A *refined* ARGUMENT

REPORT OF THE ADVISORY PANEL ON MUNICIPAL MINING REVENUES

February 27, 2008
City of Greater Sudbury

Greater | Grand Sudbury

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REPORT OF THE ADVISORY PANEL ON MUNICIPAL MINING REVENUES

February 22, 2008

Mayor John Rodriguez
and Members of Council

On behalf of the members of the Advisory Panel on Municipal Mining Revenues, I am pleased to present our report.

The Panel that you and your Council convened to prepare this report includes a diversity of perspectives drawn from the panelists' experiences in business, politics, community services, labour, education and the mining industry. It has been a privilege to work with these dedicated citizens.

As the work of the Panel progressed, ably supported by the resource team you provided, the diversity of experiences merged into a consensus that a new framework for balancing the costs and the benefits that the mining industry creates within our Municipality is essential. These issues need to be urgently addressed for the City of Greater Sudbury to achieve its potential.

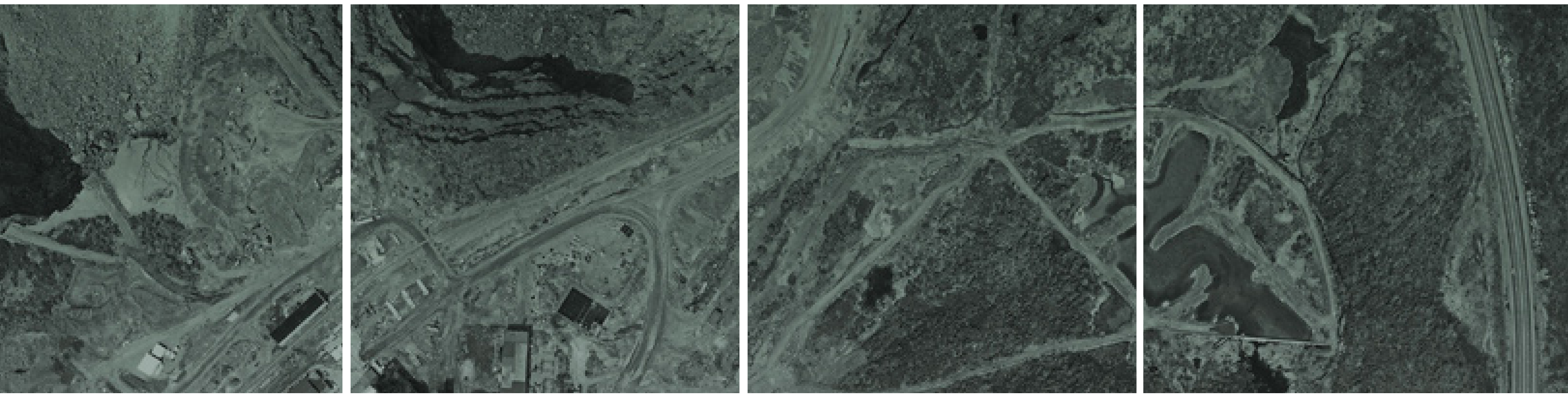
After eighty years of expansion and twenty-five of consolidation, the Sudbury Basin is one of the most technically advanced and active mining and processing camps in North America, if not the world. The City of Greater Sudbury supports this successful camp in its midst with a safe, secure and modern urban environment, with first-class educational facilities, with a diversified and highly skilled workforce, with a growing sector that supplies goods and services for mining and processing, and with modern research and development facilities that range from basic technology to fundamental physics; the Paris of world mining camps, as a senior mining executive described it, plus the mining technology version of Boston's high-tech Route in-the-making, plus a mining industry that is buoyant once again and is ready to reinvest. This is an enabling convergence of conditions.

Exploiting this once-in-a-generation convergence will require the Municipality to raise the quality and scope of the services and infrastructure it provides; failing to raise them would prevent Greater Sudbury from reaching its potential as a thriving and modern Canadian city which will contribute to the advancement of Northern Ontario, the Province, and the country — and that takes money that Greater Sudbury does not have.

Therefore, the Panel concludes, it is time for the Province and the Mvunicipality to work out, in the spirit of cooperation and mutual benefit, a solution which balances the wealth that a modern, hi-tech mining and processing industry can generate, and the investments this requires.

Respectfully submitted

Jose Blanco, Chair



While companies, employees and other levels of government enjoy great prosperity thanks to this recent and very welcome boom, the Municipality sees the mining contribution to municipal taxes erode each year.

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EXECUTIVE SUMMARY

The Sudbury Basin is arguably the most valuable geologic structure in the world. For more than one hundred years, dozens of mines have operated around the rim of this ancient meteor crater, extracting millions of pounds of nickel, copper and cobalt as well as million of ounces of gold, platinum and palladium. The sales of these metals have realized tens of billions of dollars in profit for mining companies and billions of dollars in taxes for the Federal and Provincial Governments. The mining activities in the Sudbury Basin have in large measure driven the development of the progressive urban center that is the City of Greater Sudbury.

Local municipal government in the Sudbury area has gradually grown to match the geographic extent of the basin. As dictated by the Ontario government in 1973 and again in 2001, the disparate assembly of communities that had developed around the mine sites has been consolidated into Ontario's largest municipality, covering a staggering 3,200 square kilometers. The resulting City of Greater Sudbury has developed into a strong regional centre and Northern Ontario's most populous city. It is a regional health hub, an important Ontario post-secondary education center with colleges in both official languages and is the home of a research university. The City is also a base for a dynamic mines supply and services sector as well as a leading centre for mining research and development.

Companies that engage in mining activity in the Sudbury Basin have access to one of the richest mineral deposits on earth and a highly skilled workforce. They benefit from a stable political environment and operate in an urban community with high standards of municipal services and infrastructure and a great quality of life. All of these factors have contributed to making Greater Sudbury the world's premier mining site, and as a result, home to some of the world's largest and most sophisticated mining complexes.

In recent years, increased demand for commodities such as nickel and copper has resulted in a boom in the mining sector that has translated into great prosperity for the companies, the community and has sent hundreds of millions of dollars to the treasuries of the Federal and Provincial Governments. Unfortunately, the Municipality does not benefit directly from this prosperity.

A r e f i n e d

The City of Greater Sudbury brought together leaders from the community to create the Advisory Panel on Municipal Mining Revenues. This report has been designed to provide the arguments as to why the Council of the City of Greater Sudbury should invite the Province of Ontario to enter into negotiations with the City to establish a resource revenue-sharing agreement. The report also provides other recommendations developed by the Panel. The summary of each chapter encapsulates the arguments for a resource revenue-sharing agreement.

Municipalities are entities of the Province and as such look to the Province for funding. In turn the Province petitions the Federal Government to provide additional funding to the Province. Although this report looks to the Province to address its distribution of natural resource wealth, it is important for Council to take every opportunity to promote and seek funding from the Federal Government who also benefit significantly from the natural resource wealth generated in the Sudbury Basin.

The last section of the Executive Summary provides a brief description of secondary recommendations developed by the Panel.

In order to address the broader, more endemic problems with which this City must contend, the Panel has developed one primary recommendation:

> **THAT THE COUNCIL OF THE CITY OF GREATER SUDBURY INVITE THE PROVINCE OF ONTARIO TO ENTER INTO NEGOTIATIONS WITH THE CITY TO ESTABLISH A RESOURCE REVENUE-SHARING FRAMEWORK THAT WILL ENSURE A PREDICTABLE AND SUSTAINABLE REVENUE STREAM FOR THE MUNICIPALITY.**
>
> **AND FURTHER THAT COUNCIL CIRCULATES THIS REPORT AND CONSULTS WITH OTHER NORTHERN RESOURCE COMMUNITIES.**

ARGUMENT

The arguments to support this recommendation are summarized below, with a more comprehensive and substantive examination provided in the pages that follow.

Other resource rich provinces in Canada have been initiating new policies and resource sharing arrangements with the companies that extract the natural resources in their jurisdictions. It is not unreasonable for these provinces to believe they should receive a share of the wealth generated by their natural resources. Given this belief, it is not surprising that the municipalities who house the workers, support the service providers and contractors, provide the infrastructure that facilitates the development of these resources and provide high quality urban community standards that attract skilled workers, should also seek an additional share of the wealth generated from the mining and processing industry within their own territory.

HISTORICAL ARGUMENTS RELATED TO MUNICIPALITIES AND MINING

Provincial-municipal resource revenue sharing has been hotly debated for close to a century as mining municipalities have sought fair compensation for the role they play in facilitating mining activity. The mining municipalities have consistently contended that they are entitled to share equitably with the Federal and Provincial Governments in the taxation wealth generated by the mining companies operating within their municipal boundaries. Through persistent lobbying and presentations, these same municipalities have also demonstrated that they have not received a fair share of the taxation wealth generated by the mining companies.

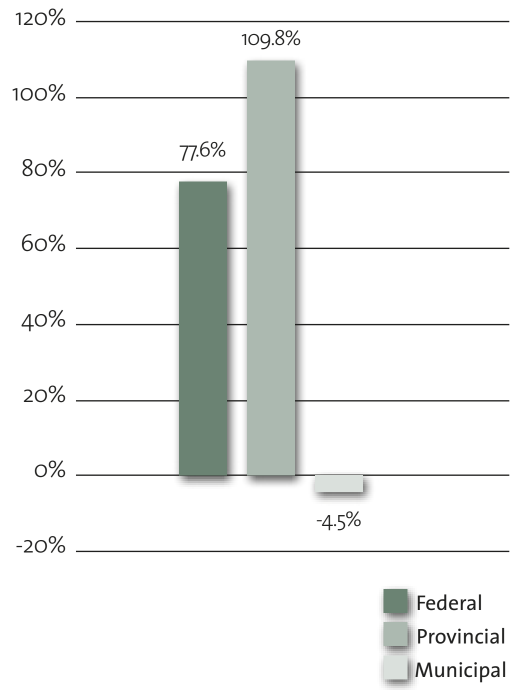
Up until 1973, mining companies were exempt from municipal property taxation. This was the only industry sector treated in this manner. Municipalities received instead a grant from the Provincial Government referred to as mining revenue payments. In 1973, the surface operations of mining companies became assessable for municipal property tax purposes. There has been a long standing contention, however, that the surface assets of the mining companies were significantly under assessed at the time and have remained under assessed. Given the years of no property taxation followed by years of property taxation at under assessed values, the Sudbury Basin municipalities have struggled to properly fund municipal services and infrastructure.

The historical arguments are as relevant today as they were 100 years ago and the Municipality is continuing to petition the Provincial Government to provide a predictable and sustainable revenue stream to the Municipality from the wealth generated by the mining companies within its boundaries.

It is the case that municipalities rely for the most part on property taxation to fund municipal services including the building and maintenance of capital infrastructure. Property taxation should be raised equitably across all property tax classes and since much of the mining infrastructure is underground it has not been subject to tax. The municipalities have petitioned the Provincial Government for decades to provide for a payment in lieu for the underground infrastructure that they are unable to tax.

As these debates have occurred, the International Nickel Company had also been at the table petitioning the Provincial Government to fairly distribute the wealth generated by their company to the municipalities that provided the infrastructure to support their operations and their employees. In its submissions in the late 1960s and early 1970s, the company clearly indicated that it wished to fulfill its obligations to the community by paying its fair share of taxation. It was the International Nickel Company itself that proposed that surface facilities be assessable for property tax and this was implemented in 1973. The company also proposed that the Provincial Government should levy a sufficient mining tax to both pay the Municipality its fair share and to provide for a reasonable level of royalties to the Province.

GROWTH IN TAX REVENUES GENERATED BY THE ONTARIO MINING INDUSTRY IN ONTARIO (2001 TO 2005)



ONTARIO MINING INDUSTRY AND TAXATION

After examining elements of the various regimes through which Ontario's mining companies are taxed, it is clear that Ontario's mining industry is a significant source of taxation revenue. Ontario's mining industry, 50% (as measured by various parameters including employment, payroll, mine locations) of which is located within the Sudbury Basin (Source; *Economic Contribution Study 2006*, Ontario Mining Association), sends hundreds of millions of dollars to the Federal and Provincial treasuries, contributing to repeated budget surpluses in recent years. What is more, this figure has been on a steady upward trend over the last few years.

Ontario's municipalities on the other hand, and Greater Sudbury in particular, have witnessed a decline in the property tax revenue that they collect from the mining industry. In the City of Greater Sudbury, the major mining companies' share of the City's property tax levy has fallen from 25% in 1970 to 6.5% in 2005. The chart opposite, for the period 2001 to 2005, shows that Federal taxation revenue has grown by 78%, Provincial taxation revenue by 110% while municipal property tax revenues have declined by 4.5%. It is estimated that in the past five years, the accumulated loss in taxation revenue from the mining industry due to declining assessment is $20 M.

... to achieve long-term fiscal sustainability ... the amount of money required is a fraction of the differential between the amount of money that the senior levels of government take out of the community compared to what they put back into the community.

On a more global perspective, the Conference Board of Canada has estimated that the City requires an additional $30 million or more annually to achieve long-term fiscal sustainability and that this amount of money is a fraction of the differential between the amount of money that the senior levels of government take out of the community compared to what they put back into the community.

MUNICIPAL SERVICES

The City of Greater Sudbury, as a major urban centre, delivers high quality municipal services and infrastructure that benefit not only its individual residents, but its corporate citizens as well. The quality and the cost of these services continue to rise while the property taxes paid by the mining industry are declining and the contribution of the mining taxes to the Provincial and Federal treasuries are rapidly increasing.

Were a mining camp to be located in a more remote location, these same services and infrastructure would have to be provided entirely by the mining companies themselves. Greater Sudbury is the world's premier mining site and is unparallelled by any other mining municipality.

Based on the data available it is not possible to demonstrate the extent that the mining industry impacts on the cost of municipal services but there is abundant evidence that it does. For example, there is clear evidence that the activities of the mining industry negatively impact the City's roads infrastructure. As such, it is reasonable that the Municipality should expect some form of cost-sharing framework with the mining industry. The City of Greater Sudbury provides municipal services and infrastructure to a sophisticated urban standard and the supporting assessment base in the mining industry is limited and declining. It is also appropriate for the Municipality to seek a direct form of compensation from the Province.

MUNICIPAL FUNDING

From 1937 until 1990, the Province recognized and paid resource grants to Northern municipalities. Although the language recognizing resource grants was lost in 1990, it is important to note that the total value of the unconditional grants continued to rise until 1998 and the introduction of local services realignment. With the introduction of the Community Reinvestment Fund and the provision of additional education tax room, the City of Greater Sudbury lost $7 million in unconditional funding. Since the downloaded programs had to be paid for, the $ 7 million essentially represented the loss of grants related to being a resource community with low density and lower than the provincial average assessment. If this savings target had not been required, the unconditional grant (excluding social programs) in 2007 would have been $13 million higher (assumes inflation). The loss of this funding over the 10 year period represents accumulated lost funding of approximately $80 million. The challenges of being a resource community in Northern Ontario are no different today than they were in 1937. The funding that recognized these challenges is still required today and the Province is encouraged to reintroduce a sustainable and predictable revenue stream for the City.

Precedents for sharing the wealth of the resource sector with the stakeholders who are directly supporting the extraction of these resources has been clearly established. It is therefore reasonable for the City of Greater Sudbury to invite the Provincial Government to enter into negotiations to establish a resource revenue-sharing agreement.

REVENUE SHARING AGREEMENTS — PRECEDENT

The City of Greater Sudbury is not the only community to attempt to secure a more equitable share of the wealth extracted from beneath it. There are precedents wherein the unique circumstances of resource-based communities have been recognized and compensated.

In 1998, the Peace River Regional District (PRRD) successfully negotiated a long-term Memorandum of Understanding (MOU) with the Province of British Columbia. The MOU recognizes that the PRRD's member municipalities have limited access to property tax revenues from the oil and gas industry, and as such acknowledges the Province's responsibility to compensate local governments for their role in resource development activities by providing them with an annual payment of $20 million (inflated annually) to be divided among member municipalities.

Although the Aggregate Resources Act specifically excludes mineral resources, the Ontario government recognizes that the extraction and transportation of aggregates has an impact on local communities and in turn provides area municipalities with a portion of the royalties collected from the industry. Similarly, various Impacts and Benefits Agreements have been negotiated between mining companies and Aboriginal communities.

CURRENT ENVIRONMENT — THREATS AND OPPORTUNITIES

The City of Greater Sudbury is experiencing strong economic growth that is predicted to continue over the next decade. Without corresponding growth in assessment, however, the ability to maintain and build municipal services and infrastructure remains challenging.

Local mining companies are making significant investments in the Sudbury basin but these investments do not lead to an increased assessment base and therefore increased property tax revenue for the Municipality. The investments do, however, result in increased production with increased profits that lead to higher taxation revenues for the senior levels of government. Much of the capital investment is underground and not subject to property tax and yet, because corporate taxation revenues continue to grow, the Municipality is looking to the Province to establish an equitable means of redistributing the natural resource wealth so that it is appropriately compensated for the role it plays in facilitating the mining industry.

SECONDARY RECOMMENDATIONS

During the course of its work the Panel identified several recommendations for consideration and these are summarized below.

1 Mining properties are valued by the Municipal Property Assessment Corporation using the cost approach. This formula provides an allowance for both depreciation and market value adjustment. That both major mining companies recently sold for amounts well above market value calls into question the basis for valuing mining facilities. Mining facilities only became taxable in 1973 and there was considerable debate at that time that the assessed value was too low. It is therefore the recommendation of the Panel that Council petition the Province to amend the valuation method and the components of the formula, specifically the allowance for depreciation and the market adjustment factor, for the purposes of assessing mining industry properties.

2 The Municipality should monitor incentives and opportunities for processing and manufacturing to ensure that the mining industry in the Sudbury Basin remains vibrant and competitive.

3 The City of Greater Sudbury should undertake to quantify the impact of mining haul trucks on City roads and with this assessment, formulate a policy for sharing the incremental costs between the mining companies, the Province and the Municipality.

4 The Municipality should determine if it is recovering costs to the greatest extent possible using all its legislated authority. If insufficient authority is an obstacle to reasonble cost recovery, the Municipality should petition the Province to adequately expand the City's mandate. In order to engage in meaningful negotiations the City needs to develop a policy position with respect to cost sharing for roads and other municipal services.

5 The Panel supports the recommendation of the *2005 Transportation Background Study* that the City should enter into partnership arrangements with the mining companies for road construction and maintenance as the municipal road infrastructure greatly benefits these companies. The option follows the user-pay principle where Greater Sudbury is seeking to generate new revenues from those that benefit most directly. The option increases awareness of the full costs of the infrastructure, and also has the benefit of reducing public costs. The concept can be applied to new roads, road widening, or to reconstruction and maintenance activities. A model developed to address roads could be applied to other operating service areas.

6 The Municipality should, in consultation with the mining companies and senior levels of government, explore the options for a heavy load transportation system (i.e. rail, road, pipeline) with possible funding from the Provincial Government's transit funding program.

7 The City develop in-house expertise on the mining industry, prepared to both anticipate and respond to mining industry matters such as consolidation, outsourcing, changes in business practices and changes in tax policy and Provincial regulations.

8 The environment is constantly changing and it is incumbent on the Municipality to continue to scan for the threats and opportunities that may impact on its operations. Forward thinking policies and the subsequent negotiation of agreements could go a long way to ensuring that future changes in the mining sector impact positively on the Municipality.

Forward thinking policies ... could go a long way to ensuring that future changes in the mining sector impact positively on the Municipality.

INTRODUCTION

The Advisory Panel on Municipal Mining Revenues was tasked by the Mayor and Council of the City of Greater Sudbury to:

"Research the current regimes of mining taxation and royalty policies and the municipal services required for sustainable mining and processing activities and identify opportunities for resource revenue sharing that Council may be able to pursue to make the finances of the City of Greater Sudbury more sustainable."

The primary objectives to be addressed by the Panel include:

- Research the policies associated with mining Income taxation, property taxation and royalties;
- Review how mining taxation and royalties, property taxation and municipal services have changed historically and are continuing to change in response to significant technological and organizational changes in the industry;
- Consider how the City of Greater Sudbury responds to the needs and practices of the mining industry in regards to emissions, energy use, transportation, firefighting, emergency handling, security and other services;
- Expand cooperative linkages with local mining companies, research institutions and the Provincial and Federal Governments to assist in the Panel's effort;
- Advise Council on any revenue source options for the City of Greater Sudbury, especially sustainable ones, which are revealed by the Panel's work;
- Alert Council of revenue-raising or service improvement opportunities arising from the activities of the Association of Municipalities of Ontario and/or the Federation of Canadian Municipalities;
- Keep Council apprised of the progress of panel work and present an interim report by January 2008.

ADVISORY PANEL MEMBERSHIP

The advisory panel membership is as follows:

Sylvia Barnard, President, Cambrian College (GSDC Representative)
José Blanco, retired former Vice President INCO Ltd. (Chair)
Joe Cimino, City Councillor. (Vice Chair)
Andre Dumais, Marketing Manager, Bestech
Leo Gerard, International President, United Steelworkers of America
Denis Hubert, President, College Boreal
Floyd Laughren, Former Ontario Minister of Finance
Ryan Minor, Chartered Accountant
Cathy Modesto, Surintendente d'affaires et des finances CSCNO
Ron Mulholland, Associate Professor, Laurentian University Faculty of Management
Staff: Paddy Buchanan, Liam McGill, Paul Reid, Ian Wood, Tin-Chee Wu and other staff resources as required.

In order to provide context for its discussions, the Panel established the following guidelines to help shape its recommendations.

1. Enhance the relationship between the City of Greater Sudbury and the mining companies.

2. Find options to address the fact that municipal taxation revenue derived from the mining industry has been declining and the Provincial and Federal taxation revenues from the mining industry have been increasing.

3. Make recommendations focused on obtaining an additional revenue stream that is predictable and sustainable in the long term and reflects the economic contribution of mining and processing activities within the Municipality.

TASKS, TIMING AND RESOURCES

The advisory panel has been meeting monthly since March 2007. Over the course of its meetings, the Panel has engaged in the following activities.

1. Expert presentation on municipal property taxation and mining property taxation in Ontario.
2. Expert presentation on corporate taxation and the mining industry in Ontario.
3. Reviewed the municipal costs associated with servicing the mining industry
4. Reviewed how municipalities are funded and how this funding has changed over time.
5. Reviewed how much revenue is generated by the mining industry in Sudbury and who the recipients of this revenue are as well as how much revenue flows out of the community and how much flows back into Sudbury.
6. Reviewed mining taxation in other Canadian jurisdictions.
7. Reviewed precedents for sharing of resource wealth between various stakeholders.
8. Reviewed the history of what mining municipalities have done in the past to effect change in funding formulas, taxation policy and distribution of resource revenues.

A R G U M E N T

REPORT

This report sets out the findings of the Panel's work. The report has been designed to provide sound arguments for why the Province should enter into negotiations with the City to establish a resource revenue-sharing agreement. The Panel values and supports Council's collaboration with our resource-dependent neighbouring northern communities who face many of the same issues and encourages Council to share this report. The report also provides other recommendations that surfaced during the work of the Panel. The conclusion of each chapter summarizes the arguments for a resource revenue-sharing agreement. Other recommendations are highlighted throughout the report.

Municipalities are entities of the Province and as such look to the Province for funding. In turn the provinces petition the Federal Government to provide adequate amounts of funding to the provinces. Although this report looks to the Province to address its distribution of natural resource wealth, it is important for Council to take every opportunity to promote and seek funding from the Federal Government who also benefit significantly from the natural resource wealth generated in the Sudbury Basin.

As the City moves forward with negotiations to obtain an additional share of the natural resource wealth, it is recognized that the Municipality will need to work with other municipalities on all issues related to long-term municipal sustainability and take full advantage of current and future iniatives such as the Northern Ontario Growth Plan, the Provincial/Municipal Fiscal and Program Service Delivery Review and all future Federal and Provincial programs for infrastructure and energy-conservation upgrading.

HISTORICAL ARGUMENTS RELATED TO MUNICIPALITIES AND MINING

In the preparation of this report, the Panel reviewed historical documents and the arguments put forward on this topic over the decades. The review made it clear that mining municipalities in Ontario have been petitioning the Provincial Government to fairly compensate municipalities for the role they play in facilitating mineral extraction in their communities for more than a century. These arguments have been based on the following facts:

- Municipalities provide the municipal infrastructure to service the mining industry.
- Municipalities rely on property taxation revenue to provide municipal services including building and maintaining infrastructure.
- Property taxation should be raised equitably across all classes of property. Since much of the mining infrastructure is underground and not subject to property taxation, municipalities have consistently made the case that they be compensated for this assessment deficiency.
- Senior levels of government have benefited from the billions of dollars in tax revenues that have been generated by the extraction of non-renewable resources from these communities.

Over the years, provincial-municipal funding arrangements for mining communities have evolved incrementally due, in part, to the lobby efforts put forward by individual mining municipalities such as Sudbury or collaborative groups such as the Association of Mining Municipalities of Ontario (AMMO). These lobby efforts were sometimes part of larger forums initiated by the Provincial Government soliciting input on public policy.

The following paragraphs highlight work that has been done in the past with a focus on the arguments that were used at the time of writing of the particular report.

THE MAYOR'S COMMITTEE OF SUDBURY'S FINANCIAL PROBLEMS (1964)

In 1964, Sudbury's Mayor created the Mayor's Committee of Sudbury's Financial Problems to prepare a brief entitled *1964: Year of the Dilemma* for submission to Premier John Robarts. The document outlined the serious challenges that faced the City and called upon the Province to take steps to mitigate them. Among the problems described were:

- the lack of assessment generated by the mining industry
- the difficulty of delivering the services and infrastructure of an urban centre with the financial resources of a mining camp
- geography — rugged topography and harsh soil conditions.

The brief concluded stating that:

> *"In creating the greatest base metal mining complex in the world, they (the people of Sudbury) have helped to shape the destiny of this Province and this Nation. Today they want to share more equitably in the benefits of the prosperous society to which they have made such a great contribution, and to which they have so much more to give."*

THE ONTARIO COMMITTEE ON TAXATION (1967)

The Ontario Committee on Taxation (OCT), formed by the Province, released its report in 1967. In January of the following year AMMO submitted a brief to the Ministry of Municipal Affairs to address a specific proposal of that report that would see mining revenue payments to the City of Sudbury reduced by more than 50%.

The following month, INCO made its own submission to the OCT expressing a willingness to share in the financial burdens of the municipalities in which it operated and its employees resided. The company's submission suggested that municipalities be permitted to assess all surface processing plants, and called on the Province to use a portion of Ontario Mining Tax revenues to compensate municipalities for their inability to tax underground.

In March of that same year, the City of Sudbury drafted and released its own submission to the Committee. It commended INCO for its commitment to the community, described the challenges faced by the City and finally called on the Province to develop solutions.

Later that year, the City submitted another brief to the Select Committee on the Report of the Ontario Committee on Taxation. This submission dealt with the financial structure of Sudbury, its present sources of revenue, their inadequacy and some alternative proposals. The brief proposed that the exemption on processing facilities be removed from the *Assessment Act* to make local industries taxable in the same manner as Algoma Steel, Dofasco, and Stelco to name a few. The City went on to suggest that if their proposal proved impractical, they would expect to receive a fair and proper payment in lieu from the Province. As a result of these coordinated and sustained lobby efforts, mineral processing facilities became taxable in 1973.

THE ONTARIO BUDGET (1976)

The Ontario Budget of 1976 contained proposed reforms to the Province's property taxation system. INCO would again intervene by preparing a submission to the Province opposing the reforms and proposing a few of its own. The company's submission put forward arguments against the municipal taxation of ore reserves and underground structures, and called for the amalgamation of Sudbury area municipalities into one single-tier city. In this submission, INCO recommended that the municipal business tax applicable to the properties of the mining industry be substantially increased and that this increase be combined with a corollary decrease in mining tax rates. The company argued that its aim was not to reduce its overall tax burden, but rather that it be permitted to pay more of its tax dollars directly to the communities in which it operates.

The company (INCO) argued that its aim was not to reduce its overall tax burden, but rather that it be permitted to pay more of its tax dollars directly to the communities in which it operates.

THE MINING TAX REFORM COMMITTEE (1977)

In 1977, the Mining Tax Reform Committee, consisting of representatives from Elliot Lake, Kirkland Lake, Timmins, and the Regional Municipality of Sudbury, released a document entitled *Modification of Mining Taxation in Ontario*. The submission argued that underground mining facilities should be taxed in the same fashion as basements in homes, underground parking garages, underground shopping malls, etc. The committee argued that mining municipalities were suffering from a backlog of needed infrastructure improvements due to the lack of adequate taxation. The report recommended that mining municipalities required:

1. Increased support from the Province through:
   - **a** Increased Northern Ontario Special Support Grant
   - **b** Increased Resource Equalization Grant
   - **c** Reinstatement of Mining Revenue Payments
2. Broadened assessment through:
   - **a** Taxation of machinery and equipment
   - **b** Taxation of underground facilities
   - **c** Taxation of the ore body
   - **d** Enhancing the Business Tax
3. Annual grants from mining companies to municipalities
4. Municipal taxation of mine production (either on tonnage or profits)

ADVISORY COMMITTEE ON RESOURCE DEPENDENT COMMUNITIES OF NORTHERN ONTARIO (1985)

In 1985, the new Liberal government created the Advisory Committee on Resource Dependent Communities of Northern Ontario, chaired by Robert Rosehart. The report made a total of 80 recommendations. Among these were recommendations that the Province permit municipalities to include underground operations in the assessment of mines and return to the policy of providing specific Northern Ontario communities with grants in lieu of taxes in proportion to the number of mine workers living in that community (Mining Revenue Payments). The most significant of all was the committee's recommendation that the Province establish a Northern Ontario Fund (a.k.a.: Northern Ontario Heritage Fund). Initial monies for the fund were to come from various sources, including taxation revenues received from resource industries.

MINISTRY OF MUNICIPAL AFFAIRS ADVISORY COMMITTEE ON THE PROVINCIAL-MUNICIPAL FINANCIAL RELATIONSHIP (1989)

In April 1989, the Minister of Municipal Affairs established an advisory committee to examine provincial-municipal financing matters and provide recommendations to guide this relationship in the 1990s and beyond. The committee recommended that a revenue sharing system be created that would tie directly to the growth in overall Provincial revenues or to specific revenue sources. The report goes on to state that such an arrangement would give municipalities indirect access to revenues such as income tax and sales tax which have traditionally grown more quickly than property tax.

ONTARIO FAIR TAX COMMISSION (EARLY 1990s)

In the early 1990s, the Provincial Government established the Ontario Fair Tax Commission to provide the Ontario Treasurer with advice on how to design and implement a fair tax system. The commission's mandate was to actively encourage public participation in the search for tax fairness. In February of 1992, the former Region of Sudbury approved a $10,000 contribution to AMMO to conduct a study on municipal taxation of mining properties. This study was to form the basis of AMMO's submission to the Fair Tax Commission. Recommendation 108 of the commission's 1993 report states that "any building, machinery, or equipment that would be taxable if located on the surface should be taxable if located underground." The commission also recommended that Ontario Mining Tax be changed from a tax on profits to a tax on cash flow, and called for the elimination of the Processing Allowance.

In 2006, Falconbridge-Raglan returned $9.4 million to the local government through its profit sharing agreement with the Nunavik ... the company only paid $4 million in property taxes to the City of Greater Sudbury.

FAIRNESS AND EQUALITY FOR OUR NORTH (1997)

In August of 1997, the Federation of Northern Ontario Municipalities (FONOM) and the Northwestern Municipal Association (NOMA) collaborated to produce a document entitled *Fairness and Equality for Our North*. The document argued that Northern Ontario contributes a great deal to the Province, but is faced with unique circumstances and challenges that require Provincial assistance. The paper called on the Province to establish a new means of sharing wealth that would recognize the economic disparity that exists between the North and the South that would:

- Return wealth generated in the North, to the North;
- Ensure that these dollars are administered by the Ministry of Northern Development and Mines (MNDM); and
- Be based on a formula developed in consultation with MNDM and representatives from Northern Ontario communities.

CLAIMING OUR STAKE! BUILDING A SUSTAINABLE COMMUNITY (2006)

In 2006 the City of Greater Sudbury established the Community Stakeholders' Task Force on the Future of the Local Mining Industry. The report *Claiming Our Stake!: Building a Sustainable Community* made a series of observations and recommendations. The task force concluded that:

- It is no longer enough of an economic return to the City for the mining companies to simply provide employment. Communities want to see a more reasonable share of the wealth derived from their mineral resources returned to their communities.
- Over time, area mining companies have decreased their contributions to municipal revenues while increasing their use of publicly owned and maintained transportation infrastructure and reducing their investment in private transportation infrastructure.
- In 2006, Falconbridge-Raglan returned $9.4 million to the local government through its profit sharing agreement with the Nunavik. In that same year, the company only paid $4 million in property taxes to the City of Greater Sudbury.

The report recommended that a corporate tax policy and industrial property assessment system be developed for the mining sector that is more equitable to municipalities. *Claiming Our Stake!* went on to recommend that the mining industry invest a percentage of company profits into a Community Trust Fund, and that a board be appointed to oversee investments in local initiatives.

NORTHERN LIGHTS: STRATEGIC INVESTMENTS IN ONTARIO'S GREATEST ASSET (2007)

Northern Ontario's Large Urban Mayors (NOLUM) came together in early 2007 to discuss ideas for improving Provincial policies with regard to Northern Ontario. In April of 2007, NOLUM traveled to Queen's Park to meet with representatives from the three major political parties, and presented them with a position paper entitled *Northern Lights: Strategic Investments in Ontario's Greatest Asset*. The paper called on each of the parties, if elected to:

- Improve northern highways, assist with municipal road challenges and support the expansion of alternatives to road transportation.
- Establish an infrastructure renewal program that works for northern cities.
- Create a plan to enhance growth in our cities and our region.
- Implement a northern electricity pricing regime that makes northern industries more competitive.
- Share natural resource revenues with the municipalities that support resource-based industries and workers.
- Reassume a greater share of the costs for health and social services that were downloaded onto the backs of property taxpayers.

FUTURE INITIATIVES

Provincial initiatives at this time include the development of a Growth Plan for Northern Ontario and a commitment to reassume some of the costs downloaded to municipalities through local services realignment. Work has already begun on the growth plan, with public consultation set to take place early in 2008. Also underway is the Provincial-Municipal Fiscal and Service Delivery Review. Working groups consisting of representatives from the

Province, AMO, City of Toronto and Ontario municipalities have been focused on identifying a new fiscal and service delivery partnership. Much like other Provincial committees and commissions from the past, these efforts represent opportunities for the City of Greater Sudbury, and groups such as FONOM and NOLUM to present arguments and call for remedial action related to the challenges that the City faces.

SUMMARY

This chapter demonstrates that the sharing of natural resource revenues has been in question for a century in Ontario. Mining municipalities have consistently contended that they are entitled to share equitably with the Federal and Provincial Governments in the taxation wealth generated by the mining companies operating in their communities. Through persistent lobbying and commission presentations, these same municipalities have also demonstrated that they have not received an adequate share of the taxation wealth generated by the mining companies.

Up until 1973, mining companies were exempt from municipal property taxation. This was the only industry sector treated in this manner. Municipalities received instead a grant from the Provincial Government referred to as mining revenue payments. In 1973, surface operations became assessable for municipal property tax purposes but there has been a long standing contention that the surface assets of the mining companies were significantly under assessed at the time and have remained under assessed. Given the years of no property taxation on mining properties followed by years of property taxation at under assessed values, the Sudbury Basin municipalities have struggled to properly fund municipal services and infrastructure.

Until 1973, mining companies were exempt from municipal property taxation. This was the only industry sector treated in this manner.

Municipalities rely on property taxation to fund municipal services that include the building and maintenance of capital infrastructure. Property taxation should be raised equitably across all property tax classes and since much of the mining infrastructure is underground it has not been subject to tax. The municipalities have petitioned the Provincial Government for decades to provide for a payment in lieu for the underground infrastructure that they are unable to tax.

As these debates have occurred, the International Nickel Company had also been at the table petitioning the Provincial Government to fairly distribute the wealth generated by their company to the municipalities that provided the infrastructure to support their operations and their employees. In its submissions in the late 1960s and early 1970s, the company clearly indicated that it wished to fulfill its obligations to the community by paying its fair share of taxation. It was the International Nickel Company that proposed that surface facilities be assessable for property tax and this was implemented in 1973. The company also supported the position that the Provincial Government should levy a sufficient mining tax to both pay the Municipality its fair share and provide for a reasonable level of royalties to the Province.

The historical arguments are as relevant today as they were 100 years ago and the Municipality is continuing to petition the Provincial Government to provide a predictable and sustainable revenue stream to the City from the wealth generated by the mining companies within its boundaries.

The municipalities have petitioned the Provincial Government for decades to provide for a payment in lieu for the underground infrastructure that they are unable to tax.

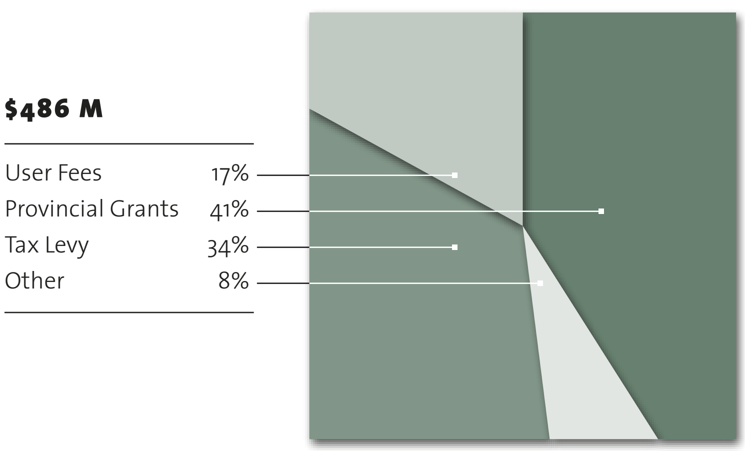
A R G U M E N T

ONTARIO MINING INDUSTRY AND TAXATION

Like all industry, Ontario's mining industry pays taxes to three levels of government — federal, provincial, and municipal. The Federal Government collects Federal Corporate Income Tax (FCIT); the Province collects Ontario Corporate Income Tax (OCIT) and Ontario Mining Tax (OMT), while municipalities collect property tax. In recent years, Federal and Provincial taxation revenues from Ontario mines have risen steadily due to strong world wide demand for metals and increasing commodity prices. Municipal property taxes collected from mining companies, however, have been on a gradual decline. This chapter provides an overview of the three levels of taxation, the implications for the mining industry and how this translates into revenues to all three levels of government.

MUNICIPAL PROPERTY TAXATION

In 2007, the City of Greater Sudbury raised 34% of its revenues from municipal property taxation. Provincial grants made up 41%, with the remainder coming from a combination of user fees and other incidental sources.



PROPERTY TAX CLASSES AND ASSESSMENT

Municipal property taxes are levied by taxation classes: residential, multi-residential, commercial, industrial, large industrial, pipelines, farmlands and managed forests. These taxes are levied on the current value assessment (CVA) of each property as established by the Municipal Property Assessment Corporation (MPAC) under the statutory authority of the *Assessment Act*. As illustrated in the following chart, residential assessment has grown by 12.8% from 2000 to 2007 while large industrial has declined by 25.5%. The large industrial class consists primarily of large mining facilities and in the period from 2000 to 2007, the City has been losing assessment base in the mining industry. The mining industry also has properties that are assessed as industrial and commercial class.

CITY OF GREATER SUDBURY ASSESSMENT ($ MILLIONS)

	2000	2001	2007	% Change
Residential and Farm	5,536	5,390	6,248	12.8
Commercial, Industrial Managed Forest, and Pipelines	1,321	1,223	1,343	1.7
Large Industrial*	262	206	195	-25.5
Multi-Residential	437	494	380	-13.0
Total	7,556	7,313	8,166	8.1

* Optional class for properties larger than 125,000 sq. ft.

... residential assessment has grown by 12.8% from 2000 to 2007 while large industrial has declined by 25.5%.

THE CITY OF GREATER SUDBURY'S MUNICIPAL TAX LEVY

Council establishes tax policy for the purpose of setting tax rates by class. To date, these policies have been set to minimize the impact on the residential taxpayer. Tax rates in the commercial, industrial and large industrial classes are at the maximum rates permitted by Provincial legislation. The following chart sets out the 2007 tax rates by class.

2007 MUNICIPAL TAX RATES (IN THE FORMER CITY OF SUDBURY AREA)

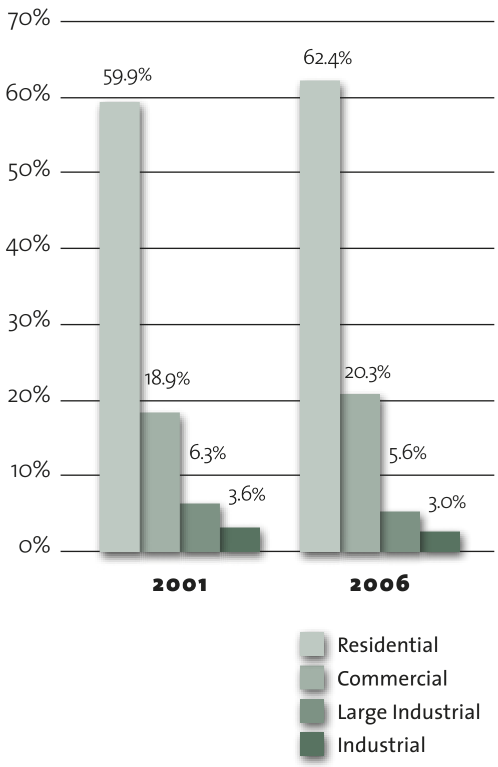
Residential	1.71%
Multiple Residential	3.53%
Commercial	2.95%
Industrial	4.21%
Large Industrial	4.77%
Pipelines	2.53%

According to the *2006 BMA Study of Municipal Competitiveness* (*BMA Study*), residential taxpayers in the City of Greater Sudbury pay 62.4% of the total City tax levy, and a smaller share of the total levy than the provincial average of 72.7%. The City's large industrial ratepayers pay 5.6% of the total levy compared to the provincial average of 2.4%.

2006 BMA STUDY – MUNICIPAL TAXES LEVIED BY CLASS

	Residential	Commercial	Industrial	Large Industrial
CGS	62.4%	20.3%	3.0%	5.6%
2006 BMA Study Average	72.7%	14.9%	3.8%	2.4%

A COMPARISON OF MUNICIPAL TAXATION BY CLASS — 2001 | 2006

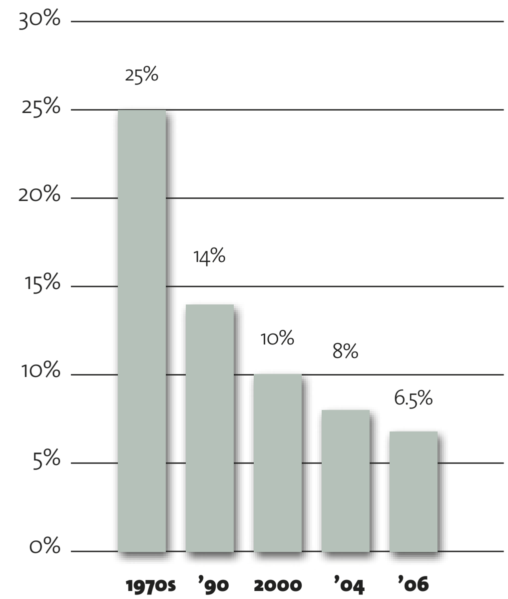


With a decline in the City's large industrial and multi-residential assessment base over the last five years, the residential share of the total tax levy has grown from 60% in 2001 to 62% in 2006. This is illustrated in the chart opposite.

In 2001, the major mining companies operating within the City of Greater Sudbury paid $12 million of the City's total municipal tax levy of $115 million. In 2006, these same mining companies contributed only $10 million to Greater Sudbury's total municipal levy of $156 million. From 2001 to 2006, the City's annual tax levy increased by 36%. Over the same period, property tax revenue generated by the mining industry declined by 17%. Although the loss between 2001 and 2006 is $2 M, if one assumes that at a minimum the municipal taxes raised from the large industrial class would have grown at the same rate as the total tax levy in this period, then the loss is actually $6.3 M. The accumulated effect of this decline in property tax revenue translates into approximately $20 M and with each year that passes this number climbs.

Looking at a longer term historical perspective, the major mining companies' combined share of the City of Greater Sudbury's municipal tax base declined from 25% in 1970 to 6.5% in 2006 and this is illustrated in the graph.

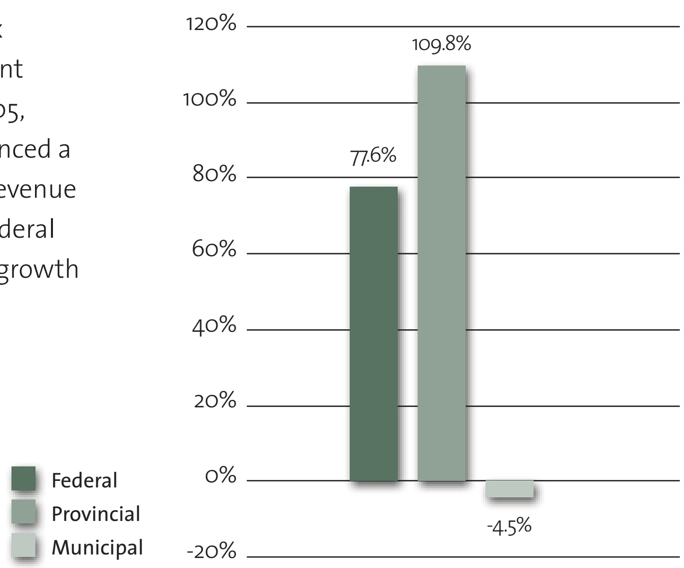
MAJOR MINING COMPANIES' COMBINED SHARE OF THE CITY'S TAX BASE



THE PROVINCIAL TREND IN MINING TAXATION REVENUES

The City of Greater Sudbury's decline in tax revenue from the mining sector is consistent with the provincial trend. From 2001 to 2005, municipalities across Ontario have experienced a 4.5% reduction in municipal property tax revenue from mining. Over this same period, the Federal and Provincial Governments have realized growth in their taxation revenues of 77% and 110% respectively.

GROWTH IN TAX REVENUES GENERATED BY THE ONTARIO MINING INDUSTRY IN ONTARIO (2001 TO 2005)



THE REASONS FOR DECLINING ASSESSMENT IN THE MINING INDUSTRY

Over the years, the assessed values of mining company properties have been declining for many reasons including the adoption of new business practices. With this decline in assessment there has been a corresponding decline in the property tax revenues of the Municipality. Reasons for the declining assessment base include:

- The demolition of surface structures as they become obsolete and vacant has reduced the assessment base.
- With changing technologies, the mining companies have been able to move some surface operations underground, resulting in a loss of surface assessment.
- The deactivation and closure of mines and processing facilities has resulted in reduced assessment.
- The transportation of mining materials has moved from rail to trucking and with the removal of the rail system, the Municipality lost assessment.
- There is increasing depreciation and obsolescence on aging mining and processing facilities.
- Mining companies became very proactive in managing and appealing assessments.
- The companies adopted strategies that saw the outsourcing of services ultimately rendering buildings obsolete, vacant or demolished.

The following chart illustrates the changes in assessment value for a sample of key mining properties within the City of Greater Sudbury.

CHANGE IN LARGE INDUSTRIAL PROPERTY CVA'S

Property	2000 CVA	2001 CVA	2002 CVA
A	13,244,000	9,128,000	8,597,000
B	29,441,000	21,635,000	21,492,000
C	94,320,000	78,275,000	82,379,000
D	28,584,000	20,609,900	18,501,000
E	24,821,000	15,262,000	16,301,000
F	32,867,000	21,282,000	24,745,000
Total	223,277,000	166,191,000	172,015,000

OUTSOURCING OF SERVICES AND THE POTENTIAL IMPACT ON ASSESSMENT

As the mining companies have outsourced some aspects of their business to other companies and realized some reduction to their assessment base, one might expect that the assessment base of those companies that were the beneficiaries of the outsourcing realized increased property tax assessment. It is difficult to ascertain whether this transition has resulted in increased assessment of these other companies. In the event that it has, however, any expanded assessment in these other companies will have been at a tax rate lower than the large industrial tax rate.

TAXATION OF UNDERGROUND INFRASTRUCTURE

In the Province of Ontario, as defined by the *Assessment Act*, all buildings, plant and machinery under mineral lands, are exempt from municipal assessment and therefore taxation. This differs from other provinces with significant mining activity. British Columbia, Manitoba, and Newfoundland and Labrador, all permit some degree of municipal assessment and taxation of underground facilities. This also differs from the tax treatment of underground pipelines. Underground pipelines are assessable and taxed at a regulated taxation rate.

As the chapter titled "Historical Arguments Related to Municipalities & Mining" indicates, the taxing of underground facilities and ore has long been debated. In the early 1970s, the municipalities, the International Nickel Company and the Provincial Government all accepted that the challenges related to taxing underground facilities and ore were significantly daunting and that municipalities would be better served by taxing surface facilities and receiving an appropriate share of the Provincial mining tax as a payment in lieu of underground taxation. These arguments have prevailed for a century and they are as valid today as they were then.

HOW ASSESSMENT IS ESTABLISHED FOR MINING PROPERTIES

MPAC uses three valuation approaches to establishing market value — the cost approach, Income valuation and direct sales. Mining properties are assessed using the cost approach. The Income valuation approach is used for multi-residential and some commercial properties. The Panel has called into question the use of the cost approach for valuing mining properties. Both major mining companies in the City sold for amounts well above their current market value. Valuing mining assets may have been difficult in the past because there were no comparators; however, this is not the case today as there are many new installations including Raglan, Voisey's Bay and Timmins. Proposals for long term development at Raglan and Thompson also suggest values for facilities that are much higher than the assessed value of existing facilities.

The Panel further questions whether the formula used in the cost approach is valid. Specifically, the cost approach provides both an allowance for depreciation and a further market adjustment factor. The notion of depreciation seems counter-intuitive in light of the fact that residential and commercial real estate is appreciating.

> **SECONDARY RECOMMENDATION 1**
> That the Province reassess the the valuation method and the components of the formula — specifically, the allowance for depreciation and the market adjustment factor for the purposes of assessing mining industry properties.

PAYMENTS IN LIEU OF TAXATION

In its review of property taxation, the Panel questioned how government, educational and hospital institutions were taxed by the Municipality. Buildings owned by the Federal and Provincial Governments are exempt from municipal taxation. Instead, they submit payments in lieu of taxes and these payments are made on the basis of current value assessment and current municipal tax rates. Universities, colleges and hospitals are also exempt, and instead pay a "heads and beds" tax at a rate of $75.

CORPORATE TAXATION

In addition to municipal property taxes, the mining industry also pays Federal and Provincial Income taxes. More specifically, Ontario's mining companies pay taxes at the following rates in 2007:

- Federal Corporate Income Tax (FCIT) at a rate of 22.17%;
- Ontario Corporate Income Tax (OCIT) of 12%; and
- Ontario Mining Tax (OMT) at 10% (of profits exceeding $500,000) reduced to 5% for remote mines.

As a result, Ontario mining companies are subject to a higher effective rate of tax than companies engaged in other industries. This is demonstrated in the table below:

COMPARISON OF EFFECTIVE RATES OF TAX BETWEEN MINING AND NON-MINING COMPANIES IN ONTARIO

	Mining (low)	Mining (high)	General
FCIT	20.7%	19.2%	21.0%
OCIT	9.0%	9.0%	12.0%
OMT	3.5%	8.5%	n.a.
Combined tax rate	33.2%	36.7%	33.0%

Source: KPMG

Since 1908 (before the introduction of corporate income tax), natural resources have fallen under Provincial jurisdiction, and as such, all provinces with significant mineral production impose separate mining taxes or royalties on that production. The purpose of OMT is to compensate the people of Ontario for the extraction of a non-renewable resource. OMT is similar to a royalty. Instead of taxing the volume of ore produced, OMT is levied on profits generated from the extraction of Ontario ores.

The last ten years, has seen a 50% reduction in OMT. As illustrated in the table below, Ontario's Mining Tax has gone from being one of the highest in the country (20%) to the lowest (10%). This reduction was intended to improve the attractiveness and competitiveness of mining in Ontario. Similar mining tax rate changes have been employed in Quebec and Manitoba.

MINING TAX BY PROVINCE

Province	1989	1999	2009
British Columbia	12.5%	13.0%	13.0%
Manitoba	21.5%	20.5%	18.0%
Ontario (general)	20.0%	20.0%	10.0%
Quebec (general)	18.0%	12.0%	12.0%
New Brunswick	16.0%	16.0%	16.0%
Newfoundland	16.0%	16.0%	16.0%

Source: KPMG

As stated previously, OMT is levied at a reduced rate of 5% for remote mines. This reflects the fact that in the absence of a municipality, mining companies must provide infrastructure and services themselves. The reduced rate reflects the increased costs of doing business in a remote location.

In urban locales such as Greater Sudbury, it is the municipality that delivers much of the infrastructure and services that allow mining companies to operate effectively and efficiently, in turn sending a great deal of revenue to Federal and Provincial treasuries. It would seem that at a minimum, there is an argument to say that if the Provincial taxation regime is available to assist with the cost of infrastructure for remote mines that in the urban setting a grant to municipalities equal to the same 5% to help offset the cost of infrastructure in a mining community would follow as a logical step. This notion is also consistent with INCO's point of view in the early 1970s that a portion of the Provincial mining tax should be provided to the Municipality.

The Provinces of Alberta and Newfoundland and Labrador have taken steps to increase their resource royalty rates. Newfoundland has gone as far as taking equity positions in natural resource extraction businesses in order to learn first hand and to remain informed about the industries' plans and actions.

In terms of deductions, OMT is deductible for the purposes of FCIT, but not OCIT. In all other provinces the mining tax is deductible from Provincial corporate income tax. Instead, Ontario provides a 25% resource allowance. Additionally, OMT allows for a processing allowance (applied in varying rates depending on the geography of where the processing occurs) so as to encourage further processing in Canada, especially Northern Ontario, by not taxing profits generated from mineral processing. The impact of this benefit was reduced when the Ontario Mining Tax rate went from 20% to 10%.

Incentives to encourage more processing in Ontario's resource-based municipalities are important to protect the future of the mining industry. The City of Greater Sudbury would benefit from investments that expand the commercial life of the mines and protect the ample and relatively modern smelting and processing facilities that are already in place in the community.

The *Income Tax Act* also allows deductions for exploration and development, amortization expenses related to depreciable assets, and a 10% Federal investment tax credit for preproduction exploration and development expenses incurred in Canada.

Tax treatment for mining operations recognizes three stages: extraction, processing to the "prime metal stage" (concentrating, smelting, refining), and activities that may be conducted beyond this stage such as fabricating or manufacturing. Within these three stages, there may be related economic development opportunities for the City to capitalize on.

SECONDARY RECOMMENDATION 2

That the Municipality be informed and monitor processing and manufacturing incentives and opportunities to ensure that the mining and processing industry and the mining research and development and service sector in the Sudbury Basin continues to grow.

Every two years, the Ontario Mining Association conducts an economic contribution study. The study, among other things, reports on the taxation revenue generated by the Ontario mining sector. As illustrated in the table below, the current tax regime generates a significant amount of revenues for both the Provincial and Federal Governments, while providing only a fraction for municipalities.

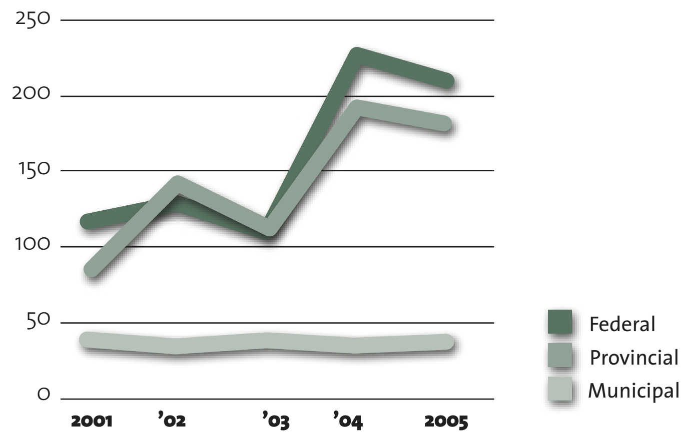
TAX REVENUE FROM ONTARIO MINING INDUSTRY ($ MILLIONS)

	2001	2002	2003	2004	2005
Federal	117.7	129.2	110.8	226	209
Provincial	85.3	139.4	113.7	192	179
Municipal	39.8	37.3	39.6	37	38
Total	242.8	306	264	455	426

Source: Ontario Mining Association

When one examines the trends, what becomes immediately apparent is a striking disparity between the growth in tax revenue flowing to senior levels of government relative to municipalities. As illustrated in the graph below, Federal and Provincial tax revenues from the mining industry have seen a pronounced upward trend. This is in sharp contrast to the gradual, yet steady decline in property tax revenue received by municipalities from the mining industry.

TAX REVENUES FROM MINING ($ MILLIONS)



CONFERENCE BOARD OF CANADA REPORT

In 2007, the City commissioned the Conference Board of Canada to undertake a review that measured the fiscal capacity of the City of Greater Sudbury. In its report, the Conference Board identified that the City requires an additional $30 million annually to achieve long-term fiscal sustainability. This estimate was extrapolated by prorating Canada-wide data to the population of the City and therefore the $30 million estimate may in fact be much higher. The report further states that:

> *"The Ontario Government and the Federal Government collected about $1.36 billion in taxes from residents and corporations within the City limit in 2006. This means that the $30 million referred to here is only a little over 2 per cent of the total collected by the other two levels of governments within the City limits. At the same time, it can be argued that these governments spent less in Greater Sudbury than what they collected from it. A rough estimate of the money spent in Greater Sudbury by the Province of Ontario and the Federal Government comes to about $890 million, far less than the $1.36 billion collected in revenues.*
>
> *Moreover, Provincial and Federal Governments' revenues gathered within Greater Sudbury are forecast to rise to $1.7 billion per year by 2015, an annual increase of 2.7 per cent per year. At the same time, expenditures by these same governments within the city's limits are projected to increase by 4.5% per year, to $1.3 billion by 2015. All the City of Greater Sudbury needs to improve its fiscal situation drastically is a small fraction of this spread — that is, a little more than 5 per cent."*

SUMMARY

After examining elements of the various regimes through which Ontario's mining companies are taxed, one thing becomes clear. Ontario's mining industry, 50% of which is located within the Sudbury Basin, sends hundreds of millions of dollars to the Federal and Provincial treasuries, contributing to repeated budget surpluses in recent years. What is more, this figure has been on a steady upward trend over the last few years. Ontario's municipalities on the other hand, Greater Sudbury in particular, have been witnessing a decline in the property tax revenue that it collects from the mining industry.

On a more global perspective, the Conference Board of Canada has estimated that the City requires an additional $30 M annually to achieve long-term fiscal sustainability and that this amount of money is a fraction of the difference between the amount of money that the senior levels of government take out of the community and what they put back into the community.

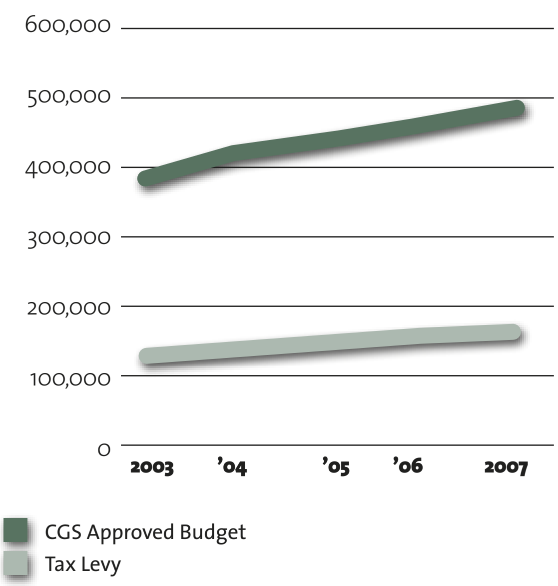
Therefore, it is recommended that Council invite the Province to enter into negotiations with the City of Greater Sudbury to review and revise the mining sector revenue distribution to achieve greater equity between the Province and the Municipality.

… the City of Greater Sudbury is currently facing a 10-year capital financing gap that was estimated at approximately $480 million.

THE MINING INDUSTRY AND MUNICIPAL SERVICES

Greater Sudbury is one of the world's premier mining sites. Companies that engage in mining activity in the Sudbury Basin not only have access to one of the richest mineral deposits on earth, but also benefit from a stable political environment, a highly skilled workforce, a high standard of municipal services and infrastructure and a wonderful quality of life. The costs associated with providing these municipal services and infrastructure have risen 26% over the last 5 years at an average rate of 5.3% per year. During this same period, municipal levies have increased by 28% or an average rate of 5.6% per year. In addition to the ongoing growth of municipal expenditures, the City of Greater Sudbury is currently facing a 10-year capital financing gap that was estimated at approximately $480 million.

CGS APPROVED BUDGET VS. TAX LEVY ($ 000s)



CGS APPROVED BUDGET VS. TAX LEVY ($ 000s)

	2003	2004	2005	2006	2007	% Change
CGS Approved Budget ($000s)	$383,561	$414,273	$432,413	$454,339	$485,883	26.7%
Tax Levy ($000s)	$128,406	$139,080	$147,592	$156,052	$164,359	28.0%

While it is true that mining companies contribute to the high level of services that the Municipality delivers by way of the property taxes they pay, as stated earlier in this report, the amount of property taxes paid by the mining companies has been declining. This decline is combined with constant growth in the costs of delivering municipal services. In the face of these two trends, revenues to the Federal and Provincial levels of government are climbing dramatically.

The City roads are used regularly to transport ore and slurry between mine facilities and are deteriorating at a more rapid rate than corresponding roads that do not have the mine haul traffic. An engineering report released in 1988, while dated, provides strong evidence that the capital cost of roads and road maintenance for mining haul routes is significantly higher than similar roads that are not haul roads. It is anticipated that the mine haul traffic on municipal roads will increase even more as a major new mine comes on stream and as the major mining companies enter into more agreements to smelt and refine ore that is shipped in from mining installations outside the municipal boundaries.

While this trend has a negative impact on the roads and hence the Municipality, it has a positive trend for the mining industry. The City needs to find ways to provide the supporting infrastructure to grow beyond sustaining today's mining and processing activities.

SECONDARY RECOMMENDATION 3

That the City of Greater Sudbury undertakes the work to assess the impact of the mining haul trucks on the City's roads and formulate a policy with respect to how the incremental costs are to be shared.

It goes without saying that the mining industry has greatly benefited this community through direct job creation as well as indirect economic stimulus. The mining industry has benefited the Municipality as well over the years by permitting the City to dump wastewater sludge in tailings areas and providing water services in Levack, Onaping, Falconbridge and Walden. However, with the introduction of more stringent water regulations, the mining companies are re-evaluating the provision of these services. This could result in the City assuming their delivery and being required to take on additional, large capital and operating costs.

Over the years the City has assumed services that had previously been delivered by the Province (for example roads, social programs, and land ambulance) or the mining companies (fire protection, policing, roads, health care, training and education). With these new responsibilities however, came new costs, and unfortunately, the corresponding funding has not necessarily followed.

In recent years, the City has had some limited success in negotiating cost-sharing arrangements with the mining companies for improvements on roads that access mineral lands. Although the City attempts to negotiate contributions, there is no statutory authority that would force mandatory contributions.

SECONDARY RECOMMENDATION 4

The Municipality should determine if it is recovering costs to the greatest extent possible using all its legislated authority. If there is not sufficient authority for recovering such costs the Municipality should establish a policy position with respect to what is required and petition the Province for proper authority to implement its position. In order to engage in meaningful negotiations the City needs to develop a policy position with respect to cost sharing for roads and other municipal services.

The Panel has reinforced the recommendation made by the 2005 "Transportation Background Study" (roads only) that was prepared by The City of Greater Sudbury to support the Official Plan. There is recognition that implementation of this recommendation would strengthen the user-pay principle in circumstances where it appears to be especially well justified.

SECONDARY RECOMMENDATION 5

That the City enters into partnership arrangements with the mining companies for road construction and maintenance as the municipal road infrastructure greatly benefits these companies. The option follows the user-pay principle where Greater Sudbury is seeking to generate new revenues from those that benefit most directly. The option increases awareness of the full costs of the infrastructure, and also has the benefit of reducing public costs. The concept can be applied to new roads, road widening, reconstruction and maintenance activities. A model developed to address roads could be applied to other operating service areas.

The Panel also suggests that a heavy load transportation system is required. Such a system would allow the mining companies to transport ore and other materials and equipment between mine sites and facilities effectively and efficiently. The development of such a heavy load transportation system, should examine the costs/benefits from the perspectives of both the Municipality and the mining industry while at the same time reducing the negative impact on the municipal road network.

SECONDARY RECOMMENDATION 6

That the Municipality should, in consultation with the mining companies and senior levels of government, explore the options for a heavy load transportation system: i.e. rail, road, pipeline with possible funding from the Provincial Government's transit funding program.

The Panel would like to reinforce the importance for the Municipality to be adequately prepared to anticipate corporate or government decisions on matters such as consolidation, outsourcing, municipal support grants, or abandonment of rail lines as they relate to the mining industry. The City needs to make a serious commitment to the development of in-house expertise on the mining industry — how it impacts on the community and on municipal services and how changes in tax policy and Provincial regulations affect our City. These steps need to be taken now before we end up looking back wistfully at the mining boom and wondering how we got left behind yet again.

SECONDARY RECOMMENDATION 7

That the City develops in-house expertise on the mining industry in order to be adequately prepared to both anticipate and respond to mining industry matters such as consolidation, outsourcing, changes in business practices, changes in tax policy and Provincial regulations.

SUMMARY

The City of Greater Sudbury, as a major urban centre, delivers high quality municipal services and infrastructure that benefit not only its individual residents, but its corporate citizens as well. The quality and the cost of these services continue to rise while the property taxes paid by the mining industry are declining and the contribution of the mining taxes to the Provincial and Federal treasuries are rapidly increasing. Were a mining camp to be located in a more remote location, these same services and infrastructure would have to be provided entirely by the mining companies themselves. Greater Sudbury is the world's premier mining site and is unparallelled by any other mining municipality.

Based on the data available it is not possible to demonstrate the extent that the mining industry impacts on the cost of municipal services but there is clear evidence that it does. There is clear evidence that the activities of the mining industry negatively impact the City's roads infrastructure. As such, it seems perfectly reasonable that the Municipality should expect some form of cost-sharing framework with the mining industry. The City of Greater Sudbury provides municipal services and infrastructure to a sophisticated urban standard and the supporting assessment base in the mining industry is limited and declining, it is also appropriate for the Municipality to seek a direct form of compensation from the Province.

That the Municipality should, in consultation with the mining companies and senior levels of government, explore the options for a heavy load transportation system ...

HISTORY OF PROVINCIAL FUNDING FOR MUNICIPALITIES

This chapter traces how the Province has funded municipalities from 1937 to the present day. The analysis focuses on unconditional grants as these are the grants that recognize the challenges of a resource based community. It is of particular note that from 1937 until 1990 the Provincial funding formulae for unconditional grants had components that directly compensated the Municipality for the challenges related to being a resource community.

UNCONDITIONAL GRANTS FOR MUNICIPALITIES (UGM) (1937 TO 1952)

The funding formula for municipalities in this period of time saw the Province pay a grant to mining municipalities, equivalent to a fixed percentage of profits generated by mining operations in their communities. This grant was intended to compensate mining municipalities for their inability to tax mining operations and thereby contributed to funding the cost of municipal services.

MINING REVENUE PAYMENTS (MRP) (1952 TO 1973)

From 1952 to 1973 the Province paid a mining revenue payment to the Municipality based on the number of mine and smelter workers resident and working within the Municipality.

PROPERTY TAX STABILIZATION PLAN (1973 TO 1990)

In 1973, a new funding formula was implemented for unconditional grants. The new formula consisted of various components that recognized the challenges of resource communities, low density communities and communities with low assessment base. The components included:

- General Support Grant
- Northern Special Support Grant
- Resource Equalization Grant
- General per Household Grant
- Police per Household Grant
- Density per Household Grant
- Revenue Guarantee

MUNICIPAL SUPPORT GRANT (MSG) (1990 TO 1997)

A new funding formula called the Municipal Support Grant was implemented in 1990 and this grant no longer contained calculations for specific components as had the previous UGM. Although the grant calculation was not based on components, the amount of the grant was higher than the grant in the prior year. By virtue of the amount of the grant, the Province continued to pay an amount that reflected all previous components of the UGM.

COMMUNITY REINVESTMENT FUNDING (CRF) (1998 TO 2004)

In 1998 the Province implemented local services realignment (LSR) by transferring several programs that had previously been delivered by the Province, to municipalities. Municipalities were given Community Reinvestment Funding (CRF) and education tax room to help offset these downloaded costs. The combined CRF and education tax room, however, was $7 million less than the prior year's unconditional grants. The City of Greater Sudbury was expected to achieve savings of $7 million and these savings were never realized. Since the cost of the downloaded programs needed to be paid, essentially this $7 million was a loss to the Municipality of unconditional grants related to resource equalization, low density and low assessment. Other municipalities in Ontario who had rich assessment bases actually made money on this change to funding and services.

ONTARIO MUNICIPAL PARTNERSHIP FUND (OMPF) (2005 TO PRESENT)

In 2005, the CRF was replaced by the Ontario Municipal Partnership Fund (OMPF). OMPF has 4 components once again recognizing low assessment. With the reintroduction of component funding for OMPF however there is no resource equalization component. The components for OMPF are:

- Social program grants
- Equalization grants
- Northern and rural communities grants
  - Rural grant
  - Northern grant
- Police services grant

IMPACT OF CHANGING FUNDING FORMULAE

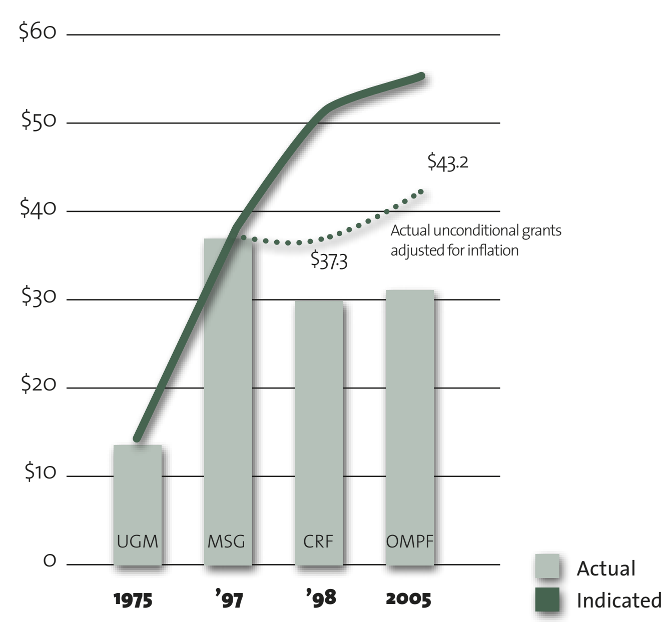
From 1973 to 1990 the City of Greater Sudbury's predecessor municipalities received a Resource Equalization Grant that recognized the unique circumstances that face resource dependent communities by providing them with additional financial support. The change of policy in 1990 saw the loss of this recognition, but not the monetary support that had previously accompanied it. With Local services realignment and Community Reinvestment Funding in 1998, not only had the recognition not resurfaced, but the support was also lost through the savings requirement of $7 million. If this savings target had not been required, the unconditional grant (excluding social programs) in 2007 would have been $13 million more. This loss of funding, adjusted for inflation, represents an accumulated loss of approximately $80 million.

PROVINCIAL FUNDING OF MUNICIPALITIES 1975 TO 2005

This graph shows:

- The increase in unconditional Provincial grants from 1975 to 1997.
- The loss of $7 million in unconditional Provincial grants in 1998.
- The solid line represents the total amount of unconditional Provincial grants as indicated by the Province. Included in this number is the grant money that is provided for downloaded social programs.
- The bars represent the amount of unconditional Provincial grants available for municipal purposes excluding social programs.
- The dotted line indicates what the unconditional grant (excluding social programs) would have been without any reduction in the grant amount and adjusted for inflation. The grant would be $13 million more in 2007.

UNCONDITIONAL PROVINCIAL GRANTS ($ MILLIONS)



Source: KPMG

FORCES BEHIND THE POLICY CHANGES

Policy shifts that occurred between 1937 and 1967 were largely the result of a persistent lobbying effort on the part of Ontario's mining municipalities, both as individual communities and through the Association of Mining Municipalities of Ontario (AMMO). Through these lobbying efforts, AMMO and its member municipalities were able to convince the Province to address the issues faced by Ontario's mining municipalities. At least in one instance, INCO entered the debate backing the City of Sudbury's effort to lobby the Province for the power to assess the surface operations of mining companies.

At various times throughout this period, the Province established commissions and studies that provided AMMO and its member municipalities with the opportunity to put their issues on the provincial agenda. From 1973 to 2005 however, the Province has been the driving force behind changes in municipal funding policy. The policy changes of 1998 (LSR and CRF) were prompted, in part by the Province's belief that certain Provincial services could be delivered more effectively and efficiently by municipalities.

CONDITIONAL GRANTS

For many years the Province paid municipalities conditional grants primarily related to the development of infrastructure. These grants declined throughout the 1990s and although in the last few years there has been a more focused effort on infrastructure funding programs there was a period of time where municipal spending declined along with the decline in conditional grants. In 1961, local infrastructure costs were shared 37% by the Provincial Government, 33% by the Federal Government and 30% by the municipalities. Today local infrastructure costs are paid 58% by the Municipality, 30% by the Province and 12% by the Federal Government.

ARGUMENT

SUMMARY

From 1937 until 1990, the Province recognized and paid resource grants to Northern municipalities. Although the language recognizing resource grants was lost in 1990, it is important to note that the total value of the unconditional grants continued to rise until 1998 and the introduction of local services realignment. With the introduction of the Community Reinvestment Fund and the provision of additional education tax room, the City of Greater Sudbury lost $7 million in unconditional funding. Since the downloaded programs had to be paid for, the $ 7 million essentially represented the loss of grants related to being a resource community with low density and lower than the provincial average assessment. If this savings target had not been required, the unconditional grant (excluding social programs) in 2007 would have been $13 million more (assumes inflation). The loss of this funding over the 10 year period represents accumulated lost funding of approximately $80 million. The challenges of being a resource community in Northern Ontario are no different today than they were in 1937. The funding that recognized these challenges is still required today and the Province is encouraged to reintroduce a sustainable and predictable revenue stream for the City.

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REVENUE-SHARING AGREEMENTS — PRECEDENTS

The City of Greater Sudbury is not the only community to attempt to secure a greater share of the wealth generated from the extraction of the mineral resources found within its boundaries. The Raglan (Northern Quebec) agreement was negotiated between the local aboriginal community and Xstrata, while the Peace River Memorandum of Understanding (MOU) was negotiated between the Province of British Columbia and the Peace River Regional District. While these arrangements may differ in nature, they serve to establish a precedent for the sharing of natural resource revenues with the communities impacted by extraction of these resources.

MEMORANDUM OF UNDERSTANDING (MOU) BETWEEN THE PROVINCE OF BRITISH COLUMBIA AND THE PEACE RIVER REGIONAL DISTRICT, 2005

The Peace River Regional District (PRRD), a regional municipality in Northern British Columbia is home to 64,272 residents and rich deposits of oil and gas. In 1998, an agreement entitled the *Fair Share Agreement* was reached between the PRRD and the Province of British Columbia. This agreement was subsequently replaced in 2005 by a new MOU, which is slated to remain in effect until 2020. The MOU recognizes that the municipalities have limited access to the property tax revenues from the oil and gas industry, and as such acknowledges that local governments should be compensated for the services and infrastructure costs associated with being a resource community. The PRRD and its member municipalities will receive an initial payment of $20 million, to be followed by subsequent payments based on the initial $20 million multiplied by the rate of change in the municipality's rural industrial assessment base.

The Fair Share MOU is seen as such a good model that the Union of British Columbia Municipalities (UBCM) has argued in its policy paper "Proposal for Sharing Resource Revenues with Local Governments", that a similar agreement be established on a province-wide basis. The UBCM document cites the fact that it is the municipalities that provide the roads, water, sewer and other services that facilitate both the labour force and resource development, while their economic return is only a fraction of that enjoyed by the Provincial Government.

RAGLAN (XSTRATA)

During the process of developing its Raglan project, a nickel and copper mine located in the Nunavik Territory of Northern Québec, Xstrata entered into an Impact Benefit Agreement with the Inuit owned Makivik Corporation. The benefits of this agreement include:

- Participation of Inuit in project (employment and training)
- $14 million plus 4.5% of mine profits (estimated at $60 million over 15 years)
- Environmental protection guarantees.

VOISEY'S BAY

The Voisey's Bay project is of particular interest as it involves Vale INCO, one of Greater Sudbury's most significant mining concerns. In order to proceed with the development of the property (consisting of a mine and concentrator), the Voisey's Bay Nickel Company (a wholly-owned subsidiary of Vale INCO) had to work with the governments of Newfoundland and Labrador (NL), Canada, and the Innu Nation to arrive at a mutually acceptable agreement. The Voisey's Bay Agreements consist of:

- An Impact and Benefits Agreement (IBA) between the company and the Innu Nation;
- A Memorandum of Agreement between the Innu Nation and the NL government;
- A Voisey's Bay chapter in the Innu Rights Agreement between the Innu Nation, Canada and NL;
- An Environmental Management Agreement between the Innu Nation, Canada, and NL.

One of the key issues addressed in these agreements is a set of financial provisions and revenue-sharing arrangements for the Innu. While details of the IBA signed between Voisey's Bay Nickel Company and the Innu are not public, the MOA between the Innu and the NL government states that "the Innu Government is entitled to receive, and the Province shall pay to the Innu Government an amount equal to 5 % of any revenue received by the Province from the Voisey's Bay project."

AGGREGATE RESOURCES ACT

Ontario municipalities currently receive a portion of the royalties collected by the Province for the extraction of aggregates within their municipal boundaries. Aggregates include sand, gravel, clay, stone, marble, etc. The Act specifically exempts metallic ores. The payment of royalties for aggregates establishes a precedent for the sharing of mineral resource revenues with Ontario municipalities.

SUMMARY

It is quite clear that the Province of British Columbia recognizes the fact that the municipalities of the Peace River Regional District do a great deal to facilitate the work of the local oil and gas industry that in turn only generates modest municipal property tax assessment. The Ontario government also recognizes that the extraction and transportation of aggregates has an impact on local communities and in turn provides area municipalities with a portion of the royalties collected from the industry. Precedents for sharing the wealth of the resource sector with the stakeholders who are directly supporting the extraction of these resources have been clearly established. It is therefore reasonable for the City of Greater Sudbury to invite the Provincial Government to enter into negotiations to establish a resource revenue-sharing agreement.

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CURRENT ENVIRONMENT — THREATS AND OPPORTUNITIES

During the course of its work, the Panel identified various circumstances in the current environment that presented either threats or opportunities to the City of Greater Sudbury as it goes forward over the next several years. This section of the report is intended to provide information about potential emerging issues for consideration by Council and staff.

ECONOMIC GROWTH IN THE MINING INDUSTRY

For the first time in many decades the Sudbury Basin is seeing a growth in new mines (Nickel Rim), new mining companies (FNX, Wallbridge) and rejuvenation of older mines (Totten, Coleman). These developments represent significant capital investments in the community. For example the expected investment in Totten Mine is $400 million and in Coleman, $132 million. The mining companies are also committed to significant investment in existing Sudbury operations.

These investments are immensely beneficial to the community. Typically capital investments of this magnitude translate directly into growth in the assessment base. Capital investment in the mining industry is an exception because a significant portion of these investments is made below ground, is not assessable and therefore not taxable by the Municipality. Economic growth increases demand and costs for municipal services and infrastructure. As a result, City expenditures help support large-industrial growth without the corresponding growth in assessment to fund the costs. This situation adversely affects the taxpayers in the residential, commercial, and industrial tax classes and the funding shortfall limits municipal development. There is clearly a need to find more appropriate ways to shift municipal costs either to the industrial users or to the two senior levels of government, all of whom are principal beneficiaries of the natural resource wealth.

The Ontario Mining Association (OMA) has just published (December 2007) the report *Ontario Mining: A Partner in Prosperity Building — The Economic Impacts of a Representative Mine in Ontario*. This study was undertaken to provide a "fuller accounting of the economic contributions of the mining industry through its indirect benefits and the activity generated from where the industry's highly productive and highly paid employees spend their Incomes". This study assessed the direct and indirect economic impacts of a representative mine during both its construction and production phases. A representative mine was described as a nickel, copper mine located in Northern Ontario in an already serviced area such as Sudbury.

The OMA study includes an analysis of the revenue generated for all three levels of government in both the construction and production phases of this representative mine. The following chart illustrates the government revenue impact. Of particular note is the large gap between the revenue generated at the Provincial and Federal levels compared to the municipal level.

% DISTRIBUTION OF GOVERNMENT REVENUES GENERATED BY A REPRESENTATIVE MINE PRODUCING $270 M ANNUALLY

	Construction Phase	Production Phase
Federal	51	48
Provincial	39	39
Local – own	7	9
Local – other	3	4
Total	100	100

In the mining industry there is an anomaly in the distribution of government taxation and this must be addressed. A resource revenue-sharing agreement between the Province and the City would address this anomaly.

COOPERATION AGREEMENT OR CONSOLIDATION BETWEEN VALE INCO AND XSTRATA

There is speculation that Vale INCO and Xstrata will somehow come together in a manner that will allow for massive synergies and cost savings. What are the potential impacts on the Municipality and how can these impacts be managed? For example, could these synergies result in further erosion of the mining companies' share of the City's assessment base.

VOISEY'S BAY

The agreement between Vale INCO and Newfoundland and Labrador requires that the volume of concentrate exported from Voisey's Bay for smelting be replaced by an equal amount of concentrate from the company's operations elsewhere to be shipped to Newfoundland once its processing facilities are up and running. What impacts will this have on the Municipality and how can they be managed?

ROYALTIES

The issue of royalty rates is a current topic not only in Canada but around the world:

- Alberta has increased royalties significantly in the oil and gas industry.
- Newfoundland has new initiatives whereby they are looking at both equity interests in oil and gas companies as well as increased royalties
- Other countries are looking at revising their royalty rates (Zambia)
- Ontario has introduced a new diamond royalty

At present, the debate surrounding royalties is largely restricted to the Provincial level as natural resources fall under Provincial jurisdiction. It is not unreasonable for the provinces to believe they should receive a greater share of the wealth generated by their natural resources. Given this belief therefore, it is not surprising that the municipalities who house the workers and provide the infrastructure that facilitate the development of these resources should also seek an additional share of the wealth generated from within their own communities.

MUNICIPAL FUNDING DEBATE

The issue of how municipalities are funded has been a Canadian debate for the past several years. The Province is currently engaged in two major processes that could have significant impacts for the north — The Growth Plan for Northern Ontario and the Provincial-Municipal Fiscal and Service Delivery Review. It is anticipated that the City of Greater Sudbury will be an active participant in both these processes and that the findings of the Panel will provide input to these processes.

In addition, there are other proposals that are being promoted across the country regarding alternatives to help fund municipalities and in particular their large infrastructure deficits. Former Ontario Finance Minister Greg Sorbara had recently indicated his support for Mayor David Miller's "One Cent Now" campaign, an appeal to the Federal Government to provide 1% of the GST collected to Canadian municipalities. This would mean additional revenue of $25 million to the City of Greater Sudbury. With the last Federal budget reducing the GST by 1%, new strategies may be adopted by Toronto and the Province.

SUMMARY

The City of Greater Sudbury is experiencing strong economic growth and this looks sustainable over the next decade. Without corresponding growth in assessment however the ability to maintain and build municipal services and infrastructure is a challenge. Since much of the capital investment is underground and not subject to property tax, the Municipality looks to the Province to redistribute the natural resource wealth that is currently generated to appropriately compensate the Municipality.

Secondary Recommendation 8

The environment is constantly changing and it is incumbent on the Municipality to continue to engage the Province, the mining corporations and the mining supplies and service sector to scan for the threats and opportunities that affect the Municipality. For example, an opportunity may exist to establish a future-oriented transportation network that is cost efficient for both the City and the mining companies and also meets all anticipated environmental and energy regulations. Forward thinking policies and agreements could go a long way to ensuring that future changes impact positively on the Municipality.

CONCLUSION

The conclusion of the report sets out a summary of the arguments that support the establishment of a revenue sharing agreement and a concluding statement.

Sharing of mining resource revenues has been an issue between the Province and mining municipalities for nearly a century. The issue is multi-faceted and complex. None the less, it is the conclusion of the Advisory Panel on Municipal Mining Revenues that there are several sound arguments that would support the development of a resource revenue-sharing agreement.

Therefore, the Panel is making the following primary recommendation:

> **THAT THE COUNCIL OF THE CITY OF GREATER SUDBURY INVITE THE PROVINCE OF ONTARIO TO ENTER INTO NEGOTIATIONS WITH THE CITY TO ESTABLISH A RESOURCE REVENUE-SHARING FRAMEWORK THAT WILL ENSURE A PREDICTABLE AND SUSTAINABLE REVENUE STREAM FOR THE MUNICIPALITY.**
>
> **AND FURTHER THAT COUNCIL CIRCULATES THIS REPORT AND CONSULTS WITH OTHER NORTHERN RESOURCE COMMUNITIES.**

The main arguments that support the development of a resource revenue-sharing agreement are:

1. Until 1973, the mining industry was exempt from municipal property tax and this is the only industry to have received this treatment. Although there were different grants available over the years, these grants did not provide full compensation for the property tax lost due to the exemption.

2. When mining surface facilities became taxable in 1973, there were several proponents who argued that the assessment of the properties were significantly under valued. This argument remains today. Under-valued properties result in lower tax revenues to the municipalities.

3 As set out by the *Assessment Act*, underground mining facilities are exempt from property taxation. As mining technology and business practices have been changing, some surface facilities have been moved underground resulting in reduced surface assessment and no corresponding underground assessment to compensate. Again the Municipality does not have access to the full assessment base for revenue generation.

4 50% of Ontario's mining industry (Source: Economic Contribution Study, Ontario Mining Association) is located in the Sudbury Basin. In the past 5 years, Provincial taxation revenue from the mining industry has grown by 110% and the Federal taxation revenue from the mining industry has grown by 78%. This contrasts dramatically with the municipal decline in property taxation revenue from the mining industry of 4.5% and this represents an accumulated loss of approximately $20 million. Taking a longer term historical perspective, the major mining companies' share of the City's property tax levy has fallen from 25% in 1970 to 6.5% in 2005.

5 The Conference Board of Canada estimates that the Provincial and Federal Governments collected about $1.36 billion in taxes from residents and coproations within the City limits in 2006, and that this number is expected to grow to $1.7 billion per year by 2015. By contrast, it is estimated that the Provincial and Federal Governments spent $890 million in 2006 within the City limits and this is expected to grow to $1.3 billion by 2015. The Conference Board estimates that the Municipality requires an additional $30 million or more annually to provide for long-term fiscal sustainability — approximately 5% of the spread between the revenues earned at the senior levels of government and their expenditures within the City.

6 The City of Greater Sudbury is the world's premier mining site and is unparalleled with respect to the high standards of municipal services and infrastructure, rich mineral deposits, stable political environment, highly skilled work force and quality of life, The quality and cost of these municipal services continue to rise while the property taxes paid by the mining companies are declining. Based on the data available it is difficult to determine the extent to which the mining companies impact on the cost of municipal services but there is clear evidence that with the transition from rail to road for hauling mining materials that the mining industry negatively impacts the City's road infrastructure. In addition, the mining companies rely on the City's ambulance, fire and police services.

7 From 1937 to 1990, the Province paid resource grants to Northern municipalities. Although the language recognizing resource grants was lost in 1990, unconditional grants to the City continued to rise until 1998. At this time the City lost unconditional grants of $7 million and it is the contention of this report that this lost funding was essentially a loss of the grants related to resource stabilization, low density and low assessment. If the unconditional grants (excluding social programs) had not been reduced, the value of the City's unconditional grants in 2007 would be $13 million higher (assumes grants increased at the rate of inflation) and the accumulated loss of funding is approximately $80 million.

8 There are precedents wherein the unique circumstances of resource-based communities have been recognized and compensated. The principle for sharing the wealth of the resource sector with the stakeholders who are directly supporting the extraction of these resources has been clearly established across the country.

9 The mining industry is in a boom cycle. At the present time, the mining companies are making huge investments in the Sudbury Basin. These investments however do not necessarily lead to an increased assessment base and increased property tax revenue for the Municipality. The economic activity related to these investments, however, makes significant demands on municipal services and infrastructure and thereby contributes to the increasing costs of these services.

The debate is long standing. A review of the history shows that there have been different funding mechanisms that the Province has used to ensure appropriate funding for municipalities that face the challenge of being a mining resource based community. Yet today, municipal tax revenues from mining based properties continue to decline in the face of unprecedented wealth generated by the mining industry and the strong growth of Provincial and Federal mining based tax revenues.

Mining industry activities in the Sudbury Basin, though critical to the health of the local economy place heavy and increased pressure on services and infrastructure provided by the Municipality. Twice in the past 40 years, the Ontario government has forced municipal amalgamations in order to align the municipal structure with the Basin economic area. This has exacerbated the challenges as city level services are now delivered across the entire area. The City of Greater Sudbury is not an isolated mining camp; it is a diversified modern city and should receive sufficient funding to pay for its municipal services and infrastructure.

Therefore it is time for the Province and the Municipality to discuss, in the proper spirit of cooperation and mutual benefit, the sharing of mining resource wealth. The goal of these discussions is to devise a solution that balances the wealth obtained from the mineral resource industry with the costs borne by the municipal hosts to the industry.

The Members of the Advisory Panel on Mining Revenues have utilized many resources and worked collaboratively to produce this report and are pleased to present it to Council for their endorsement. We believe that it will serve the Mayor, Council and the City well in its discussions with the Province.

A *refined* ARGUMENT

REPORT OF THE ADVISORY PANEL ON MUNICIPAL MINING REVENUES