

**To:** COUNCIL

**Meeting Date:** 10/22/2024

**Subject:** **Property Tax Exemption for Affordable Housing**

**Submitted By:** Sheryl Ayres, Chief Financial Officer

**Prepared By:** Shawn McConkey, Assessment and Tax Auditor

**Report No.:** 24-056-CRS

**File No.:** C11

**Wards Affected:** All Wards

### **RECOMMENDATION(S):**

THAT Report 24-056-CRS Property Tax Exemption for Affordable Housing be received;

AND THAT Council support participation in the Region's property tax exemption program, as outlined in Appendix A, by providing a property tax exemption for the City's portion of the tax levy to non-profit and co-operative affordable housing service providers for a period of 20 years starting in 2025;

AND THAT staff report back to council following the first full year of implementation of the program to assess:

- The outcomes of the exemption in the first year of the program.
- The potential tax shifts/increases an exemption may create for other tax-paying properties.
- The level of interest from for-profit developers for this affordable housing incentive and potential to include them in the program.
- The appropriate duration of a property tax exemption program and potential sunset provisions.

AND FURTHER THAT Council adopt the draft by-law, attached in Appendix B, to provide a property tax exemption to non-profit and co-operative affordable housing service providers.

### **EXECUTIVE SUMMARY:**

#### **Purpose**

This report outlines a program recently established by the Region of Waterloo to provide a property tax exemption to certain affordable housing providers. The Region has

requested the area municipalities in the Region to participate in this program by providing an exemption for their portion of property taxes on eligible properties.

## **Key Findings**

In March 2024, the Region of Waterloo approved a property tax exemption for affordable housing providers for the Region and Education portion of the property taxes.

For a multi-residential property, the City's share of the property tax levy is approximately 38% whereas the Region and the Education share represents 56% and 6% respectively.

The Regional program requires qualified providers of affordable housing units to commit to maintaining affordable units for a period of 60 years (minimum 20 years depending on the useful life of the building) to receive the property tax exemption.

Implementing a property tax exemption for affordable housing properties will have no impact to the City's revenue from property taxation. However, a property tax exemption will result in a shift of tax burden to all other property taxpayers.

It is recommended that council support participation in the Region's property tax exemption program by providing a property tax exemption for the City's portion of property taxes to non-profit and cooperative affordable housing services providers for a period of 20 years starting in 2025.

## **Financial Implications**

There is no financial impact to the City; however, this will result in a shift of tax burden to all other tax payers in the City of Cambridge. The estimated tax exemption for qualifying non-profit and co-operative affordable housing service providers is \$890,707 (2024 tax rates).

## **STRATEGIC ALIGNMENT:**

☒ Strategic Action

**Objective(s):** PLANNING FOR GROWTH - Provide for a mix of development, uses and amenities in order to meet the needs of a changing and diverse population

**Strategic Action:** Increase housing options

**OR**

☐ Core Service

**Program:** Not Applicable

**Core Service:** Not Applicable

This report supports the City's strategic objective of Planning for Growth by providing financial assistance to qualifying housing providers and results in increased housing options in the community.

## **BACKGROUND:**

On March 5, 2024, Region of Waterloo Council approved the creation of a property tax exemption program for qualifying affordable housing providers. The main purpose of the program is to incentivize the creation of new affordable housing units and to prevent existing affordable units from reverting to full market rent upon expiry of existing long-term agreements with the Region.

Through the Regional by-law, only the Region and the Education portion of the tax levy is exempt. The City's portion of the levy can only be exempt if the City, as a lower-tier municipality within the Region, chooses to participate in the program and passes a by-law to that extent. It is also important to highlight that the City's portion of the levy is approximately 38% of the total property taxes with the Region and Education share being 56% and 6% respectively on a property classified as multi-residential.

## **ANALYSIS:**

Affordable housing remains a significant challenge to many residents in the community. As rents continue to rise, providers of affordable housing units have a crucial role to play in addressing the issue of developing and managing housing units which are accessible to low to moderate income individuals and families.

By implementing a property tax exemption that aligns with the Region of Waterloo, qualifying property owners will have financial assistance needed to provide affordable housing. Property tax is a major expense for property owners which may deter owners from offering affordable housing.

This report considers the implementation of a property tax exemption for affordable housing with details on the following:

- Relevant legislation.
- Overview of the Region of Waterloo program.
- Other Considerations.

## **Relevant Legislation**

There are two pathways where a provider of affordable housing may be considered for a property tax exemption under legislation. The Assessment Act and the Municipal Act, 2001 have provisions for a property owner who provides affordable housing to qualify for a property tax exemption.

Assessment Act: Under the Assessment Act, the Municipal Property Assessment Corporation (MPAC) may provide a tax exemption for any charitable, non-profit philanthropic corporation organized for the relief of the poor if the corporation is supported in part by public funds. There are properties in the multi-residential, new-multi residential class which currently qualify and receive this exemption based on MPAC's assessment.

To qualify for a property tax exemption under the Assessment Act, applicants must meet certain requirements including:

- Being the owners of the property.
- The land must be used and occupied by a charitable, non-profit philanthropic corporation.
- The charitable, non-profit philanthropic corporation must be organized for the relief of the poor and supported in part by public funds.

The onus to apply and request an exemption under this legislation is on the property owner. MPAC will review the application and has several documentation requirements to be provided and completed by the property owner to ensure the spirit of the legislation has been met before approval for a property tax exemption is granted. The entire process can take between 6-12 months.

Municipal Act, 2001: Section 110 (6) of the Municipal Act, 2001, permits municipalities to enter into Municipal Capital Facilities agreements with non-profit and for-profit developers to provide incentives in exchange for affordable housing. These incentives may include loans, use of property, reduction/exemption of development charges or property taxes.

In a two-tier system, the lower tier is required to pass a by-law exempting the City's portion of the property taxes if it wishes to participate in the Regional program.

MPAC has indicated that applications under this legislation will also require their oversight with estimated timelines of between 6-12 months per applicant to get to the approval stage.

### **Overview of the Region of Waterloo's Program**

The Region of Waterloo, through the implementation of a property tax exemption policy for affordable housing units is seeking to:

1. Provide incentives for the creation of affordable housing units.
2. Prevent the loss of existing affordable housing units. Between 2001 and 2020, twenty-one buildings were developed by private developers who received capital grants in exchange for providing some affordable housing units within their

buildings for a term between 20 to 25 years. These agreements are expiring and therefore there is concern that these affordable units will flip to market rate if further incentives are not provided; and,

3. Create an additional incentive tool to improve the affordable housing stock in the Region.

The Regional program requires qualified providers of affordable housing units (for-profit, not-for-profit and co-operative housing providers) to commit to maintaining affordable units for a period of up to 60 years (minimum 20 years depending on the useful life of the building) to receive the property tax exemption. The application intake process for this program was initiated in June 2024. It is expected that many of the non-profit and co-operative providers of affordable housing will apply for the program. It is unknown at this time whether the for-profit sector will be interested in committing to a 60-year period. Assessment and applicant eligibility will need to be reviewed by MPAC which could take up to one year before an applicant is approved for a tax exemption under this program.

Eligibility criteria to participate in the Region's program includes but is not limited to

1. Affordable rental housing represents a minimum of 30% of the total residential units in a building (with six or more units).
2. Affordability means rents at or below 80% of Average Market Rate (AMR) in the Kitchener-Waterloo-Cambridge Census Metropolitan Area (CMA).
3. Affordable rents must be provided for a term of 60 years or remaining useful life of the building (minimum 20 years).

The Regional program delegates authority to Regional Staff for negotiation and approving any applications. Given the length of the evaluation period, the results and effectiveness of the program may not be known until later in 2025.

### **Other Considerations**

The area municipal treasurers group discussed the Regional program and the opportunity for each municipality to participate fully or partially in the program. The group is in support of a tool which would increase the affordable housing supply in the Region of Waterloo. However, there were concerns raised about the program length, providing a blanket approval and delegation of authority to approve each application and negotiate with applicants to Regional staff, audit process as it relates to ensuring affordable housing units are maintained for approved applicants and whether the 60-year agreement would be something that potential applicants would commit to.

Property tax programs such as brownfields, charitable rebates, tax deferral are all approved and administered by the lower-tier municipality, especially as it relates to the

City's portion of the property tax levy. Further, the Municipal Act, 2001 provides limited provisions for allowing exemption of property taxes to 'for profit' entities. A municipal capital facilities by-law is the only way to provide this type of exemption, and it is staff's recommendation that each exemption and agreement requested by a 'for profit' affordable housing provider, should require approval of Council, if the City were to fully participate in the Regional program.

It is expected that some municipalities will decide to participate fully in the Regional program, while others have indicated they will review how many applications are received by the Region before making any decisions on program participation or may choose to limit program participation based on some parameters such as program length and housing provider (for-profit or non-profit). The City of Waterloo passed a by-law opting to fully participate in the Regional program and the City of Kitchener has passed a by-law that limits any exemptions to a 20 year period and limited qualifying providers to include non-profit and co-operative affordable housing service providers.

#### **EXISTING POLICY / BY-LAW(S):**

There is no existing by-law in the City of Cambridge.

#### **FINANCIAL IMPACT:**

Implementing a property tax exemption for affordable housing properties will have no impact to the City's total property tax levy revenue. This exemption will reduce taxable assessment and property tax from the new exempt class, by shifting the burden to all other property classes resulting in slightly higher tax rates for all taxable classes, including residential, multi-residential, new multi-residential, commercial, and industrial. This increase would likely occur over multiple years and the exact amount of the tax shift is unknown at this time as it is dependent on the number of properties that apply and are approved under this program.

Based on the 2024 assessment, tax rates and tax ratios, it is estimated that a tax shift of approximately \$890,000 on the City's portion of the levy will occur to other taxed property classes, if all current non-profit and cooperative affordable housing providers qualify for the program.

The confirmed value of the tax shift would vary from year to year during the program depending on the number of properties that qualify and the tax rate changes from year to year.

#### **PUBLIC VALUE:**

The public value of the by-law would be providing more options for affordable housing in the City of Cambridge. By adding more affordable housing units to the inventory of

properties in the City, more people will have options for living arrangements.

### **Collaboration:**

The area municipal treasurers have collaborated with the Region of Waterloo through the development of the tax exemption for affordable housing program. The City of Waterloo has approved a by-law that fully participates in the Region's program. Similar to the recommendation outlined in this report, the City of Kitchener has passed a by-law that limits any exemptions to a 20-year period and limited qualifying providers to include non-profit and co-operative affordable housing service providers.

By working together with the Upper-Tier Municipality and other Lower-Tier Municipalities we can ensure we are providing housing for all throughout the Region.

### **ADVISORY COMMITTEE INPUT:**

Not Applicable.

### **PUBLIC INPUT:**

This report has been posted to the City's website with the agenda in advance of the council/committee meeting.

### **INTERNAL / EXTERNAL CONSULTATION:**

Internal consultation was conducted with Legal Services in developing the draft by-law (Appendix B).

External consultation with the Region and area municipalities was conducted during the development of this program.

### **CONCLUSION:**

Staff have reviewed the Region's program and have identified approximately 18 existing properties in the City which would potentially qualify for the property tax exemption. The properties are owned by a mix of non-profit and co-operative affordable housing service providers.

It is recommended that Council support participation in the Region's property tax exemption program by providing a property tax exemption for the City's portion of the property taxes to non-profit and cooperative housing services providers for a period of 20 years starting in 2025.

The recommendation outlined limits the blanket approval to non-profits and cooperating affordable housing providers only. Other categories of affordable housing providers such as 'for profit' affordable housing providers, will still be getting relief from the Regional and Educational portion of the property tax levy which forms the largest

portion of the property tax burden. It is expected that after the first full year of implementation, staff will be able to assess the program's effectiveness and make further recommendations related to the City's full participation in the Regional program.

#### **REPORT IMPACTS:**

Agreement: **No**

By-law: **Yes**

Budget Amendment: **No**

Policy: **Yes**

#### **APPROVALS:**

**This report has gone through the appropriate workflow and has been reviewed and or approved by the following as required:**

**Director**

**Deputy City Manager**

**Chief Financial Officer**

**City Solicitor**

**City Manager**

#### **ATTACHMENTS:**

1. 24-056-CRS Appendix A – Region of Waterloo Affordable Housing Policy and Program Incentives
2. 24-056-CRS Appendix B – Property Tax Exemption for Affordable Housing By-law