fields that support the mining industry around the world, including in Northwest BC.

There are also opportunities in non-resource industries that can be capitalized on if the Northwest is able to accommodate growth with local infrastructure and services, especially those that can benefit from the Northwest transportation corridor, affordable lifestyle and natural attractions.

First Nations are important to the Northwest and local governments across the Northwest have been working diligently with First Nations to achieve reconciliation. While that work is not dependent on revenue sharing, it is a priority that can, and will, be enhanced with a revenue sharing arrangement. This includes the involvement of urban First Nations people in the economic development focus that revenue sharing will enable.

The question is: How should revenue sharing best be managed to ensure an economic development focus? The RBA envisions implementing a region-wide economic development approach. It would entail working with the member local governments to prepare an economic development framework and a process for publicly reporting on progress. This would provide accountability to the residents of the Northwest and the Province.

To ensure that this mechanism is effective, the RBA intends to work closely with the Province to develop and implement economic development and reporting frameworks, as discussed below under Next Steps.

Consequences of Inaction

What would happen in the absence of revenue sharing? What was a significant problem in 2013 has become a critical issue in 2017 and, without some relief will just become worse over time. That means that local governments, especially small communities which are already not sustainable, will be unable to provide discretionary services that are standard across most of the province and be unable to provide basic required local government services. Some communities, such as Telkwa, already question whether they will be able to pass acceptable budgets in the coming year or two.

As local governments become increasingly stressed, their ability to respond to needs resulting from major projects or any form of development will be reduced even further. That will make it difficult or impossible for local governments to support development in the Northwest, either in terms of engaging with or providing services to the major capital projects, or in terms of providing public support to development. That may affect whether and when some of these projects proceed.

Proposed Approach

The RBA believes that its business case clearly establishes the need and justification for a revenue sharing arrangement for the Northwest. The RBA's declared interest is to achieve an arrangement that will address, and reverse over a reasonable period, the have-not status of Northwest BC as a region.

Given that overall goal, the RBA proposes working jointly with the Province in a collaborative, interest-based approach to develop an arrangement that works for both parties. While the RBA has some ideas for how an arrangement could be structured, rather than starting discussions with a specific proposal, the RBA would prefer to start by establishing the interests of the parties and a mutually agreed set of principles which can lead us to a successful conclusion.

The following is a draft initial task list for the next three months, proposed for discussion:

Month	Task /Discussion Topic
October 2017	• Deliver NWRBA Business Case • Meet and discuss Business Case • Develop guiding principles and joint statement of interests • Establish capacity funding for discussions, research and negotiations
November 2017	• Identify and commence follow-up research • Discuss main heads/elements of an agreement
December 2017	• Agree on main heads and elements of an agreement • Establish timetable for discussions and negotiations with objective of reaching agreement in principle/term sheet by March 31, 2018 • Check in meeting with NWRBA Leaders and Premier

Capacity Funding

The RBA has, to date, spent about $600,000 to get to the point of engaging with the provincial government to discuss this matter and, as indicated under Next Steps, there is considerable work ahead. This cost has arisen over the course of four years at a time when RBA members could least afford it.

The RBA is asking that capacity funding be provided as soon as possible to better enable the RBA and its member to participate in and conclude the current process. A contribution of $300,000 would be a one third provincial contribution to the total RBA cost of the initiative.

Proposed Tasks

The RBA has identified some research and further work that will need to be addressed to support discussions and an ultimate agreement:

1. **Quantification of Revenue**: It would be beneficial for both parties to have a better understanding of regional generation of provincial government revenue over time and at the present. That includes an understanding of the general and resource revenue streams that are generated in the Northwest. It also includes understanding and quantifying, the impacts of major projects in terms of multipliers for various types of project, using input-output model analysis. The RBA has engaged Grant Thornton to work with both parties to develop mutually agreed estimates, as a foundation for the business case. The project is described more fully in Appendix E.
2. **Economic Development and Governance Framework:** Creation of a Northwest Economic Development and Governance Framework to ensure that there is a direct link between revenue sharing contributions and increased local economic development in

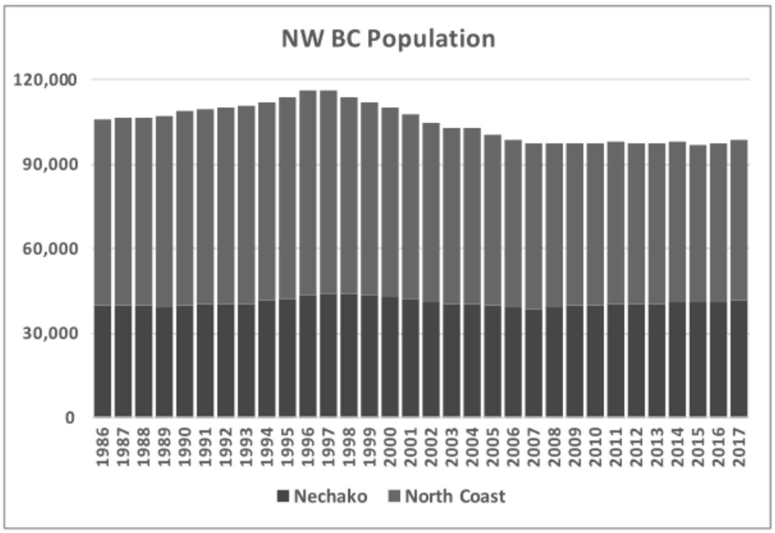
the region is critical. This will help ensure that the RBA is accountable to its members, the residents of the Northwest, and the Province for enhanced economic development. While this must be a mechanism that works for and is supported by the RBA and its members, it must also satisfy the provincial government in order to be effective. Grant Thornton has also been asked to work with both parties to develop this framework, as described in Appendix F.

3. **Benchmark for Local Government Service and Infrastructure Provision**: The question of what a reasonable standard is for local government services and infrastructure in BC has arisen. The RBA proposes to collaboratively work with the Province and an outside contractor (to be determined) to provide an answer to that question to support this business case.
4. **Allocation:** The RBA anticipates that an appropriate allocation mechanism among the region's local governments may have to be tailored to the structure of the arrangement and has therefore not yet developed a formal allocation arrangement. However, it will be important for the region to have fully resolved this element of the arrangement prior to completing discussions. The RBA will work on this issue as discussions proceed.

Appendix A – Northwest Economy

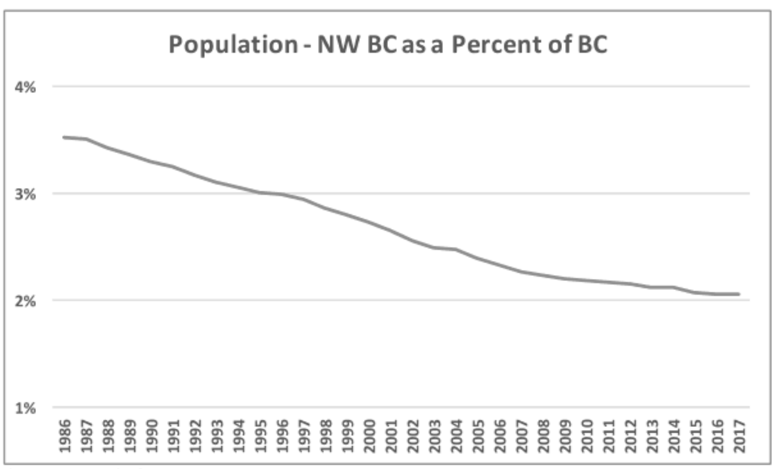
Charts A1 and A2 present population statistics. Northwest BC has an estimated population of 98,000 (2017). While the population has grown slightly over the past decade, it is 15% below its maximum level achieved in 1996. Compared with the population of the province, the population of the Northwest has been declining steadily since 1986. Within the RBA region, the Nechako Development Region has seen relatively little population change while the North Coast Development Region has seen more significant population fluctuations. Fly-in, fly-out workers living in camps are not included in the population estimates.

Chart A1



Source: BC Stats

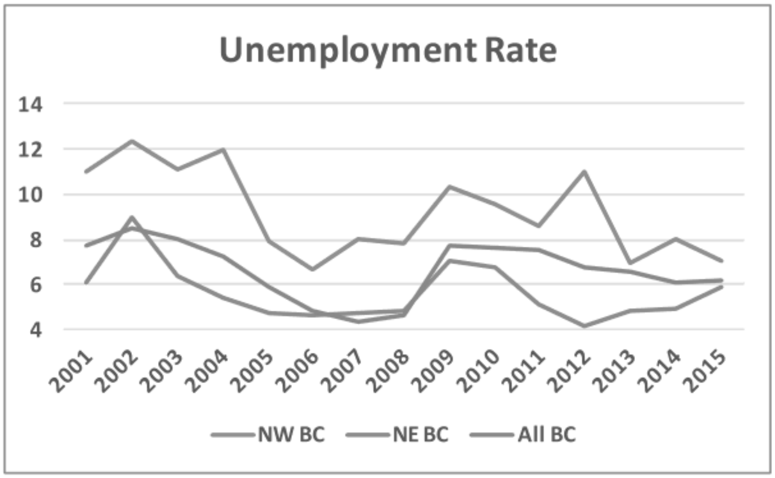
Chart A2



Source: BC Stats

The labour market in the Northwest has lagged behind the rest of the province historically. As shown on Chart A3, on average since 2001 the unemployment rate in Northwest BC has been 9.2%, the worst of any BC Development Region. In contrast, the average unemployment rate in the Northeast has been the lowest in BC on average at 5.6%.

Chart A3



Source: BC Stats

Appendix B – Major Projects Undertaken 2012-2016

Name	Capital Cost ($ million)
Smelter Modernization Project	4,800
Mount Milligan Mine	1,263
Prince Rupert Port Expansion	820
Brucejack Gold Project	811
Northwest Transmission Line (NTL)	746
Forrest Kerr Hydroelectric Project	725
Red Chris Porphyry Copper/Gold Project	663
Endako Mine Expansion	600
Kemano Tunnel Project	500
Fort St. James Biomass	235
Mclymont Creek Hydroelectric Project	217
Huckleberry Copper / Silver / Molybdenum Mine	201
Ridley Terminals Expansion	200
Fairview Container Terminal Expansion	200
Iskut Extension Hydro Transmission Line	130
Long Lake Power Project	100
Prince Rupert Port Road Rail Utility Corridor	90
Dasque-Middle Creek Hydro Project	75
Port of Stewart Expansion - World Port	70
Babine Sawmill Replacement	50
Silvertip Silver Mine	50
Westview Pellet Terminal	42
Volcano Creek Hydroelectric project	40
Swamp Creek Aggregate Project	27
Long Lake Hydro Interconnect Project	24
Fraser Lake Sawmill Biomass Project	20
Tsimshian Peninsula Access Project	20
Stewart Bulk Terminals	15
Total	**12,734** [6]

[6] Source: Major Project Inventory reports, 2012 to 2016 http://www2.gov.bc.ca/gov/content/employment-business/economic-development/industry/bc-major-projects-inventory
Includes the capital cost of projects completed or where most of the capital expenditure was made during the period 2012 to 2016. Does not include capital spending on projects later put on hold, such as camp and road building work on mines that have yet to receive final approval or where development has ceased, or pre-FID spending on LNG projects.

Appendix C – Select Potential Major Projects[7]

Name	Capital Cost ($ million)
Kerr, Sulphurets Mitchell and Iron Cap (KSM)	5,300
Galore Creek Gold/Silver/ Copper Mine	5,000
Schaft Creek Porphyry Copper-Gold Mine	2,900
Blackwater Gold Project	1,800
Kitsault Mine Project	1,000
Groundhog Project Anthracite Coal Mine	600
Morrison Copper-Gold Mine	517
Ridley Island Propane Export Terminal	500
Kemess North - Aurico	475
Fairview Container Terminal Expansion	200
Kutcho Creek Mine Project	188
Prince George to Terrace Capacitor Project	125
Red Mountain Underground Gold Project	76
Harmony Gold Mine	50
Stewart - Omineca Resource Road	45
Highway 16 West Mile 28 Construction	38
Total	**18,814**

[7] Source: Major Project Inventory Report, 2016 Q2

Appendix D – Revenue Sharing Comparison

Columbia Basin Trust (CBT)

History

In the 1960s, Canada and the US entered into the Columbia River Treaty for the purpose of preventing and controlling flooding and water flow on the Columbia River and to facilitate the development of hydroelectric facilities on the Columbia River system (which flows across the US/BC border several times). That treaty remains in effect and is subject to regular review. One of those reviews took place in the mid-1990s. BC receives annual compensation from Washington State under the treaty.

In the early 1990s a group from the Kootenays region began to raise concerns that they had not been adequately consulted when the treaty was negotiated and that none of the revenue generated for the province due to the treaty remained within the region. The result was that, in 1995 the CBT was created as an organization intended to benefit the entire Columbia Basin Region.

CBT Mission
"*The Trust supports efforts by the people of the Basin to create a legacy of social, economic and environmental well-being and to achieve greater self-sufficiency for present and future generations*."

Contributions

CBT was endowed with $275 million to invest in power generation on the Columbia River, providing an ongoing revenue stream directly from Columbia River hydroelectric facilities plus $45 million for the purpose of investing in other assets. CBT also received $2 million per year to offset administrative costs up until 2010.

In 2015/16 CBT earned revenues of over $30 million and spent about $32 million on delivering benefits directly to the communities. The provincial government indicates that CBT provides at least $50 million of value annually to the Columbia Basin, probably by including the value of loans and other services in addition to direct contributions to organizations in the Basin.

Beneficiaries

CBT has a board comprised of local appointees and appointments made by the provincial government. The board is responsible for overseeing investment of funds and delivery of benefit programs. These programs cover arts and culture, social service, economic development and community development. Benefits are **not** paid to Columbia Basin local governments but rather to local organizations, most of them not-for-profits, since the CBT mandate prohibits CBT from relieving governments of obligations in the region. CBT is also involved in region-wide planning activities.

Funding for regional planning, arts and culture, social services and economic development do not relieve local government of their obligations but they do tend to take pressure off local governments to get financially involved. In addition, capital funding provided to not-for-profits who are eligible for cost shared funding from senior governments helps to enable local government infrastructure funding to go further.

With a regional population of 150,000, $50 million represents about **$330 per capita**.

Peace River Agreement (PRA)

History

In the early 1990s the Peace River Regional District and the municipalities and electoral districts within the regional district approached the provincial government seeking access to a share of provincial industrial rural property tax revenues within the regional district. Their argument was that the industrial tax base in the Northeast, primarily related to the oil and gas industry,[8] was spread across the land base, however service demands related to this activity fell on local government. Local government revenue was not available to cover the service costs because most of the activity fell outside municipal boundaries.

The Fair Share Agreement took effect in 1994 and remained in effect until 2015, with revisions in 1998 and 2004. The Fair Share Agreement was replaced in 2015 with the Peace River Agreement.

Main Features

Fair Share Agreement

- Fair Share 1 (1994 - 1997) $4 million annually no adjustment based on actual revenue or other factors
- Fair Share 2 (1998 - 2004): $12 million annually, no adjustment
- Fair Share 3 (2005 - 2015): $20 million in 2005 growing to $46 million in 2015 indexed to rural industrial tax base, one-time "signing bonus" grant of $35 million in 2005
- Agreement term was to 2020 but renegotiated in 2015 at the insistence of the provincial government

Peace River Agreement

- 2016 - 2034: $50 million per year, growing at 2% per year beginning in 2020, one-time $3 million grant in 2015 for those signing by the deadline
- Also requires municipalities and the Peace River Regional District to prepare long term development plans, along with annual development plans and annual progress reports. The Assistant Deputy Minister for Local Government will review these plans and reports as part of an annual funding approval process.

With a regional population of 72,000, $50 million represents about **$700 per capita**.

Allocation

The Fair Share and Peace River Agreement use similar allocation approaches:

- Fixed contributions provided to the regional district and each electoral area.
- Municipal contributions are based on the principle of sharing industrial revenue equally on a per capita basis across the regional municipalities.
- In practice that means equalizing the per capita amount of municipal industrial property tax plus the municipality's share of the provincial government contribution, subject to a minimum contribution.
- The percentage allocations vary slightly year to year due to population changes but the biggest swings arise from changes in industrial property tax revenues within municipalities. For example, Tumbler Ridge has gone from very little municipal industrial

[8] As well as some mining around Tumbler Ridge.

tax revenues to high tax revenues in early 2000's as coal prices climbed and new mines opened to again relatively low industrial taxes as prices dropped and mines closed.

- Adjustments are made for BC Hydro dam grants in lieu and other unusual circumstances.

Comparison with RBA

Similarities

- Both CBT and Fair Share/PRA are based on the region getting something in return for the significant provincial revenues generated by economic activity in the region; RBA has a similar fundamental motivation.
- Fair Share/PRA is predicated on development outside municipal boundaries putting pressure on municipal infrastructure and services; RBA also has significant activity outside municipal boundaries.
- Fair Share/PRA is directed specifically towards local government fiscal sustainability; RBA also has significant need for additional revenue to cover costs imposed by industrial activity.
- $35 million Fair Share 2005 one-time payment is similar to the one-time funding the RBA is suggesting based on projects over the past five years to enable planning and begin to recover from years of underfunding.

Differences

- CBT funding is not made available to local governments and governance is not connected with local governments; Fair Share/PRA and the RBA both deal specifically with local government finance.
- CBT is based on an endowment and the opportunity to invest in high-return electricity generation facilities on the Columbia River; the RBA is seeking ongoing funding.
- PRA is not related to the level of activity in the region; the RBA is seeking proportional funding.
- The Northeast has a level of industrial activity spread across much of the land-base mostly in a single industry; the Northwest has a number of high values major projects operating, under construction or in process at discrete locations, as well as widespread forestry operations.
- Fair Share/PRA are notionally based on provincial industrial property tax revenues related primarily to the oil and gas industry; RBA is seeking a share of all provincial revenues associated with construction and operation of major projects, as well as other resource-based revenues generated in the region.
- The Columbia Basin has a population of about 150,000, the Northeast about 72,000 and the Northwest about 95,000.

Appendix E – Regional Revenue Estimation

The hypothesis that requires validation is that there are considerable revenues generated for the Province by a range of activities – both through major project investments and annual operations -- in Northwestern BC. It is believed that revenue generated by activities taking place outside the boundaries of the 18 municipalities in the region does not significantly benefit those municipalities, despite the fact these municipalities provide infrastructure and services to transient populations, businesses and capital projects that are involved in the revenue-generating projects. These transient populations, businesses and capital projects do not pay municipal property taxes. Municipal property taxes are the main source of revenue that enables municipal governments to provide and maintain essential infrastructure and provide key municipal services.

The foundational component of this business case will be the quantification of historical and future revenues flowing from Northwestern BC to the Province. At this time, the value of these revenues is believed to be large, but is not known. They are generated from many sources. Provincial records of these revenues reside in different ministries, in various formats and in varying levels of detail. Due to the diversity of revenue sources and the fact that they are not obtainable from one government ministry, a **collaborative effort between the RBA and the Province** is required to:

- Confirm the specific categories for revenue-generating activities, related to both capital investments and ongoing operations;
- Identify the location (e.g., government department) and format of revenue data associated with the above-referenced revenue generating activities;
- Determine the method for obtaining the revenue data;
- Obtain the revenue data through the appropriate channels;
- Prepare a schedule that documents the revenue data and the sources;
- Estimate "spin-off"[9] benefits of this revenue generation to the Province and, if applicable, to the municipalities, through the application of valid multipliers[10]; and,
- Estimate and document future revenues, and associated "spin-off" benefits, based on knowledge about major projects that will likely proceed in Northwestern BC.

It is essential that the above data collection, documentation and analysis are valid and defensible from the perspectives of both the Province and the RBA.

[9] The "spin-off" benefits derived from the direct revenue (or the initial expenditure) include:

- **Indirect impacts**: subsequent purchases by suppliers of materials and services to sustain the original and derivative expenditures.
- **Induced impacts:** emerge when workers in the sectors stimulated by initial and indirect expenditures spend their additional household income on consumer goods and services.

[10] Multipliers are summary measures that represent the division of the total impacts (direct, indirect and induced) by the initial expenditures. For example, the income multiplier associated with the total operational expenditures of a business operation is calculated by dividing the total income (value added) impact by the initial operating expenditures. The only exception is that of the employment multiplier where total employment is divided by direct employment in order to preserve the common units.

Appendix F – Economic Development and Governance Framework

Another key component of the Business Case is the development and use of a sound economic development, governance and accountability framework focused on economic development across the Northwest. Such a framework is critical to effective investment of Provincial revenues in Northeastern BC through a revenue-sharing agreement.

Such a framework will guide:

- The process for the distribution of funding amongst municipalities and regional districts to ensure this is based on principles that encourage fair allocation and effective investments;
- The development of economic development and diversification plans, to ensure funding supports projects that line up with municipal, regional and provincial goals, without compromising the autonomy of municipalities with regard to fiscal decisions;
- The tracking and monitoring of investments to ensure funding is invested as planned;
- The evaluation of results, to estimate the return on investment ("ROI") to municipalities, regional districts and the Province resulting from the revenue-sharing agreement; and,
- The process and timeline for the regular reporting of results to the RBA and to the Province.

Note that the above elements of the framework will require an appropriate balance between local decision-making authority, responsibility and regional coordination.

The framework is scheduled to be developed in November 2017.

Key steps required to develop the framework include:

- Conducting best practices research regarding governance and accountability structures for revenue-sharing agreements;
- Consistent with the above step, reviewing governance and accountability structures for revenue-sharing agreements in other jurisdictions to determine key elements that have worked well;
- Preparing a draft framework that incorporates best practices and defines:
    - A governance structure that can be used for the revenue-sharing agreement,
    - An annual business and investment planning process for the funding provided to the RBA,
    - A monitoring and tracking process for the funding, and
    - An annual evaluation and reporting process and framework that can be used by the RBA in its reporting back to the Province about the investment of funds and associated results;
- Presenting and discussing this draft framework with the Province; and,
- Following the above-noted discussions, finalizing the framework.