

November 27, 2018

To: Members
Executive Committee

Re: Supplemental - Daycares

RECOMMENDATION

That this report be received and filed.

CONCLUSION

This report provides an overview of daycare regulation in Saskatchewan, information on how daycare properties are assessed and taxed in the City of Regina (City), and an analysis of methods related to tax policy that City Council (Council) may utilize to further advance *Design Regina: The Official Community Plan, Bylaw 2013-48(OCP)* objectives specific to daycares. The analysis provided is limited by the current assessment information for properties used for daycares. These limitations are discussed within this report.

BACKGROUND

In 2015, as a result of an inquiry, it was discovered that five residential properties, listed in Table 1 below, were being operated as daycares and were no longer being used as a residence. These properties were owned by corporations or co-operatives. The Assessment Branch changed the classification of the properties from residential to commercial.

Table 1: Daycare Properties from 2016 Appeal

Civic Address	Total Property Taxes		
	2015 Residential	2016 Commercial	2017 Commercial
587 RINK AVENUE	\$ 2,952.70	\$ 6,715.39	\$ 6,617.18
99 MCMURCHY AVENUE	\$ 2,169.32	\$ 5,649.32	\$ 5,546.89
97 MCMURCHY AVENUE	\$ 2,169.32	\$ 5,649.32	\$ 5,546.89
78 DEMPSEY AVENUE	\$ 2,420.17	\$ 5,504.35	\$ 5,428.84
2051 CAMERON STREET	\$ 3,389.92	\$ 7,607.51	\$ 7,278.58

In the fall of 2015, the above five properties initiated an assessment appeal of their 2016 assessments alleging that:

- the valuation was wrong,
- the classification as commercial was wrong, and
- the properties should be exempt from property taxation.

At the hearing of the Board of Revision for Regina, the property owners conceded the valuation was not in question and the properties were not residential. This left the property tax exemption as the only issue to be considered. The owners argued that since daycares in schools are exempt, the properties should also be exempt from property taxation. The City Assessor argued that daycares are not statutorily exempt but rather schools are exempt under section 262 of *The Cities Act* and that daycares operating in schools are exempt as they are part of the school's operation. Daycares have operating agreements with the schools outlining the terms of their operation.

The Board of Revision found that the five daycares do not qualify for a property tax exemption in accordance with Section 262 of *The Cities Act* and dismissed the appeal.

The owners, not satisfied with the Board's decision, appealed to the Saskatchewan Municipal Board. The Municipal Board dismissed the appeal and one property owner decided to carry on to the Court of Appeal for Saskatchewan where the application for leave was dismissed. This ended the appeal process and confirmed that the assessor's categorization of the property was correct.

On August 1, 2018 Administration presented the proposed *Community Non-Profit Tax Incentive Policy* to the Executive Committee (Committee) through Report EX18-15. Eleven delegates appeared before the Committee to discuss the proposed policy. Of those delegates, seven spoke on behalf of the non-profit daycare community.

A brief prepared by the non-profit daycare community was also presented at the Committee meeting. The submission requested that 21 licensed non-profit daycare centres receive a property tax exemption and that City Council use its leadership position among Saskatchewan urban municipalities to lobby the Government of Saskatchewan (Province) to legislate a full exemption for licensed, non-profit daycares in all Saskatchewan communities.

The Committee passed a motion that the policy be referred to Administration to design a public consultation that considers the parameters set out, which are at the origin of this *Community Non-Profit Tax Incentive policy* proposal by Q4 of 2018. As so many of the delegations were from the daycare community, Administration also committed to bring back a report outlining how daycare centres are assessed and taxed in Regina.

DISCUSSION

Child Care in Saskatchewan

Child care in Saskatchewan is governed by *The Child Care Act, 2014* and *The Child Care Regulations, 2015*. These pieces of legislation govern when a license is required, set the standards for licensed child care facilities and govern grant funding for child care. The creation of new, licensed child care spaces is regulated through the issuance of licenses and the availability of funding.

Licensing of daycares is regulated and monitored by the Ministry of Education. Legislation identifies two models for licensed child care - Child Care Homes and Child Care Centres. Table 2 shows a summary of the two models and grant funding applicable for child care in Regina. The Ministry of Education publishes a list of licensed child care operations on their website. The list

includes the type, name, address and contact information for each operation. It does not include the non-profit status, square footage or operation details, such as hours or services.

Table 2: Saskatchewan Child Care Models

Model	Sub-Class	License Required	Max Spaces	Child Care Grant Funding
Child Care Home	Family	N (optional)	8	<ul style="list-style-type: none"> • Start-Up (One Time Grant) • Fire, Health and Safety (One Time Grant)
	Group	Y	12	
Child Care Centre		Y	90	<ul style="list-style-type: none"> • Start-Up (One Time Grant) • Space Development Capital (One Time Grant) • Early Childhood Services (Monthly Grant)

Child Care Homes are required, by legislation to be in a residential home. This model is further divided into Family Child Care Homes and Group Family Child Care Homes. The main differences between these two sub-categories are that a Group Family Home has a helper that allows for the home to have more spaces and licensing is optional for Family Child Care Homes. Unlicensed family child care homes are not monitored by the Ministry of Education but are still required to meet child to caregiver ratios, which include the operators own children and provide safe environments for children.

A licence is required for all Child Care Centres. To operate a child care centre, groups must be, a corporation, a co-operative, a municipality, or a partnership or individual where all parties are a resident of Saskatchewan at least 18 years of age. A Child Care Centre may have up to 90 spaces and is typically operated by a Board of Directors. A centre may be non-profit or for-profit.

Provincial funding for child care comes from two main sources, subsidies from the Ministry of Social Services and grant funding from the Ministry of Education. Only non-profit centres are eligible to receive provincial grant funding and child care fee subsidies. Child care subsidies are a monthly subsidy provided directly to the child care centre to reduce the fees charged to eligible parents. Grant funding is provided to support child care centres. Table 2 summarizes the types of grant funding typically provided to centres in Regina. Grant amounts may vary and are listed in *The Child Care Regulations, 2015*.

The Ministry of Education may provide additional grant funding to support areas including but not limited to: Early Childhood Education training, inclusion of children with additional support needs, creating an enriched early learning environment, nutrition in child care homes and annual equipment costs in child care homes.

Assessment and Taxation

Assessing and taxing daycares is the responsibility of the City. The City classifies properties in accordance with the classifications in legislation. Classifications are based on the property use (residential, commercial, etc.). Home based daycares are classified as residential, as the primary use of the property is residential. All known daycares that are not home-based businesses in Regina are classified and assessed as commercial regardless of tax status.

Daycares in Regina operate in a variety of buildings: converted residential buildings, portions of office buildings, multi-residential buildings, shopping centres, strip warehouses, halls, retail buildings, schools, churches etc. Many of these spaces are leased. The Assessment Branch does not record information (lease or business type) of leased properties as it is not required for assessment purposes. These types of properties are not easily or consistently identifiable by property assessors. Table 3: Daycares in Regina, shows the variety of daycares operating in Regina.

Table 3: Daycares in Regina

Model	Sub-Class	Licensed	Tax Status	Total	Owned	Leased/ Rented
Child Care Home	Family	N	Taxable	Unknown	Unknown	Unknown
		Y	Taxable	33	30	3
	Group	Y	Taxable	39	33	6
Child Care Centre		Y	Taxable	30	17	13
			Exempt*	39	0	39
Total				141	80	61

*These daycares operate in properties that are exempt by statutory legislation.

Daycares operate under several different operational models and organization structures: profit, non-profit, licensed, not licensed, subsidized, not subsidized, etc. Some centres also offer a variety of services and programming, such as pre and postnatal support, and parenting courses, in addition to daycare services. This information is not required to assess the value of a property; the City does not have access to this information and cannot identify daycares that fall under each model without conducting thorough research on each property.

Exemptions are set out in legislation and are based on both property use and ownership. The Province sets the property classification definitions and statutory exemptions for property. The City has no authority to charge taxes on a property which is exempt by legislation or to classify a property differently than what is set out in legislation.

For example, daycares have become an expected function of schools. There are several daycares with operating agreements with the school boards that outline the terms of their operation. Schools are exempt under section 262 of *The Cities Act*.

Properties that are not exempt under statutory legislation are taxable unless City Council grants an exemption pursuant to subsection 262(3) or (4) of *The Cities Act*. This subsection grants City Council the authority to exempt any property from taxation, in whole or in part, for not more than five years subject to additional approvals. The education portion of the taxes is subject to *The Education Property Tax Act* which specifies that any exemption of education taxes that is \$25,000 or greater in any given year, must be approved by the Government of Saskatchewan. For the library portion, pursuant to subsection 263(1) and 263(2) of *The Cities Act*, City Council must either obtain an agreement from the Library Board or raise the amount that would have been levied.

Each province differs in how tax exemptions for non-profit and charitable organizations are structured and applied, making comparisons with other municipalities difficult. For example, in Alberta and Manitoba, provincial legislation governs exemptions for all non-profit organizations, including daycare centres. In Saskatoon, daycares are fully taxable, except where they operate out of a property that is exempt by legislation.

The OCP

Section 13.5 of the OCP states that the City will encourage the provincial government and the community to establish locally based attainable child care facilities.

In February of 2016, Regina *Zoning Bylaw.9250* (Zoning Bylaw) amendments were approved by City Council to provide flexibility for child care services within the residential context and align the use to both the intent of the OCP as well as the province's *Child Care Regulations, 2015*. The Zoning Bylaw amendment enhanced the ability for child care services to be accommodated in residential neighbourhoods by extending the number from 8 to 12 children permitted in a Child Daycare Home through a residential business license. Restrictions were also removed on the number of children allowed within Child Daycare Centres. The number children allowed in Child Daycare Centres is regulated by the Province and is based on usable floor area and outdoor play space for each child.

The intent of the Child Daycare Centre regulations in the Zoning Bylaw is to ensure there is compatibility between the provision of daycare services and surrounding land uses. The regulations are also intended to encourage the dispersion of those services throughout the city at convenient locations.

Analysis of Tax Related Methods of Support

Should City Council wish to provide a tax exemption to daycares, there are many methods for City Council to consider, some of which are discussed below. To determine the best method, there are many factors to be considered. Factors include, but are not limited to:

- What public policy issue is to be addressed?
- Who should be the beneficiary of the incentive (daycare centres, parents, children etc.)?
- Which daycare model should receive an incentive (Family Home, Family Group Home or Child Care Centre)
- Should the incentive apply to leased, owned or all properties?
- Which portion of the daycare should receive support (just child care or all services)?

Administration obtained a listing of licensed daycares from the Ministry of Education for this analysis. However, this analysis is limited by the current assessment information for properties listed in the report. Appendix A summarizes the benefits and risks of each method and Appendix B provides information on property tax impacts of each method, where identifiable,

An important note is that any financial support granted by the City to daycares will not directly result in the creation of more spots in daycare centers. Provincial grant funding is what directs the creation of new spots in licensed non-profit daycare centers.

Status Quo

City Council could maintain the existing tax policy and the City will encourage the provincial government to increase support for the daycare sector.

Create a new policy for licensed non-profit daycares

Direct Administration to develop a new policy providing support for daycares. City Council would set specific objectives and Administration would draft a policy, based on the objectives, for City Council's approval.

This option would take time to develop and would require both financial and administrative resources. The financial cost of this option could not be determined until the objectives of the policy are set.

Create a Sub-class

Sections 254 and 255 of *The Cities Act* grant City Council the authority to establish sub-classes of property for the purpose of establishing tax rates. The use of subclasses and mill rate factors can shift taxes from one group of properties to another class of properties. Mill rate factors can only be applied to the municipal and library portion of property taxes as education taxes are not affected.

To implement a sub-class, City Council would instruct Administration to create a sub-class for all commercial properties that are owned and operated by a licensed non-profit daycare and set the mill rate factor for that subclass equal to the mill rate factor for residential properties.

Add Daycare Centres to the Community Non-Profit Tax Incentive Policy

City Council can amend the proposed policy to include licensed non-profit daycare centres. This method would require daycare centres to apply annually for a tax exemption. Daycares would self identify through the application process and would provide information on leases and operations that would assist Administration in determining if the daycare centre qualifies. Through this method, daycare centres would have to meet all the criteria of the policy and be subject to all conditions of the policy.

RECOMMENDATION IMPLICATIONS

Financial Implications

Financial implications of each method identified are shown in Appendix B and discussed in Appendix A.

Environmental Implications

None with respect to this report

Policy and/or Strategic Implications

Section 13.5 of the OCP states that the City will encourage the provincial government and the community to establish locally based attainable child care facilities.

Other Implications

None with respect to this report

Accessibility Implications

None with respect to this report

COMMUNICATIONS

Licensed non-profit daycare centres were included as part to the public engagement done on the proposed *Community Non-Profit Tax Exemption Policy*.

DELEGATED AUTHORITY

City Council has the authority pursuant to subsection 262(3) of *The Cities Act* to exempt any property from taxation, in whole or in part, for not more than five years. Pursuant to subsection 263(1) and 263(2) of *The Cities Act*, Council must either obtain an agreement from other taxing authorities to exempt levies on their behalf or raise the amount that would have been levied. Sections 254 and 255 of *The Cities Act* grant Council the authority to establish sub-classes of property for the purpose of establishing tax rates

Respectfully submitted,



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