



## Non-profit Daycare Centre Tax Exemption Update

<b>Date</b>	November 30, 2022
<b>To</b>	Executive Committee
<b>From</b>	Transformation Office
<b>Service Area</b>	Transformation Office
<b>Item No.</b>	EX22-130

### RECOMMENDATION

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The Executive Committee recommends that City Council:

1. Approve a continuation of the 40 per cent property tax exemption to properties in the city that are owned or leased by Regina licensed non-profit childcare centres for the three-year period of 2023 – 2025 subject to the following conditions:
  - a) The tax exemption shall only apply to the portion of the property that is occupied and used for or in conjunction with the childcare centre; and
  - b) The tax exemption only applies to the property while it is being operated as a licensed childcare centre as defined by *The Child Care Act, 2014*;
2. Direct Administration to report back to Council by the end of 2025 once the federal and provincial childcare programs are fully implemented, and a new provincial funding model is established;
3. Instruct the City Solicitor to prepare the necessary tax exemption agreements and authorizing bylaws to provide the tax exemptions to be brought forward at a future City Council date once all of the exemption agreements have been signed and this includes the instruction to prepare agreements and authorizing bylaws to be brought forward in the future as any new childcare centres open and are eligible for the exemption;

4. Authorize the Executive Director, Financial Strategy & Sustainability or their delegate to apply for the approval of the Government of Saskatchewan on behalf of property owners for any exemption of the education portion of the property tax levies payable to the Government of Saskatchewan that is \$25,000 or greater on an annual basis; and
5. Approve these recommendations at its meeting on December 7, 2022.

## **ISSUE**

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In December 2020 Council extended the property tax exemption for licensed non-profit childcare centres until the end of 2022 to provide support while the federal government continued development of a national childcare plan.

Council also directed Administration to engage with these centres to better understand their operations and the impact of both the tax exemption and the National Early Learning and Childcare Agreements on their funding models.

This report provides the results of that engagement along with a recommendation regarding future tax exemptions.

## **IMPACTS**

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### **Financial Impacts**

The non-profit childcare tax exemption is currently being provided to 23 non-profit childcare centres, at a total cost to the City of approximately \$72,000 in 2022, with an average rate of \$3,100 per exemption.

The province expects that approximately six additional centres will become licensed by next year, and that by the end of 2025 there will be a total of 15 new centres in operation within the city. Of these 15, Administration is projecting a rate of six centres in 2023, six centres in 2024, and three centres in 2025. There are also five additional non-profit childcare centres that operate within leased facilities that would qualify under the recommended extension, starting in 2023.

The non-profit childcare tax changes would increase the total number of exemptions in 2025 to 43, totaling approximately \$134,000 in municipal levies, approximately \$15,000 in library levies, and \$75,000 in education levies. Table 1 illustrates the approximate exemption rates over the next three-year period.

Table 1:

Tax Year	Number of Centres	Municipal Levy (\$)	Library Levy (\$)	Education Levy (\$)
2022	23	72,000	6,400	40,400
2023	34	106,100	11,900	59,400
2024	40	124,700	14,000	69,800
2025	43	134,000	15,000	75,000

The non-profit childcare tax exemption allows daycares to receive the benefit of education and library property tax exemptions in addition to the \$72,000 in municipal taxes. The total library tax exemption is \$6,400, and the education exemption is \$40,400.

### Policy Impacts

The non-profit childcare tax exemption aligns with *Design Regina: Official Community Plan* Goal 1 (Social Sustainability) of section D11 (Social Development) which states:

“Encourage the provincial government and the community to establish locally based attainable childcare facilities, which are essential to enabling parents to secure access to employment.”

The Ministries of Education and Social Services are generally responsible for childcare oversight and funding through *the Childcare Act*, *The Childcare Regulations* and *The Cities Act*.

### OTHER OPTIONS

1. End the non-profit childcare tax exemption effective December 31, 2022. This would increase property tax revenue by \$72,000 – \$134,000 per year. In this option, daycares would be fully taxable at commercial property tax rates in 2023.
2. Phase out the non-profit childcare tax exemption by 33.3 per cent per year, over 3 years. This would reduce the property tax exemption by approximately \$35,000 in 2023, \$83,000 in 2024, and \$134,000 in 2025.
3. Reduce the exemption amount from 40 per cent to 31 per cent. This would re-align the benefit provided to the original intent of the exemption. Since the exemption was initially approved in 2018, there has been a revaluation, changing the ratio of commercial and residential assessment. The initial exemption was provided to reduce the property taxes paid by centers to equal what they would pay if they were taxed at residential rates. With today's percentages of value, and mill rate factors, paying the residential rate would mean reducing the exemption to 31.4 per cent.

While the above options would reduce the City's costs, they were not recommended because they would likely result in:

- a. childcare centre closures, reducing the number of childcare spaces in the City; and/or
- b. reduced quality of childcare programming in the City.

Options 1 and 2 further inequities in childcare property taxes, with some centres being fully taxable and those operating in schools being exempt by legislation.

## **COMMUNICATIONS**

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In September 2022, Administration engaged with seven non-profit childcare centres at two virtual focus groups held on September 14-15, 2022 (engagement notes are provided in Appendix B).

The non-profit childcare centres were engaged about the impact of the non-profit childcare tax exemption, and the Canada-Saskatchewan Early Learning and Childcare Agreement. The Ministries of Education and Social Services were also consulted in the preparation of this report.

Administration will provide notice of this report to the existing licensed non-profit childcare centres in Regina and any other interested parties and stakeholders, along with information on how to appear as a delegation before Council.

## **DISCUSSION**

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In 2015, as result of a customer inquiry, five non-profit childcare centres operating out of houses were changed from residential to commercial rates. This correction was based on the requirement that commercial daycare centers, where the daycare operator does not live on site, meet the requirement for the property to be assessed as commercial. These centres filed an assessment appeal in 2016, where it was upheld that the properties should be assessed as commercial.

In 2018 daycare centres appealed to Administration and Council for the provision of a tax benefit. Council then approved a 40 per cent property tax exemption for licensed non-profit childcare centres and directed Administration to develop a policy to help guide the benefit. The 40 per cent exemption was intended to bring the municipal property taxes to the value that these daycares would pay if they were taxed as residential.

Shortly after Council's approval of the exemption, the federal government announced plans for a \$10/day national childcare program. The national program has been welcomed by the centres, but there are still many uncertainties and impacts surrounding the program, namely that it is being introduced over a number of years. While the program was announced in 2018, the staged roll out has caused some complications to Administration's ability to define roles of the varying levels of governments in supporting childcare centres, and to develop an effective guiding policy framework.

### **Role of the Municipality in Childcare**

Provincial governments have authority in the areas of social policy and education. This means that childcare policies and funding arrangements vary from province to province.

While some provincial governments have enacted legislation delegating oversight of childcare to municipalities, in Saskatchewan the provincial government maintains that responsibility. The province, through the Ministries of Education and Social Services, is responsible for childcare oversight and funding through *The Child Care Act, 2014*, *The Childcare Regulations, 2015*, and *the Cities Act, 2002*.

Through provincial legislation, certain childcare providers, such as the YMCA or YWCA of Regina or childcare centers operating in schools receive a full property tax exemption. Section 262 of *The Cities Act* states that facilities are exempt if they are used as part of a school or used and occupied for the purpose of The Young Men's Christian Association or The Young Women's Christian Association.

### **Jurisdictional Scan**

Each province provides childcare tax exemptions in a variety of ways. Childcare centres are tax-exempt in Alberta, Manitoba and New Brunswick. Ontario and British Columbia have a special tax category for childcare centres, which taxes non-profit childcare centres at roughly residential rates, and for-profit childcare centers at commercial rates. Regina's current 40 per cent non-profit tax exemption brings the City roughly in line with jurisdictions that charge non-profit centres (including leased facilities) at residential tax rates.

### **Overview of Saskatchewan Childcare Sector**

There are approximately 17,600 licensed childcare spaces in Saskatchewan, which is expected to increase by 28,000 over the next five years. There are currently 238 registered home-based childcare centres operating in the City of Regina and, as of August 2022, 105 had a provincial license with the Ministry of Education.

The federal funding for childcare through the Early Learning and Childcare Agreements (described in Appendix A) is expected to have a significant impact on childcare fees in the province, as well as the number of licensed centres in operation.

### **Non-profit Childcare Centre Engagement Findings**

Administration heard that the new federal funding has put additional administrative demands on centres and has not impacted their budgets in a positive way. Although the centres are receiving funding to reduce user fees for families, the funding is only revenue replacement, and does not cover expenses related to operational expenses. Centres expressed a positive response to seeing families' fees reduced but stressed that the new funding has not improved centres' ability to provide quality programming or to pay for property taxes, supplies, facility repairs or insurance.

Administration also learned that under the Canada-Saskatchewan Early Learning and Childcare Agreement, centres are unable to increase their fees above five per cent over current levels. This requirement severely limits centres' ability to leverage new funding. Centres reiterated that although they are grateful to receive revenue replacement through the national and provincial programs, within the program constraints they are prohibited from raising fees to cover increased operational costs.

Overall, the consulted centres stated that the City's 40 per cent non-profit childcare tax exemption continues to support centres in providing a higher level of care for families, purchasing program supplies and insurance and making repairs to their facilities.

Centres also reported that the City's 40 per cent non-profit tax exemption was integral to them staying in business throughout the pandemic. They worry that removing the exemption could significantly reduce the number of centres in operation, or significantly impact the quality of programming they can afford to provide.

## **DECISION HISTORY**

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In December 2018, Council approved a property tax exemption for licensed non-profit childcare centres for 2019 and 2020 (CR18-119). This exemption was intended to provide tax relief for licensed non-profit Childcare centres until a new policy addressing support for them could be developed in consultation with Council and stakeholders.

In December 2020, Council approved Administration's recommendation that the property tax exemption granted to licensed non-profit childcare centres be continued through the end of 2022 to allow time for more clarity on the national Childcare program (EX20-34).

In November 2021, Administration brought an information report to City Council that provided more information on the current state of the federal government's goals towards a national childcare program (EX21-78).

Respectfully Submitted,



Louise Usick, MBA, FCPA, FCGA  
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Respectfully Submitted,



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### **ATTACHMENTS**

Appendix A - National Childcare Program Overview

Appendix B - Non-Profit Childcare Focus Group Notes