

DRAFT BIG CITY MAYORS' PROPOSED STATEMENT/LETTER FOR CONSIDERATION DRAFT

The Hon. James Flaherty
Minister of Finance
Etc

As you know, homelessness is a significant problem in major cities across Canada. At our meeting in Vancouver January 23, we had the opportunity to receive a presentation on the street~~o~~home funding model for homelessness proposed by the City of Vancouver. We have attached the two page summary of the proposal, including responses to questions raised by others, which we had the opportunity to review.

Homelessness must be addressed. We believe this proposal, which builds on your previous decision to permit the donation of publicly traded shares without incurring capitals gains tax, would be very useful. It would enable communities across the country to tailor solutions to their individual situations, bringing in the leadership and funding of local philanthropic investors. The proposal also includes a foundation, focused on homelessness, that would receive the benefit of donated limited partnership units. We believe the combination of the limited partnership and foundation will be effective in building community capacity and leadership to specifically address homelessness.

Homelessness is not an easy charitable cause. Further, homelessness creates challenges for governments at all levels, generating significant demands on emergency services, the health care system, and the justice system. We understand the street~~o~~home proposal is tightly targeted to the homeless, and does not create any possibility of the tax benefits being misapplied. Given all this, we believe that providing significantly higher tax benefits for those philanthropists prepared to commit funding and leadership to ending homelessness is fully justified.

This proposal complements and is consistent with our broader proposals for additional support for affordable housing. While more affordable housing will assist a larger population, and help prevent the slide into homelessness, we must have a more effective approach to serve those who are currently homeless, or become homeless despite our best efforts.

We urge you to implement the street~~o~~home proposal and provide us with the opportunity to implement it in our communities.

Yours truly,

[List cities]

streetohome

An opportunity for Canada to enable local communities and philanthropists to work with governments to address homelessness

Overview of Proposal

Homelessness is a real and growing problem across Canada. Homeless people frequently face multiple challenges – poor physical and mental health, addictions, and an inability to make use of the services that may be available to them. As a result, they are disproportionately represented in the court and penal systems, and make heavy demands on health and emergency services. The cost of these services is high, and the social costs to the homeless themselves and their communities are even higher. Homelessness can be addressed effectively through supportive housing. Supportive housing is a combination of stable, accessible housing with a range of support services delivered to residents. Even though the long run costs of keeping people homeless are substantially greater than the cost of supportive housing, there is insufficient money being invested in the delivery of supportive housing. streetohome is targeted at the chronically homeless – those who need both supports and housing.

Wealthy philanthropists and ordinary community members are prepared to contribute to address social issues, such as homelessness, if appropriate tax incentives for major investments are provided. The federal government recognized this when it removed the capital gains tax from donations of publicly traded shares to charitable organizations and private foundations. These changes have resulted in significant increases in donations to charities and private foundations. Removing the capital gains tax from the donation of supportive housing limited partnership units will also attract significant investment and provide long term funding to non-profit agencies addressing homelessness. This would result in non profits collaborating with the private sector rather than just competing for scarce government grants. Specifically, we are asking that Canada enable local governments, provinces, philanthropists, businesses, and communities to work together to address homelessness by:

Passing legislation, similar to the changes implemented to eliminate capital gains taxation from the donation of publicly traded securities to charities and foundations, to permit the donation of units of a limited partnership that has been certified by a province as creating supportive housing and eliminate capital gains taxation on that donation.

This description provides the essence of what we are proposing, and hence is simplified; other changes are required. Full technical descriptions of the requested changes have been provided separately. In substance, however, streetohome utilizes and extends policy and mechanisms that are already in place or have been used in the past, to address homelessness.

The estimated forgone tax to the federal government has been estimated at \$330 million over ten years, based on construction of 15,000 units. The financial aspects of the program have been analyzed in a financial model, which has been provided to government officials.

Addressing the Issues

Some concerns have been raised about the proposed “streetohome” tax changes to address homelessness. We wish to address these concerns head on. These concerns include whether a grant program would be an alternative; whether the proposal requires “significant” or “precedent setting” changes to tax legislation; and streetohome revives the poorly viewed MURB program.

A Grant Program?

Grants have the advantage of providing certainty about cost as well as giving greater oversight to the federal government. A grant program could have merit if the proposed homelessness funding model was not self-limiting, and if the proposed **streettohome** model did not have “built in” oversight.

The **streettohome** tax provisions would be applicable to projects housing a relatively small group, numbering in the tens of thousands across the country. Any supportive housing project requires a funding source for support services costs, which are in the order of double the costs of the building. And given that provinces/municipalities have to certify a program as qualifying, the program is inherently self limiting. No government or agency will commit to funding a supportive housing program simply to utilize a tax break.

By its nature, the **streettohome** proposal calls for local investors to make philanthropic investments, and undertake some responsibility for developing and operating supportive housing. A grant program will not generate community involvement, or build local organizational and social capital. It will require time consuming application and review process and it will create a resource consuming competitive environment for charitable organizations that are typically short of resources. Community involvement and capacity building is an inherent element of the **streettohome** proposal, and a grant program is therefore not an appropriate substitute.

Significant Tax Changes?

All of the proposed **streettohome** tax changes either exist in legislation or have strong precedents. The only change requiring legislation is enabling the donation of partnership units invested in projects certified as supportive housing. This legislative change clearly parallels the highly successful change permitting the donation of publicly traded shares.

Other changes utilize provisions that already exist in legislation. An Order in Council would permit the deduction of Capital Cost Allowances. Given the targeted population and self limiting demand, this is not precedent setting. Finally, a CRA ruling providing for the exclusion of Capital Supplements paid by governments from income of the partnership so long as the value of the building is reduced equally is interpretation, not a new principle. While under normal circumstances valuing a limited partnership would present a challenge, in this case the valuation mechanism will be incorporated directly into partnership structure and will preclude tax benefits beyond those planned. Increases in the value of the underlying land will be excluded from the valuation, thereby ensuring that the value of the donated partnership unit will not increase as land values increase.

Given that the proposal is tightly targeted, tax benefits cannot creep, and cannot be generated for projects that do not meet an immediate need, a tax proposal that addresses the problem and creates ongoing capacity to address homelessness need not be a precedent. It is difficult to conceive other circumstances in which this model could be considered precedent setting.

Another MURB?

This proposal does not resurrect the MURB program. The housing created will not be part of the rental market. Supportive housing is very tightly targeted to a relatively small group of highly disadvantaged individuals, and includes the delivery of support services. From a tax perspective, it does not include write-off of soft costs. Furthermore, the controlled development of supportive housing will not drive rent increases, nor will it result in windfall profits (or unexpected losses) to philanthropic investors.

Questions and Answers

Why target tax treatment to homelessness?

Homelessness is a unique problem. It challenges government services, and it challenges communities and it challenges non profit housing operators. Many philanthropic leaders lack confidence that it can be resolved and worry that more funding will not lead to effective solutions. Relative to many other charitable opportunities, it is not attractive. The proposed tax changes will encourage philanthropists to invest in solutions to homelessness. The philanthropists will hold limited partnership units and over time be financially exposed to the risks of operating supportive housing. As a consequence, they will be motivated to ensure that the housing is properly developed and support services effectively delivered. Once the tax basis of their investment has been reduced, the philanthropists may donate their limited partnership units to a charitable foundation focused on solutions to homelessness. In so doing, their investments will help the homeless, and address the community and social problems arising from homelessness. Once donated, the limited partnership units will continue to yield modest cash distributions to the benefit of the charitable housing foundation.

How does this proposal relate specifically to the recent change to permit the donation of listed stocks without incurring capital gains tax?

Prior to the recent change, a donation of stock would require the donor to pay capital gains tax on the difference between the purchase value and the value at donation. The legislative change deems the capital gain arising on the donation of publicly traded securities, units of mutual funds, or certain “ecological gifts” to be zero. The requested change provides similar benefits for donation of a limited partnership unit creating supportive housing. It parallels the targeted nature of the exemption for “ecological gifts”. The certification of supportive housing projects prevents the expansion of the tax benefit beyond projects for the homeless.

What are the related tax changes?

- An Order in Council to permit deduction of Capital Cost Allowances in a manner favourable to a limited partnership certified as creating supportive housing as was done for multiple unit residential buildings in the late 1970s; and,
- A CRA interpretation of existing legislation confirming that a Capital Supplement contributed by a province to the certified supportive housing project would not be included in income. (A “certified supportive housing project” is a project that a province has certified to confirm a) that residents will receive the necessary support service to address medical problems, mental illness, and addictions, and b) that the limited partnership is structured to preclude the possibility of unanticipated tax benefits. In most cases, the support services would be funded directly by the province, but could be funded by charities or municipalities so long as the delivery of the services was mandatory.)

How would the certification process work?

As part of the decision to create the tax benefit, the federal government would establish requirements for the partnership structure to ensure that only the planned tax benefits were provided, and a general description of the support services to be provided. The provinces would certify that the limited partnership structure and services delivered meet those requirements.

Doesn't this create too good a deal for philanthropists?

The short answer is "No". A philanthropist who invests can either hold units to maturity, or donate them to a relevant charity after five years or more. If held to maturity, they will yield less than a mortgage return. If the philanthropist donates the units, the present value cost to the philanthropist will be in the order of 30% of the original investment. The limited partnership structure would define a formal valuation methodology to establish the value of donated units. The valuation methodology would exclude any changes in underlying land value. There would be no potential for an increase in market value of the land to decrease cost to the philanthropist.

Major philanthropists are not easily convinced to invest in mitigating homelessness. The proposal will:

- (i) lower the cost of giving to attract new and significant amounts of funding; and,
- (ii) ensure that philanthropists contribute their leadership. This will be achieved by exposing the holders of limited partnership units to risks associated with the development and operation of supportive housing. The cost of their philanthropy will vary as a function of the success of the delivery of supportive housing.

Isn't there a risk of tax leakage?

No. The basis of the future valuation of the limited partnership units will be tightly defined. The assets must, over the life of the partnership, be directly associated with the delivery of supportive housing. There will be no unintended or unseen increases in terminal value. The partnership and holders of the limited partnership units will only be eligible for the proposed tax treatment if the assets are certified as supportive housing assets. It is proposed that provinces provide certification as they will generally be required to provide rent subsidies and funding for support services.

Wouldn't grant programs be a better alternative?

No. Grant programs are inherently complex and time consuming, with projects being designed to the program rules. The proposed tax structure will be efficient, with a relatively low cost of administration. More important, the proposed structure is enabling rather than prescriptive. A province and a community can establish organizations and supportive housing projects that suit their circumstances, and proceed at their pace. Obtaining philanthropic investment will bring business leadership and commercial discipline. The incremental tax costs of the proposal to all levels of government will be modest. One of the real challenges that non profit organizations face is the time and overhead required to continually apply for grant funding. Grant funding is scarce, available only per annum, and by nature, grant programs do not inspire communities to collectively work towards ending homelessness. Rather, they burden non profits with the need to aggressively compete for scarce grants, rather than collaborate successfully with their peers and the community at-large.

Isn't this whole structure intended to pressure local and provincial governments to invest in supportive housing?

The structure is intended to encourage local and provincial governments, and philanthropists, to invest jointly in supportive housing and support services. It is an opportunity for joint action. It brings the community into the solution, and brings the private sector in to help ensure its effectiveness.

What if a province or city does not want to participate?

A province has complete control, through controlling the certification of projects as supportive housing operations. Cities will be expected to participate through land and property tax contributions, but may choose not to. If there is no partnership between governments and philanthropists, governments will have to find other solutions to homelessness, or live with the myriad problems homelessness creates.

Aren't broad social housing programs a better solution?

Homelessness is a significant problem with major social implications, but the total numbers of the chronically homeless are not so large the problem is insoluble. Broad affordable or low income housing programs are important to stem the slide into homelessness, but do not address the service needs of the homeless. Housing is necessary, but not sufficient. A program that targets the most vulnerable – the homeless – makes the most sense, is achievable, and addresses the impacts on public health, courts, the jail system, emergency services, and the community. Programs like the US tax credit for low income housing inevitably require further supplements to target the lowest income households and the chronically homeless.

Isn't the overall cost of these programs very significant?

A financial model constructed to evaluate the tax impact of this proposal shows that the likely lost tax revenue across Canada, based on ten times the cost of the Vancouver implementation, would be \$330 million over ten years. This is modest relative to the cost of housing and support services for the homeless, which are expensive. The long term costs of not acting are even higher, given the very high demand the street homeless place on government services. And, the proposal builds the capacity of communities to respond to homelessness and mitigate the issues homelessness creates.

Won't the number of homeless continue to grow, meaning the program has to get larger?

The homeless population is increasing in many cities, and may continue to grow. That, simply, makes a solution more important. A tax supported funding model will encourage ongoing investment, and encourage greater effectiveness in delivery. The additional financial support to agencies addressing homelessness through donation of partnership units will encourage innovation and joint programs between non-profit organizations, community leaders and governments, leading to better results.

Vancouver Presentation for Council – November 26th

Speakers will be one or both of:

Ken Dobell:

Member, VANOC Board of Directors

Nominated by the Province of British Columbia

Ken Dobell served as deputy minister to the Premier and cabinet secretary, Office of the Premier, Government of British Columbia of British Columbia from June 2001 to June 2005. He continues to serve as a special advisor to the Premier on a consulting basis.

Dobell draws on an extensive background of municipal and provincial service. From 1999 to 2001, he was chief executive officer of the Greater Vancouver Transportation Authority. Previously, he was Vancouver's city manager from 1990 through 1998.



He began his career as a research engineer with the City of Vancouver, holding various engineering positions until his appointments in 1978 and 1990 as deputy city manager and city manager respectively.

Dobell is currently a director of the 2010 Legacies Now Society and the Canadian Council for Public-Private Partnerships. A member of the board of the Vancouver 2010 Bid Corporation in its early years, Dobell now serves on VANOC's Board of Directors, where he chairs its Finance Committee.

Recognized nationally for his expertise regarding municipal, transportation and government affairs, Dobell has been honoured with many awards. These include the Lieutenant Governor's Award for Excellence in Public Service, the Municipal Officers of British Columbia Professional Award, and the BC Human Resources Management Association Award of Excellence.

Dobell was born and raised in Vancouver, graduating from the University of British Columbia with a bachelor of science in 1964. He studied in England for three years on an Athlone Fellowship and holds a master of science in Operations Research from the University of Birmingham.

Don Fairbairn:

Mr. Fairbairn is the President of a management consulting firm DCF Consulting Ltd. Previously, he was the Vice President of Business Development for Terasen Gas Inc. and the Vice President of Inland Pacific Enterprises Ltd. Within his community, Mr. Fairbairn has been actively involved with the St. Paul's Hospital Foundation, the United and the Independent Power Producers Association of BC. Mr. Fairbairn has his Bachelor of Science from the Queen's University.

Vancouver Homelessness Plan

Impetus was at a UBCM meeting when City Managers met to discuss the impacts of the Olympics.

Vancouver undertook to develop its model to end Homelessness, referred to as the "Streets to Home" model

Dobell and Fairbairn were hired to develop the plan and Cameron Gray prepared the cover report from staff to City Council. His paragraph below summarizes the recommendations:

The consultants' proposals are bold and innovative, and raise precedent issues for all levels of government. Success depends on all governments recognizing that we face a crisis in homelessness and make solving it a priority. The City is being asked to exempt the supportive housing from property taxes, which is something the City has not done before, make \$50,000,000 in land available at no cost for the development of 1500 new supportive housing units, and contribute \$5,000,000 towards the acquisition of SROs. The Province is being asked to provide \$48,000,000/year to cover the cost of building and operating the supportive housing. The Federal Government is being asked to make significant changes to their tax regulations and legislation to give priority to charitable donations to supportive housing.

The Dobell/Fairbairn report also recommended the creation of a Homelessness Foundation that would be born out of the Vancouver Foundation to raise funding for homeless capital projects and to develop a system of tax credits that would make investing in homelessness solutions more attractive to the private sector. The Federal government would need to create the legislative structure to enable these tax credits.

A partnership is also recommended, although Cameron's comment was that a private sector partnership around homelessness would not be that attractive because you can't derive much of a profit from homeless (or formerly homeless) people. The partnership would offer 70% of its investment units for sale to the public and institutional investors. The remaining 30% would be owned by the new Homelessness Foundation.

The City identified 12 sites for new homelessness projects to make up the \$50,000,000 worth of land and it was recommended that the land be donated, not leased.

In discussions, Cameron said one of the key issues was the need for Health Authorities, or the Province through some other funding mechanism, to provide on-going funding for the long term supports for the supportive housing.

Dobell and Fairbairn are now travelling the Province in support of the Premier's Task Force on Homelessness promoting the Vancouver Plan.

City of Kelowna
November 26, 2007

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Outline of Presentation

- ☐ Introduction
- ☐ Context & Objectives
- ☐ Foundation and LP
- ☐ Background and Status
- ☐ Next steps

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Why are we here?

- ☐ Discuss proposed model and status
- ☐ Establish common interests

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Homelessness in Vancouver

- ☐ Doubled from 02/05
- ☐ Many with mental health/addiction issues
- ☐ High demands on emergency services, courts
- ☐ Significant public health issues
- ☐ Major community concern

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Solutions are possible

- ☐ Housing and support services
- ☐ Success in other cities
- ☐ Range of services
 - Some will leave lifestyle
 - Others will require long term supports
 - Services on site
 - Support to obtain external services

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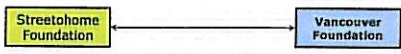
Vancouver Objectives

- ☐ Build more supportive housing
 - Acquire/lease 500 SRO units
 - 1500 new supportive housing units
- ☐ Deliver more higher quality supportive services
- ☐ Engage the community
 - Funding
 - Leadership
 - Understanding leading to resolution of issues

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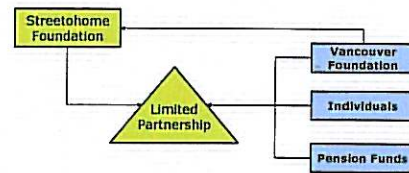
Streethome Foundation

- Independent, charitable society
 - Vancouver Foundation will
 - nominate several directors
 - contribute to funding needs
 - provide administrative support
- 
- Oversight role on homelessness, services
 - Effective coordinator – non-profits, city, communities, health authorities
 - Innovate – services, projects
 - Advocate – high profile
 - Funding:
 - StreetHome accounts
 - Vancouver Foundation
 - Other sources

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Foundation and Limited Partnership



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Dual Structure

- Limited Partnership
 - Investment vehicle for individuals and corporations
 - Low cash returns (less than mortgage rates)
 - Units donated to foundation over time
 - Partnership holds city leases
 - Works with government and non profits to improve services, increase quality and efficiency

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Benefits

- Community role in solution
- Two organizations are synergistic
 - General community via Foundation
 - Business leadership via Partnership
 - Investments transition to donations
 - Work jointly on homelessness issues
- Works for long term solution
- Expanded fund raising potential

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Background and Status

- City endorsed in principle
 - 12 sites (\$50 million) contributed at nominal cost
 - Property tax exemptions (\$1 million/year)
 - \$5 million to upgrade SRO hotel rooms
- City and Vancouver Foundation funding this initiative
- A major financial institution has agreed to support StreetHome accounts
- Philanthropists conditionally committed \$75+ million

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Background and Status

- Province has, since May '07
 - Acquired 600 SRO rooms
 - Committed funding for:
 - 320 supportive housing units & support services
 - Initial development of 12 city sites
- Premier has
 - Met with philanthropists and committed support
 - Written to the PMO

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Background and Status

- Non-profit operators generally on-side
- Officials from Calgary, Edmonton, and other BC cities briefed
- The Vancouver Board of Trade briefed

Next steps

- Need to win Federal support for tax changes
 - Expand support from BC cities
 - Get support from major Canadian cities
- Financial institution commitment needs to be advanced
- Establish Streethome Foundation

Federal Support

- Adopt the proposal:
 - Provide tightly targeted tax benefits
 - Cost to Canada (estimates)
 - Vancouver \$33 million over ten years
 - Canada wide \$330 million over ten years (very conservative)
 - Canada becomes part of solution

Next Steps

- Confirm support
 - Discuss applicability to Kelowna
 - Establish implementation plan
- Work together to secure tax changes