

REFERENCE JURISDICTION TRANSITION PLAN

Introduction

In early 2018, the Penticton Indian Band (“PIB”) started a process to bring all of its property tax rates into parity with the tax rates of the City of Penticton (“CoP” and PIB’s reference jurisdiction). In transitioning to these rates, PIB is required to establish a graduated process set out in a reference jurisdiction plan. A reference jurisdiction is a local government that is adjacent to a First Nation. Often it has a service agreement with the First Nation. First Nations and the First Nations Tax Commission (“FNTC”) use reference jurisdictions in the setting of annual tax rates, and in the making and approval of annual tax rate laws.

The CoP sets its tax rates each year based on current property assessments and its budget for providing these types of local services and infrastructure. The tax rate is set each year so the year’s property assessments multiplied by the new rate provides the necessary revenue for the year’s budget. BC Assessment provides the assessments to both CoP and PIB. This ensures consistent assessments whether your property is in CoP or on PIB lands.

Property taxes enable governments to pay for local services such as fire protection, garbage collection and sewage services each year. Property taxes enable governments build and maintain local infrastructure such as roads, lighting and water treatment.

PIB’s long-term goal is to integrate its lands with the local economy, including further development of its land. One aspect of integration is harmonizing tax rates across the region. Harmonizing tax rates means all taxpayers in the region will be treated equally. Any increased revenue will be used to provide improved local services and new local service infrastructure, such as:

- increased amounts of protective services;
- enhanced education and daycare services;
- public works, including landscaping on the channel lands
- installing benches on the channel lands;
- street lighting, storm sewers, road and sidewalks; and
- a water treatment plant, once the demand for water exceeds CoP’s ability to provide it

How PIB sets its Annual Tax Rates

PIB’s property tax laws are made under the authority of the *First Nations Fiscal Management Act* (the “FMA”). Each year PIB establishes property tax rates in its annual tax rates law. The annual tax rates law must be approved by the FNTC. The FNTC is a shared governance

organization established by the FMA, and provides regulatory oversight for over 160 First Nations across the country.

Under the FMA, a taxing First Nation must set its tax rates in one of several ways:

1. By keeping average tax bills from increasing beyond the rate of inflation
2. By keeping average tax bills from increasing beyond the average tax bill of the reference jurisdiction; or
3. By keeping its tax rates identical to the tax rates of the reference jurisdiction.

PIB has two tax districts, and it sets tax rates differently for each district.

District 1 was established in 2015, and includes residential developments in Skaha Hills and the Bow, and businesses in the channel lands. For this district, PIB sets its tax rates for each class identical to the tax rates of the City of Penticton.

District 2 covers PIB's original taxpayers and includes Red Wing, Sun Leisure, Riva Ridge and businesses on Green Mountain Road and Penticton IR #2. In District 2, PIB has historically set its tax rates to ensure the average tax bill does not increase beyond the rate of inflation.

Using the different approaches to rate setting has led to wide variation in tax rates between tax districts and with neighbouring tax jurisdictions.

The table below shows the tax rates in District 2 and the CoP in 2018:

Property Classification	PIB District 2 2018 Tax Rates	PIB District 2/CoP 2018 Tax Rates
1 Residential	3.90550	6.1997
2 Utilities	22.3298	44.6060
3 Supportive Housing	-	2.66961
4 Major Industry	13.1313	13.1313
5 Light Industry	9.1103	12.7517
6 Business/Other	11.04	12.2059
8 Recreational/Non-Profit	6.3506	8.6623
9 Farm Land	9.4792	20.3990

The Transition to Reference Jurisdiction Rates

The FNTC’s standards govern a First Nation’s transition to tax rates identical to the reference jurisdiction’s rates. The process is designed to provide taxpayers adequate notice and a graduated transition. See Appendix A for more information about the FNTC standards.

How the Transition Will Work

Who it Applies To

The transition applies to all taxpayers in all property classes in District 2 of the PIB where tax rates are currently below the CoP rates (in 2018, classes 1, 2, 5, 6, 8 and 9). Property classes that currently match CoP’s rates will continue to match CoP rates.

Reference Jurisdiction

The City of Penticton is the reference jurisdiction. As stated above, a reference jurisdiction is a local government that is adjacent to a First Nation. First Nations and the FNTC use reference jurisdictions in the setting of annual tax rates, and in the making and approval of annual tax rate laws.

First Transition Year

The transition will begin in 2019.

How Tax Rates will be Increased Gradually

The five-year transition plan phases PIB’s move to the CoP’s property tax rates.

During the transition, each year the tax rate in each class will be increased by a percentage of the difference between CoP’s property tax rates for the current year and PIB’s rates for the previous year. The transition is spread out evenly over the five years.

The rates for each year will be calculated using the following formula.

- *PIB Rate Year One:* PIB previous year’s rate + .2(CoP current rate – PIB previous year’s rate)
- *PIB Rate Year Two:* Year PIB 1 rate + .4(CoP rate year 2 - year 1 PIB rate)
- *PIB Rate Year Three:* Year 2 PIB rate + .6(CoP rate year 3 - year 2 PIB rate)
- *PIB Rate Year Four:* Year 3 PIB rate +.8(CoP rate year 4 - year 3 PIB rate)
- *PIB Rate Year Five:* CoP rate

If a calculated transition year’s rates are above the CoP property tax rates for the same year, the current CoP rate for that year will be used and the transition period ended.

Because property tax rates adjust each year to changes in assessed values year to year, a fixed transition rate would not ensure a smooth transition. Instead the transition plan phases in the difference between PIB’s previous year’s rates and the current CoP property tax rates.

Because of how property tax rates are set, it is impossible to predict the CoP’s property tax rates during the transition. However, the table below shows what the residential tax rates would have been in previous years if the transition plan had started in 2014, and the tax bills under the transition for a residential property worth \$200,000 in 2013, with assessed value increasing by 5% per year. It also includes the actual rates in District 2 and in Area F of the Regional District of Okanagan-Similkameen for comparison.

Residential Five-Year Transition Plan Example - 2014 to 2018

Transition Year	CoP (Actual)	RDOS Area F (Actual)	PIB District 2 (Actual)	PIB District 2 (Transition)	Transition Plan Tax Bill
2013	7.2285	5.3251	4.4094	4.4094	\$882
2014 One	7.4106	5.3619	4.6905	4.9732	\$1,044
2015 Two	7.3803	5.3855	4.975946	5.9482	\$1,312
2016 Three	7.3334	5.1868	4.534442	6.8074	\$1,576
2017 Four	6.8394	4.95221	4.280768	6.8394	\$1,663
2018 Five	6.1997	4.6017	3.9055	6.1997	\$1,583

For further comparison, this table compares residential tax rates across the region for 2013-2018:

	CoP	Summerland	Peachland	PIB District 2	Oliver	Osoyoos	Average	Inflation
2013	7.2285	6.1349	6.2292	4.4094	6.3976	5.6552	6.32908	0.8%

2014	7.4106	6.2858	6.6070	4.6905	6.6498	5.7666	6.54396	1.24%
2015	7.3803	6.29774	6.4775	4.975946	6.6627	5.9925	6.562148	1.9%
2016	7.3334	6.1570	6.2808	4.534442	6.6051	5.7795	6.4997	1.6%
2017	6.8394	5.8184	5.7165	4.280768	6.2586	5.8307	6.09272	1.5%
2018	6.1997	5.2971	5.1176	3.9055	6.1427	5.5156	5.65454	1.9%

Estimated Length of Transition

PIB estimates the transition will take five years. In the event a calculated transition year's rates are above the current CoP property tax rates, the current CoP rate will be used and the transition period ended.

Why the Transition is Necessary

Harmonizing tax rates lays the foundation for improved services, infrastructure, and future development. As new areas are developed, and existing areas are further improved, the cost of building the necessary infrastructure and providing municipal services to residents and businesses will increase. In the last two years, PIB's budget has almost doubled because of increased development and the cost of providing expanded services.

To provide similar levels of service as the CoP in the future, PIB needs to harmonize its tax rates with the CoP's across all its jurisdictions. Harmonized tax rates will, after the transition is complete, provide PIB with tax revenue relative to the cost of providing local government services in the region, with rates determined using comparable property assessments from the region, so that, over time, the services and infrastructure residents and businesses in the Penticton area are equal, no matter where they are located.

Higher level of local services provided

Any increased revenue will be used to provide improved local services, such as:

- increased amounts of protective services;
- enhanced education and daycare services; and
- public works, including landscaping on the channel lands

Building new or replacement local service infrastructure

Any increased revenue will be used to build new local service infrastructure, such as:

- installing benches on the channel lands;
- street lighting, storm sewers, road and sidewalks; and

- a water treatment plant, once the demand for water exceeds CoP's ability to provide it

APPENDIX A

REQUIREMENTS FOR TRANSITIONING TO THE REFERENCE JURISDICTION RATES

Under the FNTC's standards, a First Nation that proposes to justify an increase in its tax rates in one or more property classes in order to transition to setting tax rates that are identical to the reference jurisdiction must develop a reference jurisdiction transition plan that:

- (a) provides a justification for the proposed increases in tax rates that relates either to providing a higher level of local services to the taxpayers, or to building new or replacement local service infrastructure; and
- (b) sets out how tax rates will increase incrementally in one (1) or more property classes over a period of not more than five (5) years in order to match the reference jurisdiction rates in all property classes.

In the year prior to the first year of the transition (e.g. in 2018 for a transition starting in 2019), the First Nation must hold a taxpayer meeting to review and discuss the reference jurisdiction transition plan.

At least fourteen (14) days before the taxpayer meeting, the First Nation must provide a written notice (or notices), stating:

- (a) that the First Nation intends to develop a reference jurisdiction transition plan in order to transition to setting tax rates that are identical to the reference jurisdiction, and
- (b) the time and place of a taxpayer meeting to review and discuss the reference jurisdiction transition plan.

The notice must be:

- (a) delivered to every taxpayer and any taxpayer association;
- (b) posted in the First Nation's administrative offices and in at least two (2) other locations on the reserve; and
- (c) published on the First Nations Gazette website and in a prominent place on the First Nation's website