



The Corporation of the City of Courtenay

Staff Report

To: Council
From: Director of Finance
Subject: Permissive Tax Exemption Policy Direction

File No.: 1960-20
Date: September 10, 2025

PURPOSE:

To provide Council with information regarding options for consideration for inclusion in the City's Permissive Tax Exemption policy.

BACKGROUND:

At the June 12, 2024 Council meeting, Council made the following motion:

THAT the permissive tax policy options, as directed by Council at the October 25, 2023 Council meeting, be considered for application in the 2026 tax year; and

THAT Council direct staff to expand the scope of the review and options analysis from permissive taxes to grant in aid, and report back on permissive tax and granting policy options; and

THAT permissive tax and grant in aid options be guided by the policy priorities and cardinal directions of the Official Community Plan (OCP); and

THAT Permissive Property Tax Exemption Policy Section 5. a) be amended to clarify that not-for-profit day-cares are not subject to this prohibition for consideration during the 2025 permissive tax exemption consideration.

*Moved By Morin
Seconded By McCollum*

CARRIED

Permissive Tax Exemption Basics

A permissive tax exemption (PTE) is a tool that can be used at the discretion of Council to reduce or eliminate property taxes for eligible properties. Reduced property taxes in turn provides the benefitting organization with reduced operating expenses which is intended to support the enhanced delivery of desired services for the community. The underlying principle is that when expenses can be reduced the city residents will benefit from increased services in exchange for the tax support provided. Eligible properties typically include property owned or held by a charitable, philanthropic, and non-profit corporation and used for the purposes of the corporation.

The City last reviewed this PTE policy in 2017 and at that time the focus was on adjusting historical exemption percentages to align more closely with the 2013 update that brought in 40% exemptions for regionally accessible services. The current policy was adopted on August 21, 2017, however it did see a slight modification in 2024 to include not-for-profit day cares as an eligible entity. This policy has served as the tool for successive Councils to consider and approve tax exemptions for organizations who have

delivered important services to residents in Courtenay specifically and in the case of a limited number of historical organizations, to the Comox Valley as a whole.

As outlined above, following consideration of the PTE for 2025, Council directed that staff undertake a review of the existing PTE policy to develop options for consideration of the 2026 tax exemptions. Per the direction, applications will be considered in light of the four Cardinal Directions contained in the City's Official Community Plan and not-for-profit day care would be eligible for consideration for a tax exemption.

Quick facts

- A PTE must be approved by bylaw prior to October 31 to take effect in the following tax year.
- A PTE bylaw can have a life span of 1 – 10 years
- A PTE is provided to the land and building and does not follow an organization if they move, a new PTE would have to be created for a new location
- A PTE reduce the assessed value of the subject property to achieve the taxation reduction
- A PTE does not exempt utility fees or frontage taxation it only applies to assessment-based property tax
- A PTE bylaw must meet section 94 of the *Community Charter – Requirements for public Notice*. To meet this section the PTE's considered must be advertised in the local newspaper for 2 consecutive weeks prior to bylaw adoption.

DISCUSSION:

In accordance with Council direction, the city reviewed other tax exemption policies and worked with FIT Local Government Consulting (FIT) to review the City's Permissive Tax Exemption (PTE) Policy and process. FIT performed an analysis by reviewing PTE policies from across the province. FIT also worked with staff to identify options that are not included in other City's PTE policies but could be used to achieve certain goals.

Working from the June 12, 2024, and January 29th, 2025, Council direction and along with general Council commentary over the year staff have presented options for a revised PTE policy. A trend that was noticed in the existing PTE policy was that for the most part, excluding grandfathered organizations, all groups receive the same exemption. With the historical approach to applications, there is no focus on a service area or specific type of community benefit that is being promoted.

The options developed through the work with the City's consultant and presented below could be brought into a revised PTE policy. Depending on the options that are attractive to Council, the revised policy would likely focus on the financial support of the PTE program and enhance the strategic focus of the program. These options are listed below followed by further detail:

1. Financial Needs
2. Value-based Considerations
3. Exemption Duration Considerations
4. Regional Service Exemption Reduction Consistency
5. Exemption by Type of Activity
6. Leased Property Considerations

1. Financial Needs

A financial needs test could be a method of focusing support to organizations that would see the largest impact from a PTE while reducing support to organizations that see little impact from an exemption.

Example Financial Needs Tests:

Property tax as a function of total expense – Example if property tax represents more than X% of operating expenses then the organization would be considered for exemption. By analysing property tax as function of total expense the City can get a better understanding of the impact of an exemption on the organization as a whole, property taxes may or may not play a significant role in their overall expenses.

Property tax as a function of total cash on hand – Example if property tax represents more than X% of organizations cash on hand then the organisation would be considered for exemption. By analysing property tax as a function of total cash on hand the City can get a better understanding if the organization is actively consuming cash in their operations to further the goals of the organization. If an organization has excess cash on hand, it signals that the organization could likely survive without a PTE, and the result shouldn't be a disruption to the organizations operations.

Provincial Assessment Method – This process calculates an organization's 'surplus percentage' by taking the organization's unrestricted cash as a percentage of its prior year's operating expenses. This method looks at the over all financial health and unrestricted cash balances to determine if an organization is in a strong or weak financial position which in turn would indicate if the organization should or shouldn't receive a PTE.

Challenges with financial needs tests can occur when you have an organization that is large and might hold multiple properties in multiple jurisdictions, thus increasing the reporting complexity and possibly reducing the reliability of information. Further complexities arise with differing levels of sophistication with smaller volunteer run organizations and the continued challenges with staff turnover in some small organizations. Financial needs could be a method to look at larger sophisticated organizations that likely wouldn't meet some financial needs tests simply due to the nature of service or sheer size of organization.

Financial needs tests could be a method to better focus support to smaller organizations however these tests could penalize large organizations. If Council desires to bring financial needs tests into the PTE policy further study would be required to best determine thresholds for the financial needs tests.

2. Values-Based Considerations

The current policy has limited value-based considerations for providing PTE, however enhancing requirements through value-based considerations does increase the application review complexity. FIT identified three possible adjudication methods to assist with judging a value-based approach as follows:

1. **Council discretion** – this method is cost-effective as staff are not required to develop an objective framework. However, it presents political risk due to the subjective nature of adjudicating values-based considerations outside of an objective framework.
2. **Committee** – a committee with diverse composition would enhance objectivity in adjudicating values-based considerations. Additional funding would be required to implement this option, primarily for staff time in the Finance and Corporate Administration.
3. **Third party adjudication** – some municipalities have entered into funding agreements with third-party organizations that objectively adjudicate applications according to published values. For example, the City has partnered with the Comox Valley Community Foundation (CVCF) for

the administration of the City’s grant-in-aid program. The CVCF can effectively adjudicate values-based criteria, including equity and inclusion.

Table 1: Adjudication Method Rating Chart

Adjudication Method	Cost Effectiveness/ Efficiency	Objectivity	Political Risk
Council Discretion	High	Low	High
Committee of Council	Low	Medium	Medium
Third Party Adjudication	Medium	High	Low

Any value based adjudication method should be viewed and guided by the policy priorities and cardinal directions of the Official Community Plan (OCP) per Council direction. Policy can guide what PTE’s are brought before Council, however Council has ultimate authority and the final authorization with regards to passing a PTE bylaw. In accordance with Council direction the four Cardinal Points of the Official Community Plan is the policy background for the current PTE application process.

3. Exemption Duration

Legislation permits a PTE to last from one to ten years. Historically the City has used 1, 5 and 10-year exemption bylaws however the majority of exemptions were held in the 1-year bylaw.

Typically, all regular operating organizations fell into the 1-year PTE, they would submit annual applications for inclusion. This method has a larger administrative burden on the City and applicants as information must be submitted and reviewed annually. At times staff find themselves reaching out to small organizations reminding them to apply for a PTE, to find out that due to staff turnover they were not aware of the application process. Staff do benefit in the annual process as it catches when organizations move locations or buy and sell properties as the City is not always informed of these changes. If a longer-term PTE bylaw is passed it is possible for an organization to move or close and not inform the City, this results in exemptions being provided in error.

In the past the City has used 5-year bylaws to provide exemptions to lands ancillary to places of worship. The 5-year bylaws struck a balance as there is typically little change in these organizations land holdings. With the planned work regarding the PTE policy places of worship have been following a 1 year renewal period.

The City currently has Permissive Tax Exemption Bylaw 3049, 2021 that is in force until tax year 2031. This bylaw includes Island Corridor Foundation, for the railway corridor, Project Watershed for Kus-Kus-sum properties, Nature Trust of BC for Sandpiper and Arden Rd parkland and M’akola Housing Society for Affordable / supportive housing on Braidwood. These properties are not expected to see change for several years and provide stability to these organizations.

The City may choose from several options in respect of permissive exemption duration:

1 Year exemption term – this option allows Council to review exemption applications annually. It has the highest administrative burden for both the applicant and the City and provides the smallest level of predictability to applicants. However, it is the most transparent option.

4 Year exemption term – this option harmonizes permissive exemption decision-making with the Council term. It significantly reduces administrative burden and improves applicant financial stability. Accountability and transparency are maintained as decision-making is tied to Council terms.

10 Year exemption term – this option imposes the smallest administrative burden on applicants and the City and greatly improves financial stability and predictability for applicants. However, it is the least transparent and accountable option as permissive exemptions are advertised once every 10 years. Exemption values would continue to be reported in the annual report.

4. Regional Service Exemption Reduction Consistency

Over the years the total PTE applied to properties has changed due to recognition of City supporting services that extend beyond its boundaries. Historically the City has some properties that receive 100% exemption, these are typically long-standing organizations that have been received PTE for many years. More recently the policy was to apply a maximum of a 40% exemption to organizations that provide services to folks outside of the municipal boundary, the idea was to limit the financial impact to City residents supporting non-resident usage of a given service. It is recommended to move to a consistent application of exemption amount to better focus the allocation of resources and support.

Changing historical exemption rates will have an impact on some long standing and significant PTE recipients. If Council chooses to move to a more consistent approach to exemption percentage based on regional access to services, it is recommended that these changes be made over several years.

5. Exemption by Type of Activity

The current PTE policy lacks definitive direction on the types of activities and services that should be receiving PTE's. A tool that could be implemented to focus financial support to certain areas could be the use of varying exemption rates. The example below captures what an exemption by type of activity framework could look like.

Activity	Exemption	Rational
Community Hall	70%	All residents are welcome to use the services. Provides a place for various groups to meet. Brings community together
Sports related	40%	Limited impact on the overall community as not everyone takes part in services provided
Culture	40%	Limited impact on the overall community as not everyone takes part in services provided
Social programming	100%	The users of social programs are at times the most marginalized segment of society that benefit greatly from any additional supports
Ancillary property to places of worship	40%	Limited impact on the overall community as not everyone takes part in services provided
Museum, heritage and nature	100%	The preservation of history, heritage and nature is an important function to the City. History and nature impacts all residents and visitors.
Transitional Housing	100%	Short term transitional type housing or shelter. Protection of marginalized segment of our society

Affordable Housing	50%	Housing for low income people. To be eligible for housing there must be an income test. Limited impact on overall community as not everyone can access services.
Other Housing	0%	Limited impact on the overall community, not all residents have access to this housing option, therefore taxation burden should be carried by these organizations and tenants.
Municipal	100%	Municipal usage
Other	40%	Misc Other
NA	0%	No exemption

The exemption by activity does blend the historical lines of exemption percentage based on the type of service and how accessible it is to all Comox Valley residents' vs Courtenay specific residents. To bring an exempt by activity framework into place additional time will be needed to ensure each applicant is appropriately placed in the correct activity type. Furthermore, this change could see significant change to some long-standing exemption recipients and again a phased implementation is recommended.

6. Leased Properties

A challenge that has arisen is accurately calculating and ensuring a PTE that is granted on a leased property flows to the recipient NPO. Since PTE bylaws are an estimation of future taxation it can be challenging for landlords to correctly pass on the property tax savings to individual tenants. A solution to this issue could be to exclude all leased properties from the PTE process and simply provide the equivalent of 1 month's rent in place of a tax exemption. There are approximately nine lease-based exemptions that have been granted in the past, these nine do not include City of Courtenay or Comox Valley Regional District owned properties. Total PTE through lease is about \$11,000, with an average exemption of \$1,370. It is anticipated \$1,370 could be a reasonable average single month's lease value.

Although the City currently only has nine lease-based exemptions by changing the program to be more accessible there could be an increase in the number of organizations seeking this type of support.

Summary

Depending on what the desire of Council is with regards to an updated PTE policy some or all the options can be brought into a new policy. Some options will reduce the total cost of the PTE program; some will increase the focus of support to certain sectors and others will change efficiencies of the program. Each offering has its own benefits that achieve differing goals per Council's direction.

1. Financial Needs
2. Value-based Considerations
3. Exemption Duration Considerations
4. Regional Service Exemption Reduction Consistency
5. Exemption by Type of Activity
6. Leased Property Considerations

OPTIONS ANALYSIS:

Given the research and the scope/breadth of the current PTE program there are aspects that meet the needs of the community and the direction of Council. There are some areas for discussion that require direction from Council to ensure that the Cardinal Direction from the OCP is reflected in the PTE and some areas that staff recommend to address equity and accessibility for PTE applicants and the residents of the City who support the delivery of these services through the tax exemption. Overall, staff do not recommend significant changes however in the areas of the following:

3 - Exemption Duration Considerations

As outlined above the majority of PTE's follow a 1-year term while a few are captured in a 10-year bylaw. To improve efficiency staff would move the majority of suitable PTE's to a 4-year term that would be aligned with Council terms. There would still be some 10-year exemptions where appropriate. This change would come into effect for the PTE bylaws adopted in 2027 as they cover taxation years 2028 – 2031.

4 - Regional Service Exemption Reduction Consistency

The application of the consistent approach to PTE levels for organizations providing services accessible by all residents in the in the Comox Valley will ensure that Courtenay tax payors are equitable sharing the cost of providing these exemptions. Analysis will be performed on all 100% PTE and recommendations to phase in changes will be presented to Council over the next several PTE cycles. This approach will allow time for organizations to adjust and for the alignment with exemption duration considerations.

6 - Leased Property Considerations

Being a new approach to providing support to organizations that historically received a PTE, staff will create an application framework that mirrors that of the PTE program. By providing support directly to organizations it will ensure that Councils intended support will clearly land and benefit the intended organization. In 2027, budget will have to be allocated to support this program as the existing PTE will expire in the 2026 tax year.

FINANCIAL IMPLICATIONS:

Financial implications will vary depending on direction from Council regarding the future of the PTE policy. The following information looks at existing PTE condition for 2024 to 2025.

Existing Conditions:

1. There are 95 unique properties that are receiving a PTE
2. There are 53 unique property owners
3. Total municipal taxation exempted in 2025 was \$526,000 and \$430,000 in 2024
 - a. Island Corridor Foundation contributed \$60,000 to the change from 2024 to 2025 due to Class 2 tax rate change
4. Total other taxing authority taxation exempted in 2025 was \$347,000 and \$318,000 in 2024
5. Municipal Exemption recipients over \$10,000:
 - a. Island Corridor Foundation \$90,000
 - b. Project Watershed - \$50,000
 - c. Courtenay Airpark Society - \$48,000
 - d. Glacier View Lodge Society \$34,000
 - e. Comox Valley Art Gallery - \$30,000
 - f. Sid Williams Theatre - \$27,000
 - g. M'akola Housing Society - \$22,000

- h. Comox Valley Child Development Association - \$18,000
 - i. Courtenay & District Museum - \$15,000
 - j. Courtenay Marina Society - \$14,000
 - k. Comox Valley Curing Club - \$11,000
 - l. Old Church Theatre Society - \$10,000
6. Exemption recipients over \$10,000 represent 70% of all exemption value granted
 7. Total value of ancillary property to places of worship exemption is \$26,000, across 19 properties and 17 unique owners of which 1 property does not receive 100% exemption
 8. 64 of 95 unique properties receive 100% exemption
 9. 4 of 95 unique properties receive 75% exemption
 10. 27 of 95 unique properties receive 40% exemption
 11. 23 of 95 unique properties are leased by an eligible organization
 - a. 9 of the 23 leased properties are owned privately by individuals or corporations
 - b. 14 of the 23 leased properties are owned by Local Governments
 12. Tax exemptions under service agreement with the City:
 - a. Comox Valley Art Gallery
 - b. Sid Williams Theare
 - c. Courtenay & District Museum

A PTE does not appear on the City's financial statements as an expense or grant as there is not monetary transaction between the City and the recipients. A PTE reduces the assessed value of a recipient's property and in turn reduces/eliminates taxation on the property as taxation is directly linked with the assessed value. When the City is calculating property taxes and tax rates for the year the exemptions would simply reduce the total assessed value available for taxation and as a result the reduced pushes the tax burden of the PTE's onto all other existing tax payors. A PTE does not impact the amount of funds needed for the City to operate in a year. A PTE impacts the proportional share of taxation exempted by moving the burden of taxation onto taxable properties. In other words, if the City eliminated all PTE's the City would not see surplus revenue of \$526,000, all existing tax payors would see a reduction/redistribution of the forgone revenue. Based on 2025 property taxation \$526,000 represents a 1.4% tax change.

POLICY ANALYSIS:

Permissive Property Tax Exemption – Policy 1960.00.01

ADMINISTRATIVE IMPLICATIONS:

It is noted that this work and the timing of the delivery of the outcome of this for application in the 2026 PTE season was impacted by competing demands in the Financial Services Division, software implementation and staff vacancy. Depending on the direction given and the impact on the change to the policy could be swift, however changes that require additional data collection and analysis will not be able to be implemented for 2026. Furthermore, changes that could result in substantial change in an organizations' property tax liability should be phased in over a period of years to smooth the disruption in operations to these organizations.

STRATEGIC PRIORITIES REFERENCE:

This initiative addresses the following strategic priorities:

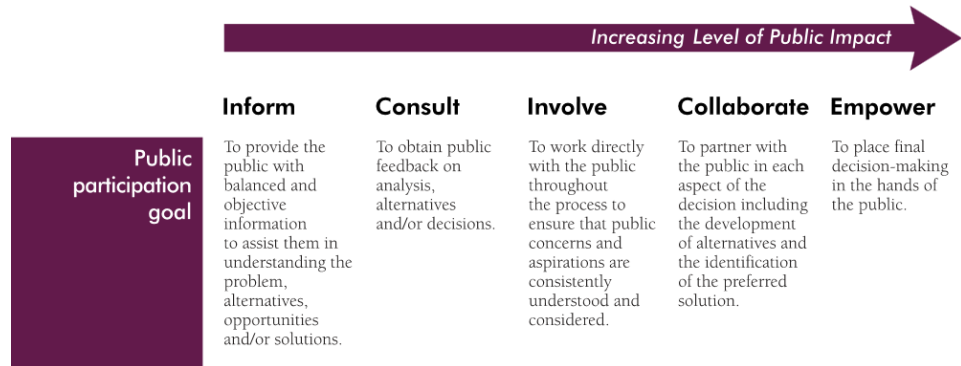
- Financial Sustainability - Ensure capacity to accommodate big change
- Financial Sustainability - Review City Financial processes: Review fees, charges, and fines

This initiative can have an impact on the Four Cardinal direction of the City:

- Reconciliation
- Climate Change
- Community Well-being
- Equity

PUBLIC ENGAGEMENT:

Staff would inform the public based on the IAP2 Spectrum of Public Participation:



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OPTIONS:

1. THAT Council direct staff to report back with options to update Permissive Property Tax Exemption – Policy 1960.00.01 for changes to commence in 2027 in the following areas:
3 - Exemption Duration Considerations
4 - Regional Service Exemption Reduction Consistency
6 - Leased Property Considerations
2. THAT Council not direct amendments to Permissive Property Tax Exemption – Policy 1960.00.01
3. THAT Council provide alternative direction to staff.

ATTACHMENTS:

- 1 – FIT Consulting Permissive Tax Exemption Review September 2025
- 2 – Permissive Tax Exemption Listing Summary – July 31, 2024 Council Report
- 3 – Policy 1960.00.01

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