



REPORT TO COMMITTEE OF WHOLE

DATE: July 12, 2023 **REPORT:** FIN 23-21
FROM: William Wallace, Director of Finance **FILE:** 1970-03
SUBJECT: Permissive Tax Exemptions Program Review ("PTEs")

RECOMMENDATION:

That the Committee of the Whole consider recommending to Council:

THAT the Town's Permissive Tax Exemptions Program (as detailed in Policy FIN-018 Permissive Taxation Exemption) end before the 2025 property taxation year, and that 2022-2024 permissive taxation bylaw cycle recipients be advised of the change by Town letter.

AND THAT the Town no longer grant permissive tax exemptions after the 2024 tax year, with the following exceptions listed below:

Exceptions:

1. Partnering agreement (2023-2032) – Cenovus Energy Inc. (Husky) – GL Williams Park
2. Town owned properties leased to Type I Specific Organizations (Culture and Recreation) under Policy FIN-021 Funding External Organizations (Town grants-in-aid) which are included in RDBN-Town cost sharing agreements or connected, currently:
 - Central Park building (Museum and Gallery)
 - Town Office (Museum – 2nd floor storage)
 - Old Church property (Museum oversight)
 - Railway Ave. property (Gallery – studio space)
3. Properties owned or leased by Protective Service Organizations and used in their operations, currently:
 - Bulkley Valley Search and Rescue (Airport facility - owner)

CAO	☐	Dir/DS	☐	Dir/FIN	☐	Agenda Date: July 18, 2023
Dir/CS	☐	Dir/WO	☐	Bldg Ins	☐	Agenda Placement: COW
Admin Asst.	☐	Fire	☐	Planner	☐	Other:
Dir /Rec	☐	Air/Mgr	☐	PCSO	☐	

BACKGROUND:

Council

Council decided in July 2021, after discussions beginning in 2020, that the future of the Town's PTE program would be under review with changes to be effective for the 2025 property tax year on completion of the current PTE 2022-2024 bylaw cycle.

The reasons for Council's decision to review the program in 2021 were understood to include:

- Concern over the program's growth in terms of the number of PTEs and total tax cost.
- Concern over not being able to decline eligible PTE requests to limit program growth.
- Concern that non-exempt properties were paying for the services of PTE properties.

To begin the review, in October 2021 Council made the decision that properties already receiving statutory property tax exemptions under senior government legislation or regulations would no longer receive additional PTE's from the Town after 2024.

All property owners benefiting from those additional PTE's were notified by letter of the change in 2021. Those properties are listed in Staff Report FIN 23-21 - Attachment 4 – Permissive Property Tax Exemptions (2022 Annual Report) under the following headings:

- Seniors Facilities (1 property)
- Places of Public Worship (10 properties)
- Private Schools (1 property - land)

In 2023, Council directed that the PTE program review be a priority for completion in 2023.

Program review completion in 2023 will allow 2024 PTE recipients to have more than a year's notice to adapt to changes effective 2025.

Exemptions

Town Property Values Assessment (2022 Totals - BC Assessment Roll)

Taxable	\$1,053,033,652	(taxable for Town, RDBN, School, other services)
Statutory	\$183,532,202	(not taxable for Town, RDBN, School, other services)
Permissive	\$36,873,100	(not taxable for Town, RDBN, School, other services)

Statutory exemptions under senior government legislation and regulation cover a range of properties within the Town, the scope of which goes beyond this report and is outside of Council's decision powers.

In general terms these statutory exemptions cover federal, provincial, treaty first nations, municipal, crown corporations/ agencies, and tourist accommodation (hotels/ motels for nightly lodging) properties.

When a property receives a statutory or permissive tax exemption it is still listed in the BC Assessment property roll, but its property value is reported as nil if statutory or based on the percentage specified for the PTE (if PTE = 67%, then 33% of the property value is shown). The various tax rates for municipal, regional district, school, police, and other services are then applied by local governments to those property roll values. If the property value is set to nil by an exemption, then no tax owing will be calculated for any of those services.

Staff Report FIN 23-21 - Attachment 3 - Schedule of Permissive Tax Exemption Values (2021) was presented to Council in October 2021. This schedule focuses solely on the properties approved for inclusion in the current PTE bylaw cycle for 2022-2024.

Schedule highlights include:

- Page 2 – existing statutory exemptions by senior government cover the needs of seniors' care homes, hospitals, private schools, and public worship bodies at an estimated local tax cost of \$340,537 per year. The Town is not involved in those decisions. However, the Town has historically and currently made the decision to extend those exemptions beyond basic requirements at a tax cost of \$24,259 (\$36,448 - \$12,189). The \$36,448 amount included \$12,189 for seniors' housing and care properties that do not qualify for statutory tax exemptions as determined by BC Assessment.
- Page 3 – senior government provides no tax exemption support to assisted living homes, non-profit organizations, or recreational organizations. The Town provided through its PTE program and decisions \$247,209 in local property tax savings to those properties/organizations in 2021.

Attachment 3 shows that the total tax cost of 2022 PTEs decided by the Town was \$312,913 (across Town, RDBN, school, and other services). In 2021, the total tax cost was \$283,657. In 2023, the total PTE tax cost is projected to be \$345,000.

DISCUSSION:

All properties in the Town require and receive services from the Town regardless of property type and use. The Town makes every effort to deliver its services at reasonable service levels and cost. The tax burden to pay for those services is then carefully shared across property classes (E.g.: residential, commercial, industrial, etc.) and then within those property classes shared based on individual property valuations determined by BC Assessment.

Note that while statutory exemptions provide that senior government owned properties (including crown corporations and agencies) are not taxed by local government, those governments and organizations instead pay grants in lieu of property taxes ("GILTs") to local governments. GILTs are generally equivalent in amount to the property taxes that would have been payable if the property were otherwise taxable. GILTS reflect senior government recognition that their properties require local government services and accordingly they need to pay their share of the costs to ensure the services received continue.

Many non-profit organizations perform contract services for governments. Within those contracts there are normally allowances provided for real estate costs (for rent or property ownership costs). Many non-profit organizations receive grant funding from foundations and major donors. Within those grant/ donation amounts are usually allowances to cover real

estate costs or the discretion for recipients to simply spend the funds on their costs as needed.

There are also non-profit organizations that charge membership and/ or use fees to access or use their services. While their services are valued by their clients, and available to the community at large, those organizations' facilities and services are generally only used by a portion of the people in the community. When PTEs are approved for these organizations, the community at large is subsidizing their user groups.

Some participants in local government view PTEs as grants. They recommend that taxation to pay for local government service costs should be shared and charged across all properties regardless of property ownership or use. They believe that payment of municipal taxes should be clearly separated from activities financially supported by local governments. Either by way of grant funding or alternately as a contract service paid for by the local government.

ANALYSIS:

The PTE program and the 2022-2024 bylaw cycle is costing approximately **\$345,000** in 2023.

Assumption 1:

The PTE program as it currently exists is cancelled by 2025, except for items that cannot be cancelled due to unexpired agreements – those PTE's continue at an annual cost of **\$9,000**.

- Partnering agreement (2023-2032) – Cenovus Energy Inc. (Husky) – GL Williams Park

Assumption 2:

Town owned properties leased to Type I Specific Organizations (Culture and Recreation) under Policy FIN-021 Funding External Organizations (Town grants-in-aid) [see Staff Report FIN 23-21 - Attachment 2] which are included in RDBN-Town cost sharing agreements or connected – those PTE's are continued at an annual cost of **\$36,000**.

- Central Park building (Museum and Gallery)
- Town Office (Museum – 2nd floor storage)
- Old Church property (Museum oversight)
- Railway Ave. property (Gallery - studio space)

Assumption 3:

Properties owned or leased by Protective Service Organizations and used in their operations - those PTE's are continued at an annual cost of **\$15,000**.

- Bulkley Valley Search and Rescue (Airport facility - owner)

Assumption 4:

After adding the cost of assumptions 1-3 there would be approximately \$285,000 remaining of the \$345,000 currently spent on PTE's. Tax reductions of approximately 35% or **\$100,000** would then automatically be shared across all taxable property owners (due to reduced shares of RDBN, school, and other non-Town service taxes being charged to taxable properties).

Assumption 5:

The Town does not use its remaining 65% or **\$185,000** to reduce municipal taxes, or to make new grants-in-aid to external organizations who no longer are recipients of PTE's.

Assumption 6:

The Town uses the remainder to help fund its non-road, non-utility asset management plans ("AMPs") which are presently seriously underfunded.

An additional **\$100,000** annually is currently needed from the Town to fund recreation and culture facilities and buildings AMPs – this is to match the 2023 increase in RDBN Area "A" capital contributions to recreation and culture – in accordance with the RDBN-Town cost sharing agreements.

An **\$85,000** annual reserve contribution would begin to meaningfully fund municipal operations and administration facilities and buildings AMPs.

OPTIONS:

Assumption 1:

The Town could choose to make no changes to its existing PTE program and continue to approve new applications from non-profits offering services to the public, placing a continually growing burden on taxable properties. Council concerns on continuing the current situation are valid. Making no changes to the program is not a preferred option.

Eliminating the PTE program completely would be difficult. There is already an existing agreement that assumes an annual PTE through 2032. The Town will find it wishes to use the PTE tool from time-to-time to meet the needs of a particular circumstance.

Assumption 2:

Town owned properties are not taxable when they are in the Town's hands. However, once a Town property is leased in whole or in part – the leased part becomes taxable. Almost all the Town's significant developed properties not used for operations or administration purposes are part of the recreation and culture cost sharing agreement with RDBN Area "A". The buildings portion is primarily used for cultural purposes.

- Central Park building (Museum and Gallery)
- Town Office (Museum – 2nd floor storage)
- Old Church property (Museum oversight)
- Railway Ave. property (Gallery - studio space)

Building and maintaining a vibrant arts sector has been shown to be a competitive advantage for small rural communities working to diversify or transition their economies from one wholly dependent on natural resources. This has been proven in Oregon and Washington states and increasingly in BC. However, the foundational pieces of an arts sector cannot sustain themselves financially through fee-for-service contracts or large grants – the arts sector is heavily reliant on small grants and donations. Local government grants-in-aid are a practical way to help sustain local arts organizations. These organizations are also normally

housed in local government buildings. PTE's are the tool used to make those properties non-taxable again when out of the local government's hands. While it is understandable the Town wishes to make changes to its PTE program it would be preferable to continue to use the PTE tool to help sustain the Town's arts sector.

Assumption 3:

Protective Service Organizations include Fire & Rescue, Police, Community Policing organizations, and Search and Rescue. The financing and capacity of Search and Rescue volunteer groups varies widely. Generally, grant opportunities are available and cover off many of the capital expenditure and training needs. However, operating costs while often modest can be a challenge to fund for these groups. Unlike other groups in BC, the BVSR group does not benefit from a robust stream of highway rescue fees paid by BC – the Town's department covers this emergency service function far beyond the fire protection area limits. The PTE is an effective local government tool to aid these organizations when they are asset and volunteer rich but cash poor.

- Bulkley Valley Search and Rescue (Airport facility - owner)

Assumption 5:

It is possible to make new grants-in-aid to external organizations who no longer are recipients of PTE's. However, this approach essentially replaces the existing program, which is not a preferred outcome.

As outlined earlier in this report, many of the current PTE recipients receive or could receive significant government funding through contract services and/ or grants. Some may also receive periodic foundation grant funding and even major donor contributions. All those funders consider real estate costs as direct programming costs and often provide allowances towards indirect organizational costs. Other than the organizations listed in assumptions 2 and 3 above, almost all the organizations receiving PTE's fall within this funding paradigm. These organizations are listed under the following headings of Attachment 4:

- Assisted Living Facilities
- Seniors Facilities
- Non-Profit Organizations (with exceptions noted below)

Non-Profit Organization exceptions generally include clubs or fraternity type organizations:

- Smithers Curling Club
- Smithers Golf and Country Club
- BV Gymnastics Association (LB Warner - the Town lease includes property taxes)
- Royal Canadian Legion (BV branch)
- Navy League of Canada

Assumption 6:

When programs are eliminated or substantially cut-back by governments the question is often asked where those funds will now be spent (if not returned to the taxpayers).

In the Town's case, while other priorities could be considered, using the remainder to help fund the Town's non-road, non-utility asset management plans ("AMPs") which are at present seriously underfunded is a sound option that will ultimately benefit everyone in the community.

LEGISLATION / POLICY CONSIDERATIONS:

Policy FIN-018 Permissive Taxation Exemption is directly applicable and may need to be substantially rewritten or cancelled depending on the Committee and Council's decisions.

Policy FIN-021 Funding External Organizations is applicable and may need to be updated depending on the Committee and Council's decisions.

ATTACHMENTS:

1. Policy FIN-018 Permissive Taxation Exemption
2. Policy FIN-021 Funding External Organizations
3. Schedule of Permissive Tax Exemption Values (2021)
4. Permissive Property Tax Exemptions (2022 Annual Report)

Respectfully submitted:



William Wallace
Director of Finance

Approved for Submission:



Dianna Plouffe
Chief Administrative Officer