



Catalyst Paper Corporation
2nd Floor, 3600 Lysander Lane
Richmond, British Columbia
Canada V7B 1C3

Tel: 604 247 4400
Fax: 604 247 0512

January 29, 2009

Open Letter to all
Members of the Legislative Assembly

Re: Catalyst Paper and the Municipal Property Tax Situation

Catalyst Paper operates four paper mills on Vancouver Island – in Port Alberni, Campbell River and North Cowichan and a mill in Powell River. I am sure you are aware that the forestry sector in B.C. has suffered greatly over the past several years as many sawmills and paper manufacturing operations have permanently closed. Approximately 10,330 people have lost their jobs in B.C. according to the Canadian Forest Service. One pulp mill, closed on the Coast, was dismantled and shipped overseas and will have built-in advantages with lower wages, lower cost fibre and lower environmental standards, putting greater competitive pressures on the B.C. paper mills that remain.

During the past five years:

- Catalyst share values declined from \$6.70 to around \$0.37.
- About 95% of shareholder market value has been lost.
- After-tax net losses amount to \$186 million.
- Our short and long term debt increased to over \$800 million.
- Catalyst paid \$126 million in municipal property taxes.
- The Province has collected more than \$600 million from taxes on Catalyst employees, operations and suppliers.

To try to cope with such a challenge,

- Catalyst has had to find new efficiencies through better management and more flexible work practices.
- Has terminated more than 1,100 employees – almost a third of its workforce – in the past 18 months and has cut costs everywhere possible.

Despite this effort, with the worldwide credit crisis and the worldwide recession which began in September, Catalyst will see further losses.

It is the belief of Catalyst management that the company and its four mills can survive to benefit from better times, but every effort to reduce costs must be made to ensure our B.C. mills are competitive. We must take every action possible to make certain it is not one of our mills that will permanently close.

Which brings me to the issue of municipal taxes.

- About half of Catalyst's huge losses over the past five years have been caused by uncompetitively high municipal taxes.
- Efforts to persuade the municipalities to bring their taxes down to reasonable levels have been unsuccessful.
- With the recession and the credit crunch, we are faced with the fact that we would not be in a position to borrow the money – about \$23 million – to pay municipal property taxes at traditional levels, which are far higher than can be competitively supported.

Therefore, on July 1, 2009, Catalyst intends to pay only for the cost of municipal services it consumes in each of the four municipalities, estimated to be approximately \$1.5 million per community, or \$6 million in total, down from \$23 million. We really have no choice.

My purpose in writing you is straightforward. This will likely become an issue in each municipality over the next few months and I wanted to share the facts with you.

I expect you are aware generally of how impossibly high municipal property taxes have become in about a fifth of B.C.'s communities. Prior to 1984, municipalities were constrained by the Province from charging a rate for Heavy Industry greater than 3.4 times the residential rate. The municipalities pleaded for "flexibility".

Some municipalities have misused the "flexibility" that they asked for. The result, in Catalyst's case, is that **this one company pays almost a sixth of all Class 4 Industrial Taxes in the whole Province**, at a tax ratio on average of over 19 times the residential rate.

- In North Cowichan, for example, the Crofton mill rate is 26 times higher than the residential rate.
- Residential dwellings, which account for 89.5% of the tax assessment base, pay only 40.2% of the taxes, while Class 4 (Catalyst plus a few others) **accounts for 4.05% of the tax assessment base and pays 48.14% of the property taxes.**
- Residents likely consume more than 80% of municipal services which, for the average resident in North Cowichan, amounts to about \$1,000 worth of services.
- The Crofton mill consumes about 6% of municipal services.
- As a result, the Crofton mill has been overtaxed and Crofton pays about \$472 in taxes on behalf of each resident.

This tax break that Catalyst has been giving each residential taxpayer cannot continue if we are to collectively preserve jobs and survive in the current market.

- The residential tax rate is \$1.84/\$1,000 on an average assessment of \$292,400. The average tax billed by the municipality is \$538. This is \$200 to \$900 less than comparable communities.
- The \$538 municipal tax is further reduced by the \$450 Homeowner Grant.
- Therefore, most North Cowichan residents receive over \$1,000 in municipal services, while paying about \$100.

This is not a sustainable situation.

If North Cowichan residents paid property taxes at the same rate that Catalyst pays, each residential dwelling would bear a property tax of \$14,204; **more than 26 times what is currently paid.**

Every resident would say that there is no reason for such high taxes, that they are unreasonable, that they have to sell their house and leave town!

Our position is – what is fair for residents, is fair for business and vice versa. Each assessment class should pay for the services it consumes!

- With a Class 4 rate of \$48.5775, Crofton's taxes were \$6,689,393 in 2008.
- However, if Catalyst were to pay taxes at residential rates, it would pay a meagre \$251,251. This too would seem unreasonable.

At a tax of \$1.5 million, Crofton will then be paying about 7.6% of all property taxes collected which, given that it employs about 5.1% of everyone employed in the municipality, seems fair and reasonable.

Assuming that the excessive taxation from industry is absorbed only by residents, these residents would still be paying taxes at a rate of a third of what industry would pay and would be paying for the services they consume. But it would result in a sharp increase in residential municipal taxes.

We have suggested to the Government that it create a five-year "financial bridge" to ease the suddenness of the large tax increase that will otherwise fall upon residential taxpayers. This would reduce the yearly increase to something in the \$80-\$100 range, and would cost the Province about \$50 million over 5 years. Given that over 5 years the Province will collect over \$600 million in Catalyst-generated taxes, this seems like a reasonable request.

Failing to adjust tax rates will leave the four municipalities with a tax revenue shortfall, which in the case of North Cowichan would be approximately \$5 million. Each will face a serious financial problem unless the Province takes action.

Such high tax burdens on industry across B.C. are a significant factor in plant closings and industry not reinvesting.

Catalyst's plan is to keep all its mills running, but each mill must continue to make productivity gains and reduce all costs in order to improve its cost position. All parties in the Catalyst supply chain have contributed to this effort in a significant way and now it is the turn of the municipalities to do the same.

It seems to us that the Province also has a strong interest in having Class 4 tax rates across the Province brought to reasonable levels in order to encourage capital investment and growth and preserve jobs by making sure that businesses have a tax burden competitive with other jurisdictions.

One effective way to bring Class 4 taxation to reasonable and defensible levels is for each assessment class to be taxed in accordance with its consumption of services, plus 30% to adjust for business income tax deductibility of property tax payments. That is what Catalyst intends to do – pay for the local services used, plus 30%. This will lead to more financially sustainable communities as well. See the attached document – "Municipal Sustainability Model", Phases I and II.

A Provincial "bridging fund" to help the municipalities adjust would ease the impact on residential taxpayers and make such necessary action acceptable. Such a fund would be based on a five-year transition period as residential taxpayers absorb the tax increase at approximately \$80-\$100 per year

using North Cowichan as the example. In our view, such a fund is a precondition for the municipalities to voluntarily make the adjustments in their tax rates.

We urge you to discuss this proposal with your Caucus colleagues and argue for the implementation of the consumption tax model as a pilot project now, as a first step toward broad industrial property tax reform in the Province. This will help preserve the Province's industrial tax base during very trying times.

Thank you for taking the time to read this letter setting out Catalyst Paper's position on municipal taxes in the Province. If you have any questions or comments, please feel free to contact me either via telephone at 604-247-4012 or email at richard.garneau@catalystpaper.com.

Yours truly,

A handwritten signature in black ink that reads "Richard Garneau". The signature is written in a cursive style with a large, sweeping flourish at the end.

Richard Garneau
President & Chief Executive Officer