

FORMAL REPORT

To:	Mayor Stratthdee and Members of Council
Prepared by:	Jim Brown, Director of Finance
Date of Meeting:	13 June 2017
Subject:	FIN 13-2017 Vacant Unit Rebate and Vacant / Excess Land Reductions

PURPOSE

This is a follow up on report FIN 10-2017 Vacant Unit Rebate and Vacant / Excess Land Subclasses. That report was presented in April 2017 to inform Council of the change in property tax legislation moving from what was a prescribed program of tax rebates and reductions to one allowing municipalities the flexibility to tailor a program to their needs including the elimination of the rebate or reduction.

The following report provides the relevant background for the public meeting portion of the June 13, 2017 Council meeting, and recommends phasing out vacancy rebates by the year 2020.

RECOMMENDATION

THAT the Town of St. Marys utilize the flexibility afforded by the Province to phase out the Vacant Unit Rebate and Vacant / Excess Land Subclasses for both the commercial and industrial classes; and

THAT the rebate and discount percentages for the purposes of paragraphs 313 (1) and 364(2) 2, 3 shall be as follows:

- a) For the 2018 taxation year; 20 per cent for the commercial and industrial property class
- b) For the 2019 taxation year; 10 per cent for the commercial and industrial property class; and

THAT the Town of St. Marys will no longer maintain programs to provide rebates of taxes in respect of vacant portions of properties or reductions in tax rates for vacant or excess properties for 2020 or any subsequent year.

BACKGROUND

In the late 1990's the Province introduced the requirement for municipalities to have a vacant commercial and industrial building rebate program (Section 364 (1) of the *Municipal Act*, 2001). In general the program provided an annual application based property tax rebate of both the municipal and education taxes for commercial and industrial properties that were vacant or partially vacant in that year. The rebate is 30% for commercial applications and 35% for industrial applications.

Likewise, Section 313(1) of the *Municipal Act*, 2001 required a 30% reduction in the tax rate for commercial properties assessed in the subclass as vacant / excess land and 35% for industrial properties. There is no application process to receive this reduction as the assessment values are determined by MPAC and are assigned their respective tax class to which the lower tax rates are applied. The following are the rates and identifiers that appear in the property tax bills.

2017 Vacant / Excess Land Reductions			
Tax Code	Property Tax Class	Industrial	Commercial
I/T	Industrial Full Rate	.03108157	
C/T	Commercial Full Rate		.01937035
I/U	Industrial Excess Land	.02020302	
I/X	Industrial Vacant Land	.02020302	
C/U	Commercial Excess Land		.01355924
C/X	Commercial Vacant Land		.01355924
	Portion of Full Rate	65%	70%

In response to municipal and other stakeholder's requests, the Province is now moving forward in providing municipalities with broad flexibility in these areas of taxation for 2017 and future years. In December 2016 Bill 70 was passed amending the rebate and reduction programs with the removal of the prescribed 30% and 35% rates to be replaced with a program that municipalities will develop to reflect community needs and circumstances while considering the interests of local businesses. Municipalities will forward their program to the Ministry of Finance to be implemented through regulation.

To implement change the Province has outlined specific requirements:

- The local business community has to be engaged and the Town has to provide details on how and when the business community has been engaged.
- The potential impacts of any proposed changes on local businesses have to be considered and communicated.

The Province has established a deadline of July 1 for the necessary information being submitted for review and approval to be implement for the 2017 tax year.

Council considered this information in report FIN 10-2017 Vacant Unit Rebate and Vacant / Excess Land Subclasses in April 2017 and passed the following resolution:

Resolution 2017-04-25-14:

THAT Council consider the elimination of the Vacant Unit Rebate program; and,

THAT Council consider the phase out of the Vacant / Excess subclass tax reductions; and,

THAT staff consult with the local business community and report back to Council on the final recommendation.

REPORT

The tables below identify the extent of the rebates and reductions provided by the Town. The vacant unit rebate program varies by year and is application based. The vacant / excess land reduction is a more consistent amount as it is based on the property's assessed value and automatically forms part of the tax levy calculation.

Vacant Unit Rebates					
Year	Number of Properties	Municipal Rebate	Education Portion	BIA Portion	Total Rebate
2011	15	46,607	33,516	114	80,237
2012	12	40,822	26,994	311	68,127
2013	9	36,215	22,145	260	58,620
2014	8	25,509	16,470	361	42,340
2015	10	13,927	8,599	384	22,910
2016	12	54,891	28,054	383	83,328
2017 (Anticipated)	11	128,948	67,700	340	196,988
Total:	78	\$ 346,919	\$ 203,478	\$ 2,153	\$ 552,450

Of the 12 properties which received a rebate in 2016, 5 had received the rebate for at least 4 of the past 5 years.

2017 Vacant/Excess Land Reductions		
Amount	Number of Properties	Total Reduction
Up to \$500	10	2,621
\$501 to \$1,000	8	5,895
\$1,001 to \$1,500	6	6,917
\$1,501 to \$2,000	2	3,469
\$2,001 to \$2,500	1	2,177
\$2,501 to \$3,000	1	2,813
\$12,001 to \$12,500	1	12,171
Total:	29	\$ 36,063

The split is Municipal \$23,968, Education \$12,095.

To engage the business community, notice of the Town's intent to reduce these programs was sent three ways, including: inclusion in the May 17th distribution of the "St. Marys Business Update" email; a direct mailing to those property owners who are directly affected by the change; as well as an online survey to gather feedback. The results of the survey are as follows:

Survey Results			
Town Resident or Business Property Owner	# of Responses	Rebate Program	Tax Reduction Program
Resident	1	Phase out	Phase out
	2	Eliminate immediately	Eliminate immediately
	1	Keep but modify	Eliminate immediately
Business Property Owner	3	Keep as is	Keep as is
	3	Eliminate immediately	Eliminate immediately
	1	Phase out	Phase out

There are a number of options available to Council in regard to the programs.

- Eliminate the programs exiting this year in 2017 or a subsequent year.
- Redefine program regarding the types of properties that qualify for the rebate/reduction.
- Consider a graduated exit by timeline and/or percentage of rebate.
- Time limit of being in the vacancy rebate program- e.g. can only be in the program for 3 years and then not eligible.
- Status Quo - continue with the programs as currently exists.

In considering options, Council may wish to consider the following:

- This is a business benefit that is being subsidized by all property classes in the Town.
- The benefit is not available to other types of property, e.g. residential or multi-residential
- MPAC does factor a vacancy allowance, economically obsolete areas, chronic vacancy and reduced income in a property's assessed value. These are also items that are typically targeted during assessment appeals where the property owner/tax agent is looking for a larger allowance. This in essence is allowing "double dipping" at the expense of all property owners.
- Although it is difficult to quantify there is the opinion the program discourages the leasing of some vacant property and the landlord may simply be waiting for increased equity for sale purposes.
- Will an elimination of the vacant/excess land tax reductions impact the Town's economic competitiveness?
- The entire program is highly administrative as designed; implement a minimum dollar value for processing rebates.
- Several properties have applied for the rebate every year for the past five years. This is not the intent of the program.

If the intention is to eliminate or revise the programs to include the 2017 taxation year a resolution must be submitted to the Province by July 1, 2017.

SUMMARY

In response to municipal and other stakeholder's requests the Province has provided municipalities with the flexibility to tailor tax policies to address local issues. Of the two programs the vacant unit rebate is the better known and more widely discussed. A review of the 2016 rebates indicate that more than 40% of those properties have consistently received the rebate. This supports the belief that providing financial incentives to property owners encourages longer term speculation rather than immediate productive use.

It is staff's recommendation that vacancy rebates be eliminated in a phased approach. The elimination of vacancy rebates may provide an incentive to more actively pursue productive use. As

far as vacant and excess land MPAC already reflects the fact that there are no improvements on the land and therefore there is no need to also adjust the tax rate to a lower level for these properties.

Consideration must be given to the timing of the implementation of the change. The impact to the property owners will vary. Properties totally vacant will experience the greatest impact as compared to those with only a portion being vacant. Likewise the ratio of vacant/excess land to total property assessment may be significant. As most businesses have completed their budgets and business plans for the year it is recommended to start a phase out starting the 2018 calendar year for both programs, with total phase out being completed by the 2020 calendar year.

FINANCIAL IMPLICATIONS

The 2017 budget reflects the status quo. A reduction or elimination of these programs in 2017 would generate a surplus.

OTHERS CONSULTED

Municipal Property Assessment Corporation

ATTACHMENTS

None

REVIEWED BY

Recommended by the Department



Jim Brown
Director of Finance

Recommended by the CAO



Brent Kittmer
CAO / Clerk