

Balancing Rights and Responsibilities of Primary and Secondary Residents - A Taxing Situation: Learning from Canmore's Experience

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Abstract

Non-permanent second home owners account for 30 percent of Canmore's population and have grown by 27 percent since 2005. Because non-permanent residents do not qualify the town for provincial transfer payments, the Town of Canmore loses approximately \$1.3 million in revenue each year. The Primary Residential Rebate Program (PRRP) was developed as a means to recoup money lost in provincial transfer payment by providing property rebates to permanent homeowner.

Besides lost revenue there are many other negative aspects to having such a high percent of nonpermanent residents living within the community including increasing development in a fragile mountain valley, increased housing and living costs for local residents, and limited economic impact as second home owners do less local shopping than permanent residents.

The PRRP was introduced in January 2007 through the town's annual budget. It was immediately contentious leading to a public hearing being held in April to elicit public input. It is expected to have second and third reading in May.

The issue of second homes is not new. For decades the phenomenon has occurred throughout North America and Europe. It is only in the past few years that the growth rate has increased so dramatically that many communities are facing unprecedented change.

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Canmore is nestled in a confining narrow mountain valley
Source: Maaaaazda / Andrew at www.flickr.com

Background and Context

Second homes have increased rapidly in many scenic mountain communities over the past decade. Most of the North American research that has stemmed from communities facing second home ownership has stemmed from mountain towns in BC, Alberta, Colorado and Montana but there is a plethora of research from England and Europe. Some of the issues that mountain communities face from second homes are:

- Increased housing costs that force many residents to move further away to find more affordable housing while making communities abodes of the wealthy.
- Non permanent residents do not provide the same support for local stores and businesses as full time residents.
- Pristine views are being eroded as growth sprawls into the mountains and hills; ruining the very reason people moved to these towns.

There are limited planning tools that towns are able to use to limit the amount of second homes and a taxation tool is now in the final stages of being implemented in Canmore, Alberta as a way to offset the impacts and possibly reduce the number of second homes.

Facts of the Case

Canmore, Alberta is one of the fastest growing towns in Canada with a population growth rate of just under 30 percent between 1996 and 2001. In 2006 the town had 16,377 residents. Of these residents, 4,818 or 30 percent are non-permanent. Since

2005, the number of non-permanent residents has increased by over 27 percent while the number of permanent residents has increased by just over one percent. Due to a unique geography, growth area will reach an eventual horizontal limit as the town is in a confining narrow mountain valley.

Besides an annual loss of \$1.3 million in provincial transfer payment revenue other impacts include rapidly increasing housing costs which have had an impact on young families and service workers especially. There is a fear that socioeconomic changes may occur similar to those in Aspen, Colorado and other resort towns which in many ways have lost their traditional character and many long-time residents have been forced or enticed to move as costs have increase.

Canmore is located one hour west of Calgary and 20 minutes east of Banff. Secondary and cottage development began occurring in the 1970's and in the 1980's the town became an Albertan outdoor sport mecca. The popularity of Canmore grew and "by 2004, the old rough-and-ready, down-at-the-heals coal town was well on its way to becoming one of North America's premier mountain-chic communities.(Robinson & Stark, 2006):130"

The five groups purchasing homes are:

- Wealthy baby boomers over the age of 40.
- Valley workers wishing to purchase their first entry level home.
- Investors
- Second home buyers from Calgary and Edmonton
- People who want to live in the mountains.

Neighboring Banff, faces similar issues to Canmore but is better suited to deal with second homes as all properties have a need to reside clause placed on them. This has kept housing costs lower than Canmore's by simply reducing the demand side of housing.

Canmore was limited with strategies that could be implemented to deal with this phenomenon. The primary problem the town faced was lost revenue in provincial transfer payments that equaled approximately \$266 for each permanent resident and equals approximately \$1.3 million. The innovative Primary Residency Rebate Program (PRRP) was developed and Canmore was the first town to implement any sort of taxation strategy in Alberta.

The PRRP was included in the 2007 Operating Budget that was approved by the Town of Canmore council on 9 January 2007. It was expected to add an average of \$400 to each property. Based on a Town of Canmore Staff Report, there are three main reasons for introducing this "alternative taxation strategy"(Town of Canmore, 2007) including:

- A means of additional income for the Town of Canmore as the building and growth boom will come to an end in the future.
- Grants from the provincial government are given to the town based on the number of permanent residents. Because 30 percent of the town is non-permanent the Town of Canmore will not receive

payments for these households which accounts for nearly \$1.3 million.

- The Bylaw will assist in mitigating the high cost of housing in the Canmore which has been driven up by second home owners and non-primary residents through the reduction of the number of non-permanent residents.

The effectiveness of a \$400 annual tax to deter single family homes worth hundreds of thousands of dollars must be questioned though as it is very unlikely that a small tax will be deterrent on homes worth hundreds of thousands of dollars.

Because the PRRP is a new concept to Alberta there have been many challenges in getting it passed. The only precedent in Canada, which Canmore based its tax on, is British Columbia's province wide Home Owner Grant Act, which was started in 1957 as a way to reduce the amount of taxes homeowners pay.

Actions and Interactions

The bylaw has sparked a few concerns. One of the chief concerns raised by residents was that rental units should be included for the rebate as otherwise the Town of Canmore would be "double-dipping" and receiving the equivalent of twice the tax as property owners would pay the tax and the town would benefit from a transfer payment for the resident as well. On February 5, council passed a motion that would "include rental properties, occupied by permanent residents, with the PRRP.(Town of Canmore, 2007)"

Another concern was that the PRRP was contradictory to Canmore's Mining the Future vision document that believes in "integrating new full and part time residents." However, to take this statement in isolation would ignore the other themes in the vision statement such as promoting diversity, inclusivity and integration of all residents which the PRRP will compliment through greater financial stability and that non-permanent residents erode. As one letter in support of the PRRP wrote to the Canmore Leader, "because a community that consists of a significant number of empty houses lacks the social fabric essential to establishing a true sense of community. The absence of nearly a third of the population during much of the year weakens the social networks and bonds that form community.(Vultier, 2007)"

The very recent implementation of the Vision Keepers (see sidebar) could have helped negate any arguments concerning the vision statement.

Non-permanent residents are also upset not only because of the introduction of the tax but partly because they were not consulted about the PRRP. However, any consultation process involving a new tax would have been contentious and possibly divided the town even more which may have caused larger fractures between permanent and nonpermanent residents. Costs and time involved in the consultation process would have also cost the town millions of dollars in lost revenue.

Visioning Process

"What kind of community can we as citizens imagine Canmore becoming in the years ahead?" was the driving question behind Mining the Future – A Vision for Canmore. A visioning process that took ten-month to develop while consulting with over 400 individuals, including numerous second home owners.

The four stages included:

- Identifying forces affecting Canmore's future.
- Developing four scenarios based on the forces.
- Discussing scenarios and determining what type of scenario Canmore wants in the future.
- A final Vision Statement was developed.

The vision keepers is an eight member group appointed by town council to advise on the community vision and how council is adhering to in decisions made.

Second home owners / nonpermanent residents felt that they that they were being singled out by permanent residents. This would likely have occurred regardless of any process followed.

A major fracture between the two groups of residents has occurred through the local newspaper, The Canmore Leader, with both permanent and non-permanent residents filling the letters to the editors section with letters airing their issues.

As the town has adjusted the PRRP revenue is now expected to only reach \$650,000 to \$800,000 not including administration fees that are estimated at around \$20,000(Barlow, 2007).

The PRRP is still in the process of being passed by local council and the Town of Canmore may also face a legal challenge by one of the second home owners that believes “the town of Canmore does not have jurisdiction under the Municipal Government Act through arbitrary and discriminatory taxation(Paton, 2007).”

Due to the contentious debate around the PRRP, council announced at the first reading, that a public hearing was to be held on 10 April 2007. At this public hearing 13 people spoke against the tax while only two spoke in favor while emails favored for the tax by a margin of 12 to 9(Barlow, 2007).

Conclusions and Outcomes

It is hard to tell what the outcomes have been from the PRRP to date as the tax has not yet been implemented with second and third reading are expected in early May. Revenue may be significantly less than previously anticipated and the rate per house may have to be increased in the future. Perhaps, a larger second home tax will have the dampening effect on the local market.

As the process continues there will likely be many more lessons to learn, that towns facing similar issues can learn from.

Lessons Learned

The context for second homes is very different in Manitoba than in Canmore as displacement of local populations has not yet occurred. In the lake areas of Manitoba “cottage developments have been widely encouraged and heavily promoted by both the private and public sectors, virtually since the beginning of European settlement in Manitoba(Selwood, 2006):218.”

The decline that has been occurring for decades in many of Manitoba’s lake towns is now in reverse for some towns. Between 1996 and 2006 the Lake Winnipeg towns of Dunnottar, Victoria Beach, Winnipeg Beach all experienced permanent resident growth above 20 percent. In the Whiteshell, the RM of Lac Du Bonnet has experienced growth. As these towns continue to grow and more second home owners move in there may be similar town finance conflicts between the permanent and non-permanent residents.

The issue of cottage taxes and second homes has been

hotly debated for years but has not yet been implemented in Manitoba communities. As towns and RM's are looking for new sources of incomes a similar tax may become reality and towns may follow Canmore's initiative.

Rather than focussing on only the financial aspects of second home owners towns should also be planning for how they can benefit from second home owners in non-economic ways as a way to offset some of their budget deficits.

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