Subject: Vacancy Program Revisions to Ministry of Finance

Report to: Corporate Services Committee

Report date: Wednesday, January 9, 2019

Recommendations

1. That the proposed amendments to the existing Commercial/Industrial Vacant Unit Rebate and Vacant/Excess Land Subclass property tax rate reductions programs **BE APPROVED** as follows:

    a. Vacant Unit Tax Rebate
        i. Commercial Properties: Phase out the current program in its entirety, over three years, by reducing the eligible rebate percentage from the current rate of 30% in 2018, to 20% in 2019, 10% in 2020, and 0% in 2021 and onwards.

        ii. Industrial Properties: Phase out the current program in its entirety, over three years, by reducing the eligible rebate percentage from the current rate of 30% in 2018, to 20% in 2019, 10% in 2020, and 0% in 2021 and onwards.

    b. Vacant/Excess Land Tax Rate Reduction
        i. Commercial Properties: Phase out the current program in its entirety, over four years starting 2021, by reducing the eligible rebate percentage from the current rate of 30% in 2018, to 22.5% in 2021, 15% in 2022, 7.5% in 2023 and 0% in 2024 and onwards.

        ii. Industrial Properties: Phase out the current program in its entirety, over four years starting 2021, by reducing the eligible rebate percentage from the current rate of 30% in 2018, to 22.5% in 2021, 15% in 2022, 7.5% in 2023 and 0% in 2024 and onwards;

2. That the Province of Ontario **BE REQUESTED** to adopt regulations and make any other legislative amendments require to adjust Niagara Region's Vacant Unit and Vacant/Excess Land Tax Programs as per Recommendation 1.
3. That the Commissioner, Enterprise Resource Management Services/Treasurer **BE DIRECTED** to submit this report to the Ontario Minster of Finance, along with any other supporting documentation as required by the Ministry to enact the request program changes; and

4. That this report **BE CIRCULATED** to the Councils of the area municipalities for information.

Key Facts

- Commencing in 2017, the Province provided municipalities a greater range of options to modify or eliminate the Vacant Unit Property Tax Rebate and Commercial/Industrial Vacant/Excess Subclass property tax reduction programs.
- Currently, Niagara Region has adopted property tax rebate/reduction for the above noted programs of 30%.
- Report CSD 77-2017 Commercial and Industrial Sub Class Tax Rate Reduction and Rebates, dated November 29, 2019, Regional Council approved a public consultation process to be conducted in order to solicit opinions on program alterations. Both area municipal staff and business associations were consulted.
- Report CSD 41-2018 dated July 18, 2018 presented the result of the public engagement to Council and based on the comments provided by local stakeholders, Regional staff proposed amendments to the existing rebate and reduction programs as outlined in the recommendations section of this report.
- Council reviewed the proposed changes included in CSD 41-2018 and requested that additional public engagement occur in order to ensure communication of the proposed changes and input is achieved.
- Three additional public engagement sessions were held and no changes to the previously presented program revisions as per CSD 41-2018 are being recommended as a result of no new information being obtained from the business community coupled with an increased desired from the non-commercial/industrial property owners for program elimination.

Financial Considerations

Vacant Unit Rebates – The Region’s vacancy rebate program is an application based program that provides for a 30% rebate to both commercial and industrial property classes if vacancies are experienced in year. The rebate program policy is a decision of Regional Council that applies to all the Niagara municipalities.

Unlike the subclass reduction program described below, the Region and each municipality budget for the cost of providing these vacancy rebates. The Region’s 2018 budget expense for providing this program was approximately $1 Million or 0.28% of the tax levy. The impact on the local area municipal levies would be of a similar dollar magnitude in aggregate. Elimination of this program could provide direct budget opportunities for both the Region and area municipality’s budgets or could be used to provide mitigation against future budget increases.

Subclass Rate Reduction –The Region’s vacant and excess land discount factor for commercial and industrial properties is 30% for 2018 for properties that are vacant or have excess land. The subclass rate reductions are one of the tax policy decisions the Regional Council must make each year that apply to all the Niagara municipalities.

The subclass reductions provided to commercial and industrial vacant/excess lands amounts to approximately $1.6 million (Regional portion only). It is important to note, that any changes to this program would not provide direct budget relief to the tax levy. Any reduction of the subclass discount percentage would result in a tax shift away from all other classes (including the residential, farm, full commercial and industrial classes) onto the previously discounted commercial and industrial classes. Unlike the vacant unit rebates, discussed above, the property owners do not have to apply for the reduction. Eligibility for the subclasses is ultimately determined by MPAC and is reflected annually on the tax roll.

The impact to the average residential household of eliminating the vacant unit rebate plus the benefit of the tax shift from eliminating the subclass discounts is estimated at $10.96 or 0.75% reduction for the average household (Region portion only). For commercial and industrial properties assessed at $1 million, the benefit of eliminating the discounts and rebates is $74 and $112, respectively.

The savings of starting the phase-out in 2019 will result in a decrease in the Region's Vacant Unit Rebate budget by approximately $300 thousand which has been repurposed to other Regional priorities in the 2019 operating budget. As a result of the program change, a similar impact can be expected for the area municipalities in aggregate.

Analysis

Additional Public Engagement

At the direction of Corporate Services Committee, staff undertook additional consultation with local area municipalities and business associations above what was originally conducted. The Niagara Industrial Association, Greater Niagara Chambers of Commerce and previous users of the program were further engaged in order to ensure communication of the changes and input was achieved.

Regional staff organized two additional engagement sessions open to both area municipal staff and business groups/residents. Notification was distributed to area municipal staff informing them of the upcoming meeting. In order to increase awareness of the engagement session with the business groups and residents, Regional staff coordinated press releases through both the Niagara Industrial Association and Greater Niagara Chamber of Commerce, undertook a social media campaign and provided further information on the Region's website.

In order to ensure a comprehensive public engagement, Regional staff invited area municipal finance staff to complete direct mail outs to former recipients of the vacant unit rebate informing them of the intended program revisions and directing them to the Region's online survey. The direct mail out did yield a few verbal enquiries, however, staff believe that the increase in the number of surveys completed (in comparison to the May 2018 survey) can partially be attributed to the direct mail outs and the social media campaign.

Region staff were also contacted by the Niagara Industrial and Commercial Brokers association with comments on the proposed program revisions. As a result, an additional meeting was arranged between the members of the association and Region staff to further discuss the existing program, the proposed program revisions and the impact of such changes. This meeting was attended by representatives of many commercial and industrial property owners across Niagara.

Result of Additional Public Engagement

The results of the additional municipal engagement were consistent with the previous sessions held with municipal staff. There was an interest in eliminating the programs and allocating the funds currently utilized by these program elsewhere (i.e., economic development activities or to the tax levy).

The results of the additional public engagement session with the community were mixed. The representatives in attendance from one of Niagara Business Improvement Areas was in support of program alterations while those that identified as business owners were not in favour of the proposed changes. The discussion primarily focused on the vacant unit rebate instead of the vacant/excess land subclass reduction program. In general, comments received from those in attendance were in support of the vacant unit rebate program as it provides assistance to business owners during challenging periods and/or transition periods between tenants.

Comments received from the Realtors association were similar to those received during the additional public consultation from the community as well. Those in attendance noted that the Region should not enact program changes for the sole purpose of being consistent with other municipalities across Southern Ontario. Those in attendance stressed the importance of a “made in Niagara” solution. This meeting also resulted in 9 letters in support of the current program being submitted to the Region from business owners (included as **Appendix I**).

From the time that report CSD 41-2018 was presented to Council an additional 157 online surveys were completed by business owners and residents. The full summary of the results are included as **Appendix II** to this report. The survey was designed to separate those that are representatives or owners of commercial/industrial properties and those that are not. Approximately 38% of the survey respondents identified themselves as a representative or owner of a commercial or industrial property in Niagara while the remaining 62% did not. The responses from those that identified as representatives or owners of a business were for the most part, consistent with the verbal feedback received at all engagement sessions. Unlike the engagement sessions though, significant input was received from those that did not identify as representatives or owners of a business property. The majority of this group did not feel that the existing vacancy programs creates a positive impact on the local community and as a result, both programs should be discontinued.

Recommendation Based on Public Engagement

As discussed in CSD 41-2018, staff presented rationale for eliminating the programs which included:

- Existing programs place strain on current municipal budgets;
- No limitation on the number of years a property can be considered vacant and eligible which can lead to lack of incentive to develop properties or fill vacancies;
- Assessment practices have led to "double-dipping" as properties can receive reduced assessed values related to vacancies (as a result of built in assessment obsolescence factors by MPAC) in addition to a vacancy tax rebate during the same period.

Based on discussions from all stakeholder engagements, staff are recommending that the below phase-out schedules for both programs be endorsed by Council. It should be noted that the recommended program revisions are a "made in Niagara" solution. Many Golden Horseshoe municipalities (as noted in **Appendix III**) have opted to eliminate the Vacant Unit program through a phase-out starting 2017 or eliminate the program immediately without a phase-out. As noted in Table 1, the "made in Niagara" solution is to phase-out the Vacant Unit rebate starting 2019 and a delayed 4 year phase-out for the vacant/excess land subclass discount starting 2021.

Table 1: Recommended Program Phase-out Schedule

Year	Vacant Unit Rebate %	Vacant/Excess Land Reduction %
2018	30%	30%
2019	20%	30%
2020	10%	30%
2021	0%	22.5%
2022	0%	15%
2023	0%	7.5%
2024 and onwards	0%	0%

As discussed in CSD 41-2018, the intent of the phase out starting 2019 for the vacant unit rebate program is to allow for business owners that would be effected by the program change to adjust their business plans (i.e. seek tenants, better utilize available building space, etc.). The intent of the four year phase-out starting 2021 for the vacant and excess land subclass reduction program is to provide time for commercial and industrial land owners to create productive land and to match MPAC's assessment phase-in cycles allowing for a "fresh start" in 2024. It should also be noted that the

Ontario Business Improvement Area Association is in support of eliminating the vacant unit rebate for similar reasons as noted above (press release included as **Appendix IV**).

Provincial Requirements to Enact Requested Program Revisions

As outlined in **Appendix V**, the Province established requirements that must be completed prior to submitting program changes for their consideration. Over the course of the review period conducted by Regional staff, all requirements have been completed save and except the final requirement of Council to pass a resolution indicating approval of the changes. If Council passes a resolution in accordance with the report recommendations as presented, staff will request the Province to enact the program revisions as outlined in Table 1 noted above.

Alternatives Reviewed

Continue both the commercial/industrial vacant unit and vacant/excess land subclass tax reduction programs as a status quo. This alternative is **NOT RECOMMENDED** as it does not respond to the concerns heard during the public consultation process.

Eliminate both the vacant unit and vacant/excess land subclass rebate and reduction programs immediately without phase-out. This alternative is **NOT RECOMMENDED** as it would not provide sufficient time for local business owners to adjust their business plans accordingly.

Continue the vacant unit program but limit the number of years that a property can be eligible for rebate. This alternative is **NOT RECOMMENDED** as it does not represent the majority of the input received during the public engagement sessions. It is also believed that this approach would create confusion with the program and increase administrative burden of having these programs.

Relationship to Council Strategic Priorities

Options provided supports Council’s priority of fostering an environment for economic prosperity.

Other Pertinent Reports

CSD 79-2016 Recommended Actions for Correspondence from the City of St. Catharines respecting Tax Policy Changes
CSD 77-2017 Commercial and Industrial Sub Class Tax Rate Reductions and Rebates
CWCD 142-2017 Response to enquires from March 22, 2017 Corporate services Committee meeting
CSD 18-2018 Property Tax Policy, Ratios and Rates
CSD 41-2018 Results of Stakeholder Engagement for Vacancy Rebate Program Revisions

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Appendices

Appendix I	Letters Re Vacancy Program Revisions
Appendix II	Survey Outcomes
Appendix III	Map of Neighbouring Municipalities with Council Approved Program Changes
Appendix IV	News Release - Ontario Business Improvement Area Association
Appendix V	Letter from Ministry of Finance Re: Vacant Unit and Vacant/Excess Land Subclasses