

# Working towards a collective understanding:

## INDUSTRIAL DEVELOPMENT, LOCAL GOVERNMENT INFRASTRUCTURE, AND LIVABILITY IN THE RBA REGION

### A SUMMARY REPORT SUBMITTED BY THE CO-CHAIRS OF THE PROVINCE OF BC/NORTHWEST BC RESOURCE BENEFITS ALLIANCE (RBA) WORKING GROUP

#### SEPTEMBER 2023

The report provides a summary of the work completed under the Memorandum of Understanding signed between the Northwest BC Resource Benefits Alliance (RBA) and the Minister of Municipal Affairs in September 2022.

## Introduction/ Overview

### THE NORTHWEST RESOURCE BENEFITS ALLIANCE (RBA)

Formed in 2014, the RBA is a regional association consisting of 21 local governments, including three regional districts (North Coast, Bulkley-Nechako, Kitimat-Stikine) and their 18 member municipalities. The RBA is an alliance of local governments and is not a legal entity.

### RBA'S MISSION

Since 2015, the RBA has engaged the BC government to discuss the region's challenges in raising the revenues required to build the necessary community infrastructure to support resource development and the social infrastructure required to ensure that Northwest communities are places where industries, businesses, workers, and their families can thrive.

### RBA'S REQUEST

Members of the RBA are seeking Provincial commitment to:

- Recognize the role that Northwest BC has in the provincial economy.
- Provide long-term, sustainable funding for capital projects and operating costs to address local infrastructure and servicing needs in Northwest BC.
- That the Province continue to invest in supporting infrastructure outside of the local government purview, including housing, health care, childcare and education.



## THE PROVINCIAL INTEREST

Provincial government interests are reflected in *StrongerBC: A Plan for Today, a Vision for Tomorrow* (the Plan). The Plan sets out to fill one million jobs over the next 10 years by investing in skills training, building resilient communities, and positioning BC as a world leader in a low-carbon economy.

The Plan is built on the foundation that an economy can grow and thrive while addressing two core issues: inequality and climate change. The Plan puts the province on this path by working toward inclusive and clean growth, as well as identifying six missions to achieve these goals:

- supporting people and families;
- building resilient communities;
- advancing true, lasting, and meaningful reconciliation with Indigenous Peoples;
- meeting BC's climate commitments;
- leading on environmental and social responsibility; and
- fostering innovation throughout BC's economy.

## MEMORANDUM OF UNDERSTANDING (MOU)

On September 15, 2022, the Province (represented by the Minister of Municipal Affairs) and the RBA entered into an MOU to work collaboratively to come to a common understanding of how historic and current industrial development may be affecting the local government infrastructure and livability of the RBA region.

The MOU reflects the commitment of the parties to engage through a meaningful working relationship to meet the respective interests of realizing the shared vision of economic development that creates sustainable local governments, broadly shared economic benefits, and good local jobs in the RBA region.

The "Implementation" section within the MOU established a joint staff-level Working Group with the intent of working through consensus to conduct the research and analysis required to understand the financial challenges of local governments in the RBA region.

## THE WORKING GROUP

The purpose of the Working Group is to:

- develop a workplan, and,
- function as a forum for discussion for various matters, including those related to the planning, coordination and execution of any work undertaken in relation to the subject matter identified within the MOU.

The RBA and the Province are interested in fostering co-operative approaches on matters of mutual interest. The Working Group is co-chaired by the RBA and the Ministry of Municipal Affairs and also includes staff from the Ministry of Finance acting as technical advisors.

The joint staff-level Working Group prepared a Terms of Reference and developed a workplan to undertake a review to identify work needed on various topics, including:

- Analysis of work to date including the Sustainability & Livability Study for Northwest BC;
- Review of information presented to the Minister in April 2022 meeting in Terrace;
- Analysis of financial need and capacity at a community level (e.g., revenues, community infrastructure and servicing needs, etc.);
- Identification and analysis of region-specific and community-specific causes or issues related to financial need;
- Identifying and updating RBA-desired capital projects;
- Identifying topic areas in which other ministries and provincial agencies are involved;
- Developing joint communication strategies; and,
- Analysis of existing regional funding agreements, including reporting requirements, and an assessment of RBA accountability and reporting.

# Executive Summary

Formed in 2014, the Northwest Resource Benefits Alliance (RBA) is an association of all 21 local governments across the northwest of the province (i.e., from Masset to Vanderhoof). Since 2015, the RBA has engaged the BC government to discuss the region's challenges in raising the revenues to build the necessary community infrastructure and capacity to support resource development and the social infrastructure required to ensure that RBA communities are places where industries, businesses, workers, and their families can thrive.

The RBA region has well developed rail, road, and port infrastructure that supports the movement of goods and services to and from North American and Asian markets. RBA communities support large industrial developments like LNG Canada, mines, and hydroelectricity projects that are critical to the provincial economy but not always desired or wanted in other regions of the province. Industry is attracted to the region because of the deep-water Port of Prince Rupert, which is the Pacific Port Gateway internationally, abundance of natural resources, and available land and hydroelectricity for industrial and commercial development, as well as the deep-water Douglas Channel and Kitimat Harbour which is home to the Rio Tinto aluminum smelter and LNG Canada.

The importance of the region to the province is highlighted in the 2022 BC major project inventory (MPI), which shows that nearly 74% of all major projects related to mining, oil and gas, wood manufacturing and petrochemical manufacturing recently completed or already under construction in BC are within the RBA region. That trend in the regional concentration of industrial development is projected to continue with 84% of all proposed BC major industrial projects forecasted to occur within the area.

It is recognized that local governments within the RBA region will be critical to ensuring the success of any new industrial development in the region. Key for RBA local government is having the community infrastructure and capacity in place to support the projected industrial activity and its workforce. Potential infrastructure

investments are reflected in the RBA's "Sustainability and Liveability Report." While the report is a snapshot in time (2018/19), it has identified 222 local infrastructure projects totaling \$1.332 billion in the region, with service costs of \$113 million annually over 20 years. The infrastructure investments required by RBA communities is significant; however, infrastructure needs in isolation do not make the RBA unique within the province.

Ministry of Finance staff use a set of indicators to measure the fiscal condition and capacity of local governments. These indicators are intended to provide a high-level overview of local governments' fiscal condition and capacity in a comparative context using the financial data reported to the Ministry of Municipal Affairs by local governments in BC through annual financial reporting.

The findings of the analysis are that RBA communities are, for the most part, presently in strong financial positions and have relatively strong fiscal capacity but are likely to also have infrastructure that is reaching or has reached the end of its life cycle and needs rehabilitation or replacement. Most RBA communities report being in the process of completing asset management plans. The work to develop these plans and subsequent reporting will aid both RBA communities and the Province to better understand the state of infrastructure and full scope of investment costs needed.

Additionally, RBA communities' capacity is constrained by their small populations and remoteness, which limits the amount of revenue they can raise. The Province recognizes the limitations that small populations can create for municipalities and, to assist them in providing basic services, provides annual small community grants to municipalities with populations up to approximately 19,000. RBA municipalities receive approximately \$8 million annually through these grants.

The RBA has identified their communities as having a lack of basic infrastructure compared to other municipalities around the province. The financial challenges and limitations of local governments in the RBA region are a result of communities generally having a small property tax base, limited borrowing capacity, and the inability to generate development finance revenues. This has led to an underinvestment in critical infrastructure throughout the region for decades.

Half of RBA municipalities have a population of less than 1,000 and only 4 have a population over 5,000 with Prince Rupert being the largest with 12,300 residents. These are smaller communities without large populations or tax bases and therefore tax increases in the region do not raise nearly as much revenue as they would in other more populous areas of the province.

The ability for these communities to borrow is also limited as borrowing capacity is determined by their annual property taxation revenues. As a result, it is very challenging for these communities to fund required infrastructure projects, where costs do not scale with population, and their ongoing operations and maintenance.

While there is demand for new housing in the RBA region, due to the lack of economies of scale and long distances between communities, additional fees on developers in the region is not practical. Consequently, developer fees constitute less than 1% (compared to provincial average of 12%) of their total overall RBA revenues.

As a result of a small property tax base, low borrowing limits and the lack of development finance revenues, the RBA region is becoming increasingly dependent on senior government grant funding to meet their community infrastructure and servicing needs (this is also an historic trend). Recent provincial funding and investments in the RBA region have been extensive. Since 2017, the Province has invested over \$336 million through the Investing in Canada Infrastructure Program, Northern Capital and Planning Grant, Growing Communities Fund, and Critical Community Infrastructure program.

The inherent challenge with a dependency on senior levels of grant funding is that they are often application based, competitive and oversubscribed. These challenges are exacerbated by the limited local government staff capacity needed to apply for these grants. Block funded grant programs (generally restrict to capital and planning expenses) like the Northern Capital and Planning Grant, or the Growing Communities Fund are one-off initiatives. Further, grants are project specific and do not always align with community priorities. Neither application-based infrastructure programs nor one-off grant programs are conducive to supporting long term infrastructure planning.

While the Province is projecting significant industrial development will continue to occur in the RBA region over the next decade, RBA communities will be vital to ensuring the positive economic benefits from these future industrial investments are realized. This future industrial activity benefits not only neighboring RBA communities but also the province more generally through increased provincial taxation revenues.

The long-term prognosis of local government financial challenges in the RBA region are not projected to change. The current challenges with a small property tax base, borrowing limits (due to smaller tax bases) and lack of development finance revenues are projected to continue through the next decade. In general, the region will continue to be reliant on senior levels of government grant funding to meet current and future infrastructure needs of the region without another source of revenue to address the growing needs of an industrial developing region.



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