

Staff Report



Financial Services Department

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REPORT TO: Finance and Corporate Services Committee

DATE OF MEETING: August 12, 2024

SUBMITTED BY: Saleh Saleh, Director, Revenue Division, 519-741-2200 ext. 7346

PREPARED BY: Saleh Saleh, Director, Revenue Division, 519-741-2200 ext. 7346

WARD(S) INVOLVED: ALL

DATE OF REPORT: July 26, 2024

REPORT NO.: FIN-2024-299

SUBJECT: Property Tax Exemption for Affordable Housing

RECOMMENDATION:

That Council support participation in the Region's property tax exemption program as outlined in staff report FIN-2024-299 by providing a property tax exemption for the City's portion of the levy to non-profit and co-operative affordable housing service providers for a period of 20 years starting in 2025.

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.

That the draft by-law attached to report FIN-2024-299 as Appendix "A", allowing the City of Kitchener to participate in the Regional Property Tax Exemption for affordable housing program as it relates to non-profit and co-operative affordable housing providers, be approved.

REPORT HIGHLIGHTS:

- The Region of Waterloo previously approved a property tax exemption for affordable housing providers for the Region and Education portion of the property taxes.
- The City of Kitchener has implemented several other tools/incentives to accelerate the growth of affordable housing units.

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- The City of Kitchener has been recognized for its efforts in increasing the housing supply and meeting housing targets by both the Provincial and Federal governments.
- The City's award-winning affordable housing strategy- "Housing for All" and the tools/incentives implemented as a result are clear indicators that the City is willing to do its part in addressing the current housing crisis.
- For a multi-residential property, the City's share of the property tax levy is approximately 33% whereas the Region and the Education share represents 60% and 7% 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 tax base revenues. However, a property tax exemption will result in a shift of tax burden on other taxed property classes such as residential, multi-residential, commercial for example.
- 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 levy to non-profit and cooperative affordable housing services providers for a period of 20 years starting in 2025.
- This report supports **Building a Connected City Together: Focuses on neighbourhoods; housing and ensuring secure, affordable homes; getting around easily, sustainably and safely to the places and spaces that matter.**

BACKGROUND:

On March 5, 2024, the Regional Municipality of Waterloo approved the creation of a property tax exemption program for affordable housing. 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 levy is exempt. The City's portion of the levy can only be exempt if the City as a lower-tier, chooses to participate in the program and passes a by-law to that extent. It is also important to highlight that that City's portion of the levy is approximately 33% of the total property taxes with the Region and Education share being 60% and 7% respectively on a property classified as multi-residential.

This report provides a recommendation for Council to consider as it relates to participating in the Regional program and providing property tax incentives to providers of affordable housing in the City of Kitchener.

REPORT:

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. The City has also played a role in implementing a number of tools/incentives to accelerate the growth of affordable housing units. A few examples of these tools/incentives include:

- Non-profit affordable rental and co-op housing incentive (pilot) - This is a Housing Accelerator Fund supported initiative approved by Council in April 2024 to support up to 520 units with a \$10,000 grant per affordable unit.
- Affordable rental housing fee waiver - This incentive supports affordable housing projects within 450 metres of transit corridors for qualifying projects and waives development application and building permit fees.
- Waiver of development charges -The City has previously offered grants to offset development charges for affordable and supportive not-for-profit projects. Although, this program has been phased out, it will be replaced by a Provincially mandated program exempting affordable housing (for profit and non-profit) units from paying Development Charges, Community Benefits Charges and Parkland Dedication.

Further, the City's Planning and Housing Policy team offers a concierge service by assigning a project manager to navigate the approvals process for affordable housing projects and support meeting project timelines which may be tied to construction funding from other orders of government.

The City's Enabling Missing Middle and Affordable Housing study recommended that the City further explore financial incentives for the development of affordable housing, including property tax exemptions.

The City has been recognized for its role in the creation of not only affordable housing but housing in general by the Province. On April 11, 2024, the City was awarded \$14M in funding through the Building Faster Fund as the City exceeded its 2023 housing target. On November 11, 2023, the Federal government announced funding of \$42.4M to the City for developing new programs and initiatives to accelerate housing starts.

The City's award-winning affordable housing strategy- "*Housing for All*" and the tools/incentives implemented as a result are clear indicators that the City is willing to do its part in addressing the current housing crisis. Any tools/incentives that further assist the growth of affordable housing must be considered and evaluated against existing supports.

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

1. Relevant legislation.
2. Overview of the Region of Waterloo program.
3. Other Considerations.
4. Recommendation.

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 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 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 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 also 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.

The Regional program also delegates authority to Regional Staff for negotiation and approving any applications. Further, 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.

Recommendation

Staff have reviewed the Region's program and have identified approximately 100 existing properties in the City which would potentially qualify for the property tax exemption. The properties are owned by a mix of private and non-profit developers or organizations.

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 levy to non-profit and cooperative housing services providers for a period of 20 years starting in 2025. This will allow the City to provide property tax relief to non-profit and co-operatives who operate affordable housing units. Further, it will allow staff an opportunity 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.

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 access the program's effectiveness and make further recommendations related to the City's full participation in the Regional program.

STRATEGIC PLAN ALIGNMENT:

This report supports **Building a Connected City Together: Focuses on neighbourhoods; housing and ensuring secure, affordable homes; getting around easily, sustainably and safely to the places and spaces that matter.**

FINANCIAL IMPLICATIONS:

Implementing a property tax exemption for affordable housing properties will have no impact to the City's tax base revenues. However, this tax exemption will result in a shift of tax burden on other taxed property classes such as residential, multi-residential, commercial for example. Although the exact amount of the tax class shift is not known as it is dependant on the number of properties approved under this program.

Based on the 2024 assessment, tax rates and tax ratios, it is estimated that a tax shift of approximately \$1.5M on the City's portion of the levy will occur to other taxed property classes

between 2025 and 2030, if all current non-profit and cooperative affordable housing providers qualify for the program.

COMMUNITY ENGAGEMENT:

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

PREVIOUS REPORTS/AUTHORITIES:

- Municipal Act, 2001
- Assessment Act
- [DSD-2023-160](#) Enabling Missing Middle and Affordable Housing

APPROVED BY: Jonathan Lautenbach, Chief Financial Officer, Financial Services

ATTACHMENTS:

Attachment A – Draft By-law