PORT of vancouver

Submission to Government of British Columbia regarding the Ports Property Tax Act

Vancouver Fraser Port Authority

July 23, 2019

Table of Contents

Purpose of this submission

The Government of British Columbia is undertaking a periodic internal review of the ports competitiveness initiative, with particular regard to the fundamental role of the *Ports Property Tax Act* (the Act) in ensuring that competitiveness.

Some municipalities and non-eligible industrial occupiers are expressing their belief that the Act creates inequalities in the industrial market and so changes should be made.

The purpose of this submission is to provide our views in support of the Act.

About the Vancouver Fraser Port Authority and the Port of Vancouver

The Port of Vancouver is Canada's largest port, handling more than one in every three dollars of Canada's foreign trade in goods beyond North America, as well as significant volumes of regional and North American trade. The Port of Vancouver borders 16 municipalities and intersects the asserted and established traditional territories and treaty lands of several Coast Salish First Nations.

The Vancouver Fraser Port Authority is responsible for the stewardship of federal port lands and waters in and around Vancouver, British Columbia. Like all Canada Port Authorities, the Vancouver Fraser Port Authority is accountable to the federal minister of transport and was established by the Government of Canada pursuant to the *Canada Marine Act*, which sets out a mandate for the port authority to facilitate Canada's trade objectives, ensuring goods and passengers are moved safely and efficiently, while protecting the environment and considering local communities.

The port authority is financially self-sufficient, earning revenues from leases to port tenants and port fees. Profits are invested into port infrastructure at a rate of about $80 million a year.

Operations within the Port of Vancouver are managed by industry and government agencies. Terminals are private operations that enter into long-term leases with the port authority and make very significant capital investments to equip terminals. They contract directly with shippers and freight services, including railroads, shipping lines and trucking companies. Laws and regulations are overseen by many different authorities, such as Transport Canada, the Canadian Coast Guard, and many more. Crime and cargo security are managed by local and federal police forces, the Canadian Border Services Agency, and others.

The port operates across five business sectors: automobiles, breakbulk, bulk, container and cruise. Operators include cargo and cruise terminals, industries requiring tidewater access, shipyards, tugboats, railways, trucks, shipping agents, freight forwarders, suppliers, builders, and administrative agencies.

The Port of Vancouver enables the trade of approximately $200 billion in goods and sustains:

- $24.2 billion in economic output
- $11.9 billion in gross domestic product
- $7 billion in wages
- 115,300 jobs in Canada, including 96,200 in B.C.
- $1.4 billion per year in tax revenues, including $396 million to B.C. and $129 million to local municipalities

Overview of Ports Property Tax Act

The Act is provincial legislation first enacted in 2004 that provides a mechanism for regulating the amount of property taxes payable on eligible major port terminals. It was introduced in response to significant concerns that municipal tax costs, which were escalating for port properties much faster than for other property classes, were putting B.C. port terminals at a competitive disadvantage and creating a disincentive to invest, relative to other terminals along the U.S. Pacific Coast. In 2014 the Act was made permanent.

The principal aim of the Act is to provide clarity and predictability in the calculation of property taxes, creating a stable taxation environment in order to:

- Encourage investment in the B.C marine trade gateway
- Ensure the competitiveness of the gateway relative to the U.S., particularly the Pacific North West ports of Seattle & Tacoma, and Los Angeles-Long Beach.

Generally, property taxes are levied by individual municipalities, and are calculated by applying a municipal tax rate set by the municipality to the value of property as set annually by BC Assessment. The assessed value of a property consists of two parts, the value of the land and the value of the improvements.

Under the Act, two principal mechanisms are used to regulate taxes payable:

1. Land value: Increases in land value are calculated at the Consumer Price Index on a base year of 2007 instead of unrestricted and speculative market values that include prospects of capital gain from a higher or better use
2. Mill rate: The maximum municipal tax rate that may be imposed is capped at $27.50 per $1,000 of assessed value (and $22.50 per $1,000 on new infrastructure investment), which is materially higher than residential rates

Overall, it should be recognized that a change in land value does not directly affect a change in a municipal budget. A municipality is required to set its budget first and then determine how to apportion the tax burden over the nine property classes (including (Class 4) Major Industrial Class). The Act also established a provincial grant mechanism to compensate municipalities affected by the Act for reductions in tax revenue where they had previously levied mill rates on port properties above the cap established in the Act.

Related Assessment Act changes

On October 15, 2018, the provincial government announced it is proposing changes to the *Assessment Act* that will help protect community-sustaining jobs and support local economies. While not connected to the *Ports Property Tax Act*, these changes will assist industry (including those that support port terminals) that are outside the protection of the Act.

Under the current assessment system, when a Class 4 property is identified for future redevelopment in an official community plan, BC Assessment is required to value the property based on the highest and best use of that property, such as a future residential or commercial use. As the mill rate for such properties remains based on their current use, this can result in a significant increase in property taxes, even though the property may not be redeveloped for many years (and once redeveloped would often then be subject to a lower mill rate). Changes to the highest and best use for Class 4 properties from industrial to residential could negatively affect ongoing industry operations, leading to the loss of jobs and damage to local economies.

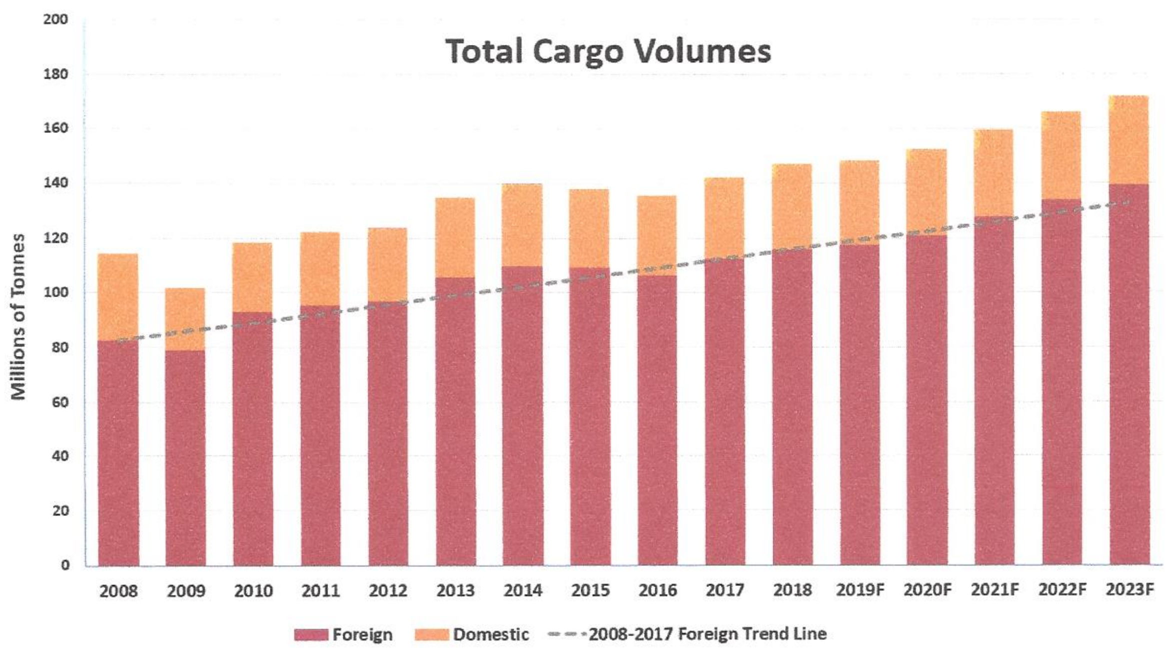
The proposed changes will require BC Assessment to keep valuing major industry properties that continue to operate, based on their current industrial use rather than on the potential future highest and best use envisioned in an official community plan.

The port authority supports this change as one step towards protecting industrially zoned lands for industrial use, which is critical to the economy of the Lower Mainland and the port as Canada's primary trade gateway.

Port competitiveness

Canada's trade through the Port of Vancouver is projected to grow, which requires that the port grow with it.

FIGURE 1: Historical and forecast growth in trade through the Port of Vancouver



In order for the port to accommodate this growing trade, there are three critical requirements:

- The port authority must provide terminal space and maintain common-use infrastructure such as roadways
- Investments in the road and rail networks leading to the port must be made to remove bottlenecks and increase capacity
- Port terminals must invest to expand their operations

In the last decade, over $7 billion has been invested in and around the Port of Vancouver in response to, and in anticipation of, growing trade demands. Federal and provincial governments have invested in improvements to surrounding roads and trade corridors to separate commuters from train traffic, remove bottlenecks that have slowed goods movement, and improve traffic flow and emergency response capability. Canadian National and Canadian Pacific have invested in railway expansions and grade separations that allow more efficient train movements to and from the port.

In response, and bolstered by confidence that the gateway has room to grow (as well as the stable property tax environment created by the Act), terminal operators have also invested in new terminal infrastructure to grow capacity, such as the following:

- Westshore (a coal terminal) has invested $385 million to replace older buildings with a more efficient complex and add new equipment (three stacker-reclaimers and a ship loader)
- Neptune (also a coal terminal) has invested $330 million in new and upgraded equipment (a new rail dumper and receiving system upgrades, dust suppression upgrades) and road access upgrades
- K+S Potash has invested $170 million to build a new potash facility at Pacific Coast Terminals in Port Moody, the first new potash facility on the West Coast in 20 years
- Viterra has invested $100 million for a shiploading system upgrade at Pacific Elevators
- Deltaport (a container terminal) has invested $400 to add on-terminal infrastructure and create a third berth on new port land

All told, port terminals invested $3.2 billion between 2008 and 2017, a number expected to rise to about $5 billion by 2025.

As a result, over the past few years, the Port of Vancouver has grown by approximately the entire annual throughput of Canada's second-largest port, the Port of Montreal, and forecasts suggest that growth will continue at a sustained rate.

Growth, however, is not guaranteed. Canada's west coast ports compete with U.S. ports in Washington and California. If the Port of Vancouver were to fail to grow with increased trade demand, Canadian cargo would begin to flow through U.S. ports—at increased cost to Canadian businesses and consumers, and to the detriment of the B.C. economy. Worse, that trade could fail to move at all.

Impact of the Ports Property Tax Act on trade competitiveness

Currently, 19 Port of Vancouver tenants occupy property regulated under the Act, including eight of the port authority's top 10 rental revenue sources (see Appendix A for a list of Port of Vancouver tenants regulated under the Act).

The principal outcome of the Act has been to create a stabilized tax environment for eligible major terminal operators, allowing them to invest in trade-enabling infrastructure.

The BC Marine Terminal Operators Association commissioned a study to demonstrate the benefits of the Act since its inception. Since 2004, significant investment in B.C. ports has occurred including expansions of Vanterm and Centerm, the Fairview Container Terminal in Prince Rupert, Deltaport's Third Berth Project, and expansion of bulk operations including construction of G3 and expansion at Neptune, Westshore, Pacific Coast Terminals, Viterra, and Alliance Grain Terminals.

Between 2008 and 2017 marine terminal operators have[1]:

- Generated $9.6 billion in GDP
- Generated $417 million in tax revenues from capital expenditures on improvements within terminals, approximately half of which accrued to the provincial government

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[1] Draft Economic Impact Assessment – Marine Terminal Operations and Capital Programs, BC Marine Terminal Operators Association Presentation, September 2018, 17, 21

- Contributed $1.98 billion in property tax revenues to all levels of government
- Created 103,799 additional jobs as a direct result of investment by marine terminals, providing above-average salaries and retaining skilled labour for the province
- Facilitated increased trade to 170 trading economies
- Achieved growth in volumes close to twice that of B.C.'s GDP

Further, port labour unions have historically been strong supporters of the Act, given the stability, investment, and growth in jobs that it has facilitated.

Availability of industrial land also a threat

The Lower Mainland is rapidly approaching a crisis point where the supply of available industrial land beyond federal port terminals will be gone within a decade, largely because municipalities are converting industrial land to other uses. This rezoning has also created rampant speculation that has substantially increased industrial land values.

According to Metro Vancouver, some 900 acres of industrial land have been rezoned to other uses since 2010. Municipalities have created an untenable situation. Rezoning has reduced the supply of industrial land, which has caused the base value of industrial land to triple since the Act was created. Contemplating a change to the Act would have the effect of a one-two punch on anyone seeking to establish or maintain a business in the Lower Mainland.

This is having a significant impact on the ability of the region to support international trade activity through the port, growing e-commerce activities and the province's needs for general industry. The economic impact is substantial as, according to Metro Vancouver, one acre of industrial land is worth $2 billion to the local economy.

A 2015 study prepared by Site Economics for the port authority indicated that roughly 77 per cent of all industrial land was fully developed, and of the remaining 23 per cent of available land, only three per cent was suitable for development for trade-enabling uses. Since then the situation has become even bleaker.

The port authority estimates that Canada needs 1,500 to 3,000 acres of Lower Mainland industrial land to meet gateway trade needs for off-dock facilities and large format logistics warehousing.

This should be a major concern for the province because it means more and more port users will be forced to move their warehousing and logistics operations further from the port to places like Calgary and Seattle, taking valuable jobs and tax revenues with them.

The further these facilities get from the Port of Vancouver the less efficient the supply chain becomes and shippers may start to look at moving product through other gateways, taking even more jobs with them. An inefficient supply chain also means more trucks on the road, congestion, more environmental impacts, and higher costs for consumers.

Impact of repealing the Act

Removing or weakening the Act poses a significant risk to the gateway because BC Assessment and the municipalities that influence tax policy could again have full, or increased discretion to set mill rates and land values—exactly the circumstance that led to the need to establish the Act.

This, combined with the scarcity of industrial land, would have an extremely detrimental impact on the competitiveness of the gateway by:

- Significantly increasing costs for B.C. ports and terminals, which would lower investment in new terminal capacity and supporting infrastructure and commerce
- Slowing trade growth and increasing risk for key projects like the Roberts Bank Terminal 2 Project, the Centerm Expansion Project and the bulk cargo projects underway and being planned
- Lowering productivity of port terminals and stagnating labour growth
- Job losses and port terminal closures

Conclusion

The port authority recognizes and appreciates the provincial government's continued support for B.C.'s Pacific gateway.

The Act has successfully created a stable, competitive investment environment for eligible marine terminals in B.C.'s major ports and, since the implementation of the Act, several billion dollars of private sector investment has been made in B.C. marine terminals. This investment to expand Canada's west coast ports has delivered significant direct and indirect employment and economic benefits (including increased property tax revenue) to municipalities hosting port terminals and to the province.

Should changes be made to increase the tax burden of port terminals, the additional cost threatens not only the competiveness of the port and the ability to increase trade, but also creates the risk that the burden will be some or wholly borne by Canadian producers and exporters, also reducing their competitiveness.

Given the success of the Act in both encouraging investment and economic growth in B.C. and providing stable revenues for local taxing authorities (estimated at over $31 million in property taxes in 2019), port stakeholders—and in particularly the port's competitiveness committee through the BCMTOA—emphatically urge the province to maintain the Act in its current form to ensure the continued growth and competitiveness of the economy of B.C. and the Pacific Gateway.

Thank you for the opportunity to contribute to this process. We trust you will reach out to us should you need any further information.

Appendix A

Port of Vancouver tenants regulated under the Ports Property Tax Act

AGT (Alliance Grain)

Cargill

Cascadia

Centerm (DP World Canada)

Deltaport (GCT Canada)

Fibreco

Fraser Surrey Docks (DP World Canada)

G3

Neptune

Pacific Coast Terminals

Richardson International

Univar Canada

Vancouver Wharves (KM Marine Terminals)

Vanterm (GCT Canada)

Viterra

Western Stevedoring (Lynnterm)

Westshore

WWS Annacis Island

WWS Richmond