



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

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	December 4, 2019
SUBJECT/REPORT NO:	New Municipal Flexibility for Vacant Unit Rebates and Vacant/Excess Land Subclasses (FCS17021(b)) (City Wide)
WARD(S) AFFECTED:	City Wide
PREPARED BY:	Gloria Rojas (905) 546-2424 Ext. 6247
SUBMITTED BY:	Mike Zegarac General Manager, Finance and Corporate Services Corporate Services Department
SIGNATURE:	

RECOMMENDATION(S)

- (a) That, to align with Province's property tax treatment of the Vacant / Excess Land Subclasses, the City's Reduction Program for the Vacant / Excess Land Subclasses in the Commercial and Industrial Property Classes be discontinued starting in the 2020 taxation year;
- (b) That the City Solicitor be authorized and directed to prepare all necessary by-laws for the purposes of eliminating the property tax Reduction Program for the Vacant / Excess Land Subclasses in the Commercial and Industrial Property Classes.

EXECUTIVE SUMMARY

In 2017, the Province approved legislation providing municipalities flexibility in the application of Vacant Unit Rebates and Commercial and Industrial Vacant / Excess Land Subclasses Reduction Program ("the Reduction Program"). On June 9, 2017, Council approved the phase-out of the Vacancy Rebate Program and directed staff to review the Reduction Program and report back at a later date.

The Reduction Program applies to commercial or industrial properties only in the vacant and excess land subclasses. These subclasses are taxed at a fixed percentage that is 30% to 35% below the tax rate of the broad class.

OUR Vision: To be the best place to raise a child and age successfully.

OUR Mission: To provide high quality cost conscious public services that contribute to a healthy, safe and prosperous community, in a sustainable manner.

OUR Culture: Collective Ownership, Steadfast Integrity, Courageous Change, Sensational Service, Engaged Empowered Employees.

SUBJECT: New Municipal Flexibility for Vacant Unit Rebates and Vacant / Excess Land Subclasses (FCS17021(b)) (City Wide) – Page 2 of 7

Beginning in 2019, the Ministry of Finance started a phase-out of the subclass reduction factors applied to the Education rates with the goal of eliminating the reduction by 2020. This legislation applies to all municipalities, regardless of their own reduction program. A large number of municipalities have already taken steps to phase-out or eliminate the municipal portion of the tax reduction in order to align with the tax treatment of the Education portion.

Staff is recommending that the City eliminate the reduction program beginning in the 2020 taxation year in order to align with the direction taken by the Province. The assessment of vacant and excess land is already lower than that of improved lands. Therefore, reductions to the tax rate account act as a double benefit to these classes. In addition, the lower tax rate may also be a deterrent to the development of the property.

Eliminating the reduction program does not result in levy savings, but it redistributes the tax burden among property classes. Based on 2019 information, the elimination of the tax reduction will benefit the Residential property class by approximately 0.2% or \$8 for the average residential property.

The average increase for the commercial / industrial properties in the vacant and excess land subclasses would be approximately \$5,400 or 5.6% of the total tax bill for 2020. These properties already experienced an increase in 2019 of approximately \$960 or 2.7%, on average, as a result of year one of the phase-out of the reduction of the Education tax rate.

It is important to note that 4.6% of the total impact is attributable to the elimination of the reduction to the municipal tax rates and 1.0% is due to the provincially regulated elimination of the Education tax rate reduction, effective for the 2020 tax year. The City has no control over the Education tax rate and the increase due to the elimination of the reduction in the Education tax rate will take place regardless of the City's decision to modify the municipal portion of the tax bill.

Alternatives for Consideration – See Page 7

FINANCIAL – STAFFING – LEGAL IMPLICATIONS

Financial: Eliminating the reduction program for excess and vacant land subclasses does not result in any impact to the levy but it causes a shift of \$2,033,000 to the Commercial and Industrial property classes. Based on 2019 assessment information, the shift will result in a benefit to the residential property class of approximately 0.2% or \$8 for the average residential property in the City.

Staffing: N/A

SUBJECT: New Municipal Flexibility for Vacant Unit Rebates and Vacant / Excess Land Subclasses (FCS17021(b)) (City Wide) – Page 3 of 7

Legal: In order to be included in the Provincial regulations, detailed changes to the existing program along with a Council resolution must be submitted to the Ministry of Finance. A deadline for submissions to be effective for the 2020 taxation year has not yet been set.

HISTORICAL BACKGROUND

Detailed historical background regarding the Vacant Unit Rebates and Vacant / Excess Land Subclasses Reduction Programs can be found in Report FCS17021 “New Municipal Flexibility for Vacant Unit Rebates and Vacant / Excess Land Subclasses”.

In 2017, the Province approved legislation providing municipalities with flexibility in the application of Vacant Unit Rebates and Commercial and Industrial Vacant / Excess Land Subclasses Reduction Programs, allowing municipalities to customize the programs to their specific needs and circumstances, while maintaining the interests of local businesses.

Based on the analysis provided in Report FCS17021(a), Council approved the phase-out of the Vacancy Rebate Program but maintained the Vacant / Excess Land Reductions Program and directed staff to review the program and report back at a later date.

Starting in 2019, the Ministry of Finance implemented a phase-out of the subclass reduction factors applied to the Education rates for Commercial and Industrial Excess and Vacant Land subclasses. For 2019, the subclass reduction factor is being phased out by 50%, with the goal to fully phase-out those subclass reduction factors by 2020. This is outlined in Ontario Regulation 400/98, Subsection 11 of the *Education Act* and applies to all municipalities, regardless of their own reduction program.

POLICY IMPLICATIONS AND LEGISLATED REQUIREMENTS

The policy implications and legislated requirements of the reduction program are discussed in the Analysis and Rationale for Recommendation section of Report FCS17021(b).

RELEVANT CONSULTATION

Province of Ontario, local business and community groups, Planning and Economic Development Department, Corporate Services Department (Taxation) and other municipalities.

ANALYSIS AND RATIONALE FOR RECOMMENDATION(S)

Vacant / Excess Land Subclasses Reduction Program

For property assessment purposes, 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 land which a building or structure has been built but is substantially unusable.

Excess land is a portion of a property that is not developed and is in excess of the land required to serve or support the existing developed portion of the property improvement. 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.

The vacant and excess land subclasses reduction program applies to commercial or industrial properties only. 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

Until 2018, the Province matched the reduction in Education rates to the one provided by the municipalities. However, starting in 2019, the Ministry of Finance implemented a phase-out of the subclass reduction factors applied to the Education rates for Commercial and Industrial excess and vacant land subclasses. For 2019, the subclass reduction factor is being phased out by 50%, with the goal to fully phase-out those subclass reduction factors by 2020. This legislation applies to all municipalities, regardless of their own reduction program.

As a result, the Commercial and Industrial properties in these subclasses (approximately 460) have a 30% reduction in the municipal rate but only a 15% reduction in the Education rate. For the 2020 tax year, the reduction in Education taxes will be completely eliminated.

Analysis

Municipal Property Assessment Corporation's (MPAC) valuation of the excess and vacant lands reflect the fact that the land is not being used or is not needed to support the existing business and, therefore, it has a lower assessment than improved lands.

SUBJECT: New Municipal Flexibility for Vacant Unit Rebates and Vacant / Excess Land Subclasses (FCS17021(b)) (City Wide) – Page 5 of 7

Providing a reduction on the tax rate is an additional benefit to property owners of lands in these subclasses. This benefit is subsidized by all the other property classes since there are no reductions for vacant or excess land in any other property classes and, in fact, the commercial vacant land subclass has not had a reduction and has paid the full rate since 1998.

The lower tax rate for vacant and excess land may also be a deterrent to the development of the property. The elimination of the reduction may encourage the development of properties that would otherwise sit vacant for indefinite periods of time.

Eliminating the reduction program will not result in additional tax revenue for the City but will change the redistribution of the taxes among property classes as indicated in the table below (based on 2019 assessment information). This shift is exclusive of any other pressures such as reassessment and budget increases and will benefit the residential property class by reducing their tax impact by approximately 0.2% or \$8 for the average residential valued at \$358,600.

	Total Incl. Education \$	Total Incl. Education %
Residential	\$ (1,418,834)	-0.2%
Multi-Residential	\$ (166,396)	-0.2%
Commercial	\$ 476,358	0.3%
Industrial	\$ 1,556,305	3.3%
Farm	\$ (5,139)	-0.2%

The average increase would be approximately \$5,400 or 5.6% of the total tax bill for vacant and excess land subclasses in the Commercial and Industrial property classes. Increases range from \$9 or 0.0% to \$147 K or 6.9%. However, if the tax bill only includes properties in the affected subclasses, the increase could be up to 35% (approximately 160 properties). These properties already experienced an increase in 2019 of approximately 2.7%, on average, as a result of year one of the phase-out of the reduction of the Education tax rate.

It is important to note that 4.6% of the total impact would be attributable to the elimination of the reduction to the municipal tax rates and 1.0% would be due to the provincially regulated elimination of the Education tax rate reduction, effective for the 2020 tax year. The City has no control over the Education tax rate and the increase due to the elimination of the reduction in the Education tax rate will take place regardless of the City's decision to modify the municipal portion of the tax bill.

Municipal Comparators

A large and growing number of municipalities have eliminated or are in the process of phasing-out the reduction program. These municipalities include: Guelph, Greater Sudbury, the regions of Durham, Waterloo, Halton and Niagara, Haldimand County, County of Renfrew, County of Perth, County of Elgin, the District of Muskoka, City of St. Thomas, Town of Thessalon, Village of Hilton Beach, Town of Espanola, Municipality of Oliver Paipouge, Township of Nairn & Hyman, Town of St. Mary's, Township of Baldwin and City of Kenora.

The County of Wellington and the regions of Peel and York will review the program during 2019 / 2020. Toronto, Ottawa, Kingston, London, Windsor have not taken any action yet.

Consultation

The Province has provided a checklist which municipalities must review prior to submitting any request for changes to the Ministry of Finance. This checklist includes considerations for the implementation of the changes in terms of engagement with the business community and program details. The City conducted a consultation during April and May of 2017 including the following:

- Meetings with the Business Improvement Areas
- Meetings with the Hamilton Chamber of Commerce
- Circulation of Report FCS17021(a) to Community Hubs
- Engagement through the City's website, traditional and social media
- Provided the community an opportunity to appear as a delegation at the General Issues Committee (GIC) prior to approval of the final recommendations

The findings of the consultation were included in Appendix "A" to Report FCS17021(a) and are again attached as Appendix "A" to Report FCS17021(b). The City received a large number of comments with respect of the vacancy rebate but the feedback concerning the Reduction Programs was minimal. 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.

ALTERNATIVES FOR CONSIDERATION

Council could consider the following alternative as explained below:

**SUBJECT: New Municipal Flexibility for Vacant Unit Rebates and Vacant /
Excess Land Subclasses (FCS17021(b)) (City Wide) – Page 7 of 7**

Phase-out the elimination of the reduction programs. Although this option would mitigate the impact to the property owners of lands in the vacant and excess land subclasses, this option is not consistent with the Provincial elimination of the reduction for the Education tax rate in 2020.

ALIGNMENT TO THE 2016 – 2025 STRATEGIC PLAN

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” to Report 17021(b) – Business and Public Feedback

GR/dt