

## Tax Exemption for Recreation Areas Owned by Residents Association

### Recommendation:

That the October 5/6, 2015, Financial Services and Utilities report CR\_2670, be received for information.

### Report Summary

**This report provides additional information on tax exemption legislation and the context in which Residents Associations fit under that legislation. Possible impacts of exempting such organization under bylaw are also considered.**

### Previous Council/Committee Action

At the June 30, 2015, Executive Committee meeting, the following motion was passed:

That Administration provide the following information including:

- the context, bylaw changes, conformity with legislation, financial and community impact that tax exemptions the Residents Associations have had in Calgary
- the possible impacts, positive and negative, as well as long-term financial implications of making recreation areas owned by the Residents Associations exempted from taxation.

### Report

The move to develop private amenities within neighbourhoods and restrict their use to residents is a concept that is fairly new to Edmonton and Alberta. Their occurrence, however, is becoming increasingly prevalent as developers find ways of making their communities more appealing for prospective home owners.

The recent request made by the Summerside community to have their private amenities tax exempt brought into focus a question regarding the role of a municipality in supporting these kinds of developments. Because the consequence of exempting a property is additional public cost, the justification for doing so would need to make the case that a clear public benefit is derived. In addition, the justification should be able to articulate clear parameters around which such exemptions exist so as to avoid unintended consequences or scope creep.

Consideration to exempt these property types from taxation is, at its heart, a fundamental philosophical shift in approach. At present, The City of Edmonton's model has been one of subsidizing recreational opportunities that have the potential to benefit the general public. This includes creation and maintenance of local parks, recreation

centres and community leagues. While the existence of private amenities is in no way contrary to the City's current approach, providing public funds to support facilities that benefit a select group could have a variety of impacts that include:

- Indirect promotion of facilities that create social, cultural and economic inequalities between neighbourhoods
- A precedence for other organizations to seek subsidies and offer services and programming to select members of the public
- A potential adverse effect on Community Leagues whose model is to provide services, recreation and otherwise, accessible to all
- A potential adverse effect on City subsidized facilities with lower usage rates

Considering it from another perspective, exempting such recreation areas owned by residents associations could:

- Promote unique recreational development in the future
- Provide enhanced services and improved livability for people who can afford to live next to the amenity

In speaking with developers, however, the provision of property tax exemptions does not affect the nature of future development. In fact, it was implied that much of the new residents association model exists because of the fiscal limitations of local municipalities. While developers regularly express interest in creating enhanced amenities within their communities, these enhanced amenities come with ongoing maintenance and operating costs that the City of Edmonton has not chosen to support. For this reason, the residents association model was advanced to secure a funding source for enhanced amenities directly within the community.

This suggests that the residents association model is not predicated on its exemption status, but on securing ongoing funding for operating enhanced amenities. The tax burden represents a very small part of the overall cost. To put it into the Summerside context, most homeowners only pay approximately \$40 towards property tax when their annual fee is \$360. The remaining cost is to fund operational need. Those homeowners with direct lake-access pay even higher fees of up to \$860.

From an Assessment and Taxation perspective, enhanced amenities could be exempted from taxation without taking on the full scope of additional maintenance and operating costs if the amenity was open to the general public. Under provincial exemption legislation, the Summerside could still charge a minor entrance fee and qualify for exemption status.

If Council exempted all taxable residents association properties, the cost would be approximately \$164,000 in municipal tax. Exempting such properties from education tax would be an additional \$41,000. This impact of \$205,000 would be an ongoing annual deferral to the remaining tax base and would likely grow as additional private amenities are developed and come forward seeking exemption status.

### Calgary Context

The City of Calgary has a number of well-developed residents associations with various private, neighbourhood specific amenities. In 2013, Calgary passed a bylaw to exempt all Residents Associations from property tax.

Calgary's assessment administration implemented the 2013 decision of the Composite Assessment Review Board in Calgary, which found that Residents' Association property was exempt, in its decision-making in 2013 and subsequent years.

The current financial impact on Calgary is an ongoing annual deferral to the remaining tax base of approximately \$200,000 in municipal tax. Alberta tax payers are also paying an additional \$60,000 a year for education tax based on this decision.

### Non-Profit Advisory Committee

In 1998, an advisory committee was formed in Edmonton to provide Council with criteria for exempting non-profit organizations in the absence of provincial legislation. The advisory committee met extensively over 25 meetings and put in an estimated 600 hours of work. Through their work, tax forgiveness criteria were established that could help guide Council's decision-making process. This one-page guide is attached for reference.

### **Corporate Outcomes**

This report references the City's corporate outcome to have sustainable and accessible infrastructure. It compares the City supported model of accessible community amenities to the new model of private amenities within residents associations.

### **Attachment**

1. Tax Forgiveness Criteria

### **Others Reviewing this Report**

R. Smyth, Acting General Manager, Community Services  
R. G. Klassen, General Manager, Sustainable Development  
K. Rozmahel, General Manager, Corporate Services