CITY OF HAMILTON
CORPORATE SERVICES DEPARTMENT
Financial Planning, Administration and Policy Division

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	June 7, 2017
SUBJECT/REPORT NO:	New Municipal Flexibility for Vacant Unit Rebates and Vacant / Excess Land Subclasses (FCS17021(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Tom Hewitson 905-546-2424 x 4159 Gloria Rojas 905-546-2424 x 6247
SUBMITTED BY: **SIGNATURE:**	Mike Zegarac General Manager Finance and Corporate Services Department

RECOMMENDATION

(a) That the Vacant Unit Rebate Program be phased out over two years with a 30% rebate in 2017 (status quo), a 15% rebate in 2018 and a 0% rebate in 2019.

(b) That the estimated budget savings for 2018 of $1.25 M be referred to the 2018 Operating Budget Process;

(c) That staff continue to review the Vacant / Excess Land Tax Reduction and report back during the 2018 Budget Process;

EXECUTIVE SUMMARY

On April 5, 2017, staff submitted Report FCS17021, "New Municipal Flexibility for Vacant Unit Rebates and Vacant / Excess Land Subclasses" to the General Issues Committee (GIC) for information. The Report outlined changes to the provincial regulations in respect of these programs and outlined a consultation process the City would follow in reviewing these programs. Further background information can be found in the Historical Background section of this Report.

After reviewing internal analysis, business and public feedback and municipal comparator information, staff is submitting the following recommendations:

Vacant Unit Rebate – That the rebate program be eliminated with a two-year phase out from its current 30% in 2017, to 15% in 2018 and 0% in 2019 and thereafter.

Vacant / Excess Land Reduction – That the reduction on these property subclasses be continued in 2018 and further review of the implications of adjusting or eliminating this reduction be conducted in time for the 2019 taxation year.

If approved, staff will communicate the changes to the Vacant Unit Rebate program to the public and business owners.

Information and analysis related to these recommendations can be found in the Analyses and Rationale section of this Report.

Alternatives for Consideration – See Pages 6 to 8

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: The recommendations would result in an estimated budget savings of $1.25 M in 2018 and an additional $1.25 M in 2019. Staff is recommending that these savings be referred to the 2018 operating budget process.

Staffing: There are no staffing implications. Elimination of this program will result in a partial FTE efficiency in 2020 that will be redirected to support the Tax Section's assessment functions.

Legal: The Vacant Unit Rebate By-law will be updated to reflect the change.

HISTORICAL BACKGROUND

Through the Vacant Unit Rebate program, municipalities have provided a tax rebate to commercial / industrial 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.

In response to municipal and other stakeholder's 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 program to their specific needs and circumstances, while maintaining the interest of the local business community in mind.

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 the 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

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".*

Staff is targeting the July 1, 2017 deadline in order to have the changes in place for the 2018 taxation year.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

N/A

RELEVANT CONSULTATION

The Province of Ontario, local businesses and community groups, Economic Development Division (Planning and Economic Development Department), other municipalities.

ANALYSIS AND RATIONALE FOR RECOMMENDATION

Vacant Unit Rebate

Previous to 1998, there was a Business Occupancy Tax (BOT) 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 and partially offset the additional taxation caused by the elimination of the BOT. 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 increased costs for enforcement of property standards, fire and health regulations. Revitalization efforts are also hampered as it is difficult to maintain and strengthen commercial street fronts when properties are left vacant and in some cases, neglected.

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 to 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). The City budgets $2.5 M per year for these rebates.

There are a number of properties that have applied to the program for more than one year during the 2011 to 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

Please note data for 2016 is incomplete as the applications for 2016 are submitted up until the end of February and staff is still processing and validating.

Municipalities also have concerns that the Vacant Unit Rebate program over compensates properties with vacancies because the assessment value calculated by the Municipal Property Assessment Corporation (MPAC) for commercial / industrial properties already takes into account traditional vacancy rates to reduce their assessment. This occurs for properties assessed based on income generation (malls, commercial and industrial strip plazas).

The following Table identifies the options considered, including the recommended option of elimination with phase out.

Vacant Unit Rebate Program Options

Option		Comments
Eliminate Program – Properties would no longer receive a rebate for vacant units. Recommended phase out over two years (2018 = 15% rebate; 2019 = 0%)	Pro	• May promote occupancy of property. • May promote desired result of improved care of property. • Supported by most BIA's, other community groups. • Would generate significant levy savings (current budget = $2.5 M annual). • Eliminates a program that is difficult to administer / validate. • Would eliminate the inequity of only the commercial / industrial properties being eligible while vacant. Multi-Residential and Residential properties are not eligible. • Fairness of funding from all taxpayers addressed. • MPAC applies a vacancy factor in assessing income generating properties. • A number of municipalities have confirmed their intent to eliminate the rebate (Ottawa, Peel, Halton, Toronto (commercial only)).
	Con	• Financial impact for owners during poor economic times. • May hinder development of some properties. • May encourage investment into communities that maintain a rebate. • Eliminates a support put in place for commercial / industrial class when tax system was changed in 1998.

Option		Comments
Time Limit – Properties could apply for two consecutive years and then not be eligible for two years. No assessment thresholds. Based on property applying, not specific units.	Pro	• May support occupancy of properties. • Recognizes that it may take some time to fill a vacant unit. • Temporarily assists financially when a property is being redeveloped. • Provides assistance regardless of property type (single unit vs multi-unit). • Supported by a number of businesses.
	Con	• May not be as effective at encouraging occupancy compared to elimination. • Uncertain levy savings. • Requires some additional administration. • Maintains a system that is difficult to administer and verify.
Status Quo – 30% rebate	Pro	• Provides assistance to businesses unable to attract tenants.
	Con	• May encourage continued vacancies. Note over half of the properties receiving a rebate have applied for 4+ years. • May lead to undeveloped / neglected properties. • May be rewarding some properties being used for ineligible purposes (e.g. storage). • Continued significant levy cost ($2.5 M budget). • Maintains a system that is difficult to administer and verify.

Option		Comments
Other Considerations		• A number of businesses requested time limits based on unit vacancy. This is very difficult to administer and validate. Would require additional resources / costs. • A number of comments relate to how to use savings. Savings could be directed to: a) programs assisting development; b) assist business impacted by LRT; c) general levy savings. • We did not see any comments related to targeting the rebate to certain geographical areas. • Submission requested that the City provide rebate only to legitimate applications – applicants trying to rent but are unsuccessful. This would require significant administration. • The rebate is needed to partially make whole for the changes in taxation that occurred in 1998. • Self-funding the program through a levy on the class suggested. Not likely supported by most in commercial / industrial classes (as many advocate elimination).

Consultation

The City received a number of comments with respect to the options. Comments received by May 12, 2017 are included in Appendix "A" to this Report. In addition, comments could be submitted to be included in the June 7, 2017 GIC agenda and / or the public could request to be a delegation.

The feedback was generally split between total elimination of the program and time limits. There was no feedback received that only advocated the continuation of the program.

The City also received some comments with respect to allocating the savings, if they occur. This included general levy savings passed on to the taxpayers, creation of a fund to assist businesses impacted by the LRT and apply funds to support business growth.

Municipal Comparators

To date, a number of municipalities have indicated that they plan to eliminate the Vacant Unit Rebate program, most with a phase out (but some fully eliminated in one year). These include Ottawa, Toronto (commercial only, industrial will continue), London and the municipalities within Halton and Peel Regions.

To a lesser extent, some municipalities indicated that they were considering time limits though none of those had approved this option at the time of this Report.

Vacant / Excess Land Reduction

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, buffer and parking.

The Vacant and Excess land subclasses discount program applies to commercial or industrial properties. These subclasses are taxed at a fixed percentage that is reduced by 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

The cost of this discount is approximately $3.0 M in municipal tax revenue and $1.0 M in education taxes.

At this time, staff is recommending additional review and analysis with respect to the impact of reducing or eliminating this tax reduction. Staff has concerns that reducing or eliminating this reduction may impact the status of some employment lands, affecting a key strategic priority for the City. More analysis and consultation is required.

Consultation

There was very little feedback in respect to the options related to the Vacant / Excess Land Reduction. One objection to the elimination of this reduction was that the reduction was in place to compensate for impacts that occurred during the 1998 tax reform measures.

Municipal Comparators

Very few municipal comparators have committed to changes in the Vacant / Excess Land tax reduction.

ALTERNATIVES FOR CONSIDERATION

Alternatives are discussed in the Analysis and Rationale section of this Report.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

Community Engagement and Participation
Hamilton has an open, transparent and accessible approach to City government that engages with and empowers all citizens to be involved in their community.

Economic Prosperity and Growth
Hamilton has a prosperous and diverse local economy where people have opportunities to grow and develop.

APPENDICES AND SCHEDULES ATTACHED

Appendix “A” – Business and Public Feedback

GR/dt