



# INFORMATION REPORT

<b>TO:</b>	Mayor and Members General Issues Committee
<b>COMMITTEE DATE:</b>	April 5, 2017
<b>SUBJECT/REPORT NO:</b>	New Municipal Flexibility for Vacant Unit Rebates and Vacant / Excess Land Subclasses (FCS17021) (City Wide)
<b>WARD(S) AFFECTED:</b>	City Wide
<b>PREPARED BY:</b>	Gloria Rojas (905) 546-2424 Ext. 6247
<b>SUBMITTED BY:</b>	Brian McMullen Director Financial Planning, Administration and Policy Corporate Services Department
<b>SIGNATURE:</b>	

## Council Direction:

The General Issues Committee, at its meeting of February 1, 2017, approved the following Motion (GIC Report #17-003, item (g) (i)):

“That staff be directed to include in the forthcoming report respecting vacancy rebates, time limits on tax rebates for vacant commercial and industrial properties”.

## Information:

### Background

Since 1998, through the Vacant Unit Rebate program, municipalities have provided a tax rebate to property owners who have vacancies in commercial and industrial buildings. Similarly, the Vacant / Excess land subclasses are taxed at a discounted rate from that of the residual class. The Province establishes the regulations in respect to these programs.

Following Sections 313 (1.1) and 364 of the *Municipal Act*, the City of Hamilton has established a rebate of 30% of the property tax for vacant space in commercial and industrial properties, as well as a 30% discount on the tax rate for vacant and excess land in the industrial property class and for the excess land in the commercial property class.

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In response to municipal and other stakeholders' requests, starting in 2017, the Province is providing municipalities with greater flexibility in the application of these programs. This change is intended to allow municipalities to customize the programs to their specific needs and circumstances, while maintaining the interests of local businesses.

The Province has provided a checklist, which municipalities must review prior to submitting any request for changes to the Ministry of Finance. The checklist, attached as Appendix "A" to this Report, includes considerations for the implementation of the changes in terms of engagement with the business community and program details.

Municipalities wanting to make changes to the existing programs must submit details of the proposed changes along with Council resolution to the Ministry of Finance by one of the following dates to ensure that the amendments are included in the required regulation:

- March 1, 2017
- April 1, 2017
- July 1, 2017

If Council wants a change to these programs, staff are targeting the July 1, 2017 deadline in order to have the new programs in place for the 2018 taxation year.

#### Vacant Unit Rebate Program

Prior to 1998, there was a Business Occupancy Tax levied against tenants within commercial and industrial properties. At tax reform in 1998, the Province eliminated this taxation and shifted those taxes to the property owner. In turn, the Province created the Vacant Unit Rebate which was intended to assist property owners in time of economic downturn. However, more recently, municipalities and the business community have been concerned about the negative effects that vacant commercial and industrial space have on initiatives to build and nurture healthy business districts and have been looking at ways to discourage long-term vacancies.

Business properties with extended vacancies negatively affect their surrounding properties in terms of increased insurance costs, mortgage financing and increase costs for enforcement of property standards, fire and health regulations. Revitalization efforts are also affected as it is difficult to maintain and strengthen commercial street fronts when properties are left vacant and, in some cases, neglected.

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The following Table shows the number of requests and the cost of the rebates for the 2011-2015 period:

Vacant Unit Rebates 2011 – 2015

Year	Number of Requests (*)	Municipal Portion
2011	543	\$2,102,000
2012	519	\$3,080,000
2013	514	\$2,134,000
2014	519	\$2,094,000
2015	515	\$2,333,000

(\*) Based on unique roll numbers

Each year during the 2011-2015 period, the City has received over 500 applications for the Vacant Unit Rebate program (based on unique properties) which has cost the City approximately \$11.7 M. The education portion of the rebate is approximately \$1.0 M per year.

There are a number of properties that have applied to the program for more than one year during the 2011-2015 period as shown in the Table below. Of the 515 properties that applied for the vacancy rebate in 2015, 117 have applied for only one year, 79 have applied for two years, 27 properties have applied for three years and 292 properties have applied for four or five years during the same period.

Years in Program	Number of Properties
1 Year	117
2 Years	79
3 Years	27
4+ Years	292

Municipalities also have concerns that the Vacant Unit Rebate program over compensates properties with vacancies because the assessment on their property also takes into account traditional vacancy rates to reduce the assessment on the business property.

### Potential Options for the Vacant Unit Rebate Program

1. Elimination of the Program

Under this option, the rebate of 30% of property taxes for vacant units would be eliminated starting in 2018. Applications received for vacancies occurred during 2017 will still be processed under the current policy, which has a deadline of February 28, 2018.

2. Phase-out the Elimination of the Program

The rebate program could be phased-out to mitigate the impact to the business community. For the next two tax years the rebate would be as follows:

2017 – 30%

2018 – 15%

2019 and beyond – 0%

3. Establish a Time Limit for the Program

Under this option, the vacant unit rebate will be available to those properties that qualify under the program for a limited time. For example, properties might be eligible for one year only. Or alternatively, for a maximum of two years and the first year the rebate would continue to be 30% and then be reduced to 15% for the second year.

4. Other Considerations

Other considerations could include as a limit on the number of times a property is eligible for the program, geographic target, etc.

5. Continuation of the Status Quo

The 30% property tax rebate would continue to be offered to vacant and industrial properties without any limitations.

### Vacant / Excess Land Subclasses Discount Programs

For property value assessments, vacant land is land that has no buildings or structures and is not being used. Vacant land is also land on which a building or structure is being built but has not yet been used or is substantially unusable.

Excess land is land that is not needed to serve or support the existing improvement. It is the land in excess of that required to accommodate the site's highest and best use. For example, this may occur with shopping centres or hotels where they may have more land than they need for site coverage, access roads and parking.

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The Vacant and Excess land subclasses discount program applies to commercial or industrial properties. These subclasses are taxed at a fixed percentage that is 30% to 35% below the tax rate of the broad class.

The City's current tax policy for the vacant / excess land subclasses is as follows:

- Commercial excess: 30% reduction
- Commercial vacant: No reduction
- Industrial excess: 30% reduction
- Industrial vacant: 30% reduction

Annually, the cost of this discount is approximately \$3.0 M in municipal tax revenue and \$1.0 M in education taxes.

#### Potential Options for the Discount Programs

1. Elimination of the Discount Programs

Under this option, the 30% discount to the vacant / excess land subclasses would be eliminated starting in 2018.

2. Phase-out the Elimination of the Discount Programs

The discount program could be phased-out to mitigate the impact to the business community. For the next two tax years the rebate and discount would be as follows:

2017 – 30%  
2018 – 15%  
2019 and beyond – 0%

3. Continuation of the Status Quo

The 30% tax rate discount will continue to apply for vacant / excess lands in the industrial property class and for excess lands in the commercial property class.

#### Business Community Engagement & Timeline

The options presented in this Report could have a significant impact on some business property owners. Therefore, engaging the business community in a discussion about the options being proposed is an important component of the review process and required by the Province for any change to be considered.

Staff has developed the following engagement process:

- Meet with the BIA's
- Meet with the Chamber of Commerce
- Circulate this Report to Community Hubs
- Engage broadly through the City's website, traditional and social media
- Summarize the feedback in a subsequent staff report
- Provide the community an opportunity to appear as a delegation at GIC prior to approval of any recommendations

The engagement will occur during April into May of this year. A final recommendation report will be submitted to GIC at the end of May or early June. If any changes are approved, notification will be given to the Ministry prior to July 1, 2017.

#### Appendices

Appendix "A" – Vacancy Rebate and Reduction Program Changes Checklist

#### Related Reports

- Request the Province of Ontario to Review the Legislation that Governs Rebates for Vacant Commercial and Industrial Properties (PED10166 / FCS10064)
- *Municipal Act* Consultation (LS15029)
- 2016 Tax Policies and Area Rating (FCS16032)

GR/dt