

7. Financial Principles

Snapshot versus movie

There are two main ways to measure the financial impacts of municipal status – a snapshot and a movie.

- Snapshot: This approach is a simple snapshot of what the tax impacts would have been had municipal status been implemented on January 1, 2009, holding services at 2009 levels where possible. For this we look only at 2009 data; we don't factor in things like the Improvement District or TNRD financial plan for future years.
- Movie: The second way is to acknowledge that changes will occur in the next few years and factor these into the analysis. This involves projections for future periods – in this case, the next six years (six years are required because in the first five years certain municipal service obligations have not materialized and start-up grants are still being received). This requires numerous assumptions about future community growth, future shifts in the tax base, future taxes under the current system (that is, the “before incorporation” model), and future taxes under the municipal system (the “after” model).

Neither approach is flawless. However, the snapshot presents fewer problems than the movie because it is based much more on solid, known information and much less on speculative assumptions about what could happen in the future. *The basic analysis presented here is based on a snapshot of 2009 as if it were a “normal” year, after removing the effects of lower spending and higher grants in the start-up years.* However, a limited number of future changes have been factored in because they are both known now and imminent. The provincial grants are an example of this.

All the budget and tax figures reflect a “normal” year – that is, after the lower spending and higher grants of the first few transitional years have been taken into account. The financial benefits of these abnormal, lower-budget years have been carried forward into the “normal” year by using any potential tax surpluses to help fund infrastructure works and thus reduce the need to borrow funds in the normal years.

The “before” case – that is, the taxes under the current system – will no doubt change for 2010 and later, but we simply don't know how much and in what way. The distortions caused by excluding changes over time may not be quite as important as one might think. For example, changes to the tax base are uncertain, both in amount and in the mix among various land use categories – but whatever the changes are, they will affect not only the municipal case but also the existing case too. Whatever the tax base turns out to be, it is essentially the same tax base for the municipality, the Improvement District, and the Regional District, too.

Latest information

Note that the tax impacts of municipal status as reported here are based in part on the provincial offer of assistance as of November 4, 2009. The Study Committee has requested additional financial assistance for a new municipality but the provincial

response to this request had not been received at the time of writing. The projected tax impacts will be updated if and when any further word is received.

Constant 2009 dollars

All the financial impacts are stated in year-end 2009 dollar values. Inflation will affect the finances of the municipality and the Improvement District over time.

Sample property

The use of constant 2009 dollar values includes using the average property values that were used in the 2009 tax bills. There has been a significant jump in the values over the last five years (though not so much in the last year), but there have been compensating declines in tax rates. It is wrong to assume that a steep rise in your assessment means a corresponding rise in taxes.

In this study we are calling a \$400,000 property value a “typical” property when measuring the tax impacts. This is a blended figure that includes single family houses, condominiums (but not those used as hotels), and vacant home lots. In 2009 a typical single family house was assessed at \$670,000, a typical condominium was assessed at \$350,000, and vacant lots were \$240,000.

2009 Tax rates

There are several points worth noting about the use of 2009 tax rates in the analysis.

- Taxes for hospital purposes, the Municipal Finance Authority, and the BC Assessment Authority are entirely independent of the local government model. No future changes in them would have a bearing on the question of municipal incorporation.
- The provincial rural tax rate (\$0.52 per \$1000 in 2009) is set by the Province and changes every year. As property values rise across the province, the rate falls – though if you live in an area where realty values rose faster than the provincial average, you will probably see a tax rise because the fall in the rate would not offset the extra rise in your property value. Nonetheless, it is impossible to predict what future rural tax rates will be, and the 2009 level is used in this study. Remember that assessed property values are fixed at the 2009 level too, so there is no meaningful distortion in this. This assumption applies only to the tax projections for the current system, since there is no rural tax in municipalities.
- The provincial policing tax would be a bit higher under municipal status, even though becoming a municipality would have no effect on basic policing service levels, which would still be set by the Province and the RCMP. The higher tax rate reflects current provincial policy on the rural-area rates and the small municipality rates.
- Regional district tax rates for wide-area functions that apply across large areas – that is, TNRD functions that Sun Peaks would still participate in even as a municipality – would not be meaningfully affected by changing to municipal status (other than the elimination of the 5.25% provincial tax collection fee). The rates will of course change over time but the changes would not be affected by municipal status.
- Regional district taxes for local services like zoning and building inspection are included in the 2009 tax levels under the current system but *not* under the municipal system. This is because responsibility for these functions would shift from the

Regional District to the municipality, and the taxes would shift from the Regional District tax bill to the municipal tax bill. It is anticipated that the municipality would devote more resources to these functions than the TNRD does.

- Improvement District tax: The published tax rate for the SPRID in 2009 is \$1.1557, but this was based on an incorrect classification of ski hill property assessments. The rate should have been \$1.1947, and this adjusted rate is used in this report. In 2009 a \$400,000 residential property would have paid \$478 in taxes for the SPRID based on this adjusted rate. Virtually all of this is for fire protection, though there is also a small street light component. While the SPRID spending rose significantly between 2006 and 2008, the current SPRID financial plan includes only minor rises in spending over the next five years.

Fire hall relocation

The financial plan of the Sun Peaks Resort Improvement District does not include any budget increases that may be needed for the construction of a new or relocated fire hall. Relocation might be needed to maintain response times as the community develops further to the east. This is not factored into either the “current system” taxes or the municipal system taxes in this report.

- School tax: There is a provision in provincial legislation that allows for a lower school tax rate in a municipality, provided it meets several tests. In the 2007 incorporation study, Sun Peaks would have qualified for this reduced tax rate and this was built into the net tax impacts of municipal status. However, the province has confirmed that in 2009 Sun Peaks would *not* have qualified had it been a municipality, and this tax benefit has not been included in the overall tax impacts presented in this report.

Tax rate multiples

It is important to note that the effective tax base of the community is not the simple sum of all the property assessments. This is because business properties pay higher tax rates, which means that the equivalent tax-paying power of a business property is more than a residential property of the same value. It is the *weighted tax base* – that is, the total after factoring in the higher tax-paying power of certain property types – that is used when calculating the municipal tax rate. Under the current system, the Province sets the weights; under municipal status, this is done by the municipal council (but only for the municipal tax, not for school or TNRD taxes).

Here are the tax rate multiples for the various property types that exist in Sun Peaks.

Figure 26: Property Tax Rate Multiples

Property class	Actual 2009 multiples			Assumed for a Sun Peaks municipality
	For TNRD + SPRID	For provincial rural rax	For school taxes	
1 Residential	1.00	1.00	1.00	1.00
2 Utilities	3.50	8.00	5.78	3.50
6 Business + other	2.45	5.62	2.79	3.16
9 Rec'n + non-profit	1.00	1.71	1.48	1.00

Note that the ratio assumed for business in a new municipality – 3.16 times the residential rate – was selected because that number would produce the same proportionate change in overall taxes for both homes and businesses. The final number would be up to the elected municipal council.

Apples to apples budget items

The costs of a number of services and functions for the new municipality can be estimated with confidence because they are already being provided at levels that wouldn't be affected by municipal status. The direct operating costs of fire department are a good example of this. They will no doubt change but the changes would be more or less the same under municipal status as under the current model.

Some other figures can be used with confidence not because their future costs are known but because whatever they are, they would be the same under both the current status and municipal status. The region-wide functions of the TNRD are examples of this; they will change over time but Sun Peaks' share would be the same whether or not it is a municipality. These costs can be transferred directly from the current system budget to a municipal budget without distorting the tax comparison. The only difference is that the 5.25% provincial tax collection fee would no longer apply to these taxes under municipal status.

Not apples to apples

Some municipal budget items have no direct counterpart under the current system, and these have to be estimated based on experiences in other municipalities (after factoring in unique Sun Peaks features), as well as on informed judgment and assumptions about the priorities of the Sun Peaks community.

As always, it must be stressed that municipal spending priorities would be up to the elected municipal council.

Budget items that require estimation rather than simple transfer from the current model include these.

- Municipal council costs, including remuneration for council members, as well as general administrative costs like office staffing, maintaining municipal offices, insurance, office supplies, computers, etc.
- Development services, including building permits and inspections, community planning and zoning, and subdivision application approvals – though the current costs through the TNRD can serve a useful role in estimating the costs to a municipality, since the municipality could enter into a service contract with the TNRD for these functions.
- Bylaw enforcement services.
- Most road maintenance costs. We know the Province's cost under the current system, but it does not include a number of functions that a municipality would be responsible for, including drainage system maintenance; extra roadway snow clearing; extra signage and traffic controls; road work design and planning; management of contract work; and additional walkway and boulevard maintenance.

- Spending on infrastructure, like municipal offices and road improvements.

Comparable municipalities

The BC municipality most similar to Sun Peaks is the Village of Radium Hot Springs. There are other resort municipalities, but some are too large (Whistler, with 9,250 residents) and others lack a mountain focus (Tofino and Harrison Hot Springs). The chart below compares some features of Radium Hot Springs and Sun Peaks.

Figure 27: Comparison of Radium Hot Springs and Sun Peaks

	Radium Hot Springs	Sun Peaks
Year-round population	735	400
Number of residential properties	1360	1,510
Number of business properties	113	269
Business folios as a % of residential	8%	18%
Residential tax base as % of simple total	90%	79%
Length of municipal roads	12.5 km	11.7 km
No. of new dwellings in 2008	Approx 100	Approx 60

A number of the features of the municipal service delivery system in Radium Hot Springs are reflected in the Sun Peaks municipal budget. In addition, budget information from some other municipalities (among them Wells, with 9 km of roads) is also considered.

Note that a key difference between Sun Peaks and other municipalities is that Sun Peaks has only one supplier of lands for development – the Resort Corporation – whereas in other municipalities there is generally no such concentration. For them, preparing community plans and setting infrastructure timing requires bringing together diverse, and often uncertain, plans of multiple developers.

Municipal boundary

There are two logical boundaries to consider for a Sun Peaks municipality: the smaller Improvement District boundary (about 850 hectares) and the larger Controlled Recreation Area (about 4,100 hectares), which includes the SPRID. As will be shown later, there is not a significant financial difference between the two, and the basic analysis presented here assumes the Controlled Recreation Area boundary would be chosen.