



The Corporation of the City of Courtenay

Staff Report

To: Council

File No.: 1960-20

From: Director of Financial Services

Date: June 12, 2024

Subject: Permissive Tax Exemption Policy Options

PURPOSE:

To seek Council guidance on changes to the City's Permissive Tax Exemption (PTE) use and policy.

BACKGROUND:

At the October 25th 2023 Council meeting Council gave the following direction

THAT Council direct staff to update the Permissive Tax Exemption Policy by June 2024;

AND

THAT once the Permissive Tax Exemption Policy has been updated, Council consider a grant in the amount of the proposed permissive tax exemption for Aaron House Ministries, Folio 1960.006.

and

WHEREAS quality childcare is a vital part of any community, supporting families, underpinning economic development and providing a safe and nurturing environment for children; and

WHEREAS the 2019 Comox Valley Child Care Action Plan, developed by the Comox Valley Regional District in partnership with the City of Courtenay recommended that "all communities consider permissive exemptions for childcare services", something the Town of Comox has been doing for decades;

THEREFORE BE IT RESOLVED THAT staff prepare a report for Council outlining the options for, and impact of, providing permissive tax exemptions for community owned non-profit childcare organizations.

DISCUSSION:

In 2023 the City granted 97 unique permissive tax exemptions, 73 of these were granted on a 1-year basis (normal process). Per Part 7, Division 7 of the Community Charter, a municipality may exempt a property from taxation. The exemption guidelines are broad, but they can be broken down into some main components. Some properties will be exempt under Part 7 Division 6 of the Community Charter which covers statutory exemptions. These properties are mostly Schools, Hospitals and Church buildings (Church land is a permissive exemption).

Examples

- Property owned or held by a charitable, philanthropic, and non-profit corporation and used for the purposes of the corporation
- Property owned by a local authority and used for the purposes of that local authority (e.g. property owned by Municipality X but located within the boundaries of Municipality Y)

- Properties owned or held by a public authority that is not statutorily exempt from taxes
- Properties occupied by a public authority or non-profit organization but owned by a different public authority
- Properties owned by a person (including a business, society or corporation) providing a partnering agreement, but only in relation to the provision of the agreement.
- Public parks owned and held by an athletic or service club
- Art galleries or museums owned by a charitable or philanthropic organization
- Not-for-profit seniors and community housing
- Property located around a place of public worship but not eligible for a statutory exemption (church land or parking lot)

The City's current exemption methodology exempts properties from all taxes charged by various taxing authorities (City, Regional District, Regional Hospital District, School District, library, BC Assessment Authority, Municipal Finance Authority and the Downtown Courtenay Business Improvement Area).

Permissive Tax Exemptions are a long-standing authority granted to Councils to aid organizations within their respected communities. Although a well-established method of aiding organizations, the PTE process is not without its own challenges.

Pros

- Long established method of providing benefit
- Public notification required

Cons

- Limited benefit as only property owners/lease holders qualify
- Challenging to flow benefits to lease holders (if landlord is uncooperative)
- Limited ability to change level of benefit
- Inflexible due to timing of required bylaw consideration
- Provides exemption for other taxing authorities
- Limited transparency as exemptions based on future estimations
- Administratively cumbersome
- If an organization vacates or sells their building, the tax exemption cannot be changed if already authorized by bylaw until the next year.

Community Benefit Direction Challenge

A PTE is a tool for Council to direct financial support and in turn provide community benefit. A PTE is based on property value and the associated taxes charged. Typically, an organization that provides benefit to the Comox Valley will receive a maximum of 40% exemption while an organization that provides benefit strictly to Courtenay residents will receive a 100% exemption. The 40% exemption does not change if the service provided is of extraordinary value or not, meaning that PTE's have challenges focusing quantity of benefit based on type of service provided.

Example – An organization like the Comox Valley Food Bank has a small space that is used to organize and provide community services and receives a 40% exemption. This organization provides a service in the Comox Valley that recipients do not pay for, but is limited to a small PTE value as they only own/occupy a small footprint. PTE 2024 - \$2,328

Example – An organization like the Courtenay Marina Society that has a limited number of members and limited number of moorage slips that are available to those who have a boat. This organization receives a 100% exemption with a value of \$13,624 in 2024.

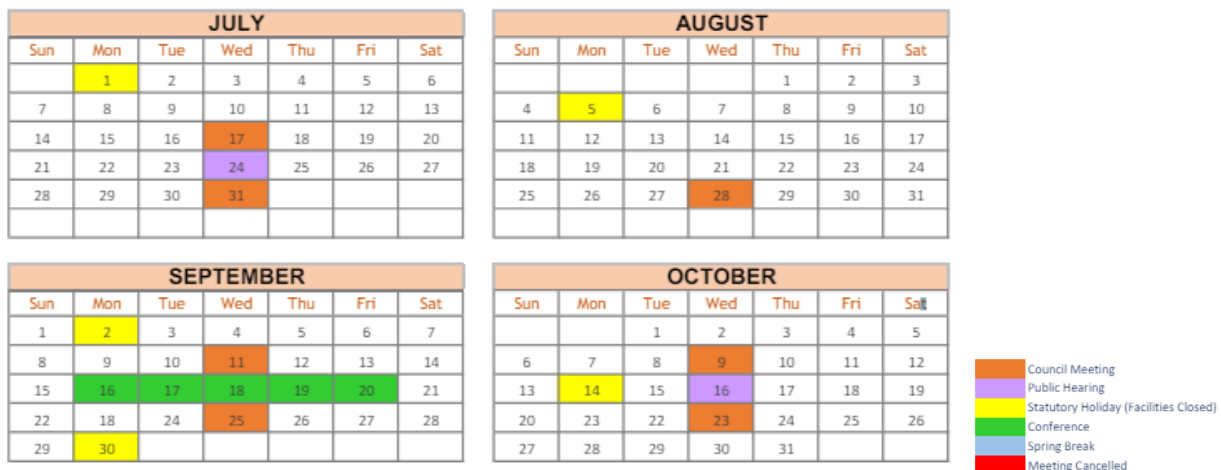
The City has limited tools to address the varying levels of support through the PTE process as the policy must be broad enough to capture an adequate number of eligible properties while still somewhat restrictive to not provide too much assistance to organizations that might not require it.

The current PTE system does not require a link between the exemption granted by the City and an outcome of the organization, the assumption is that relief of property taxation simply allows resources to flow to programs and services that the organization provides. No consideration is given if an organization has access to alternative funding for property taxation, many Provincial contracts provide funding for operating expense such as property tax. By providing tax relief that could be eligible for other funding the City is inadvertently providing tax relief when it is not required.

Timing Challenge

A PTE must be established by bylaw prior to October 31st to be effective for the following year. The PTE bylaws require a 2-week notification period between first reading and adoption per Div 7, Sec 227 of the *Community Charter* in accordance with section 94 (public notice). This 2-week notification period typically does not align with Council meeting deadlines resulting in the adoption of the bylaw taking an extra Council meeting cycle.

For 2024 the last scheduled Council meeting in October is the 23rd, to meet the notification period the latest Council could give first reading to the bylaw is the September 25th Council meeting. This would not permit time to make additions to the PTE bylaw as additional properties require notification while detractors from the bylaw do not require renotification. Preferable Council could be presented with a PTE bylaw at the September 11th Council meeting, the deadline to have PTE bylaws submitted to this meeting for consideration falls on Friday August 30th. This would provide the period September 12-20th to gather feedback and make recommendations to Council for adjustment. Council would have to provide an amendment to the PTE bylaw at the Sept 25th meeting to facilitate the appropriate amount of time prior to adoption, still the timeline is tight.



Creation of the annual PTE bylaws is not a simple process as staff are collecting and analysing information for 97 properties and organizations, granted 24 of these properties are captured within a 5 or 10 year bylaw, leaving 73 to be address annually (2024). Staff have been noticing small but increasing challenges with organizations getting information on time, this has been attributed to staff turnover in some organizations along with simply capacity issues in others. Other challenges include the receipt of information to organizations that then needs to be passed onto the City such as budgets and financial statements. Further information collection occurs typically between February and July, with staff following up many times with various organizations. Staff are not in a position to simply let organizations fail to be included in a PTE bylaw if they have been receiving the benefit for many years, as it will result in a “rush / push” to get these organizations included after the fact. This puts staff in a challenging position of hounding organizations for information to ensure they meet the requirements of the PTE program.

Once Council adopts a PTE bylaw, it must be forwarded to BC Assessment Authority (BCA) prior to the annual October 31, deadline. BCA enters the properties approved in the bylaw into their system for exemption in the following year. The City does not receive confirmation of this information until BCA releases the Completed roll early in the following year. City staff review each of the 97 exemptions submitted to ensure they have been property represented in the completed roll and it is not uncommon to find errors. Each error must be identified and fixed through communication with BCA, at times it can come down to a differing of interpretation, the most challenging properties are often those that are within a larger property, such as leased office.

Other Taxing Authorities

Currently a PTE provides exemption to all taxing authorities, this works well for the recipient of the PTE however other taxing authorities do not reduce their requisition. Other taxing authorities' requisition amounts simply gets redistributed to the remaining tax paying properties as city funds are used to pay.

As an illustration, if a Regional District's requisition was \$100 and we have five properties in the City, with 1 receiving a PTE. Normally each property would pay \$20 towards the \$100 RD requisition however, a property has a PTE and the \$100 requisition is now shared between the remaining four properties. Their subsequent share of the requisition now increased by \$5 to \$25 each towards the RD requisition of \$100.

For 2024 the total City property tax forgone through PTE is \$427,120 while all other taxing authorities' forgone collections equal \$316,738, however these taxing authorities still require full payment of their respective levy. The foregone collections of \$316,738 is redistributed to the remaining non-exempted properties.

A grant program would better allow the City to provide tax relief for specific portions of property taxes, this could be achieved by matching the grant funds awarded to be equal to the City's property tax amount.

Discussion Points/Council Direction

- Should the City continue with PTE program or explore alternative options such as a grant program.
- Should exemptions continue to be granted to the following:
 - Courtenay Marina
 - Courtenay Airpark
 - Lands surrounding places of worship
 - Affordable housing owned by a not-for-profit
 - Organizations with access to Federal/Provincial funding for property taxation
 - Grandfathered properties at 100% exemption rates

- How will the Regional Social Development Grant Service impact the future of PTE
- Should financial needs tests be considered
- Should an upper and/or lower limit be placed on funding

POLICY ANALYSIS:

Currently policy # 1960.00.01 Permissive Property Tax Exemptions is the policy that guides tax exemptions for the City. Policy 1960.00.01 was last updated August 2017. The August 2017 update solidified the 40% maximum exemption as some organizations received 60% exemption. Prior revision occurred in May 2013 which brought in the 40% maximum exemption for organizations providing services not confined to the City of Courtenay and the 2% limit of prior year's tax levy. Further the May 2013 update reaffirmed stipulations that exemptions shall not be granted to organizations that provide services that would compete with private sector provided services.

Exemption Limit

The annual Financial Plan bylaw is required to include information on how permissive tax exemptions are used. The City has identified that permissive tax exemptions shall not exceed 2% of the total tax levy of the previous year per financial plan bylaw and policy.

- The 2023 property tax levy was \$31,195,000 x 2% provides a PTE cap of \$623,900, for 2024 the expected PTE value is \$429,494 which consumes 69% of the PTE capacity.
- The 2024 property tax levy is \$34,007,000 x 2% provides a PTE cap of \$680,140 for 2025.

The City has never reached the 2% limit, and the policy does not provide direction on what should occur if the limit is reached. Options could include removing the newest applicants until the limit is reached or equally reducing total exemptions to all organizations slightly to reach the 2% limit.

100% PTE Exemption

The August 2017 update provided clarity that new PTE applications that provided services beyond the City borders would be limited to a 40% exemption. Council gave direction that the update to the policy would not be applied retroactively which provided relief to existing organizations that would have seen their exemptions be reduced from 100% down to 40%. Further clarity is given then if an already grandfathered exempt organization moves locations within the City they will continue to receive the 100% exemption. Over the years the number of 40% exempt properties has grown as more organization apply and qualify for exemption.

- 64 Properties receiving 100% exemption
- 4 Properties receiving 75% exemption
- 27 Properties receiving 40% exemption

Current Policy Deviations

Over the years staff have had to make judgment calls on some of the processes and requirements of the policy to meet the overall desire of the PTE program. The following are the common challenges that result in deviations from the policy.

- Audit – The policy requires applicants to submit audited financial statements, this is a challenge as many small organizations don't perform annual audits.
- Late applications – The policy does not have a specific application deadline however the PTE application states the deadline is May 15th. Often staff is finding they are spending time chasing down information from prior years applications who have yet to submit information for the current year

Local Municipalities

Cumberland provides exemptions to 3 properties with total municipal taxation forgone of \$2,840. Cumberland provides exemptions equivalent to 0.07% of 2023 municipal taxation levy. The table below provides details on Cumberland's PTE for 2023

Property Tax Exemptions 2023

The following properties in the Village of Cumberland were provided permissive property tax exemptions by Council in 2023 as authorized by section 98 of the *Community Charter*.

Civic Address	Organization	Value of Exemption
2688 Penrith Avenue	Cumberland United Church Trustees	\$430
2722 Penrith Avenue	Cumberland Community Church	\$459
2680 Dunsmuir Avenue	Historical Society (museum)	\$1951

Comox provides exemptions to 25 properties with total municipal taxation forgone of \$243,656. Comox provides exemptions equivalent to 2.11% of 2023 municipal taxation levy. The Town of Comox does not publish an itemized summary of PTE granted but the City has been advised that they have exemptions approved for not for profit daycares.

Campbell River provides exemptions to 115 properties with total municipal taxation forgone of \$685,781. Campbell River provides exemptions equivalent to 1.7% of 2023 municipal taxation levy. See attachment 3 – City of Campbell River Permissive Tax Exemption Summary 2024 for detail. Note that the City has approved exemptions for not for profit daycares.

Not for Profit Day Care Resolution

The application of PTE for non-profit daycares has been considered on at least two occasions during the history of the City's PTE policy. Most recently during the May 2013 update, Council direction was to continue the prohibition on PTE for not for profit day-care providers with respect to receiving exemptions.

The following is an excerpt from the current Permissive Property Tax Exemption Policy that has implications for not for profit daycare providers:

5. Extent, Conditions, and Penalties

- a) The following activities and circumstances will be not be considered as eligible for exemption by Council. Exemptions will exclude the portion of land/improvements where the following circumstances exist:
 - land/improvements used by the private sector and/or organizations not meeting Council's exemption criteria
 - land/improvements used for commercial or for-profit activities by the not-for-profit organization

As outlined above, the PTE policy is directed by Council and based on motions, it is clear that there is an appetite to revisit this direction from 2013. Analysis and recommendations to Council from staff are typically based on policy direction and over the past five years significant work with respect to support for the provision of Day Care services in the valley has been done both at the regional and municipal level. Input to Council from not for profit service providers has indicated that a PTE will assist in the delivery of this community service and the recently adopted Official Community Plan identifies the need to support child care services. Given the existing policy support and requests in the community, staff are of the

opinion that there is sufficient background should Council wish to direct that Section 5. a) be amended to clarify that not for profit daycares are not subject to this prohibition for consideration during the 2025 PTE.

Deferred PTE Consideration Resolution

With respect to the resolution to consider a grant for the application that was not approved in 2024, staff have received notification from the property owner that this organization no longer occupies leased space and consideration of a PTE is no longer required for *Folio 1960.006*.

FINANCIAL IMPLICATIONS:

Until Council provides alternative direction to the current PTE policy there is limited financial impact as total PTE's as it is estimated that approvals will follow prior years. Should Council give direction to consider not for profit daycares for 2025 PTE staff can provide an estimate of the financial implications during the deliberations for PTE approval which is consistent with the policy and bylaw consideration process.

ADMINISTRATIVE IMPLICATIONS:

Administrative implications will be dependent on Council direction. Any change to PTE's should be phased to reduce the shock to various not for profit organizations.

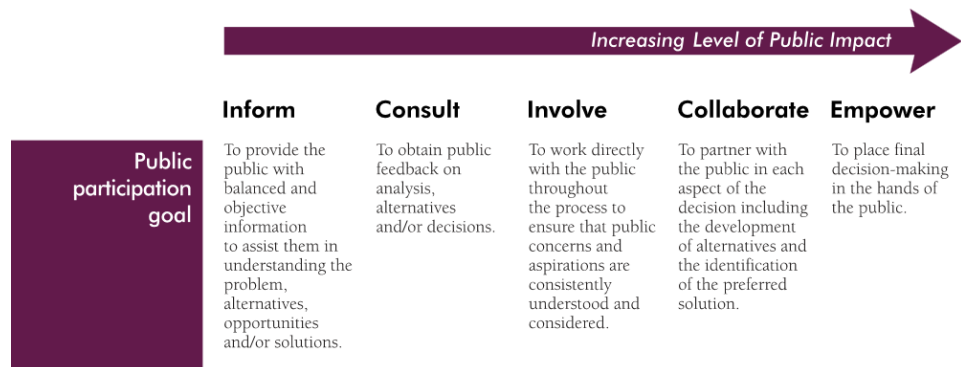
STRATEGIC PRIORITIES REFERENCE:

This initiative addresses the following strategic priorities:

- Financial Sustainability - Ensure capacity to accommodate big change

PUBLIC ENGAGEMENT:

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



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OPTIONS:

1. 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 FURTHER THAT Council consider an amendment to Permissive Property Tax Exemption Policy to indicate that Section 5.a) does not apply to not for profit child care centres in accordance with the practice of other local municipalities effective for the 2025 PTE consideration.

2. 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).
3. THAT Council provide alternative direction to staff.

ATTACHMENTS:

- 1 – Permissive Property Tax Exemption Policy 1960.00.01
- 2 – City of Courtenay Estimated Permissive Tax Exemption Summary 2024
- 3 – City of Campbell River Permissive Tax Exemption Summary 2024

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