

August 1, 2018

To: Members
Executive Committee

Re: Community Non-Profit Tax Incentive Policy

RECOMMENDATION

**RECOMMENDATION OF THE EXECUTIVE COMMITTEE
- JULY 4, 2018**

1. That the *Community Non-Profit Tax Incentive Policy* as described in this report and attached as Appendix A, be approved.
2. That a cap in the policy be set at \$1.2 million.
3. That this report be forwarded to the August 27, 2018 meeting of City Council for approval.

EXECUTIVE COMMITTEE – JULY 4, 2018

The Committee adopted a resolution to concur in the recommendation contained in the report after adding recommendation #2 as follow:

2. That a cap in the policy be set at \$1.2 million.

Mayor Michael Fougere, Councillors: Andrew Stevens (Chairperson), Lori Bresciani, John Findura, Jerry Flegel, Bob Hawkins, Jason Mancinelli and Mike O'Donnell were present during consideration of this report by the Executive Committee.

The Executive Committee, at the **PRIVATE** session of its meeting held on July 4, 2018, considered the following report from the Administration:

RECOMMENDATION

1. That the *Community Non-Profit Tax Incentive Policy* as described in this report and attached as Appendix A, be approved.
2. That this report be submitted to the August 1, 2018 public Executive Committee meeting and August 27, 2018 City Council meeting for approval.

CONCLUSION

A draft policy titled *Community Non-Profit Tax Incentive Policy* is attached as Appendix A for City Council's approval. The policy is designed to:

- set the parameters under which City Council will consider applications for property tax incentives from non-profit and charitable organizations,
- provide fair, consistent treatment and consideration for all applicants, and
- ensure that tax incentives are financially sustainable and do not overburden the rest of the tax base.

The Policy will take effect upon approval by City Council and will be retroactive to January 1, 2018.

BACKGROUND

At its regular meeting on March 29, 2016, City Council approved the recommendation of the Finance & Administration Committee that Administration be directed to bring back a policy outlining how to effectively proceed with tax exemption requests from non-profit organizations including any criteria that can be used (Item CR16-21).

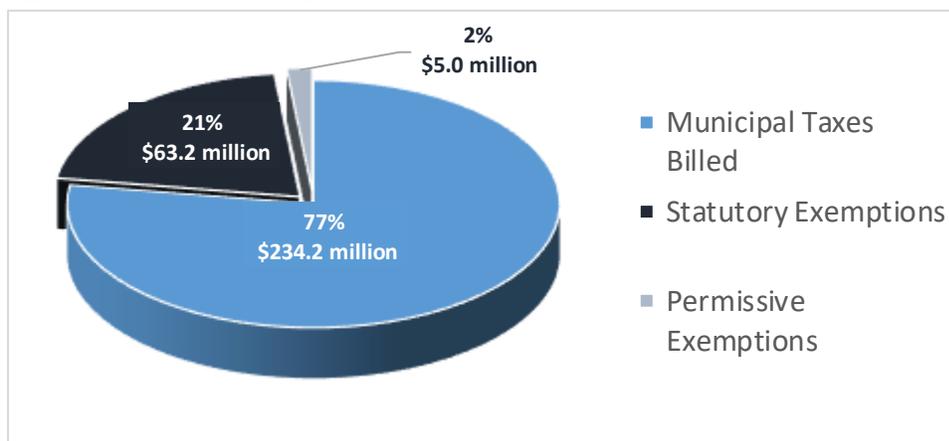
Administration has developed the attached draft policy, along with the following information to explain the context for the policy and the key issues involved.

The Cities Act (the Act) provides two types of exemptions: statutory and permissive. Statutory exemptions are provided by section 262 of the Act or through special legislation and are granted to properties such as schools, public hospitals, municipally, provincially and federally owned public buildings and land.

Tax incentives in the form of permissive exemptions and abatements are authorized by subsections 244 and 262(3) and (4) of the Act. These are tools for City Council to support properties that further City Council's vision and benefit Regina residents. Historically, the City of Regina (City) has used exemptions, rather than abatements to achieve these objectives.

Figure 1 shows the City's municipal taxes billed in 2018, along with the foregone municipal taxes for both statutory and permissive exemptions.

Figure 1: 2018 Municipal Taxes



Permissive exemptions currently granted by City Council fall into one of five categories. Table 1: 2018 Permissive Property Tax Exemptions provides a description and the 2018 assessment and forgone municipal tax for each category.

Table 1: 2018 Permissive Property Tax Exemptions

Category	Description	Exempt Assessed Value	Foregone Municipal Tax*
Heritage	For eligible properties under the <i>Heritage Incentive Policy</i> .	14,632,180	\$ 128,698
Housing	For eligible properties under the <i>Housing Incentives Policy</i> .	488,834,738	3,462,881
Downtown Residential	For eligible properties under the <i>Downtown Residential Tax Incentives Policy</i> .	1,222,000	8,657
Boundary Alteration	For eligible properties under the boundary alteration tax mitigation principles and tools approved by City Council.	25,765,402	228,687
Non-profit & Charitable	For non-profit and charitable organizations.	127,958,810	1,203,647
Total		658,413,130	\$ 5,032,570

*This is the foregone municipal tax from exemptions only. It does not include any funding provided through the City’s grant programs.

Non-Profit and Charitable Organizations

As directed by City Council, Administration has developed a draft policy (attached as Appendix A) outlining how to effectively proceed with tax incentive requests from non-profit organizations, including any criteria that can be used.

Appendix B shows the exemptions granted to 30 non-profit and charitable organizations in 2018. The total exempt assessed value was 127 million, and the forgone municipal revenue was \$1.2 million. Ten of these organizations also received a community investment grant from the City. Appendix B identifies those organizations that received both an exemption and a grant in 2018.

In Regina, there are more than 1,350 non-profit and charitable organizations registered with Information Services Corporation. The number that own or occupy property is unknown.

DISCUSSION

Exemption Importance

Relief from property taxes is granted based on the organization’s contributions to the public good. The work of these organizations typically relieves the City from having to provide services, thereby satisfying both service recipients and taxpayers. Additionally, exemptions

usually provide a greater financial benefit to the recipient than the cost to the City because they generally exempt all taxes – not just the municipal portion.

General concerns about exemptions include the following:

1. While the municipal property taxes for these organizations are relieved, the City is still obliged to supply services and its budget remains constant. Therefore, remaining taxpayers must make up the lost revenue.
2. Differential tax treatment may affect organizational location decisions, choices about what activities to undertake and other economic decisions.
3. Supporting requests on a one-off basis may set a precedence and increase the potential for increased requests from similar organizations.

Cross-Jurisdictional Comparison of Tax Incentives for Non-Profit and Charitable Organizations

While every province has both statutory and permissive exemptions, each province differs in how tax incentives for non-profit and charitable organizations are structured and applied, making comparisons difficult. The ability to draw comparisons between municipalities is complicated further by the fact that there is a significant variance in municipal assets and the use of grant programs. For example, the City of Saskatoon owns and operates SaskTel Centre while Evraz Place in Regina, is operated by Regina Exhibition Association Limited.

For example, in Alberta and Manitoba, provincial legislation governs exemptions for non-profits. In B.C., municipalities have authority to provide permissive exemptions from a legislated list of property types and uses. Consequently, some municipalities provide incentives to a wide range of non-profit organizations, while others focus support on organizations which provide specific services.

Within Saskatchewan, the City of Saskatoon provides grants and tax credits to flagship cultural organizations such as major arts institutions, major festivals, and major heritage or museum institutions. Outside of this, Saskatoon's practice is similar to the City of Regina's in that it provides abatements to non-profit organizations on a case-by-case basis. Further, the City of Saskatoon provides operations and capital funding to owned major cultural and multipurpose facilities such as Rемаi Modern Art Gallery, SaskTel Centre and TCU Place.

Recommended Policy

Administration has developed a draft policy titled *Community Non-Profit Tax Incentive Policy* (Appendix A), outlining how to effectively proceed with tax incentive requests from non-profit and charitable organizations. Formulating a policy will provide consistency in decision-making, be less time consuming than the current case-by case approach and streamline internal processes and resources.

The policy is specific to the municipal and library portion of property taxes only. Education taxes fall under *The Education Property Tax Act* and exemptions pertaining to the education property tax will be processed under that legislation.

The policy is designed to set the parameters under which City Council will consider applications for tax incentives from non-profit and charitable organizations and provide fair, consistent treatment and consideration for all applicants.

The spirit in using the policy is one of confirming the services and organizations that align with the City's objectives and priorities, and for which the burden resulting from the incentive is a justifiable expense to the taxpayers of Regina.

In order to provide financial sustainability and transparency, administration recommends that the policy include a cap. A cap could be applied in the form of a dollar value or a percentage cap. Examples and analysis of both types of caps are shown in Appendix C. While both options offer the same benefits to the City, they differ in cost to the City and benefits to the applicants. A dollar cap is a static number, while the cost of a percentage cap fluctuates with municipal levy changes. If the funds are fully allocated, under a dollar cap year over year applicants may be responsible for mill rate increases. A percentage cap is indexed to the levy and the financial commitment grows with the City's levy. Regardless of the type of cap applied, changes to applicants may result in incentives being prorated if the dollar value requested exceeds the capped amount. The requirement to prorate or make changes to prorated amounts annually based on applications, means the administration of multi-year agreements is less desirable.

Research on a financial cap was part of the cross-jurisdictional research. Municipal policies were reviewed to see if they included a cap, and, where a cap exists, if it was applied as a dollar value or a percentage cap. Of the municipalities reviewed, only those in British Columbia implemented a cap and all use a percentage cap.

Administration recommends that the policy includes a financial cap where the total amount of forgone municipal tax dollars will not exceed 0.55 per cent of the previous year's budgeted municipal levy. With a percentage cap the growth of the City is reflected in the amount of dollars exempted and indicates support for eligible properties under this policy. For 2019, the commitment of 0.55 per cent represents \$1.2 million in municipal levy and is equivalent to the value of municipal levy exempted by the approved 2017 and 2018 exemptions for non-profit and charitable organizations.

To implement the cap, City Council could grant incentives to properties where the exemption provides the most financial benefit to the City first, then pro-rate exemptions granted on individual properties. Additionally, City Council, at its discretion, may cancel any or all exemptions within a given year.

Policy Principles

To balance City Council's desire to be fair and consistent in the approval of tax incentives, while considering affordability, Administration worked from City Council's vision, *Design Regina*:

The Official Community Plan Bylaw 2013-48 (OCP) and the City's master plans to develop five principles that underlie the policy. Each principle has specific criteria outlined in the policy to determine if it has been met in practice.

Principle #1 – Compliance with Legislation, Municipal Policies, Plans, Bylaws, and Codes

The Applicant must comply with all applicable legislation, municipal policies, plans, bylaws, codes.

Principle #2 – Non-Profit Organization

Applicants must be a non-profit or charitable organization in operation for at least one year prior to the date of application.

Principle #3 – Alignment with the City's Plans and Programs

The Applicant's main services, programs and activities must align with the cultural, health and safety and social development priorities and objectives outlined in the OCP.

Principle #4 – Accessible to the Public

The Applicant's services, programs and activities should be equally available to all residents of Regina.

Principle #5 – Financial Need

The Applicant must demonstrate the organization is in need of the City's support and that its operations would be significantly impacted without the tax incentive.

To develop the criteria for Principle #3 – Alignment with the City's Plans and Programs, Administration reviewed the OCP and master plans to identify those areas where exemptions would strategically direct resources and respect City Council's past practice of granting exemptions within the City's financial means. Those priorities, in no particular order, were identified as:

- sport, culture and recreation;
- arts and heritage;
- hunger and food security;
- public safety;
- security and emergency preparedness;
- public libraries;
- properties that will qualify for a statutory exemption but request an exemption while under construction.

Policy Process

The Act prohibits a council from delegating its power to confer tax exemptions and abatements. Accordingly, the Policy stipulates that all organizations must apply by June 30 in the year preceding the year for which they are requesting the tax incentive. Administration will evaluate

applications based on the specific criteria outlined in the policy and make recommendations to City Council. The recommendation will include whether the tax incentive should be granted as an exemption or an abatement. If approved by City Council, the tax incentive will be authorized by City Council's passage of an enabling bylaw.

Transition Process

The Policy will take effect upon approval by City Council and will be retroactive to January 1, 2018.

Exemptions granted by The Properties Exempt from Taxation Bylaw, 2018, will remain in effect for 2018. Any further applicants for 2018 will be considered under the new policy. For 2019, applicants must apply under the new policy however, the application deadline will be extended to November 30, 2018.

If an applicant that received an exemption in 2018 is ineligible under the new policy, Administration recommends that the applicant receive tax incentives for the 2019 tax year equal to 50 per cent of its 2018 exemption as a transition to help adjust its budget and operating plans.

There are currently three organizations that received exemptions for multiple years with terms set to expire at the end of 2018, and one organization with a term set to expire in 2020. If they wish to receive a tax incentive at the end of the stated terms, these organizations will need to apply under the new policy.

Monitoring

Administration will collect and analyze information related to a recipient's programs, services and/or activities undertaken to report on the performance and impact of the City's exemptions and abatements to non-profit and charitable organizations.

Further Consideration

Eliminating Tax Exemptions and Providing Support through Grants

It should be noted that through its work, Administration considered the option of eliminating tax incentives for non-profit and charitable organizations and instead increasing funding to the Community Investment Grants Program by an equivalent amount. Administration has two concerns with this approach:

1. There may be organizations that City Council wishes to support that would not qualify for a grant from the Community Investment Grants Program, which is focused on core services related to sport, culture, recreation and social inclusion. An example would be an organization involved in public safety and emergency preparedness. While this issue could be managed by expanding the eligibility criteria for the grant program, Administration does not recommend this. Expanding the eligibility criteria would result in a significant increase in requests and thus lower success rates, with more qualifying organizations being denied.
2. The assumption is that the level of investment by City Council would remain the same, meaning the equivalent level of current tax exemptions would be transferred to the grant program. Assuming the operation of the grant program remains the same, where adjudication

would take place through the Administration and community rather than City Council, it is anticipated that the recipients of funding would change and/or the level of funding for some recipients would change. In addition, the same level of funding could be spread across a wider range of applicants because eligibility would be open to all organizations, not just those who own or lease property. The risk in this change is that groups that have been identified in the past by City Council as worthy of financial assistance through a tax incentive because of the benefit they deliver to the community may no longer receive the same level of support. This reduction in funding may decrease the level of service provided by organizations that in fact have mandates aligned with City priorities.

Status Quo

Consideration was also given to the option of continuing the City's current practice in regard to granting exemptions. There is nothing preventing more non-profit and charitable organizations from applying for an exemption. In addition to the annual Properties Exempt from Taxation Bylaw, which includes a list of past practice recipients, requests for exemptions come in throughout the year from various organizations.

With no policy in place to guide the decision-making process, there is neither a corporate strategy nor any boundaries or limits within which tax incentive decisions are made. Currently administration makes recommendations based solely on past practices of Council. Therefore, the current practice does not allow for financial predictability.

Administration recommends the adoption of the tax incentive policy rather than the options of merging the exemptions with the grant program or status quo. The new policy is a tool that gives City Council flexibility to offer financial assistance in a targeted manner and across a broader range of core services than the grant program. It will provide direction to Administration and will limit tax incentives to specific organizations which further City Council's vision and for which the resulting tax burden is justifiable to other taxpayers.

RECOMMENDATION IMPLICATIONS

Financial Implications

Currently requests for tax incentives are considered on a case-by-case basis. As stated above, there were exemptions granted to 30 organizations in 2018 for a total loss of municipal revenue of \$1.2 million.

Formulating and implementing a policy may raise awareness among the general public and the non-profit community that may in turn:

- stimulate debate on the kinds of organizations that should be subsidized by other taxpayers; and
- encourage more non-profit and charitable organizations to apply under the new policy.

The recommended policy includes a financial cap of 0.55 per cent of the previous years budgeted municipal levy and therefore does not require any additional commitment beyond the estimated

\$1.2 million per year in foregone municipal taxes in 2019. This amount may change as some properties either changed their use in 2019 or no longer request a permissive exemption. Funding beyond 2019 will depend on the number of applicants who apply and qualify under the policy but will not exceed 0.55 per cent of the previous year's budgeted annual municipal levy.

The financial implications of not having a policy for non-profit and charitable organizations also need to be considered. With no policy in place to guide the decision-making process, there is neither a corporate strategy nor any boundaries or limits within which tax incentive decisions are made. Consequently, the ability to predict the financial impact of exemptions is limited.

Environmental Implications

None with respect to this report.

Policy and/or Strategic Implications

If approved, the proposed policy will ensure the City reviews and grants tax incentives to non-profit and charitable organizations fairly, consistently and equitably using a transparent process. It will also provide a means for City Council to support organizations within the community that align with the priorities outlined in the City's OCP, Cultural Plan, Recreation Master Plan and the Community Investment Grants Program to strategically meet its vision and priorities and ensure the City's support remains financially sustainable and does not overburden the rest of the tax base.

Other Implications

None with respect to this report.

Accessibility Implications

Eligibility criteria established for the policy requires that an organization's services, programs and activities be accessible to the public and work to remove economic, physical, cultural and transportation barriers to participation in programs, projects and facilities.

COMMUNICATIONS

All organizations currently receiving a tax exemption will be provided with a copy of this report prior to the Public Executive Committee and City Council meetings. They will also receive a copy of City Council's decision regarding this report.

Copies of the report will be provided to the Regina Public Library Board and Ministry of Government Relations.

If the proposed policy is approved, written notice will be provided to all 2018 recipients explaining the new policy, application process and any implications for their properties.

DELEGATED AUTHORITY

The recommendations contained in this report and the policy require City Council approval.

Respectfully submitted,

EXECUTIVE COMMITTEE

A handwritten signature in black ink, appearing to be "J. Nicol", written in a cursive style.

Jim Nicol, Secretary