

May 20, 2009

### Mayor Explains Budget Background, Deliberations, Major Industry Taxation Reduction

*“Like many natural-resource-dependent communities, when the global financial situation hit the forest sector hard, it created many new challenges for our City,”* explains Mayor Charlie Cornfield, citing examples of the new economic reality. *“Hundreds of loggers are unemployed. Hundreds of mill workers have lost their jobs. The closing of the TimberWest sawmill impacted our industrial tax based significantly. The permanent closure of the kraft pulp mill will further compound the problem. The paper mill is on indefinite shutdown, with Catalyst Paper requesting a reduction in property taxes of around \$3.1 million effective this year. If the Catalyst complex closes completely, the City is facing a \$4.6 million loss of revenue. This does not include the reduction of tax revenues for schools, hospital, regional district and other services,”* he adds.

*“Catalyst has indicated, in each coastal community where they run an operation, they will pay only \$1.5 million of City taxes this year. We have made it clear that we expect every taxpayer to pay their taxes,”* the Mayor says. *“If Catalyst does not pay the full amount, they will be subject to a 10 per cent penalty plus interest just like everyone else. In the meantime, Council and City staff continue working diligently with senior governments, Catalyst, the unions and other affected communities to find a solution to this issue.”*

The Mayor reports: *“When we asked what it would take to reopen the mill, Catalyst explained a combination of three factors will influence their decision: City taxes of \$1.5 million, concessions from the unions to reach \$80 per ton and favorable market conditions. Even if those conditions are achieved, there is no guarantee that the mill will reopen,”* the Mayor emphasizes.

The table below illustrates what each of the communities and unions working with Catalyst Paper are doing to deal with this issue.

Municipality	Reduction in Major Industry Taxes	Percentage of Total Levy	Comments	Union Participation
Campbell River	\$500,000	19%	Task force established	Status to achieve \$80/ton target unknown;
North Cowichan	\$500,000	38%	Task force established to advise Council	PPWC plans in place to move toward \$80/ton
Port Alberni	\$425,000/year	34.8%		Plans in place to reach \$80/ton
Powell River	\$250,000/year	28%	Target is to reach a total Major Industrial taxation of \$3,000,000/year	Agreement in principal on how to reach \$80/ton

*“Since 2002 Campbell River has led the way when it comes to reducing tax dependency on major industry,”* says Mayor Cornfield. *“We have saved major industry more than \$10 million to date, including the \$500,000 reduction this year. City taxpayers have taken significant steps to accommodate major industry, and it is now up to others involved to do what is necessary to keep the mill running and people employed.”*

The Mayor affirms that as the situation evolves over the next few months, he will keep the community informed.

## **Frequently Asked Questions and the Mayor's Response**

### ***Has the City asked the Province to help?***

We asked the provincial government for bridge financing or a share of resource revenues to allow an orderly transition away from dependence on major industrial taxation. We were told we have the tools to deal with the situation locally.

### ***What did you do about the recommendations by the Financial Task Force?***

City Council appointed a task force to review the loss of major industrial tax revenue and to recommend how the community could best adapt to this current and projected major loss in tax revenues. Their review concluded that we were over taxing the industrial tax class, creating a barrier to the retention and attraction of industry.

Their recommendations included reducing the industrial tax class by \$2 million, \$1 million and \$500,000 over three years. This was to be accomplished by reducing services and shifting some taxes to other property classes.

Taken alone the recommendations would appear realistic, however, we faced other financial challenges: growth has declined and revenues are reduced. In addition, the City faces increasing contractual costs.

### ***What kinds of challenges did City Council face in this year's budget process?***

Council initially faced a \$4.4 million budget shortfall related to a combination of revenue losses from the sawmill closure and the downturn in the local development environment as well as rising contract, service and collective agreement costs. In addition, the City is required by legislation to set aside funding for asset replacement, for which Council reserved \$600,000. Council addressed the total \$5 million budget shortfall through a combination of tax increases and operating budget cuts.

### ***How did City Council balance the budget?***

Mayor and Council deliberated long and hard over the best budget strategy to be implemented in 2009 and have balanced the budget with every sector sharing in the solution. The majority (\$2.2 million) of the required \$3.6 million in new taxation was applied to the residential class. In addition, we added more taxation to the Managed Forests and Utilities classes, while holding the Business class at 20 per cent of the total levy. In addition, \$1.4 million in program cuts were achieved.

### ***How is City Council preparing for the future?***

Council will review and adopt new sustainable financial policies to prepare us for the eventual economic turnaround. Recognizing that Campbell River is changing, our policies will reflect the expectation that our community will continue to grow, and that our economy will continue to diversify as we evolve into a safer, healthier, more prosperous and environmentally friendly community.

### ***Has the City met with the unions to explore solutions?***

Yes, we met as a Council and also in joint meetings with the Province, the company and union representatives. The City feels more could be done. In other Catalyst communities, the unions have achieved the \$80/ton of product target. The City encourages Catalyst and its unions to achieve similar favourable results at its Elk Falls operation in Campbell River.

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