

DATE OF MEETING APRIL 17, 2024

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SUBJECT NON-MARKET HOUSING PERMISSIVE EXEMPTION POLICY OPTIONS

OVERVIEW

Purpose of Report

To present the Finance and Audit Committee with policy options related to Permissive Tax Exemptions for Non-Market Housing.

Recommendation

That the Finance and Audit Committee recommend that Council direct Staff to bring forward a new 'Permissive Tax Exemption' policy that includes criteria for non-market housing as outlined in the Staff report dated 2024-APR-17, and a separate 'Other Grants Policy' for the City's other grant programs.

BACKGROUND

At the 2023-SEP-13 Finance and Audit Committee meeting, a recommendation to Council was made to:

“direct Staff to review permissive tax exemption options related to housing and bring forward recommendations to Council, which may include a proposed update to the existing ‘Grants Policy and Guidelines’ document, or other policy recommendations.”

The motion was adopted by Council by consent at their meeting on 2023-SEP-25.

The review was triggered by an absence of policy to determine eligibility in granting permissive tax exemptions for non-market housing providers. As the need for non-market housing continues to grow and evolve, staff from Finance and Community Planning worked together to complete the research for this project, and to propose new policy recommendations.

For reference, a copy of the existing 'Grants Policy and Guidelines' document is attached as Attachment A.

Permissive Tax Exemptions

A municipality is empowered under the *Community Charter* to provide permissive tax exemptions (PTE). These exemptions are generally available to non-profit organizations that provide a valued service in the community. This can include 1) building and operating non-market housing in our

community, a need identified in the *Housing Needs Report 2023*; and, 2) supporting initiatives like recovery houses, which benefit the community through providing treatment services and programs.

Non-Market Housing

Non-market housing is defined for this project as a range of housing options, where the cost of housing is lower than the average cost of market housing due to some level of subsidization. Non-market housing includes temporary housing, supportive housing, and social housing, but excludes community care facilities providing licensed care services, warming centres, and rooming houses. The three categories of non-market housing that were used for this project were informed by the *Housing Needs Report (2023)*, and are defined as follows:

Temporary Housing: Temporary beds offering emergency and support services for people who are homeless or at risk of becoming homeless; leaving physically, psychologically, or sexually abusive relationships; or immediate post-acute phase of recovery from drug and alcohol dependency or addiction. Stays are temporary ranging from one night to longer depending on a person's individual needs. Temporary Housing includes:

- permanent year-round shelter beds;
- temporary year-round shelter beds;
- temporary winter response shelters;
- extreme weather response shelters;
- transition houses; and,
- recovery centres.

Warming Centres, rooming houses, and halfway houses, in conjunction with the administration of justice, for the purpose of shelter and support of persons serving or on parole from any part of a sentence (including unconditional sentence) imposed by a court, are not considered shelters.

Supportive Housing: Permanent housing that is subsidized to be lower than the average cost of private-market housing and has on-site supports for people to transition out of homelessness. This includes temporary modular housing, which are demountable structures, not permanently affixed to land.

Social Housing: Permanent housing that is subsidized to be lower than the average cost of private-market housing. Individuals and families live independently with no onsite supports. Social housing can include below-market rental, below-market ownership, co-ops, co-housing, and temporary modular housing, which are demountable structures, not permanently affixed to land. Social housing excludes supportive and temporary housing.

DISCUSSION

This section focuses on a review of non-market housing in Nanaimo, a jurisdictional review of PTE policies, consultation findings from interviews with non-market housing providers, as well as considerations of granting property tax exemptions for non-market housing.

Non-Market Housing in Nanaimo

An inventory of the City of Nanaimo's existing non-market housing units was initiated to estimate a baseline of non-market housing units currently available in Nanaimo. The data was provided by non-market housing providers and placed into the three non-market housing categories listed above. The inventory identifies approximately 259 temporary beds, 338 supportive housing units, and 1,452 social housing units. It is important to note that these numbers are estimates, as data was not provided by all non-market housing providers. Further, due to definitions of non-market housing varying across government agencies and non-market housing providers, there are limitations to the data. The purpose of the estimate for this project is to provide a general sense of how many existing providers could be eligible for a PTE.

Jurisdictional Review & Consultation

Staff reviewed the permissive tax exemption policies of 13 other comparable BC municipalities either by size or by region. Although almost every municipality has a permissive tax exemption policy, very few municipalities have policies that specifically refer to non-market housing (see Attachment B for a summary of the findings). In addition, most municipalities did not have their permissive tax exemption policy combined with their grant policy. For ease of administration, Staff are recommending that the general permissive tax exemption policy and other grants policy are both brought forward as separate policies, as indicated in the recommended motion.

Consultation with Non-Market Housing Providers

Staff met with 12 non-market housing providers in Nanaimo to gain insight into the potential benefits and drawbacks that a permissive tax exemption policy could have on existing and future non-market housing in the city. Overall, non-market housing providers were supportive of a new policy as property taxes can significantly impact the viability of operating non-market housing. Providers also emphasized the importance of continuing to provide PTEs for legacy properties (i.e. non-market housing currently receiving a PTE). Without the PTE, legacy providers are limited in their ability to increase rents due to operational agreements in place. Unless an existing agreement includes the subsidization of property taxes, providers would be responsible for generating the additional funds to off-set the property taxes.

Considerations to Granting Property Tax Exemptions for Non-Market Housing

There are several factors to consider regarding granting property tax exemptions for non-market housing.

Housing Needs Report & Provincial Housing Targets

Based on Nanaimo's *Housing Need Report* (2023), 46% of future housing units should be at a price point affordable to households earning less than \$40,000 per year. This translates to an average of 525 new homes that are needed per year at non-market or near market levels.

As of 2023-MAY-31, the *Housing Supply Act* grants the Province of BC the authority to set housing targets in municipalities with the greatest need and highest projected population growth. The Province expects to issue housing target orders to 16-20 municipalities each fiscal year. On 2023-SEP-26, targets were released for 10 municipalities (refer to Attachment C). The City of Nanaimo

was not included on the initial list, but it is anticipated that housing targets for Nanaimo could be issued in the future. Similar to the needs estimates identified in the *Housing Needs Report*, Staff anticipate the Provincial targets for non-market housing could be high, potentially placing major financial implications on the existing tax base if exemptions were provided.

Shift of Costs to Existing Residential Taxpayers

There is expected to be an increase in the construction of non-market housing, thus when contemplating property tax exemptions for non-market housing consideration needs to be given to the potential impact on existing taxpayers. Property taxes are the largest source of City revenue and help to fund day to day operations, as well as infrastructure requirements. The annual Financial Plan, approved by Council, sets the amount of property taxes required to be collected from the tax base. If non-market units are granted exemptions, the remaining residential taxpayers would be required to absorb these costs as the full property tax amount must still be collected from Class 1 (Residential) taxpayers.

Currently, approximately 50-150 non-market housing units are built annually in Nanaimo. If 150 non-market units are built annually, and the average assessed value of each unit is \$400,000, the total amount of assessment exempted would increase by \$60,000,000 each year (if all units were given a tax exemption). Using 2023 property tax rates, this annual exemption increase would generate approximately \$350,000 of municipal and other government agency property taxes that would be shifted to the other existing Class 1 (Residential) taxpayers.

If 525 non-market units were built annually and the average assessed value of each unit was \$400,000, the total amount of assessment exempted would be increased by \$210,000,000 annually (if they were all given a tax exemption). Of course, it would take many years to achieve that level of non-market housing, but it gives an idea of the magnitude of the exemptions that could be requested over time. Using 2023 property tax rates, this annual exemption increase would generate approximately \$1,225,000 of municipal and other government agency property taxes that would be shifted to the other existing Class 1 (Residential) taxpayers.

The disadvantage of shifting additional property tax costs to existing residential taxpayers is that many taxpayers may be struggling themselves, which has been made evident by the number of properties that do not pay their full property taxes before the due date. Property taxes not paid by the due date are also subject to late payment penalties. If more costs are shifted, homeowners may no longer be able to afford the housing that they currently own, which in turn would create a need for that resident to access non-market housing. This could create a cycle that is unsustainable in the long term (refer to Attachment D). There may also be other market implications, such as landlords increasing the rent of market units to cover their annual property taxes.

Existing Mechanisms for Property Tax Relief Related to Housing – Assessment Reductions

Staff consulted with BC Assessment to obtain clarity around properties that are eligible for a reduced assessed value, therefore reducing the need for a Property Tax Exemption. According to BC Assessment, non-market housing generally falls under two main property classifications: Class 1 (Residential) and Class 3 (Supportive).

Properties classified as Class 1 (Residential) are not eligible for a reduction in assessed value unless there is a lease agreement registered on the title of the land that: 1) restricts the use of the

property to the provision of ‘affordable housing’, or similar terms, and 2) restricts the rents that may be charged to the point that the development operates at or near non-for-profit levels. BC Assessment confirmed that property assessments can be adjusted where long-term restrictions are in place. The restrictions typically need to be for a minimum of 40+ years and run with the land. An example is a restrictive covenant with a housing agreement between the owner/operator and the City of Nanaimo. It is important to note that the assessed value is reduced but not to the nominal amount as Class 3 (Supportive).

Properties classified as Class 3 (Supportive) are subject to special valuation rules that reduce the assessed value to a nominal amount. Eligible supportive housing properties are those that are used by, or on behalf of, a person who receives funding from the provincial government or a regional health board for the provision of supportive housing. As Class 3 properties are often reduced to a nominal value of \$2, a property tax exemption is not necessary.

Class 3 Supportive Housing exemptions also shift costs to other City taxpayers. In this case, the burden of the reduced tax assessment is borne by all of the property classes within the City assessment jurisdiction.

Proposed Policy Recommendation

Staff recommend the following approach be taken to granting permissive tax exemptions for non-market housing.

Legacy Properties: Staff recommend that properties with existing permissive tax exemptions continue to receive exemptions if they continue to provide the same or similar services as their originally granted exemptions. A sale or change in use of the property would end the exemption and the new owner would need to re-apply for a permissive tax exemption, which is consistent with current municipal and BC Assessment practice. Not granting continued exemptions for legacy properties could potentially lead to the loss of existing non-market housing units, due to non-market housing providers inability to generate sufficient revenue to offset the property taxes.

A summary of the current permissive tax exemptions granted that are related to the housing categories being proposed are as follows:

Tax Exemption Category	Properties (#)	Units (#)
Temporary Housing	13	31
Supportive Housing	2	53
Social Housing	14	519
Other Properties (Not housing related or exempted through other legislation including Seniors Housing and Community Care Facilities)	144	-
Total	173	603

Temporary Housing: Staff recommend that exemptions be considered for properties providing temporary housing services on a year-round basis that are owned or leased by a Non-Profit Society or Charity, if property tax costs are not provided for in any funding agreements with BC Housing or any other government entity. The City may require that future negotiations allow for the funding of municipal property taxes.

Supportive Housing: Where BC Assessment does not offer a reduced assessed value for supportive housing, Staff recommend exemptions be considered for properties providing supportive housing services on a year-round basis that are owned or leased by a registered Non-Profit entity, if property tax costs are not provided for in any funding agreements with BC Housing or any other government entity. Services are generally free of charge or heavily subsidized and services can not be charged at fair market value. The City may require that future negotiations allow for the funding of municipal property taxes.

Social Housing: Staff recommend exemptions not be considered for social housing. However, a reduction of up to 70% of the assessed value can be obtained through BC Assessment with a restrictive covenant and housing agreement registered on the land title. Assessment reductions apply if the non-market housing provider can show evidence of long-term financial and profit restrictions.

OPTIONS

1. That the Finance and Audit Committee recommend that Council direct Staff to bring forward a new 'Permissive Tax Exemption' policy that includes criteria for non-market housing as outlined in the Staff report dated 2024-APR-17, and a separate 'Other Grants Policy' for the City's other grant programs.

- **The advantages of this option:** Operations of current non-profit organizations with current permissive tax exemptions will not be disrupted.

Permissive tax exemptions will still be considered and could be provided for properties like Shelters, Safe Homes, Transition Houses, etc. These types of properties are already captured with the current permissive tax exemption bylaw.

Existing Class 1 Residential Taxpayers would not have to absorb a significant tax shift due to permissive tax exemptions if there are large amounts of non-market housing being constructed. If properties are willing to enter into long-term housing agreements to restrict the use of the property through a covenant/housing agreement on the land title, there is an assessment reduction mechanism in place to provide property tax relief that is administered through BC Assessment. This would also save administrative time and resources because the City does not have the capacity to be able to continually monitor rent rolls and the changing number of market and non-market units in each building.

For new non-market housing being constructed and being owned or leased by Non-Profit entities, the cost of municipal property taxes could be factored into agreements with BC Housing.

- **The disadvantages of this option:** Permissive tax exemptions would not be directly provided by the municipality for non-market housing, which could impact the financial analysis or financial viability for new non-market housing units in the City.
- **Financial Implications:** True financial implications of providing permissive tax exemptions for all new potential non-market units cannot be accurately predicted.

Tax exemption costs would depend on the number and timing of new buildings built, the assessed values at various stages of construction, the estimated future tax rates for a variety of government entities, the number of units that would qualify as non-

market according to the definitions of what qualifies as a non-market unit, which can be changed, etc. There are too many financially significant assumptions to be made to be able to provide a reasonable estimate.

However, as outlined in the report above, with 46% of all new housing units needing to be non-market, it is fair to say that the cost that would be shifted to other existing residential taxpayers could be significant over time.

The proposed new policy around temporary housing and supportive housing could potentially initiate permissive tax exemptions from properties that do not currently have an exemption. Of the properties that staff are aware of, there could be potential additional applications for \$3,476,000 of assessment, which could result in approximately \$20,300 of municipal and other government agency property taxes being shifted to other existing Class 1 (Residential) taxpayers based on 2023 rates.

2. That Council provide alternative direction. |

SUMMARY POINTS

- As directed by Council, Staff have reviewed permissive tax exemption options related to housing, and have grouped the City's existing non-market housing into three categories for the purpose of the review i) temporary housing; ii) supportive housing; and iii) social housing.
- Staff recommend that: i) a permissive tax exemption should continue to be provided for legacy properties currently receiving an exemption to ensure their viability; and ii) permissive tax exemptions should be offered to the temporary housing and supportive housing categories (where BC Assessment does not offer a reduced property assessment).

ATTACHMENTS:

- ATTACHMENT A: Grants Policy and Guidelines Document
ATTACHMENT B: Jurisdictional Review of Permission Tax Exemptions related to Housing
ATTACHMENT C: Provincial Housing Targets
ATTACHMENT D: Shift of Costs to Existing Residential Taxpayers |

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