

FINANCE COMMITTEE REPORT

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| Report Date | July 12, 2019 |
| Meeting Date | July 18, 2019 |

His Worship Mayor Darling and Members of Common Council

SUBJECT: Proposed Phase 1 – Municipal Tax Reform

OPEN OR CLOSED SESSION

This matter is to be discussed in open session of the Finance Committee.

AUTHORIZATION

| | | |
|--|---------------------------|---------------------------|
| Primary Author | Commissioner/Dept. Head | City Manager |
| <i>Neil Jacobsen</i> <i>Kevin Fudge</i> | <i>John Collin</i> | <i>John Collin</i> |

RECOMMENDATION

The Finance Committee recommends to Common Council that they formally adopt the proposed ***Phase 1 – Municipal Tax Reform*** as per Attachment B, and further request to the Province of New Brunswick that it be added as a component of ***Sustaining Saint John – A Three-Part Plan***.

EXECUTIVE SUMMARY

The proposed ***Phase 1 – Municipal Tax Reform*** provides a mechanism to allow the Provincial portion of the heavy industrial property taxes currently collected within the City of Saint John (approximately \$9 million) to remain in the City as a reflection of the unique impact that large industry has on the City.

Phase 1 would be an interim step in the much broader (comprehensive) review of municipal taxation as committed to by the Province of New Brunswick in the recently released ***Sustaining Saint John – A Three-Part Plan***. Phase 1 is reflective of the urgency of the City's current financial challenges.

Heavy industry located in Saint John currently pays approx. \$12 million in property tax to the City on an annual basis, while the Province retains approximately \$9 million.

PREVIOUS RESOLUTION

Thursday, July 11, 2019, Open Session of Council

**Moved by Councillor Reardon, seconded by Deputy Mayor McAlary:
RESOLVED that the matter *Sustaining Saint John – A Three Part Plan* be tabled
for 30 days to facilitate further negotiation with the Province.**

MOTION TIED, with Deputy Mayor McAlary and Councillors Reardon, Hickey, Sullivan, and Norton voting “yea” and Councillors MacKenzie, Merrithew, Armstrong, Strowbridge and Casey voting “nay”.

The Mayor cast the deciding vote in favour.

MOTION CARRIED.

STRATEGIC ALIGNMENT

The proposed **Phase 1 - Municipal Tax Reform** directly supports, contributes to and enables all four of Council’s Priorities:

- *Growth and Prosperity*
- *Vibrant, Safe City*
- *Valued Service Delivery*
- *Fiscally Responsible*

REPORT

Large industry is an essential component of the City’s and southern New Brunswick’s economy and creates thousands of local and regional direct and indirect high paying jobs. The Saint John region generates between 20 to 25% of the Province’s gross domestic product (GDP) and 60% of the Province’s exports, largely attributable to the presence of heavy industry. The Province derives hundreds of millions of revenue on an annual basis from these industries through Provincial Sales Tax, Fuel Tax, Utility Tax and Personal and Corporate Income Tax.

One of the 20 Action Items in the ***Sustaining Saint John – A Three-Part Plan*** released by the Province on July 10 is **Facilitating Growth through Collaboration**, which clearly articulates the reality that: *“The private sector, including industry, is the engine that makes the Saint John economy move.”*

While Saint John is extremely proud of its industrial character and highly skilled industrial workforce, as well as the on-going contributions of our major local industries to our local community, the City bares a particularly high proportion of

the costs and impacts as the host community for New Brunswick's highest concentration of heavy industrial activities.

The City and its residents are responsible for providing core municipal infrastructure and services to these industries, including protective services, and must contend with issues such as 7-24 industrial activity, road wear and deterioration, environmental impacts, repeated public safety events and impacts, and the land use and property valuation issues associated with multiple residential neighbourhoods co-existing adjacent to heavy industry.

From an industrial profile perspective, Saint John is home to Atlantic Canada's highest concentration of heavy industry, including the largest oil refinery in Canada, the country's only LNG receiving terminal and regasification plant, a pulp and paper mill, two paper processing facilities, multiple power generation plants and associated electricity transmission infrastructure, two major natural gas pipelines, an active international deep water Port, a crude oil marine receiving terminal, a refined petroleum products export terminal, a crude oil rail receiving facility, two major rail carriers and rail yards (east and west), and multiple smaller industrial operations located in three major industrial parks and within the Port of Saint John. The City is also in close proximity to a nuclear power plant, with emergency response capabilities provided by the City of Saint John.

The proposed **Phase 1 – Municipal Tax Reform** provides a mechanism to allow the Provincial portion of the heavy industrial property taxes currently collected within the City of Saint John (approximately \$9 million) to remain in the City as a reflection of the unique impact that large industry has on the City.

Phase 1 would be an interim step in the much broader (comprehensive) review of municipal taxation as committed to by the Province of New Brunswick in the recently released **Sustaining Saint John – A Three-Part Plan**. Phase 1 is reflective of the urgency of the City's current financial challenges.

Heavy industry located in Saint John currently pays approx. \$12 million in property tax to the City on an annual basis, while the Province retains approximately \$9 million.

SERVICE AND FINANCIAL OUTCOMES

- Immediately addresses a clear inequity with respect to the distribution of municipal industrial tax revenue within the Province of New Brunswick.
- Effectively allocates large industrial tax revenue to the local level in Saint John, where the impacts of heavy industry are directly felt.

- Reflects a truly unique community situation – Saint John is home to Atlantic Canada’s highest concentration of heavy industry, which is also a huge contributor to the Provincial economy, GDP and exports.
- There are very few municipalities in New Brunswick that have a comparably high concentration of industry – none have the economic impact that Saint John is home to.
- Does not create any immediate new taxes or a new or incremental tax burden for large industry.
- Contributes in a significant way to addressing the City’s pending 2021 “fiscal cliff” and structural deficit.
- Alleviates the Province from future special funding requirements associated with the City of Saint John effective 2020, including year three of the existing “New Deal” funding agreement (up to \$10.4M in 2020).
- Provides an immediate sustainability solution as the City implements a series of sustainability and restructuring Action Items, as well as other strategic recommendations from the Municipal Sustainability Working Group with the Province.
- A reallocation of \$9 million in property tax revenue is transformational for the City of Saint John, but represents less than 1 tenth of 1 percent of projected Provincial revenues in 2019-2020 (\$9.85 Billion).
- Can be positioned as a first (albeit critically important) step with respect to municipal tax reform and a comprehensive review of the municipal tax system by the Province of New Brunswick.
- Does not require new tax assessment capabilities or resources from the Province.

INPUT FROM OTHER SERVICE AREAS AND STAKEHOLDERS

The ***Proposed Phase 1 – Municipal Tax Reform*** was prepared by the City Manager’s Office and Finance Department.

ATTACHMENTS

Attachment A: **Supporting Slide Deck**

Attachment B: ***Proposed Phase 1 – Municipal Tax Reform***