Vacant Unit Rebate and Vacant / Excess Land Subclasses

FCS17021(a)

General Issues Committee
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Program Details

- The Vacant Unit Rebate program provides a tax rebate to property owners who have vacancies in commercial and industrial buildings – requires application
- Similarly, the Vacant/Excess land subclasses are taxed at a discounted tax rate from that of the residual class – MPAC determines tax class

Current Policy

The current COH tax policy for the programs are as follows:

Vacant Unit Rebate:

- Vacant Unit Rebate: 30% of taxes

Vacant/Excess Land Discount

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

Historical Background

- Previous to 1998: Business Occupancy Tax (BOT) levied against tenants of commercial and industrial properties
- 1998 Tax Reform: BOT Eliminated. The Vacant Unit Rebate was introduced as partial offset of shifting taxes from the tenant to the property owner
- 2005: Council passed a resolution asking the Ministry of Finance to limit the rebate to 1 year

Historical Background (cont..)

- 2010: Council sent a request to the Ministry of Finance asking for a review of the programs
- 2015: The Province initiated a review of the Municipal Act, including the vacancy rebate, resulting in a more flexible program

New Flexibility

- Starting 2017, the Province is providing new flexibility to municipalities in the application of these programs

- Requirements include community engagement and approval of program changes by Council

- Program details must be submitted to the Province by July 1st, to be included in the required regulation.

Vacant Unit Rebate

- The Vacant Unit Rebate has cost the City approximately $11.7 M in the 2011-2015 period
- 515 properties applied in 2015. Of those, 292 have applied for more than four consecutive years
- Council and business community have expressed interest on a time limit or elimination of these programs

Vacant Unit Rebate (cont..)

- Some commercial properties, including shopping centres, are assessed by MPAC using the income approach
- MPAC determines the potential gross income (PGI) and adjust it by typical vacancy expense allowance to arrive at the effective gross income (EGI)
- This allowance reduces the PGI due to vacancies, tenant turnover and bad debts effectively reducing the income used to assess the value of the property

Vacant Unit Rebate (cont..)

- Vacant units have a negative effect on initiatives to build and nurture healthy business districts
- Properties with extended vacancies affect their surroundings in terms of increased insurance costs, mortgage financing and enforcement of property standards, fire and heath regulations
- Property assessment is already reduced to account for vacancy rates

Consultation

- The city engaged the community through media releases and direct contact with special interest groups such as BIA's and Community Planning Teams
- The feedback is generally split between total elimination of the program and time limits
- Other comments included allocation of possible savings to support business growth, to assist business impacted by LRT and to pass savings to taxpayers

Recommended Option

"That the Vacant Unit Rebate program be phased out over two years with a 30% rebate in 2017, a 15% rebate in 2018 and 0% rebate in 2019"

Pros:

- Promotes occupancy and improved care of property
- Levy savings of approximately $2.5M
- Eliminates inequity amongst classes
- Fairness to taxpayers
- Supported by most community groups, BIA's and municipalities

Recommended Option (cont..)

Cons:

- Financial impact to owners during difficult times
- May hinder development of some properties
- May encourage investment in communities that maintain the rebate

Other Options

- Time Limit: properties could apply for two consecutive years.

Considerations:

- Recognizes that time may be needed to fill vacancies
- Supported by some interest groups
- Is not as effective to encourage occupancy
- Uncertain levy savings
- Requires additional administration

Other Options

- Status Quo: Maintain 30% Rebate

Considerations:

- Continues to provide assistance
- May encourage continued vacancies
- May lead to underdeveloped/neglected properties
- Continued significant levy costs
- Difficult to administer and verify

Municipal Comparators

Municipality	Submission to Ministry of Finance
Toronto	Phase-out elimination ending as of July 1, 2018 for Commercial properties only
Ottawa	Phase-out elimination ending in the 2018 tax year
Sudbury	Phase-out elimination ending in the 2018 tax year
Halton Region	Phase-out elimination ending in the 2019 tax year
Peel Region	Phase-out elimination ending in the 2020 tax year
London	Phase-out elimination ending in the 2020 tax year

Vacant/Excess Land Reduction Program

- Vacant Land is land that has no buildings and structures and is not being used
- Excess land is land that is not needed to serve or support the existing improvement
- The cost of the discount is approximately $3.0M per year

Consultation & Recommendation

- Limited input received from the business community
- Very few municipalities have committed to changing the program
- Staff are recommending further analysis and to report back during the 2018 budget process

Hamilton

END OF PRESENTATION