

## AFFORDABLE HOUSING - TAX RELIEF PARAMETERS AND GRANT MECHANISMS

### RECOMMENDATION

That the June 27, 2022, Financial and Corporate Services report FCS01181, be received for information.

#### Report Purpose

#### Information Only

Committee is being informed of the current status of property tax exemptions for affordable housing, as well as the parameters of a grant program under consideration to offset municipal property taxes for affordable housing developments.

### Previous Council/Committee Action

At the March 14/16/22, 2022, City Council meeting, the following motion passed:

That Administration provide a report that outlines what affordable housing is currently qualified for tax relief, what the parameters should be to qualify a provider for relief from property taxes and return with details on the appropriate grant mechanisms to achieve tax relief.

### Executive Summary

- Provincial legislation provides property tax exemptions for certain affordable housing properties. Exemptions were expanded recently, and the provincial government continues to consider further legislative changes.
- Administration is developing a grant program that would use existing legal agreements entered into by affordable housing providers to identify properties that would qualify for relief.
- Eligible providers must be non-profit organizations or partnerships that include non-profit organizations, must be providing residential accommodations and must not have tax arrears or other significant legal concerns.
- If Council wishes to support the grant program as outlined, a motion should be made to prepare an unfunded service package for the upcoming budget cycle.

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## REPORT

Properties that provide affordable housing are generally subject to property tax, though some are eligible for tax relief under provincial legislation. Current exemption provisions extend to:

- Properties owned by the Alberta Social Housing Corporation (ASHC)
- Properties held by a management body established under the *Alberta Housing Act* if they are used to provide senior citizens with lodge accommodation
- Properties exempted under private member's bills
- Properties owned by the City and run by management bodies under the *Alberta Housing Act*

The provincial government continues to change legislation regarding property tax exemptions for affordable housing. The *Alberta Housing Amendment Act*, which was proclaimed on April 20, 2022, allows the Minister of Seniors and Housing to designate properties as affordable housing, though it is unclear how this authority will be used. Also on April 20, a Ministerial Order took effect that expands the tax exemption for ASHC properties to also include properties sold by ASHC that continue to be used for affordable housing. Administration is reviewing how this expanded exemption will be applied and what the implications may be for Edmonton's tax levy, as well as a potential grant program such as the one described in this report. The provincial government has also indicated it is considering further legislative changes to address the eligibility of affordable housing for tax exemptions, though it is not clear how any potential changes would work in practice.

Ambiguous legislation regarding what properties are actually eligible for a property tax exemption has led to uncertainty for affordable housing providers. In some cases, the City has applied exemptions inconsistently, resulting in tax exemptions for some affordable housing properties that were not supported by legislation. This has led to calls for similar treatment of similar properties. The owners of these properties have been asked to provide information that may support an exemption, but many are likely to become taxable in 2023.

The affordable housing sector itself also continues to change. Organizational structures that provide affordable housing can include, among others, non-profits, charities, partnerships, and joint ventures. Affordable housing business models are even more diverse, as different organizations target different community needs based on their mandates, interests and opportunities. Further, as funders and financiers of affordable housing such as governments and Canada Mortgage and Housing Corporation (CMHC) change their programs and criteria, affordable housing providers modify their business models to maximize their support, often on a property-by-property basis. This diversity among providers and properties can make it difficult for any order of government to develop and consistently apply a single definition of 'affordable housing'.

The City's preferred approach, which we are advocating to the Government of Alberta, would be for the Province to establish a list of exempt affordable housing properties through Ministerial

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Order (MO). The groundwork for this option has already been created within the Social and Affordable Housing Accommodation Regulation and Minister Order 001/22.

An MO does not have the same legislative hurdles and could be adjusted as needed by the Province. Municipalities would then simply exempt whatever is included on that list as affordable housing providers. In the absence of a provincial list, the grant mechanism as described in this report relies on the legal commitments of the property owner to determine where support is warranted. Under either approach, the City has also requested that these exemptions be accompanied by Provincial grants in lieu of taxes, which would limit the financial impact on municipal tax payers while still providing the benefit to affordable housing providers.

### **Potential Affordable Housing Grant Program**

Affordable housing providers generally receive some form of subsidy that allows them to provide rental accommodations at below market rates. To receive such subsidies, providers usually enter into agreements with an order of government or related body such as the CMHC, or other types of organizations such as charities or private donors. These agreements typically require a certain number of units be provided at a prescribed level of affordability that is often measured in relation to the income of residents or the degree to which the rent is below market rates.

Administration has developed a potential affordable housing grant program, outlined in Attachment 1. This draft grant program relies on the presence of such agreements to determine if a property is a suitable candidate for the grant.

- A provider would be required to demonstrate that the property is subject to a legally binding requirement to provide at least 25 per cent of the residential units as affordable housing.
- If the agreement is with a body other than an order of government or CMHC, the agreement must further require that the affordable units must be provided at a maximum of 80 per cent of market rent or at no more than 30 per cent of the residents' household income.
  - These standards reflect common definitions of affordable housing used by the federal government and other funders.
- Providers of transitional or supportive housing do not have to demonstrate the property is subject to a binding legal requirement.

The benefit of this approach is that the other party referenced in the agreement is responsible for ensuring that the housing provider meets its commitments to provide affordable housing, reducing the City's obligation to monitor properties after the grant is awarded. It also minimizes compliance costs for the housing provider because it uses compliance mechanisms that are already in place.

While many affordable housing properties are expected to have an adequate agreement in place, some properties that would otherwise be eligible for the grant may not. In these cases, the City may enter into an agreement with the provider to provide a nominal subsidy in exchange for a binding commitment to provide a sufficient number of units at a level of affordability that would qualify the property for the grant. This would provide the means to grant tax relief to properties

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on a case-by-case basis if they do not already have an existing legal requirement in place to support their application, and to potentially address other unique circumstances that may arise.

The grant program would also require properties to meet some basic eligibility criteria:

- Properties are owned by a non-profit organization, or a partnership that includes a non-profit organization (the property may be operated by a management body under the *Alberta Housing Act*).
- Properties must provide residential accommodations, or are under construction with the intention to provide residential accommodations.
- Properties have no associated tax arrears, and there are no significant legal issues with the provider or the property that would indicate the grant should not be approved.

### **Potential Administration Mechanism for an Affordable Housing Grant Program**

Administration of the grant is intended to be straightforward. Providers would be required to submit a basic application form and evidence of the legally binding requirement referenced above. If they are not able to demonstrate the binding requirement, they would be directed to contact Administration through the department of Community Services' Affordable Housing and Homelessness section, to inquire about entering into a subsidy agreement.

Each application would be reviewed to assess eligibility and to confirm the proportion of residential units on the property that are subject to affordability conditions. If approved, the amount of the grant would be calculated by multiplying this proportion by the municipal property taxes on the residential portions of the property. Since the grant is meant to offset levied taxes, any parts of the property already exempt from property taxes would not be eligible for funding through the program, and the grant calculation would be adjusted accordingly. The grant would be applied directly to the property's tax account. Property owners would generally not be required to re-apply for the grant in subsequent years unless the agreement that evidenced the properties eligibility expired, although the provider may be required to submit information to demonstrate continued eligibility at any time.

In all cases, the City would maintain full discretion over all aspects of the grant. The grant could be discontinued at any time if the property was no longer meeting the requirements of the program, should a change in provincial legislation make the grant redundant, or for any other reason.

### **Next Steps**

Council has provided direction to support affordable housing through The City Plan. This is sufficient direction for Administration to continue developing the program. Administration has developed a program that it believes will be straightforward to administer, while also being clear and simple for housing providers.

However, grants cannot be disbursed until Council approves funding, which would appropriately be determined during the upcoming 2023-2026 budget deliberation process. If Council wished to pursue the direction as outlined within this report, then a motion should be made to request

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Administration bring forward an unfunded service package as part of the 2023-2026 budget process to make funds available for an affordable housing grant program starting in 2023.

### **Budget/Financial Implications**

The costs associated with a potential affordable housing grant program would depend on the number of properties that apply and the proportion of below-market residential units on each property.

Administration estimates that taxable affordable housing properties currently pay approximately \$5 million per year in municipal taxes. This figure may be a high estimate of the grant program's potential cost, as it does not account for properties that have some housing units rented at market rates, which would be excluded from the grant calculation. It also does not account for properties that will become exempt from taxation as a result of recent provincial legislative changes. However, the City's list of potentially eligible affordable housing properties is likely incomplete, which could increase the grant program's cost.

If Council provides direction to prepare an unfunded service package as part of the 2023-2026 budget process, Administration will reflect the best estimate of the cost available at the time. If the program is approved during the 2023-2026 budget deliberations, grant funding will be available for affordable housing providers in 2023 at the earliest.

### **Legal Implications**

Section 49 of the City Administration Bylaw allows the City Manager to approve the payment of grant funding from the City when the program, project, or activity to which the grant relates is specifically indicated within the approved budget and payment is made in accordance with the express terms or conditions, if any, as set by City Council. The City Manager may also approve entering into certain grant funding agreements but the potential grant program outlined in this report does not require any specific grant agreements.

## **COMMUNITY INSIGHT**

Affordable housing providers were invited to two stakeholder engagement sessions to discuss the potential parameters of a grant program.

The first meeting was to collect and record perspectives to inform the design of the program. Several participants indicated a need to keep administrative and compliance costs low, and advised that existing reporting processes could be used to assess eligibility for the grant. Administration was advised that the scope of the program should include Housing Management Bodies established under the *Alberta Housing Act* and that if the program were based on subsidies it should also recognize subsidies provided through mortgage programs such as those offered by CMHC. Others preferred a program that was not based directly on subsidization, but on the difference between the revenue the building generates as a whole relative to the amount of revenue it could generate if rented at market rates.

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At the second meeting, Administration presented an early draft of the program documentation to seek more specific feedback. In general, participants indicated they supported the program, though there was some uncertainty about how specific terms and conditions may be applied. Some participants were concerned that agreements they have in place may not be sufficient to meet the requirements set out in the program guidelines. As a result of the participants' feedback, the draft guidelines were amended to account for joint ventures that include non-profit organizations, and the option to create subsidy agreements to support circumstances where existing agreements are not sufficient.

### **GBA+**

Edmontonians in need of safe, adequate and affordable housing are among the most vulnerable members of the community. Difficulty accessing housing can often be accompanied by difficulty accessing food, health care, transportation, and other services. In addition, those in need of affordable housing can be excluded from full participation in community life due to the barriers created by mental illness, addictions, trauma, and systemic discrimination. The provision of affordable housing helps to alleviate pressures on vulnerable populations by providing the security and stability needed to flourish.

Property taxes impact the ability of affordable housing providers to support vulnerable individuals. A grant to offset municipal taxes will support these providers in continuing and potentially expanding their services.

### **ATTACHMENT**

1. Not for Profit Affordable Housing Tax Grant Program Guide