

# 13. What If ...

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## **Introduction**

The tax impacts just presented are based on assumptions about what service levels, budget priorities, and tax policies the municipal council would choose. While the projections are reasonable estimates, it is important to remember that *actual budget decisions would be made by municipal council*. This chapter looks at the impacts if some of the assumptions are changed.

## **Smaller municipal boundary**

The basic analysis assumes the municipal boundary would be the Controlled Recreation Area (RA), which covers about 4100 hectares and includes all the urban development and the ski areas. What if, instead, the boundary is the smaller Improvement District boundary, which, at 850 hectares, excludes the ski hills? There would be only two meaningful changes to the numbers.

- First, the weighted tax base would fall by about \$26 million – a drop of about 3% compared to the CRA total. (Note: This assumes the ski hills are reclassified as lying outside the SPRID, whereas now it has erroneously been counted in the SPRID.)
- Second, the only measurable fall in costs would be due to having 0.5 km less road length to maintain and repair (0.5 km of Sun Peaks Road is in the CRA but outside the SPRID, on the Kamloops side of the community). This would lower the annual maintenance budget by about \$6,000 and the annual on-going capital budget by about \$5,000. In addition, it would also reduce the one-time, near-term capital works – and thus the municipal borrowing – by \$55,000. Altogether this would shave about \$17,000 off the annual municipal budget.

A separate analysis of these budget and tax base changes indicates that the reduced ability to pay (that is, the fall in the tax base) outstrips the fall in costs, so the municipal budget would be a bit worse off than before. The result is a rise of \$28 in the municipal tax over and above the tax rise identified earlier, when the larger, CRA boundary was assumed.

## **Changing the business tax multiple**

The tax impacts presented earlier are based in part on the assumption that the municipal tax rate for businesses would be 3.16 times the rate for homes. A higher multiple would shift more of the tax burden onto businesses; a lower multiple would shift more of it onto homes. This applies only to the municipal tax rate, not to the school, TNRD or other tax rates that lie beyond municipal control. Under the current system the business tax rate multiple is 2.45 for TNRD and SPRID taxes and 5.6 for the provincial rural tax.

- If the multiple were set at 1.0 – that is, if residential and business properties both face the same municipal tax rate, something not often seen in municipalities – homes would have to absorb more of the total tax load, and businesses less, than projected. This policy would *add* another \$190 to the home tax bill and *reduce* the business tax bill by \$1,870 compared to the original projection (that is, the one based on a

multiple of 3.16). For a business, this would transform the earlier tax rise into a tax savings under municipal status.

- What if the multiple were shifted the other way – *more* to business and *less* to homes? If the multiple were 4.0 rather than the assumed 3.16, the tax on a sample residential property would *fall* by \$57, and on a business property would *rise* by \$570, more than originally projected. This would mean a net tax saving for an average home and a net tax loss for a business due to municipal incorporation.

The reason for the disproportionate shifting here is because the residential tax base is so much larger than the business tax base. A small percentage change in the residential share of the tax burden means a much larger jump for the business sector.

## **Community growth**

The earlier analysis excludes the impacts of future community growth, but it is worth pointing out that the continued development of Sun Peaks might not push up the municipality's projected tax rate. This is because the tax base could rise generally in proportion to the higher costs, and possibly rise even more.

An example demonstrates this, based on adding 400 new residential properties (a 26% rise over the 2009's residential folio count of 1,510). In terms of the tax base, these new residential properties would add \$160 million (at the 2009 average of \$400,000 each). Commercial development could grow proportionately faster, as Sun Peaks reaches a market size that makes more retail stores viable, but let's assume a commensurate 25% rise in the business tax base, which would add another \$42 million (using the 3.16 tax rate multiple). This combined rise of \$202 million represents a 29% rise in the effective (or "weighted") tax base.

- Some municipal costs, like fire protection or transfers to reserves, might see the same 26% rise as the housing stock.
- Some costs could rise less than 26%. For example, the rise in debt payments, administration and road maintenance costs would not match the rise in new homes because they are somewhat inelastic, and growth would not add to the service responsibilities that much (the most expensive road – Sun Peaks Road – would not be 26% longer).
- Some municipal costs would rise more than 26%. For example, land use planning and bylaw enforcement costs would likely see disproportionate rises due to the increasing complexity of the community.
- Finally, some costs would either not be affected at all or would be affected but have a matching rise in revenues (like the hotel tax initiatives).
- Some, but only a few, revenues would rise too. The Small Community Grant could rise by \$55,000 if the added homes mean a rise of 100 permanent residents.

A brief analysis that includes these types of cost increases shows that the tax rate after growth would be slightly lower than projected for the current community size, by about \$17 per home. This is because the rise in the tax base (29%) outstrips the rise in needed tax revenues (27%). Note that this balance is very sensitive to assumptions, and it wouldn't take much of a change in assumptions to change the net effect. It is reasonable to assume that moderate community growth would not have a substantial effect on the

projected tax impacts of municipal status. The one item that could be affected substantially – a large local share of policing costs – wouldn't be triggered until the year-round, permanent population exceeds 5,000, which is clearly a very long time away.

### **Lower provincial grant**

The province has indicated that the municipality would receive about \$226,000 under the Small Communities Grant program. What would happen if this fell by, say, 50%, to \$113,000? A separate analysis shows that this would add \$70 to the projected tax bill on a \$400,000 residential property (Note: this assumes the municipality does not curtail spending in response).

What if the grant were cancelled entirely? This is extremely unlikely, as this grant has been a core feature of provincial assistance to municipalities for decades. Furthermore, the Province has just over the last decade increased it substantially, not decreased it. Measuring the effects of eliminating the funding would be a worst-case scenario. Clearly, the loss of this much revenue would force the municipality to cut its spending and thus lessen the tax blow. However, if the grant were eliminated and the municipality didn't reduce spending (however unlikely this scenario may be), the tax estimates for a \$400,000 residential property would be \$140 worse than projected originally.

### **Different Hotel Tax or Gas Tax revenues**

A change in the revenues from these two tax sharing sources would have little or no impact on municipal taxes. This is because these are "in and out" budget items: whatever the revenue amount, it is all assumed to be spent on specific tourism or environmental works. Lower grants would reduce the enhancement of amenities that owners and residents could enjoy, and they would reduce the ability to attract tourists and enact eco-friendly works, but they would not change the tax projections (unless, of course, council decided to use tax dollars to fund the at-risk programs). Similarly, higher revenues from these sources would expand these programs but not lower the tax projections.

### **Different operating costs**

The municipal budgets set out earlier represent a continuation of the current service levels as much as possible, with several unavoidable changes that municipal status would require (two major changes involve administration and roads). What if municipal council chooses to spend more, or less, than assumed?

#### **Most likely causes of different spending**

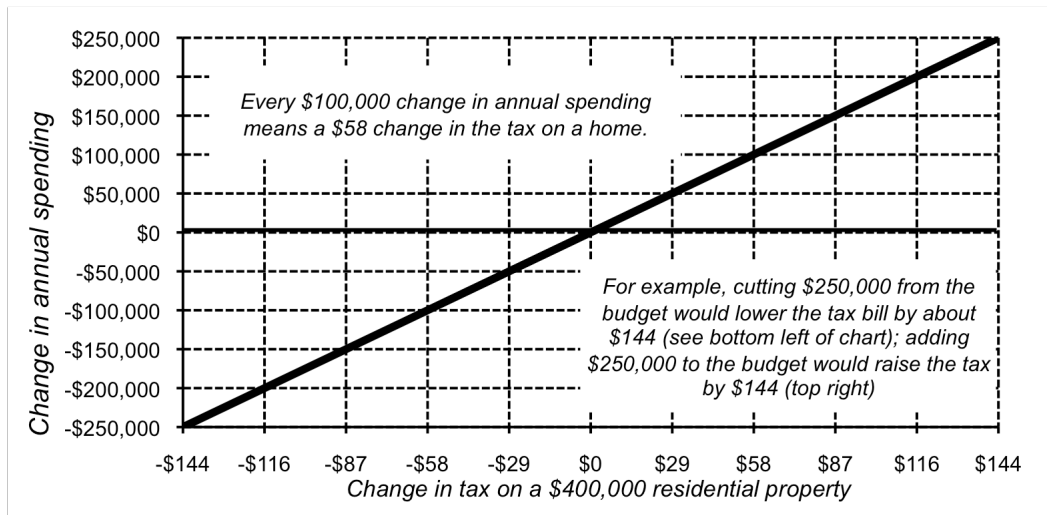
The most likely reasons for *greater* spending would be (a) higher than assumed road maintenance costs; (b) higher than assumed planning and bylaw enforcement costs; and (c) higher than assumed capital spending. The most likely reasons for *lower* spending would be fewer administration staff (4 FTE rather than 5 for example) and lower road maintenance costs.

Every \$10,000 change in annual municipal spending – a 0.04% change in the overall municipal budget – would mean a change of about \$5.80 in taxes on a sample residential property. To put this in perspective, the annual road maintenance budget was projected at

about \$243,000. If road maintenance turned out to cost an extra \$100,000, another \$58 would have to be added to the tax on an average residential property.

Note that changes to the fire department budget are an exception to this, because the same budget changes could apply under both the current system and the municipal system. An extra \$100,000 in fire protection would have no effect on the tax impacts of municipal status – that is, on the *change* in taxes caused by becoming a municipality – because the same tax rise would be added to the “current system” taxes *and* the “municipal status” taxes.

Figure 44: Tax Impacts of Different Annual Spending on a \$400,000 property



### Different infrastructure costs

The municipal budget projections allow up to \$4 million to be spent on capital and infrastructure over the first six years. What would happen to taxes if \$1,000,000 more were spent on capital? The easiest way to test this is to assume the \$1,000,000 is financed by a loan through the provincial Municipal Finance Authority. At current interest rates, the annual cost of a \$1,000,000 loan is just over \$100,000 per year. As shown immediately above, every \$100,000 change in municipal spending produces a \$58 change in taxes on an average home. Thus every \$1,000,000 in additional – or reduced – infrastructure spending would mean a rise, or fall, of \$58 in taxes on a typical home.