

CITY OF COURTENAY

PERMISSIVE TAX EXEMPTION REVIEW

SEPTEMBER 2025

Prepared For:
City of Courtenay

Prepared By:
FIT Local Government Consulting



**City of
Courtenay**

EXECUTIVE SUMMARY

Purpose and Scope

At the Oct 25, 2023, Council meeting, Council engaged in an extensive conversation concerning the alignment of City and applicant social values. The current policy does not directly provide guidance for how to address misalignment in such values. Accordingly, Council directed staff to prepare policy updates for Council consideration.

FIT Consulting was engaged to conduct a review, the scope of which included policy research, and the preparation of a findings report with recommendations.

During the course of the review, the consultants reviewed the permissive exemption process for the majority of municipalities within British Columbia. Research findings can be found in section 3 of this report.

Background

Section 224 of the Community Charter grants Council the authority to provide permissive exemptions for land and improvements owned or held by charitable, philanthropic, or non-profit organizations.

Currently, the City has six active permissive tax exemption bylaws, encompassing approximately 85 exemptions valued at around \$511,000. Although the tax burden is estimated at \$511,000, the value of exemptions to the applicants exceeds \$822,000. This difference arises because permissive exemptions also exempt applicants from property taxes imposed by other taxing authorities

Municipalities in British Columbia must outline their objectives and policies for permissive tax exemptions in their financial plan bylaw. Additionally, many municipalities maintain detailed stand-alone permissive tax exemption policies

Findings

Best practices: The City's current policy incorporates most common permissive policy provisions (see Table 2.3). Potential enhancements to the policy include: (1) implementing a financial needs assessment, (2) integrating values-based criteria, (3) requiring public acknowledgment, and (4) incorporating property transfer provisions

Equity and inclusion: Over 100 permissive exemption policies were reviewed, none of which required applicant organizations to adhere to equity and inclusion values. However, many policies required applicants to broadly align with the municipality's values. These policies did not outline a process for staff to exclude organizations that were not aligned with value-based considerations. Instead, Council was expected to exclude organizations at their discretion

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Adjudication: Most municipalities have staff screen for basic eligibility, with Council providing final deliberations. Other options include: (1) full staff adjudication, which is more costly, (2) third-party adjudication, and (3) adjudication by a Council select committee.

Financial Need: Some municipalities include financial need as an eligibility criterion for permissive applications. However, no municipalities were found to conduct an objective assessment by staff. Instead, applicants are required to submit financial statements to inform Council's consideration. In practice, Councils rarely reject applications based on their review of these financial statements.

Exemption Duration: The median and average exemption duration was 3 years. Extending the exemption duration enhances predictability and stability for applicant organizations, while also reducing the administrative burden for municipal staff.

Recommendations

Financial Need: Establish a financial need assessment process similar to the Provincial Community Grant financial assessment process (see Appendix A). Scale support based on the calculated 'surplus percentage'.

Values-based Considerations: Introduce policy language requiring recipient organizations' actions or values to not conflict with the City's values. Continue to have Council adjudicate these values on an ad-hoc basis, at their discretion, as exemptions are considered

Exemption Duration: Implement a 4-year permissive exemption cycle harmonized with the Council term.

Property transfer provision: Include language in the permissive application form requiring applicants to pay the City the equivalent amount of taxes that would be payable by a non-exempt owner upon the sale of the property

Regional services grandfathering: Eliminate 75% exemption grandfathering for regional service organizations gradually down to current 40% policy limit.

Permissive Exemptions for Lessees: Consider creating a standalone grant program for permissive exemption applicants as lessees.

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1. PURPOSE AND SCOPE

At the October 25, 2023 Council meeting, Council directed staff to update the Permissive Tax Exemption Policy. Subsequently, FIT Consulting was engaged to conduct a review, which included the following scope:

- Research current permissive policies and best practices including
 - Assessing financial need
 - Assing values-based criteria including equity and inclusion
 - Adjudication process
 - Community benefit
 - Supporting complementary services
 - Administrative burden
 - Promoting transparency
 - Managing financial burden
 - Supporting predictability and stability
- Prepare a report which includes the following components:
 - Background
 - Findings
 - Options & Recommendations
- Present findings and recommendations to Council
- Draft new policy if required

2. BACKGROUND

2.1. Council Direction

At the October 25, 2023 Council meeting, Council engaged in an extensive discussion about the alignment of City and applicant social values. The current policy does not provide direct guidance on addressing misalignment in these values. Consequently, Council directed staff to prepare policy updates for Council consideration

2.2. Legislative Framework

Policy Requirements

Municipalities in British Columbia must outline their objectives and policies regarding permissive tax exemptions in their financial plan bylaw. Many municipalities also maintain comprehensive stand-alone permissive tax exemption policies to supplement this requirement.

Eligibility

Section 224 of the Community Charter grants Council the authority to provide permissive exemptions for land and improvements owned or held by charitable, philanthropic, or non-profit organizations. Other categories, such as independent schools and places of worship, receive automatic exemptions under Section 220 of the Community Charter. However, Council may also permissively exempt ancillary land and improvements, such as the land surrounding buildings set apart for public worship

Table.7 Exemption Categories

Category	Automatic Statutory Exemption (CC 220)	Permissive Exemption Application (CC 224)
Charitable, Philanthropic, Non-Profit	No	Yes – land and buildings
Places of Worship	Yes – Church building and footprint of land only	Only to land surrounding building and ancillary buildings
Independent Schools	Yes – School buildings, ancillary buildings, all land necessary for learning	Land and ancillary building not receiving automatic CC 220 exemption
Municipal (leased)	No	Yes – land and buildings

There are other permissive exemption categories, but they are not currently relevant to the City of Courtenay.

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Approval Process

For exemptions to apply to a taxation year, Council must pass a permissive exemption bylaw by October 31st in the preceding year. Practically speaking, this requires Council to give the first three readings of the bylaw in early October, followed by the Final Reading, which must be completed by October 31. Additionally, the municipality is required to give notice of the proposed permissive exemption bylaw by advertising the properties under consideration, in accordance with Section 94 of the Community.Charter.

Exemption Duration

The Community.Charter allows the municipality to grant exemptions for up to 10 years for charitable/non-profit organizations and indefinitely for place of worship ancillary land and buildings.

Table.8;City.of.Courtenay.Exemption.Duration

Category	Maximum Exemption Term	Current Term
Charitable/Non-Profit	10 Years	1 Year
Charitable/Non-Profit (Island Corridor Foundation)	10 years	10 Years
Places of Worship	No Maximum	1 Year
Independent Schools	No Maximum	1 Year

2.3. Current Policy

The City's current policy and approval process embodies all common principles found in a modern permissive tax exemption policy:

Table.9;Current.Policy.Components

Policy Component or Policy Principle	Present in current Policy or process?	Note
Common Considerations		
Statutory compliance	Yes	
Primary benefit to community	Yes	
Complementary service	Yes	
Breach of condition penalties	Yes	
Transparency	Yes	
Administrative ease	Yes	
Based on Principal use of Property	Yes	
Predictability/Stability	Yes	
Financial Statements/Budget	Yes	
Optional Considerations		
Financial Cap	Yes	2%
Financial Need Assessment	No	
Values-based Considerations	No	
Public acknowledgement	No	
Property transfer provision	No	

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2.4. Current Bylaws

The City currently has six active permissive tax exemption bylaws:

Table 0; Current.Permissive.Bylaws

Bylaw	Applies to	Term	# Exemptions
3142	Charitable/Non-Profit	1 Year	42
3143	Charitable/Non-Profit	1 Year	2
3144	Charitable/Non-Profit	1 Year	3
3145	Charitable/Non-Profit	1 Year	5
3146	Place of Worship	1 Year	18
3049	Charitable/Non-Profit	10 Year	15
TOTAL			85

2.5. Value of Exemptions to City

The value of the City's permissive exemptions is estimated to be approximately \$511,000. This is the amount of municipal property taxes not levied as a result of the exemptions.

Table 1; Value.of.Exemptions

Bylaw	Residential	Utilities	Business/Other	Recreational	Total
3142	76,243	-	168,503	6,332	251,078
3143	2,030	-	7,417	-	9,447
3144	3,091	-	3,757	-	6,848
3145	3,244	-	-	-	3,244
3146	-	-	8,125	35,042	43,167
3049	25,009	91,116	60,587	20,257	196,969
Total	109,617.66	91,116	248,389	61,631	510,753 ¹

1: Note this does not include the Regional District taxes which the City levies to fund Regional District services. The value of these taxes are included in table 6 below.

In 2025, the City budgeted was approximately \$37,068,000 in property tax revenue. Consequently, the permissive exemptions represent a 1.3% tax burden to existing taxpayers (\$511,000 / \$37.1 million). It is important to note that approximately \$91,000 of this amount pertains to Class 2 railway corridor property owned by the Island Corridor Foundation. It is unlikely that the City could collect any taxation from these parcels. If this is the case, the total realizable permissive value would be closer to \$419,639, or 1.1% of property taxes. Additionally, if permissive exemptions were considered an expenditure, they would amount to approximately 0.4% of the total 2025 budgeted City expenditures (\$511,000 / \$106.7 million).

2.6. Value of Exemptions to Applicant

The City is responsible for levying and collecting taxes on behalf of several other taxing authorities, including: (1) the Province, (2) the BC Assessment Authority, and (3) the Municipal Finance Authority. Permissive tax exemptions also relieve applicants from these levies. As a result, while the City foregoes approximately \$511,000 in municipal tax revenue and

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\$130,000 in regional district tax revenue, the total financial benefit to the applicants is estimated to be \$822,400.

Table 2: Value of Exemptions to Applicants

Bylaw	Municipal & Regional District Tax Rate Exemption	Other Taxing Authority Tax Rate Exemption Value	Total Financial Benefit to Applicant
3142	320,540	89,824	410,364
3143	11,982	3,209	15,191
3144	8,835	2,586	11,421
3145	4,352	1,512	5,864
3146	54,049	18,524	72,573
3049	241,273	65,673	306,946
Total	641,031	181,328	822,359

Therefore, while the City foregoes \$511,000 in municipal taxes, and \$130,000 in regional district taxes, applicants are exempt from approximately \$822,400.

3. ENVIRONMENTAL SCAN

As part of the project scope, the consulting team conducted a comprehensive review of permissive tax exemption policies and bylaws across municipalities in British Columbia. Out of the 161 municipalities in the province, the team identified and examined over 80 standalone, comprehensive policies. For the remaining municipalities, the team reviewed the statutorily required permissive policy statement included in the financial plan bylaw. Additionally, the team analyzed the most recent permissive tax exemption bylaws publicly available from each municipality. Key observations from this review are outlined below

3.1. Equity & Inclusion

No permissive exemption policies include terms requiring applicant organizations to adhere to equity and inclusion principles. However, many policies require organizations, or at least the use of funds, to align with the municipality’s values. While communities may have values-based requirements, adjudicating these requirements can be challenging due to varying interpretations and enforcement standards. Adjudication options are discussed in Section 4.4 below.

3.2. Due date

Application due dates ranged from May 15 through August 31:

Table 3.2 Due Dates

Due Date	%
May 15	3%
May 31	9%
June 30	25%
July 15	20%
July 31	20%
Aug 15	9%
Aug 31	14%

3.3. Exemption Duration

Most municipalities provided exemptions for a duration of at least 4 years (46%).

Table 3.3 BC Municipality Exemption Duration

Exemption Duration	%
1 year	37%
3 years	17%
4 years	23%
5 years	19%
10 years	4%

3.4. Financial Need

Only a small portion of municipalities mentioned financial need as part of the permissive policy eligibility criteria. In contrast, a large portion of municipalities required applicants to submit financial statements and budget documentation as part of the application process. However, no municipalities outlined a process for assessing financial need.

3.5. Financial Cap

Among the municipal policies reviewed, 7 municipalities imposed permissive value limits. These limits ranged from 0.5% to 2.0% of the prior year's total tax revenue. The limits typically reflected the value of permissive exemptions as a proportion of property taxes at the time they were imposed. Therefore, the financial cap measure can be viewed as a means to prevent the permissive exemption program cost from expanding.

4. PRINCIPLES & POLICY CONSIDERATIONS

Municipalities often consider several principles and policy considerations when designing a permissive tax exemption program. The report discusses these principles in detail below.

4.1. Complementary Services

Communities often establish criteria to ensure property usage provides services or programs the complement or enhance municipal services. This approach ensures that these services address fundamental needs or enhance the quality of life for municipal residents.

4.2. Predictability & Stability

Permissive exemptions provide applicants with a greater level of financial predictability and stability than standard grant programs. This is due to several reasons: (1) exemptions are not a municipal cash outlay and therefore not subject to expenditure approval. (2) exemptions can span multiple years and therefore not subject to a more frequent risk of denial, and (3) exemptions are available to a smaller pool of applicants than standard grant recipients, reducing competition.

Some municipalities support the financial predictability of permissive applicants by extending exemption durations to multiple years. This approach helps ensure financial stability for applicants over a longer period.

4.3. Administrative burden

The current permissive exemption process has a relatively light administrative burden. Direct and in-kind costs are estimated to be less than 3% of the exemption value (\$13,000/\$511,000). This aligns with the exemption value as a proportion of the entire City's budgeted 2025 expenditure (0.4%; see section 2.4).

Currently, staff adjudicate permissive applications using basic eligibility requirements. Values-based adjudication is reserved for Council discretion. Should Council request that staff (or a Council committee) adjudicate values-based criteria, it would require considerably more resources.

4.4. Values-Based Criteria

Equity and inclusion are key components of an organizational framework aimed at promoting fair treatment and full participation of all individuals, including those historically underrepresented. Municipal permissive tax exemption programs are rarely used to advance equity and inclusion. In fact, the consulting team was unable to find any such permissive policy examples in British Columbia. However, there is no obligation for the Council to provide a permissive tax exemption, especially to organizations with leaders exhibiting behaviors

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considered counter to City values. How an organization adjudicates values-based considerations significantly impacts resourcing. In general, three forms of adjudication can take place:

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 6. 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

The City’s current policy details specific property use categories that are supportable: (1) recreational facilities, (2) recreation programs, (3) youth, senior, special needs, (4) heritage organizations, (5) environmental, and (6) cultural/educational.

Unlike a grant, the amount of the tax exemption isn’t based on a fixed dollar amount—it depends on the value of the property. This makes it difficult for Council to decide how much support each type of property use should get. For example, Council might want to give more support to environmental organizations than to others.

If Council wants to give different levels of support based on the type of property use, they could ask City staff to help set priorities. This could include setting maximum exemption levels for each category—for instance, giving environmental organizations a 100% exemption, while offering lower percentages to other groups

4.5. Primary Benefit to Community

Many policies require that services provided by exempted properties primarily benefit citizens of the municipality granting the exemption. When an exempted property serves neighboring jurisdictions, its permissive value is often scaled back. For instance, Courtenay's policy designates a maximum exemption of 40% for regional service organizations that are not confined to the City

4.6. Transparency

Permissive tax exemptions are sometimes considered less transparent than direct grants. This is because exemptions often span multiple years and are approved before final financial impacts are determined. However, the Community Charter requires that the exemption value be disclosed in the annual municipal report. Similarly, the Financial Information Act requires that all grants be reported in the annual municipal Statement of Financial Information report.

4.7. Financial Need

Some municipalities require applicants to demonstrate financial need prior to exemption approval. Applicants are often required to submit financial statements and budget documentation as part of the application process. It is rare for staff to express their opinion on the financial need of the organization. Instead, applicants are asked to qualitatively or quantitatively articulate their financial need as part of the application process. This provides Council with the opportunity to subjectively assess financial need. In practice, it is uncommon for Council to deny an application based on financial need assessment.

However, the City may choose to implement an objective means test if desired. The Province of BC has developed a financial assessment process to assist in assessing eligibility. While the Provincial model uses a binary assessment (eligible or not eligible), the City could develop a sliding scale for eligibility if desired.

The Provincial assessment process calculates an organization's 'surplus percentage' by taking the organization's unrestricted cash as a percentage of its prior year's operating expenses. An excerpt from the Province's Community Grants 2025 Program Guide¹ can be found in Appendix A. Financial need assessment options are presented in section.

4.8. Consistency & Fairness – Regional Services

It is not uncommon for municipalities to set exemption limits for organizations that service communities beyond their borders. The City has done this in its policy by limiting a maximum 40% exemption for regional services. However, the City has grandfathered several regional services who enjoy a 75% exemption. The City may wish bring the grandfathered properties into

¹ Province of British Columbia. Community.Gaming.Grants.868 Program.Guide; Government of British Columbia, 2025. <https://www2.gov.bc.ca/assets/gov/sports-recreation-arts-and-culture/gambling/grants/guide-cgg.pdf>

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harmony with the existing policy by gradually reducing their exemption. Doing so would have the following impact:

Organization	\$Value Loss of Exemption
Organization 1	\$1,200
Organization 2	\$11,700

4.9. Permissive Exemptions for Lessees

Sometimes, a property is owned by a taxable entity but leased to an exempt occupant, such as a charitable, non-profit, or philanthropic organization. The exemption is provided to the property, however, which initially benefits the owner. The owner then passes along the tax exemption by not charging the occupant for property taxes under a triple net lease agreement. It can be difficult to ensure that occupant receives the financial benefit from the exemption. To avoid this challenge, the City may want to consider creating a grant program that mirrors the eligibility requirements of the exemption program specifically for lessees. In order to mirror the financial benefit of the permissive program, the City could offer a grant in the amount of 1 month's rent.

5. POLICY & ADMINISTRATION OPTIONS

5.1. Exemption Administration

The City may choose from several options for program administration:

1. **Status quo** – staff will continue to provide a basic level of vetting applications for basic eligibility requirements. Council will continue to adjudicate any values-based decisions at their discretion.
2. **Third party administration** – The City could discontinue the permissive program altogether and instead provide a grant to be administered by a third party, such as the Comox Valley Community Foundation. There would be a cost for administration, which would be offset by increased internal capacity. The disadvantage of this option is that if the City provides a contribution equal to the permissively exempted municipal taxes (\$511,000), grant recipients would not benefit from the permissively exempted other property taxes (school, BC Assessment, regional district, etc.).

5.2. Evaluating Values-Based Criteria (Equity and Inclusion)

The City may choose from several options for assessing an applicant's contribution to value-based criteria such as equity and inclusion:

1. **Council adjudication** – in this option the City would integrate language into the policy requiring that the applicant organization's values and/or property use are not in conflict with City values. Council would adjudicate misalignment on an exception basis by declining applications as necessary.
2. **Council select committee adjudication** - a select committee of Council would adjudicate value-based criteria, providing a more diverse and objective assessment. This option would require additional funding to bolster staff capacity to support committee operations.
3. **Third party adjudication** - the City could partner with a third-party organization to objectively adjudicate applications according to published values, including equity and inclusion criteria

5.3. Financial Need

The City may choose from several options for assessing an applicant's financial need:

1. **Do not assess financial need** - financial need would not be assessed as part of the application process.
2. **Council discretion** - integrate policy language requiring applicants to articulate financial need. Council would then assess financial need at their discretion
- 3.

4. **Objective framework** - develop an objective framework to assess financial need based on the Provincial Community Grant financial assessment process (see Appendix A). Permissive exemption support could be adjusted based on the calculated 'surplus percentage

Surplus percentage	Permissive support
76-100%	0%
51-75%	25%
26-50%	75%
0-25%	100%

5.4. Property transfers mid-year

Property tax exemptions are effective for the entire taxation year. Even if Council repeals a permissive bylaw part way through the year, the exemption remains in effect until the next fiscal year. This means that if a permissively exempt property is sold to a taxable owner part way through the year, the property remains tax exempt until the next year.

The City can require applicants to sign an agreement stating that they will pay the City an amount equal to the foregone taxes when the property is sold to a taxable owner. The permissive exempt seller can then recover the taxes from the taxable purchaser and remit the funds to the City.

5.5. Exemption Duration Timeframe

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

Exemption Duration Option	Administrative Burden	Stability/ Predictability	Transparency/ Accountability
1 Year	Poor	Poor	Excellent
4 Year	Good	Good	Fair-Good
10 Year	Excellent	Excellent	Poor-Fair

6. RECOMMENDATIONS

1. **Financial need:** Establish a financial need assessment process that resembles the Provincial Community Grant financial assessment process (see Appendix A).
2. **Values-based criteria:** Introduce language into the permissive tax exemption policy articulating that exemptions should support organizations that reflect the values of the City
3. **Exemption duration:** Implement a 4-year permissive exemption cycle harmonized with the Council term.
4. **Property transfer provision:** Integrate language into the permissive application form requiring applicants to pay the City the same amount of taxes that would otherwise be payable by a non-exempt owner when the property is sold.
5. **Regional services grandfathering:** Eliminate 75% exemption grandfathering for regional services organizations gradually down to current 40% policy limit.
6. **Permissive Exemptions for Lessees:** Consider creating a standalone grant program for permissive exemption applicants as lessees.

APPENDIX A: PROVINCIAL COMMUNITY GRANT GUIDELINES EXCERPT, FINANCIAL ASSESSMENT

“3.3 Organization Financial Eligibility

To be considered for a grant, applicants must meet specific organization financial eligibility criteria.

Required Documentation

Each applicant must submit all of the following organizational financial documents:

- A revenue and expense statement for the previous fiscal year (i.e., the most recently completed fiscal year at the time of application).
- If the organization’s financial statements are completed by an accountant, these are required.
- A balance sheet for the previous fiscal year.
- Accompanying notes to the financial statements for the previous fiscal year.
- An organization budget for the current fiscal year. For organizations that have been operating for less than 12 months at the time of application, applicants must submit all of the following documents:
 - A revenue and expense statement (actuals) for the year-to-date. [®] A statement of financial position or any relevant documentation on the organization’s assets and liabilities for the year-to-date.
 - An organization budget for the current fiscal year. [®] An organization budget for the next fiscal year

Organization Financial Eligibility

The branch reviews the organization’s previous fiscal year revenue and expense statement, balance sheet, and accompanying notes to assess organization financial eligibility. An organization is temporarily ineligible to receive a grant if it:

- Exhibits conditions that cast significant doubt on the organization’s financial stability and is deemed to be an ongoing concern or risk; and/or
- Has more than 50 per cent of its previous fiscal year’s operating expenses on hand in the form of current cash assets and investments.¹⁰ This surplus percentage is based on information in the organization’s financial statements and is calculated as follows:

Current cash assets and investments of the organization,
minus (-) gaming funds,¹¹
minus (-) current liabilities,
minus (-) internally restricted funds,

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minus (-) externally restricted funds,
divided (/) by the actual operating expenses of the previous fiscal year, multiplied (x) by
100,
equals (=) the surplus percentage calculation.

For the purpose of this surplus calculation:

- Deferred revenues should be included in an organization's current liabilities.
- Gaming funds are not considered deferred revenue.
- Provide notes with the organization's financial statements to enable the branch to determine what is considered deferred revenue and on what basis. These notes should include a list of the sources of the revenue (e.g., registration fees received for the next fiscal year).
- Internally restricted funds must be designated for a specific purpose, such as building and land development costs or capital acquisitions (details required, e.g., new vehicle or new security system).
 - The reason for the restriction and the date it was approved by the board must be noted in the financial statements and the accompanying board minutes.
 - Funds must be restricted prior to the organization's fiscal year end.
 - General purpose, "rainy day", vaguely defined, generic building maintenance, or contingency funds will be considered unrestricted funds.
 - Internally restricted funds will be considered unrestricted after having been reserved for more than five years.
 - Internally restricted funds for building and land development costs will be considered unrestricted after seven years.
- Externally restricted funds must be clearly identified in the organization's balance sheet, with an explanation of what the funds are restricted for and by whom.
 - Community Gaming Grant funds are considered restricted funds.

Funds must not be restricted or transferred for the express purpose of reducing the current cash assets and investments of the organization. The branch may not accept transactions that are intended to create eligibility.

The surplus calculation is used to assess financial eligibility to ensure that grant funds are awarded to organizations that need it the most. Holding an accumulated, undesignated surplus in excess of 50 per cent of annual operating expenses will render the organization temporarily ineligible for a grant..."

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