

September 9, 2019

Hon. Carole James
Minister of Finance and Deputy Premier
PO Box 9048, STN PROV GOVT
Victoria, BC V8W 9E2

VIA EMAIL: FIN.Minister@gov.bc.ca

Dear Minister James,

Please find attached a submission from the Prince Rupert Port Authority with regards to the BC Government's review of the Port Property Tax Act (PPTA).

The BC Ports Competitiveness Initiative and the Ports Property Tax Act, has been a progressive platform for growing the gateway industry in British Columbia, and has been effective in achieving its objectives.

In northern BC, the investment in and growth of the gateway industry has been one of the strongest and most consistent drivers of economic diversification and employment growth in a region that has continually struggled with the realities of economic cycles. In particular, the Port's growth has resulted in successful alignment with local First Nations, resulting in multiple examples of participation in the industry and ongoing shared prosperity.

The Act has successfully created a stable and competitive investment environment for eligible marine terminals in BC's major ports and, since the implementation of the Act, several billion dollars of private sector investment has been made in BC marine terminals.

This investment has expanded trade capacity, capabilities, and volumes through BC ports, and has had an associated economic and employment benefit for the BC economy. Local governments have seen a significant increase in property tax revenue.

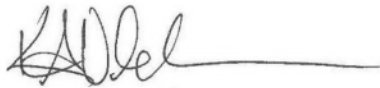
Any changes to the Ports Property Tax Act that would result in increasing the tax burden on BC port terminals would risk port competitiveness and these achievements. Increased costs would likely be borne significantly by BC and Canadian producers and shippers, and would decrease the attractiveness of future investment in the gateway and other industries.

Given the success of the Act, and the inherent risk associated with changing it, we would emphatically urge the BC Government to maintain the Act based on the tenets of its current form to ensure the continued growth and competitiveness of the economy of BC and the Pacific Gateway.

We believe you will find that PRPA's submission provides a considered and comprehensive review and justification for this position.

Thank you for the opportunity to contribute to this process. Should you have any further questions, please do not hesitate to contact us for further information.

Sincerely,



Ken Veldman

Vice President, Public Affairs & Sustainability

C.C.

Hon. Bruce Ralston, Minister of Jobs, Trade & Technology (JTT.Minister@gov.bc.ca)

Hon. Claire Trevena, Minister of Transportation & Infrastructure
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BC PORTS PROPERTY TAX

PRINCE RUPERT PORT AUTHORITY

**Submission to the
Government of British Columbia
August 31, 2019**



PRINCE RUPERT PORT AUTHORITY

The Prince Rupert Port Authority (PRPA) is a Canadian Port Authority created under the Canada Marine Act. Its purpose is to **build a better Canada by growing trade**, and is mandated to develop the Port of Prince Rupert to support and add competitive value to Canadian trade, manage federal crown lands dedicated to that mandate, and ensure the safe transit of vessels in and out of the harbour through effective oversight.

The Port of Prince Rupert has become a vital pacific trade gateway connecting North American and Asian markets, and an economic engine for Northern BC. The Port has several unique attributes, a combination that is **unreplicated in any alternative west coast port**, that have enabled its ability to grow and diversify its volumes, unlock private sector investment in new infrastructure capacity, and add value to Canadian trade:

- The **shortest transpacific marine route** from Asia to North America, cutting shipping times up to 3 days compared to other west coast ports
- The **deepest natural harbour** in North America, capable of handling increasingly larger ocean vessels without costly and environmentally impactful channel dredging
- The **safest marine transit** on the west coast, marked by short routes in coastal waters, wide and sheltered approaches, relatively low vessel traffic, and an established port safety and response regime
- Significant **rail capacity, uncongested connectivity and market reach** through CN's continental network, including the lowest GHG emission profile due to the gentle grades of the northern corridor and mountain passes
- Exceptional **community, First Nations and labour support** for port operations and continued gateway expansion, enhanced by the absence of urban land conflicts

Over **26 million tonnes** of diversified cargoes were shipped through the Port of Prince Rupert in 2018, representing an estimated **\$50 billion in trade**, making it the third largest port in Canada. Currently, the Port facilitates both imports and exports through six primary terminals owned and operated by private sector tenants leasing property in PRPA jurisdiction:

- Fairview Container Terminal
- Ridley Terminals (Dry Bulk)
- Prince Rupert Grain Terminal
- Westview Wood Pellet Terminal
- Ridley Island Propane Export Terminal
- Northland Cruise Terminal

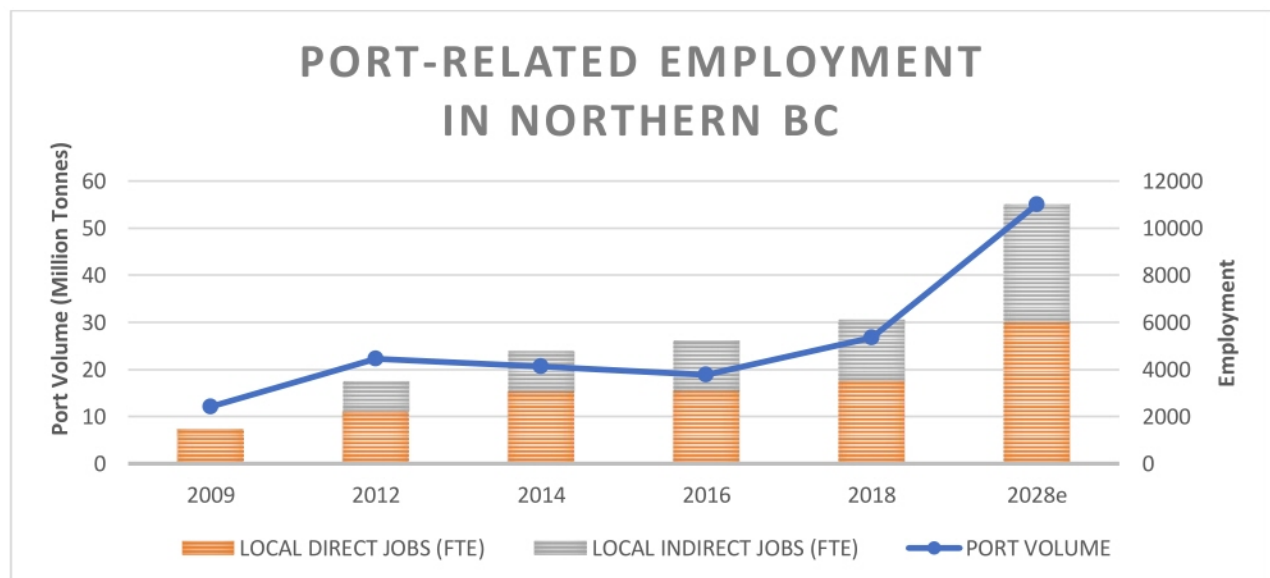
These terminals represent a variety of container and bulk capabilities that handle a diversified mix of products from Canadian and BC industries such as:

- Forestry (pulp, lumber, wood pellets)
- Agriculture (cereal grains, pulse & specialty crops)
- Natural gas liquids (propane)
- Mining (metallurgical coal and mineral concentrates)
- Manufacturing (consumer goods and industrial inputs)
- Tourism (cruise passengers)

In northern BC, the **\$1.5 billion worth of economic output** generated from marine, terminal, rail, trucking and service activity associated with moving cargo in and out of Prince Rupert generates significant economic benefits:

- **6200 direct and indirect permanent operational jobs** (FTE)
- \$480 million in annual wages (average wage of \$77,000)
- \$126 million in annual government tax revenues (including \$33 million to the Government of BC and \$9 million to local governments)
- \$763 million in GDP

Increasing Port of Prince Rupert trade volumes have generated approximately **5000 jobs in 10 years**, an increase of 500%, the “gateway industry” associated with the Port of Prince Rupert has been established as one of the fastest growing industries in northern BC, and one of its key economic generators. Its employment and economic benefits are widespread through communities and First Nations throughout the trade corridor.



First Nations participation in Port of Prince Rupert's economic growth should also be noted. Local First Nations residents, First Nations governments, and First Nations-owned businesses (and joint ventures) have participated significantly in the opportunities presented by investment and growth in the Port of Prince Rupert, including financial participation through accommodation agreements, employment in port-related businesses, and contracting opportunities. For example:

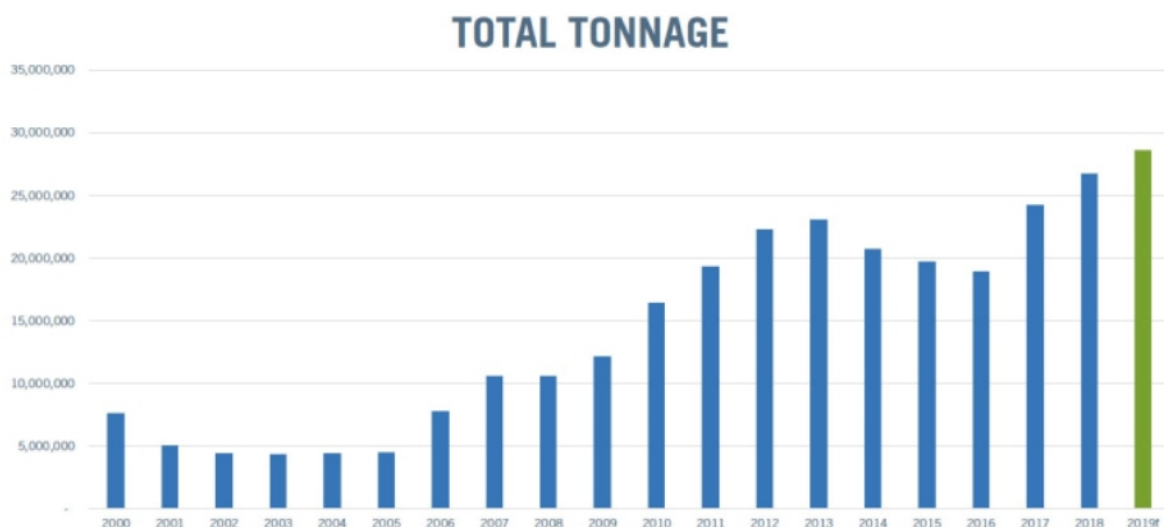
- 35% of employees in local port-related businesses are indigenous (PRPA survey, 2018). This compares to 32% of the total population aged 15 years and over (2016 Census).
- Since 2011, PRPA (as a single entity) has provided contracts totaling \$214 million to local First Nations enterprises.

BC Government revenues have also been positively impacted by Port of Prince Rupert growth. Based on successive economic impact reports from 2009, estimates of BC Government revenues, largely from corporate and personal income tax contributions derived from business and employees directly engaged in Port of Prince Rupert-related activities, have also grown in conjunction with port volumes:

	Contributions to BC Government Revenues
2011	\$11 Million
2014	\$21 Million
2016	\$32 Million
2018	\$33 Million

PORT PERFORMANCE

Volumes through the Port of Prince Rupert have increased from less than 5 million tonnes annually in 2005 to over 26 million tonnes in 2018, driving significant economic benefit to BC both in terms of trade and regional economic impact.



Growth in port volumes have been tied to significant capital investment in terminal capacity, totaling in excess of \$1 Billion. Terminal investments since 2005 include:

	Terminal Development/Expansion	Capital Investment
2007	Fairview Terminal Conversion	\$200 million
2014	Westview Wood Pellet Terminal	\$50 million
2014	Ridley Terminals Expansion	\$200 million
2017	Fairview Terminal Expansion	\$200 million
2019	Ridley Island Propane Export Terminal	\$500 million
	TOTAL	\$1150 million

In addition, PRPA, federal and provincial governments, and CN have invested almost \$500 million in improvements to surrounding trade corridor and gateway infrastructure to ensure the capacity and fluidity has been in place to respond efficiently to this growth.

The Ports Property Tax Act has played a significant role, while obviously not the only role, in securing these private sector investments that have been critical to expanding port volumes, supporting BC and Canadian trade, and driving regional economic development and job creation. The property tax treatment enabled by the Act has ensured not just a competitive tax regime, but also the certainty related to taxation costs that has served to derisk these significant investments.

The Port of Prince Rupert is entering another period of significant growth and diversification, and requires PRPA to expand the gateway's road and rail infrastructure to facilitate last mile connectivity of cargoes to individual operations. **The total volume for the Port of Prince Rupert is forecast to double to 55 million tonnes by 2028.**

This demand is expected to unlock an estimated **\$2.5 billion of capital investment** at the Port of Prince Rupert by 2028. Cargo volume growth is estimated to increase permanent operational employment by **3000 new direct jobs (and an additional 2000 indirect jobs)** in northern BC. As noted above, PRPA has successfully embedded local First Nations participation in the Port's success through innovative agreements that provide financial benefits tied to volumes, preferential position for construction contracts, gateway employment opportunities, and market-based business partnerships.

Projects currently advancing in PRPA's development portfolio include the following critical private sector terminal developments:

- **Fairview Container Terminal, Expansion 2B** (+450K TEUs capacity)
 - Proponent: DP World
 - s.21
 - New Employment: +250 FTE (terminal), +250 FTE (rail, marine, trucking)
 - Timeline: Construction start/finish -- Q1 2020/Q2 2022
- **South Kaien Island Terminal** (+2.5M TEUs capacity)
 - Proponent: DP World
 - s.21
 - New Employment: +750 FTE (terminal), +750 FTE (rail, marine, trucking)
 - Timeline: Construction start/finish – Q4 2024/Q4 2027
- **Vopak Pacific Liquid Bulk Terminal** (6 MMT capacity)
 - Description: New terminal for multi-product liquid storage & export
 - Proponent: Royal Vopak
 - Capital Investment: \$775 million
 - New Employment: 75 FTE (terminal), +75 FTE (rail, marine)
 - Timeline: Construction start/finish – Q2 2020/Q2 2022

- **Ridley Terminals Inc. Berth Expansion** (9 MMT capacity)
 - Description: Second berth expansion for dry bulk capacity expansion
 - Proponent: Ridley Terminals Inc.
 - Capital Investment: \$50 million
 - New Employment: 75 FTE (terminal), +75 FTE (rail, marine)
 - Timeline: Construction start/finish – Q3 2019/Q1 2021

This forecast growth, and the associated investments in PRPA's development portfolio, are not guaranteed. Canada's west coast ports compete with U.S. ports in Washington and California. Securing these volumes through the Port of Prince Rupert, ensuring maximum competitiveness for BC and Canadian shippers, and capturing the regional economic development impacts for BC communities and First Nations, require full attention to all aspects of gateway competitiveness.

Continued competitiveness in the investment climate, including the magnitude and certainty of future property tax rates, needs to be considered as a critical element in securing this future investment.

IMPACT ON LOCAL GOVERNMENT REVENUES

Since the introduction of the Ports Property Tax Act in 2003 as a key element of the BC Government's "Ports Competitiveness Initiative", Prince Rupert Port Authority property-related revenues to local governments have grown to over \$9 million dollars. This represents growth of almost six million dollars since 2004, an increase of over two and a half times over that time.

Port property-related revenues can be segregated as follows:

Payments In Lieu of Taxes ("PILTs"): PRPA administers federal Crown land, which is restricted to development related to the PRPA's mandate of growing Canadian trade (i.e. "port purposes"). Unleased federal crown land in Canada is not subject to municipal property tax jurisdiction, but instead submits payments to municipal governments that are determined by a market appraisal of the property and the appropriate classification and relevant application of municipal property tax rates. This is primarily vacant land that has not been leased by PRPA to a third-party interest, but also includes PRPA owned and operated assets. This land base is **not** subject to the Ports Property Tax Act and associated caps.

Taxes from property leased to third party interests but not affected by the Ports Property Tax Act and associated caps ("Non-capped properties"): After PRPA has leased property to a third-party interest it is subject to regular assessment by BC Assessment Authority. If it is not a marine terminal as defined in the Ports Property Tax Act, it is not subject to the associated caps. This primarily includes logistics and warehousing operations, administrative and inspection services, and other port-related service partner activities, and is economically driven by port operations and cargo volumes.

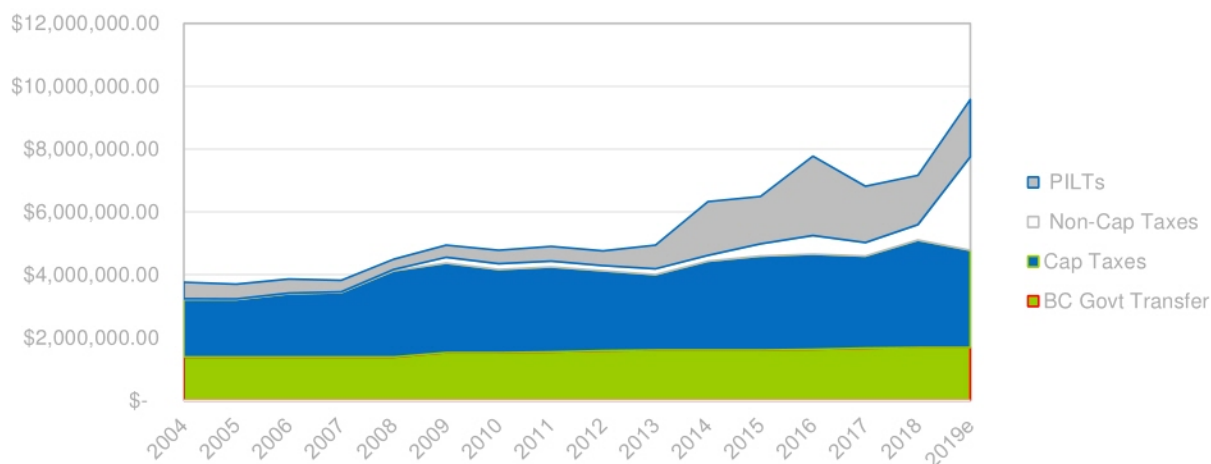
Taxes from property leased to third party interests and eligible for the Ports Property Tax Act and associated caps ("Capped properties"): After PRPA has leased property to a third-party interest it is subject to regular assessment by BC Assessment Authority. If it is a marine terminal as defined in the Ports Property Tax Act, it is subject to the associated caps. PRPA has 4 terminals within its jurisdiction that are impacted by the Ports Property Tax Act:

- Fairview Container Terminal
- Prince Rupert Grain
- Ridley Terminals Inc.
- Westview Wood Pellet Terminal

BC Port Competitiveness Tax Grant: This annual transfer to local government was established by the BC Government when the Ports Property Tax Act was introduced, and represents the initial revenue gap that was incurred when property tax rates were first reduced to a cap level from the municipal government's rate at that time, and enabled the municipal government to remain financially whole. The amount of the transfer has been increased over time to recognize inflation but has essentially remained stable.

(Many other port-related businesses also pay property taxes to local government, such as the railway and operations located outside of PRPA jurisdiction. This submission does not specifically address those related properties.)

PORT OF PRINCE RUPERT TAX REVENUES TO LOCAL GOVERNMENT



Port of Prince Rupert Tax Revenues to Local Government by Source, 2004-2019

	PILTs	Non-Cap Properties	Capped Properties	Port Competitive Grant	TOTAL MUN. REVENUES	% CHG vs 2004
2004	519989	24644	1831311	1383536	3759479	-
2005	465729	24353	1833650	1383536	3707268	-1%
2006	434889	28048	2011763	1383536	3858235	3%
2007	375059	28240	2044295	1383536	3831130	2%
2008	329145	23840	2752323	1383536	4488843	19%
2009	388970	197306	2845495	1521548	4953319	32%
2010	431834	183453	2652815	1521546	4789648	27%
2011	465124	186621	2705883	1542848	4900476	30%
2012	474607	173745	2541683	1578333	4768368	27%
2013	763000	177058	2417118	1595695	4952871	32%
2014	1702000	183359	2846892	1595695	6327946	68%
2015	1522639	383605	2983080	1611652	6500976	73%
2016	2514725	595068	3033694	1629380	7772867	107%
2017	1790121	439473	2927324	1660338	6817256	81%
2018	1560030	501028	3406503	1695206	7162767	91%
2019e	1817903	2988238	3079083	1729110	9614334	156%

PRPA property-related revenues currently dominate the major industry class for the City of Prince Rupert, which has increased at a rate higher than any other local property tax class since 2004. In 2018, the major industry class (including PILTs and the BC Competitiveness Tax

Transfer) represented 36% of the City's tax revenue, a number that compares very favourably to other BC municipalities. For example, Prince George (another northern BC city with a strong industrial tax base) receives approximately 12% of their tax revenues from major industry. Terrace (another comparably sized city in northwest BC) receives about 3% of their tax revenues from major industry.

Presented another way, the City of Prince Rupert's revenues from major industry represents approximately \$560 per capita, compared to \$165 in Prince George, or \$30 in Terrace (based on 2018 revenues).

In summary, the capital investment into the Port of Prince Rupert should be considered to have had a significant positive impact on local government revenues.

POTENTIAL CHANGES TO THE PORTS PROPERTY TAX ACT

BC's Ports Competitiveness Initiative, including the Ports Property Tax Act, has demonstrated significant success in its goal of encouraging new investments in ports infrastructure and securing the competitive position of British Columbia's major industrial ports.

However, with the strong caveat that the basic principles of the Act should not be altered, PRPA would suggest that the following topics may be worthy of further consideration during this review:

CONSIDERATION OF THE DEFINITION OF "ELIGIBLE PORT PROPERTIES"

The Ports Property Tax Act defines "eligible port property" as property that is next to a navigable waterway, and includes improvements for purpose of sea-going cargo loading and storage. However, it specifically excludes properties that are "primarily used for the purpose of the transport of crude oil or petroleum fuel products or both".

AltaGas has recently commissioned its Ridley Island Propane Export Terminal in the Port of Prince Rupert. [s.13; s.17](#)

[s.13; s.17](#)

efficient and effective export supply chains, of which port terminals will be a significant factor, will be a critical success factor to realize maximum economic benefits in this industry. The exclusion of similar future terminal investments from the Ports Property Tax Act will be contrary to the goals of the Act.

In a more general sense, the exclusion of a terminal from Ports Property Tax Act based on the product being shipped through it would appear to be contrary to the BC Government's tax policy principles of equity and neutrality within the ports sector.

CONSIDERATION OF MUNICIPAL REVENUE CONSISTENCY

Municipalities generally have broad authority to set tax rates. One of the objectives they attempt to achieve is to adjust mill rates in relation to class assessments in order to achieve a consistent revenue flow from year to year. Assessments in most classes rise and fall with the market, and mill rates act as a counterbalance to ensure the same dollar amount is achieved.

BC Assessment's valuation of industrial properties relies heavily on the cost approach to valuation, which is based on the replacement cost of a property, taking into account the depreciation of buildings and other improvements. As a result, an individual terminal's assessment often sees gradual decline in its property valuation if new investment into improvements are not made. If this decline was extended to the full tax class, the nature of the tax rate cap provided by the Ports Property Tax Cap limits the municipality's ability to address the decline by manipulating the mill rate. The desire for local government to ensure stability in its tax revenue flows from year to year is understandable, and the current mechanism within the Act presents a potential challenge for financial planning, especially within relatively small municipalities.

While PRPA believes it is paramount that municipal financial challenges are not balanced at the expense of investment and industry competitiveness, the revenue mechanism for municipalities may have the potential for improvement in order to address this issue.

CONCLUSION

The BC Ports Competitiveness Initiative and the Ports Property Tax Act have been a progressive platform for growing the gateway industry in British Columbia, and has been effective in achieving its objectives.

The Act has successfully created a stable and competitive investment environment for eligible marine terminals in BC's major ports and, since the implementation of the Act, several billion dollars of private sector investment has been made in BC marine terminals.

This investment has expanded trade capacity, capabilities, and volumes through BC ports, and has had an associated economic and employment benefit for the BC economy. Local governments have seen a significant increase in property tax revenue.

Any changes to the Ports Property Tax Act that would result in increasing the tax burden on BC port terminals would risk port competitiveness and these achievements. Increased costs would likely be borne significantly by BC and Canadian producers and shippers, and would decrease the attractiveness of future investment.

Given the success of the Act, and the inherent risk associated with changing it, we would emphatically urge the BC Government to maintain the Act based on the tenets of its current form to ensure the continued growth and competitiveness of the economy of BC and the Pacific Gateway.

Thank you for the opportunity to contribute to this process. Should you have any further questions, please do not hesitate to contact us for further information.