



CITY OF VANCOUVER

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ADMINISTRATIVE REPORT

Report Date: August 30, 2005
Author: Cameron Gray
Phone No.: 604.873.7207
RTS No.: 05450
CC File No.: 2205
Meeting Date: September 20, 2005

TO: Vancouver City Council

FROM: The Directors of the Housing Centre and Social Planning

SUBJECT: Crabtree Corner Property Taxes

CONSIDERATION

- A) THAT Council approve an amendment to the lease for the social service component of YWCA's Crabtree Corner at 533 East Hastings St. to delete the requirement that the YWCA pay rent-in-lieu of property taxes, and authorize the Director of Legal Services to execute the necessary legal documentation on terms and conditions to her satisfaction.

This is a grant and requires 8 affirmative votes of Council.

OR

- B) THAT Council advise to YWCA that it is prepared to sell 533 East Hastings to the YWCA for a price of \$217,000 subject to a Housing Agreement requiring non-profit ownership and restricting use of the site to social service and non-profit housing for 60 years.

GENERAL MANAGER'S COMMENTS

The General Manager of Community Services presents A or B for Council's consideration.

CITY MANAGER'S COMMENTS

The City Manager notes that the YWCA's Crabtree Corner represents a relatively new tenure structure which combines non-market housing and social services. Typically non-market housing on sites leased from the City is held in the PEF and pays property taxes as other PEF lessees do. Social service facilities owned by the City are generally held as capital assets and the agencies that operate from them by and large do not pay property taxes. The YWCA's lease is held in the PEF and requires a rent in lieu of property taxes on both the housing and the social service components. The Y is seeking relief from the obligation for the social service component.

The request from the Y deals with a unique situation - a social service in a mixed use (non-market housing and social service) building on a site leased from the City. However, there have been a number of requests for the City to consider property tax or rent-in-lieu of taxes exemptions, e.g. for non-market housing, on land leased from the City, which raise complex taxation policy and civic revenue issues. Staff will report back on the larger issue of property tax exemption for non-profit societies in 2006.

If Council supports the exemption for the YWCA, there are two options. Council could approve an amendment to the lease, however, this could set a precedent that could result in this issue becoming bigger than necessary. On the other hand, the Y has the money to purchase the City's interest in 533 West Hastings, and would likely receive a tax exemption as an owner, and the City has little long term strategic interest in the site. As a result, the City Manager supports Option B.

COUNCIL POLICY

Under the Vancouver Charter, property owned by the City is tax exempt, irrespective of its use, and in circumstances where civic property is leased to others, the exemption extends to the City's lessees. City leases to outside organizations generally fall into the following categories:

- Leases to commercial concerns generally occupy Property Endowment Fund (PEF) properties and, to avoid the unfair situation where a business that is a City lessee could avoid taxes a competitor would have to pay, the PEF leases normally require a rent-in-lieu of taxes, or a higher rent that takes the tax exempt status into account.
- Non-market housing sites are also held by the PEF as they are long term City investments. In most cases, these leases are registered and the properties are taxable. For those that are unregistered, non-market housing leases require a rent-in-lieu of taxes be paid. This follows from the fact that the Federal and Provincial programs provide the subsidies to cover the cost of property taxes and other operating costs, and providing a tax exemption would subsidize the responsibilities of the senior governments at the cost of City taxpayers.
- Social service organizations, such as childcare and neighbourhood houses, generally occupy capital assets (civic-use buildings) and Council policy normally provides an exemption from paying a rent-in-lieu of taxes.

Grants require 8 affirmative votes from Council.

PURPOSE

This report recommends either that the lease of the YWCA's social service component at Crabtree Corner at 533 East Hastings be amended to delete the requirement that the Y pay a rent-in-lieu of property taxes or that the site be offered for sale to the Y. Either of these would result in the Y not having to pay property taxes on the social service component.

BACKGROUND

On July 28, 1998, Council approved the purchase of 533 East Hastings for social housing at a cost of \$760,000.

On February 17, 2000, Council reserved 533 East Hastings for the relocation of the YWCA's Crabtree Corner, including the 24 space emergency childcare, then located at Columbia and Cordova and Sheway's social services then located at 455 East Hastings.

On June 11, 2002, Council approved the terms for the lease of 533 East Hastings to the YWCA. The YWCA proposed to develop the site with a social service component consisting of space for Sheway and for the YWCA's Crabtree corner childcare and social services on the lower 3 floors and 12 units of housing for women whose children are at risk of Fetal Alcohol Syndrome (FAS) on the upper two floors. Each component was to have its own lease and the both leases required that the YWCA "be responsible for all taxes, utilities, fees and other costs associated with the Site and Project from the lease commencement date." The City leased the site to the YWCA for 60 years at a nominal prepaid rent which represented a capital grant of \$570,000.

CRABTREE CORNER'S PROPERTY ASSESSMENTS AND TAXES

Crabtree Corner was opened in November 2003. Including the cost of the prepaid property lease, the facility cost \$7.1 million. The YWCA raised \$2.76 million from private donors, and the rest was funded by the Federal Government, the Province and the City. The project is heavily used with 1,500 women and children, ¾ of them aboriginal, participating in its programs each week. The 2005 cost of providing programs and services in the building will be \$1,500,000 of which the YWCA will raise close to \$700,000 from non-governmental sources, with \$500,000 of that going into the social services on the lower three floors of the five-storey building. The rest of the program and service funding is primarily provided by the Province and Vancouver Coastal Health.

In 2004 the YWCA received their property tax assessment and were surprised at the value of the property as assessed by the BC Assessment Authority, and in 2005 they appealed their assessment. The original January 2005 assessment for the property was:

	Residential	Commercial	Total
Land	\$ 177,000	\$ 417,000	\$ 694,000
Building	\$ 849,000	\$2,000,000	\$2,849,000
Total	\$1,026,000	\$2,417,000	\$3,443,000

The property was reassessed, and the revised assessment is:

	Residential	Commercial	Total
Land	\$283,000	\$ 311,000	\$ 594,000
Building	\$708,000	\$ 778,000	\$1,486,000
Total	\$991,000	\$1,089,000	\$2,080,000

The YWCA sought a further appeal on the grounds that the lease requires that they provide social services and operate on a non-profit basis and therefore that the commercial space should have a nominal assessed value, however, that appeal was rejected. The YWCA has filed an appeal for this decision to be reviewed but has not proceeded pending Council's decision as the appeal process is very expensive and has a low probability of success.

In 2004 the YWCA paid \$84,178.36 in property taxes of which \$9,858.40 was for the residential (affordable housing) component and \$74,319.96 was for the commercial (social service) component. The YWCA's 2005 property tax bill, following their appeal, was \$37,659.10 of which \$5,935.31 was for the residential (non-market housing) component and \$31,723.79 was for the commercial (social service) component.

YWCA'S LEASE AMENDMENT REQUEST

The YWCA has asked that the City amend the lease to delete the requirement that they pay a rent-in-lieu of property taxes for the social service (non-residential) component. Their letter is attached as Appendix A. The YWCA believes waiving property taxes is appropriate because:

- the YWCA is a registered charity and they would not pay property taxes on the social service component if the YWCA owned the property; like the City, registered charities are exempt from property taxes, and because
- the YWCA raises almost half the funds required to operate the social service component and the requirement to pay property taxes imposes an excessive burden on their fund raising program.

Staff have evaluated the YWCA's request for the Crabtree social services lease to be amended to delete the requirement that they pay rent-in-lieu of property taxes. Staff recommend that the YWCA's request be approved because:

- Crabtree Corner represents a substantial long term commitment of capital and operating funding on the part of the YWCA;
- Crabtree Corner primarily provides services to the neighbourhood and city;
- The YWCA raises a substantial amount of the operating funding from non-governmental sources; and
- The social service component of Crabtree Corner would very likely be exempt from property taxes if it were located in a building owned by the YWCA.

The option of selling the site to the YWCA was also explored as a solution to this request as the Y would most likely be exempt from property taxes because of their charitable status. The City could sell the building to the Y at a price equal to the PEF's investment in the site, \$217,000 in today's dollars. While the Y has the resources to pay the City, they would prefer to invest their scarce capital elsewhere, and therefore, prefer the option of amending the lease to delete the rent-in-lieu of property taxes requirement. As well, the site is part of the

City's larger real estate portfolio, and Council may not want to sell it if it considers maintaining ownership strategic. The option of selling the site to the YWCA is presented for Council's consideration. As the City provided a capital grant to the project, it is recommended that the sale be subject to registration of a Housing Agreement limiting use of the site to social services and requiring that it be owned by a non-profit society for 60 years.

It should also be noted that the YWCA currently receives a 2005 Community Service Grant from the City of \$56,868 as well as a 2005 childcare operating grant of \$10,000 for a total City contribution of \$66,868 in 2005. This is in addition to the original capital grant of \$570,000.

IMPLICATIONS FOR OTHER SOCIAL SERVICE LESSEES

There are few social service operations in similar circumstances to Crabtree Corner leasing PEF sites from the City. They are primarily located in mixed use projects that combine non-market housing and social services on a single site which is a relatively new development structure in the City. Seymour Place at 1221 Seymour St. which combines non-market housing with a mental health drop-in centre and the Dr. Peter Centre at Comox and Thurlow which combines social housing with a drop-in centre for persons with AIDS/HIV are the only other examples, and while these are similar they are not the same. In the case of Seymour Place, Affordable Housing Society operates the social housing and Coast Foundation operates the Mental Health Service, with Affordable subleasing the social service component to Coast, and in the case of Dr. Peter Centre, one lease covers both the social service and housing components. Both of these represent substantial long term investments in the delivery of social services, and waiving the requirement for rent-in-lieu of property taxes may be appropriate for both, but each should be evaluated and reported to Council individually because their circumstances will not be the same even if they are similar.

In addition, there have been requests from non-profit societies, including non-profit housing societies, for property tax relief, whether for sites leased from the City or not, which raise broader issues that staff are evaluating and which will be reported to Council in the New Year.

FINANCIAL IMPLICATIONS

Waiving the requirement that the YWCA pay a rent-in-lieu of property taxes on the social service component of this mixed non-market housing and social service development or selling the site to the Y will result in foregone revenue to the City of approximately \$32,000 annually. This amount will have to be replaced by a tax increase on taxable properties in the City. There are very few social service lessees in circumstances such as the YWCA's Crabtree Corner for whom this relief would set a precedent. Any additional requests would be considered on their merits and reported to Council as appropriate.

CONCLUSION

The YWCA has requested that the lease for Crabtree Corner's social service component be amended to delete the requirement that they pay a rent-in-lieu of taxes. Staff present this request for Council's consideration as well as the option of selling the site to the Y, because of the substantial financial commitment the YWCA is making to the project and because, as a charitable society, they would likely not be paying property taxes if they owned the building themselves.

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July 4, 2005

Judy Rogers, City Manager
City of Vancouver
453 West 12th Avenue
Vancouver, BC
V5Y 1V4

Dear Judy:

Section 1.01

Section 1.02 Subject: YWCA Crabtree Property Tax (533 East Hastings)

I am writing with respect to discussions we have had with City of Vancouver staff regarding property tax on the non-residential portion of YWCA Crabtree Corner, located at 533 East Hastings.

As you know, the YWCA of Vancouver has leased the land for Crabtree Corner from the City and has built a five story building on this property. On the first three floors, we provide a variety of community and child care programs, serving more than 1,500 women and children each week. The 4th and 5th floors comprise 12 units of transition housing for pregnant and parenting women and their children. In 2005, the operating cost for programs on all five floors is projected to be \$1,448,000. Of this amount, \$694,000 (almost 50%) must be raised by the YWCA from non-government sources. The amount we must raise from non-government sources for the first three floors only is \$498,000.

The YWCA has lease agreements with the City of Vancouver for the residential and the non-residential premises of the property. Under the terms of these leases, the premises can only be used for the delivery of social services on a non-profit basis, and for housing occupants eligible under a separate agreement with BC Housing.

BC Assessment Authority has assessed the value of the building at \$2,080,000 and has granted an exemption for the full amount of the assessed value. However, under Section 3.02 of the ground lease with the City of Vancouver, the YWCA is required to pay an amount equal to the property taxes as if levied. (It is noteworthy that the YWCA would be exempt from such property tax if we owned the land rather than leased it from the City.)

The YWCA has agreed to pay the property tax owing on the residential portion of the property. However, property tax of \$31,724 assessed by the City for 2005 for the first three floors represents a significant burden to the YWCA, and impacts our ability to provide critical services in Vancouver's Downtown Eastside. (As noted above, we must raise \$498,000 from non-government sources to operate the first three floors.) We are, therefore, asking the City of Vancouver to waive Section 3.02 of the lease agreement as it pertains to the non-residential portion of Crabtree Corner, thereby waiving the property taxes for that portion of the property

We have discussed this matter with Housing Centre Director, Cameron Gray, who has indicated that a resolution to waive Section 3.02 of the lease agreement could be considered by City Council at its September 13, 2005 Council Meeting. We would very much appreciate the support of City staff in bringing this forward to Council at the earliest opportunity as the issue has been outstanding for some time. We would, of course, be pleased to provide any information or assistance that might be helpful.

Thank you for your attention to this matter.

Yours truly,

Janet Austin

Article II. Chief Executive Officer

YWCA of Vancouver

cc: Jacquie Forbes-Roberts, General Manager, Community Services,
City of Vancouver
Cameron Gray, Director, Housing Centre, City of Vancouver
Ken Bayne, Director of Financial Planning and Treasury Services, City of
Vancouver