TO:	CHAIR AND MEMBERS CORPORATE SERVICES COMMITTEE MEETING ON NOVEMBER 21, 2017
FROM:	ANNA LISA BARBON MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER
SUBJECT:	VACANT UNIT REBATE AND VACANT/EXCESS LAND SUBCLASS TAX REDUCTION

RECOMMENDATION

That, on the recommendation of the Managing Director, Corporate Services and City Treasurer, Chief Financial Officer, the following actions **BE TAKEN** with respect to vacant unit tax rebates and vacant/excess land subclass reductions in the commercial and industrial property classes:

a) That Civic Administration **BE DIRECTED** to change the vacancy rebate program in accordance with one of the options presented in this report, it being noted that the option recommended by staff is option 8 resulting in limiting the existing vacancy rebate program to new building and/or building additions constructed after December 31, 2017 for a period of up to three (3) years only while phasing out the existing rebate program over one (1) year resulting in a reduced rebate of 15% in 2018, and 0% in 2019.

b) That the City Clerk **BE DIRECTED** to send the resolution adopted by Municipal Council to the Minister of Finance with the request that the Minister issue the necessary regulations to put into effect the option approved by Council.

c) That **NO ACTION** be taken with respect to the vacant/excess land subclass reductions until a later date when it is clear as to what decisions are being made in other municipalities in Ontario with respect to this issue.

d) That communications (Appendix D) from the London Chamber of Commerce, Old East Village BIA, Downtown London, and Argyle Business Improvement Association **BE RECEIVED** for information.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Corporate Services Report – March 28th 2017 – Vacant Unit Rebate and Vacant/Excess Land Subclass Tax Reductions.

BACKGROUND

Municipal Council at its meeting held on April 4, 2017 resolved the following:

*That, on the recommendation of the Managing Director Corporate Services and City Treasurer, Chief Financial Officer & Acting City Manager, the following actions **BE TAKEN** with respect to vacant unit tax rebates and vacant/excess land subclass tax reductions in the commercial and industrial property classes:*

*a) A policy **BE ADOPTED IN PRINCIPLE** to phase out the current vacancy rebate program and eliminate the subclass tax reductions on vacant commercial and industrial land and excess land either immediately beginning with the calendar year 2018 or over a two year period beginning in the year 2018 with complete elimination before the 2020 calendar year,* *it being noted that any timing will be determined after consultation with the business community as described in (b) below.*

b) *The City Clerk **BE DIRECTED** to send this report to the London Economic Development Corporation, the boards of management of Business Improvement Areas in the City and the London Chamber of Commerce in order to obtain comments on behalf of their clients and members in the commercial and industrial sectors with respect to the elimination or phase-out as described in (a) above, and for the City to make contact with property owners that received a vacancy rebate or subclass reduction in 2016 to inform them of the process being undertaken by the City, with such comments to be returned to the City no later than August 31st 2017 for review by Council.*

As a result of the action taken as described in part (b) of the above resolution, the City received communications from the various organizations referred to. Copies of those communications (Appendix D) are attached. Civic Administration also, with the assistance of the London Chamber of Commerce, presented at the office of the Chamber of Commerce on September 7th, 2017, discussing and obtaining feedback on the above council resolution and the related report. Property owners who were affected by the proposed changes were invited to attend that presentation. Along with feedback received from various stakeholders, Civic Administration looked at what other municipalities are doing to help inform the options presented, and the subsequent recommended option.

FEEDBACK RECEIVED

The feedback from the communications (Appendix D) received and the discussions that occurred at the meeting at the Chamber can be briefly be summarized as follows:

1. **BIA Communications** - the three (3) existing BIA's in the City appear to be in favour of phasing out the program by the year 2020. All the BIA's, however, have expressed the opinion that the funds saved should be reserved or dedicated in some way to promoting economic development in the various BIA areas where the rebates have been paid. The downtown BIA indicated it would not support a change to the program if the cost savings simply flowed into general coffers (see Appendix D).

2. **Chamber of Commerce stakeholders meeting** - at the stakeholder discussion meeting and presentation that occurred at the Chamber on September 7th, 2017, it was apparent that property owners who typically receive the vacancy rebate on a regular annual basis do not want the system to change. The history of the business occupancy tax and the logic as to why the vacancy rebate came into place with the major tax reform that occurred in 1998 were discussed. The issue of how vacancy is included in valuations was also discussed at the stakeholder meeting. Stakeholders at the meeting pointed out that it takes time (perhaps 3 years) for MPAC to incorporate chronic above normal vacancy rates into a valuation. Stakeholders also pointed out that temporary abnormal vacancies would not be factored into MPAC valuations. The participants at the meeting were primarily property owners who receive some level of vacancy rebate on a regular annual basis.

3. **Chamber of Commerce Communication** - the communication (Appendix D) from the Chamber of Commerce represents well the views and concerns of the stakeholders who appeared at the stakeholder meeting on September 7th, 2017. The first recommendation of the attached letter from the Chamber is to not change the current system in any way. The letter from the Chamber also expresses a special concern with respect to industrial properties. The letter from Chamber suggests if any phase out or elimination the program is going to occur it should only be for chronically vacant properties after a 3-5 year period.

4. **London Economic Development Corporation (LEDC**) – Discussions were held with the LEDC. The Corporation passed on concerns that it had received from property owners particularly from the Industrial Sector. The LEDC also participated in the Stakeholders meeting that was held at the Chamber of Commerce on September 7th, 2017.

5. **Individual Property Owners** - City staff also received a few communications (Appendix D) from individual property owners. One of those communications identified an issue not raised at the stakeholders' meeting at the Chamber of Commerce. That letter expressed a concern that many commercial properties may be valued on a cost basis rather than an income basis and as a result, property vacancy levels would not be factored into the MPAC valuation. As a result of this letter, City Staff reviewed the MPAC valuation of a property done on a cost basis and

determined that MPAC had used adjustment factors to the cost based valuation that appeared to take into consideration significant vacancy levels in the area in determining market value.

One other letter from a property owner in the manufacturing sector expressed a special concern about that sector that did not get highlighted at the stakeholder's meeting on September 7th, 2017. The letter included a comment that "many manufacturers construct buildings and acquire land in anticipation of future growth plans. Our corporate business plan looks 20 years ahead and for this you need adequate land and plant floor space to accommodate growth."

THE MUNICIPAL CONTEXT – WHAT OTHER MUNICIPALITIES ARE DOING

Vacancy Rebates

In the consideration of tax policy, it is always important to consider and review what other municipalities in Ontario are doing. Tax policy should always be evaluated in the context of four guiding principles – equity, economic development, transparency, and administrative efficiency. Tax policy alternatives should always be chosen in such a way that the municipality promotes and maintains its economic competitiveness with other jurisdictions.

Since the previous report dated March 28th, 2017, a number of municipalities in Ontario have finalized decisions on the vacant unit rebate program. It appears very few, if any, have made a decision on the vacant land/excess land subclass tax rate reduction. Some of the decisions that have been made by municipal councils as of the date of the preparation of this report are outlined in the table below as follows:

MUNICIPALITY	DESCRIPTION OF COUNCIL DECISION	VACANCY REBATE 2017	VACANCY REBATE 2018	VACANCY REBATE 2019
Toronto*	Reduce commercial rate phased out 2017, July 1, 2018 and industrial vacancy eliminated July 1st, 2018.	July 1st Commercial 15% Industrial 35%	July 1st Eliminate Commercial and Industrial	
Ottawa	Reduce rate and eliminate for 2018	15%	Eliminate	
Hamilton	Reduce rate and then eliminate	30%	15%	Eliminate
Oxford County	Vacancy rebate program ended after 5 years of annual rebate by property			
Chatham-Kent	Phase out over 2017, 2018,2019	Commercial 30% Industrial 35%	Commercial 20% Industrial 20%	Commercial 10% Industrial 10%
Haldimand County	Phase out over 2017, 2018	Commercial 30% Industrial 15%	Commercial 15% Industrial 0%	
Halton Region	Phase out over 2017, 2018	Commercial 30% Industrial 35%	Commercial 15% Industrial 20%	
Peel Region	Phase out over 2017, 2018,2019	30%	20%	10%
Windsor	Partial Council Decision - Phase out in downtown BIA area only	Commercial BIA area only 30%	Commercial BIA area only 15%	

Note: *The Toronto City Council directed their Civic Administration to report back on proposals that would see a portion of the reduction in rebate expenditures reinvested in programs or initiatives designed to stimulate economic growth and job creation by enhancing local retail areas that are challenged by high vacancy rates and on a plan to reinvest the remainder of the reduction in rebate expenditures, in programs or initiatives that support Toronto's poverty reduction strategy and to balance the tax-supported budget.

The following municipalities have indicated they are in a consultation phase on the vacancy rebate issue.

- Region of Waterloo
- Region of Durham
- City of Kingston
- Region of Muskoka
- Region of Niagara
- County of Norfolk
- City of Sudbury
- City of Thunder Bay
- City of Windsor
- Region of York

Vacant/Excess Land Subclass Reduction

It appears no municipalities surveyed have made any decision on changing the tax rate on vacant/excess commercial and industrial land at this point in time. This type of assessment is currently taxed in most municipalities at a rate of 70% of the improved land rate in the case of commercial and 70% or 65% of the improved land rate in the case of industrial. The City of Toronto has indicated it will be reviewing the option to increase the tax rate on this type of land in 2018.

OPTIONS TO CONSIDER

Vacancy Rebates

All municipalities surveyed who have made a final decision have decided to phase out vacancy rebates over 1, 2, or 3 years. Many municipalities, however, are still in consultations. However based on the feedback received from various stakeholders it is recommended that Council consider the following options:

1. Phase out the all vacancy rebate programs for commercial and industrial properties in one year. This would mean reducing the rate to 15% in 2018 and 0% in 2019. (Pay outs of vacancy rebates generally occur in the calendar year following the vacancy, this would mean vacancy rebates would be paid out in 2018 and 2019.)

2. Phase out only the commercial vacancy rebate program in one year and maintain the industrial vacancy program as is. This would mean reducing the commercial rate to 15% in 2018 and 0% in 2019 while the industrial rate would continue at 30%.

3. Phase out all vacancy rebate programs in two years. This would mean reducing the rate for both commercial and industrial properties to 20% in 2018, 10% in 2019, and 0% in 2020.

4. Phase out only the commercial vacancy rebate program in two years. This would mean reducing the commercial rate to 20% in 2018, 10% in 2019, and 0% in 2020.

5. Defer making a decision until more municipalities have made a decision on what they will do with their Vacancy Rebate Programs. This would mean continuing to monitor decisions in other municipalities such as the Region of Waterloo.

6. Do not change the vacancy rebate program and leave the existing rebate system as it is. (30% per year for vacant commercial and industrial areas)

7. End the program at December 31st, 2017 and do not issue vacancy rebates in the future.

8. Phase out the vacancy rebate program for commercial and industrial properties over one year, but continue the vacancy rebate program for new buildings or building additions constructed after December 31, 2017 for a period of up to three (3) years. This would mean the vacancy rebate for commercial and industrial properties would be 15% in 2018, and 0% in 2019. Newly constructed buildings and building additions in the commercial and industrial property classes would be eligible for a vacancy rebate of 30% for up to 3 years based on definitions indicated at the bottom of Appendix “A” to this report.

The effect of the various options above on the City budget in the applicable years is shown in Appendix "A" attached to this report.

Vacant/Excess Land Subclass Reduction

1. Defer a decision on this issue until it is apparent what direction other municipalities in Ontario are taking.

2. Phase in an increase over 1, 2, or 3 years.

3. Equalize the tax rate on vacant and excess land in both the commercial and industrial classes with the improved land rate immediately

4. Adjust the tax rate on vacant and excess land in the commercial class but not the industrial class over 1, 2, or 3 years.

The tax policy effect of the various options above is indicated on Appendix "B" and "C" attached to this report. Appendix "B" shows the effect on the residential property class. Appendix "C" shows the effect on vacant land in the commercial and industrial property classes.

There is no budget expenditure related to the vacant/excess land subclass tax rate reduction. This is rather a tax policy issue involving the allocation of the tax levy between the various property classes.

RECOMMENDED OPTIONS

Vacancy Rebates

The recommended option from Civic Administration in reference to vacancy rebates is option 8, as broken down in "Appendix A". This option would phase out the majority of the vacancy rebate program over 2018 and 2019 at 15% and 0% but allow an exception to the phase out only in the case of a newly constructed building or building addition after December 31, 2017. In 2019 there would be no vacancy entitlement for vacant property except as described in the exception. The savings in budget expenditures would be roughly $695,000 in 2018, and $1,610,000 in 2019.

Vacancy rebates are generally paid out in the year following the year in which the vacancy actually occurs. Estimated vacancy entitlements are accrued and expensed in the City's financial statements at each year end. For clarification based on the staff recommendation, the entitlement for 2018 would be 15% and would be paid out in 2019. The entitlement for 2017 would be 30% and would be paid out in 2018.

Option 8 will give some time for property owners to adjust and would appear to be in line with decisions being made at most other municipalities in Ontario as well as it is in keeping with the April 4th resolution of council. If council were concerned about decisions yet to be made in other Ontario municipalities, council could consider option 5 which is to defer an action and further monitor developments/ decisions in other municipalities. The inclusion of the new construction treatment included in option 8 should create a potential incentive for economic development and job creation and require a relatively small amount of administration and cost.

Vacant/Excess Land subclass tax rate reduction

As noted above, no other municipalities have yet taken action on this issue. As a result, given the impact on commercial and industrial tax rates, staff are recommending that Council defer a decision on this issue (option 1) until such time as it becomes more apparent as to the direction most other municipalities are taking on this issue.

Use of Funding no longer required from the Phase out of the Vacancy Rebate Program

As a result of Option 8, the savings in budget expenditures would be $695,000 in 2018, and $1,610,000 in 2019. This reduction as a result of the new proposed program could be used to reduce the overall property tax budget or reinvest in other programs. Council could choose to reinvest a part of the phased out portion of the Vacancy Rebate program in 2019 in economic development in the sectors affected by the vacancy rebate program –i.e. the commercial or industrial sectors. Alternatively, Council could also consider addressing economic development issues in these sectors through the determination of tax policy in 2018 and/or 2019.

If Council chose to allocate additional budget expenditures to economic development in 2019, with the complete phase out of the vacancy rebate program, Civic Administration could then recommend applying up to $915,000 to reinvest into economic development initiatives. To determine the appropriate economic development initiative(s), Civic Administration could consult with the various organizations that were consulted as part of the Vacant Unit Rebate and Vacant/Excess Land Subclass Tax Reduction consultation (i.e. Downtown London, LEDC). Upon the development of an economic development initiative, Civic Administration would prepare a business case and include as part of the 2019 Budget Update process. Consideration of economic development issues related to the changes in the vacancy rebate program would be in keeping with some of the feedback Civic Administration received as well as in keeping with actions that some other municipalities are considering.

ACKNOWLEDGEMENTS

We would like to acknowledge the significant contribution to the review of this issue by the London Chamber of Commerce, the London Downtown Business Association, the Old East Village Business Improvement Association, the Argyle Business Improvement Association and the London Economic Development Corporation. We thank all these organization for their cooperation and participation.

SUMMARY

Based on what council resolved in April, 2017, after taking into consideration feedback received from various stakeholders and looking at the trends of other municipalities, Civic Administration is recommending that the city limit the existing vacancy rebate program to new building and building additions constructed after December 31, 2017 for a period of up to three (3) years only while phasing out the existing rebate program over one (1) year resulting in a reduced rebate of 15% in 2018, and 0% in 2019. This would result in a reduction to the 2018 property tax supported budget of $695,000 and a reduction to the 2019 property tax supported budget of $1,610,000. Council can choose to reinvest a portion or all of the expenditure reduction to reduce the overall property tax budget or reinvest in other programs.

Based on recommended option 8, it is recommended that council request that the Minister of Finance issue a regulation to adopt changes to the City's vacancy rebate program that will phase out the current program over a period of time.

It is also recommended that council defer a decision on any changes to the tax rate on vacant/excess land in the commercial and industrial classes until a later date when it is more apparent what direction other municipalities in Ontario are going on this issue.

SUBMITTED BY:	**CONCURRED BY:**
JIM LOGAN **DIVISION MANAGER, TAXATION & REVENUE**	**IAN COLLINS** **DIRECTOR, FINANCIAL SERVICES**
RECOMMENDED BY:	
ANNA LISA BARBON **MANAGING DIRECTOR,** **CORPORATE SERVICES AND CITY TREASURER,** **CHIEF FINANCIAL OFFICER**	

Attach.

APPENDIX "A"

Budget Effect of Various Alternatives

Budget Expenditure Decreases to Vacancy Rebate Program for Commercial and Industrial Property Classes

OPTIONS	DESCRIPTION OF OPTION	EFFECT ON 2018 EXPENDITURE BUDGET	EFFECT ON 2019 EXPENDITURE BUDGET	EFFECT ON 2020 EXPENDITURE BUDGET
1	Phase out all vacancy rebate programs in one year. (15% in 2018, 0% in 2019)	($895,000)	($1,810,000)	($1,810,000)
2	Phase out only the commercial vacancy rebate program in one year. (15% in 2018, 0% in 2019)	($841,300)	($1,701,400)	($1,701,400)
3	Phase out all vacancy rebate programs in two years. (20% in 2018, 10% in 2019, and 0% in 2020)	($596,667)	($1,206,667)	($1,810,000)
4	Phase out only the commercial vacancy rebate program in two years. (20% in 2018, 10% in 2019, and 0% in 2020)	($560,867)	($1,134,267)	($1,701,400)
5	Defer making a decision until more municipalities have made a decision on what they will do with their Vacancy Rebate Programs	Deferred (No Change at this time)	Deferred (No Change at this time)	Deferred (No Change at this time)
6	Do not change the vacancy rebate program and leave existing rebate system as it is.	No Change	No Change	No Change
7	End program at December 31, 2017 and do not issue vacancy rebates in future.	($1,790,000)	($1,810,000)	($1,810,000)
8	Limit the vacancy rebate program for new building[(a)] or building additions[(b)] constructed after December 31, 2017 for a period of up to three[(c)] (3) years while phasing out the existing rebate program over one (1) year.	($695,000)	($1,610,000)	($1,610,000)

Notes:

(a) New building would be defined as construction in a commercial or industrial property class where the building permit was issued after December 31st 2017, and where the new construction results in the erection of a new building with an increase in the usable building area previously at the site. Only the increase in the usable building area at the site would be eligible for a vacancy rebate. The rebate rate would be 30%.

(b) Building additions would be defined as additions to a building in a commercial or industrial property class where the building permit was issued after December 31st 2017 and where the addition resulted in increase in the usable area of the building at the site. Only the increase in the usable building area at the site would be eligible for a vacancy rebate. The rebate rate would be 30%.

(c) The three year period would be defined as either the calendar year of construction completion and the two subsequent calendar years or the three calendar years after the calendar year of construction completion at the option of the property owner.

APPENDIX "B"

Tax Policy Effect – Tax Decrease in Residential Class

Options related to changes to the Vacant/Excess Land Subclass Tax Rate Reduction in the Commercial and Industrial Classes.

OPTIONS	DESCRIPTION OF OPTION	2018 - Effect on Municipal Tax rate – residential class (tax rate reduction)	2019 - Effect on Municipal Tax rate – residential class (tax rate reduction)	2020 - Effect on Municipal Tax rate – residential class (tax rate reduction)	2021 and future years – Effect on Municipal Tax rate – residential class (tax reduction)
Option 1	Defer a decision on this issue until it is apparent what direction other municipalities in Ontario are taking	0.00%	Decision to end/change revisited	Decision to end/change revisited	Decision to end/change revisited
Option 2	Phase out 30% tax rate discount on vacant and excess land over 1, 2, or 3 year. 1 year = 15%, 0% 2year = 20%, 10%, 0% 3 year = 22.5%, 15.0%, 7.5%, 0%	0.12% (1yr.) 0.08% (2yr.) 0.06% (3yr.)	0.23% (1yr.) 0.16% (2 yr.) 0.12% (3yr.)	0.23% (1yr.) 0.23% (2yr.) 0.18% (3yr.)	0.23% (1yr.) 0.23% (2yr.) 0.23% (3yr.)
Option 3	Phase out the 30% tax rate discount on vacant and excess land in both the commercial and industrial classes immediately	0.23%	0.23%	0.23%	0.23%
Option 4	Phase out the 30% tax rate discount on vacant and excess land in the commercial class but not the industrial classes over 1.2 or 3 years. 1 year = 15%, 0% 2year = 20%, 10%, 0% 3 year = 22.5%, 15.0%, 7.5%, 0%	0.09% (1yr.) 0.06% (2yr.) 0.04% (3yr.)	0.17% (1yr.) 0.11% (2yr.) 0.09% (3yr.)	0.17% (1yr.) 0.17% (2yr.) 0.13% (3 yr.)	0.17% (1yr.) 0.17% (2yr) 0.17% (3yr)

APPENDIX "C"

Tax Policy Effect -Tax Increase on Vacant/Excess Commercial and Industrial Land

Options related to changes to the Vacant/Excess Land Subclass Tax Rate Reduction in the Commercial and Industrial Classes

OPTIONS	**DESCRIPTION OF OPTION**	**2018 - Effect on Municipal and Education Tax rate – commercial and industrial vacant/excess land-tax increase**	**2019 - Effect on Municipal and Education Tax rate – commercial and industrial vacant/excess land-tax increase**	**2020 - Effect on Municipal and Education Tax rate – commercial and industrial vacant/excess land-tax increase**	**2021 and future years – Effect on Municipal and Education Tax rate – commercial and industrial vacant/excess land-tax increase**
Option 1	Defer a decision on this issue until it is apparent what direction other municipalities in Ontario are taking	0.00%	Decision to end/change revisited	Decision to end/change revisited	Decision to end/change revisited
Option 2	Phase out 30% tax rate discount on vacant and excess land over 1, 2, or 3 year. 1 year = 15%, 0% 2 year = 20%, 10%, 0% 3 year = 22.5%, 15.0%, 7.5%, 0%	21.43% (1yr.) 14.29% (2yr.) 10.71% (3yr.)	42.00% (1yr.) 28.57% (2 yr.) 21.43% (3yr.)	42.00% (1yr.) 42.00% (2yr.) 32.14% (3yr.)	42.00% (1yr.) 42.00% (2yr.) 42.00% (3yr.)
Option 3	Phase out 30% tax rate discount on vacant and excess land over 1, 2, or 3 year in both the commercial and industrial classes immediately	42.00%	42.00%	42.00%	42.00%
Option 4	Phase out 30% tax rate discount on vacant and excess land in the commercial classes but not the industrial classes over 1. 2 or 3 years. 1 year = 15%, 0% 2year = 20%, 10%, 0% 3 year = 22.5%, 15.0%, 7.5%, 0%	21.42% (1yr.) 14.29% (2yr.) 10.71% (3yr.)	42.00% (1yr.) 28.57% (2 yr.) 21.43% (3yr.)	42.00% (1yr.) 42.00% (2yr.) 32.14% (3yr.)	42.00% (1yr.) 42.00% (2yr.) 42.00% (3yr.)

APPENDIX "D"

2017 Old East Village BIA Vacancy Tax Rebate Report

September 11, 2017
Submitted by: Jen Pastorius, BIA Manager

BIA Staff and Board Members surveyed the Old East Village Business Improvement Area (BIA) which is located on Dundas Street between Adelaide and Lyle Streets. There are 65 addresses within this boundary.

The survey – attached at the end of this report – was completed by business operators, business owners, property owners or those who identified as a combination of the three. Surveys were completed for 41 of the 65 addresses, which results in 63% of the BIA addresses providing comment to the review of the Vacancy Tax Rebate Report.

A total of 30 surveys were completed – with some property owners speaking to multiple properties within the BIA block.

Total Votes compiled from the 30 Surveys:

- 14 votes for immediately eliminating the Vacancy Tax Rebate
- 14 votes for phasing out the Vacancy Tax Rebate by 2020
- 2 votes for not eliminating the Vacancy Tax rebate.

Responses by property owners (13 property owners completed the survey)

5 property owners who identified as previously using the rebate:

- 3 property owners have used it in the past 3 years: Of these,
  - two stated the rebate should not be eliminated at all
  - one stated it should be removed immediately
- 2 property owners used the rebate prior to the past 3 years: Both thought it should be eliminated:
  - one stated the rebate should be eliminated immediately
  - the other wanted it phased out by 2020

8 property owners who identified as never having used the rebate:

- 4 stated the rebate should be eliminated immediately
- 4 stated the rebate should be phased out by 2020.

Business Owners and Operators

24 people who were surveyed identified themselves as business owners and 13 as business operators. As stated above, those surveyed were asked to mark all that apply, therefore, a single address may have had property owner, business owner and business operator or a combination of the three listed.

15 business owners and 7 business operators identified strictly as only owners or operators. This is a group who does not own their properties but their business and livelihood are affected by vacant properties that surround them. The perspective of the small business owner/operator on the Vacancy Tax Rebate is therefore as relevant to the review as the perspective of property owners.

One of the measures identified in the Planners Action Team report, which informed the Old East Village Community Improvement Plan, was an ongoing reduction in the area vacancy rate. During the early years of the revitalization of the area, the vacancy rate was near 70%. In the years since, the vacancy has dropped due to a number of reasons but what was most impactful was conglomerated properties parcelling off for sale, underutilized or vacant properties. The BIA revitalization model has been successful in encouraging small scale businesses with the intent to owner occupy to purchase in the area. With this change in building ownership, the corridor's vacancy rate has dropped to approximately 30%.

It is clear from the survey results that the majority of property owners, business owners and business operators are not in favour of maintaining the Tax Vacancy Rebate past 2020. This has been an ongoing concern of the Old East Village BIA and businesses for many years. One of the earliest OEVBIA initiatives was to bring the Vacancy Tax Grant and its effects on urban regeneration to City Council to request a review. It was definitively defeated at that time; however despite the policy remaining in place and understanding it was an impediment to successful revitalization, the BIA continued the work with our businesses and the City of London through programs such as Planning's Incentives for Façades, Upgrade to Building Code, Heritage Investment and Development Charges to move the regeneration of the Old East Village forward.

The Tax Vacancy Rebate surveys were administered in person by the BIA Manager and the Board Treasurer. In collecting the surveys, BIA constituents articulated that the rebate as an incentive to keep spaces empty and not to encourage occupancy. They shared the challenges that resulted from vacant buildings near or beside their businesses and properties. Business owners and operators state that as vacancies around their businesses diminished, their revenues and customer base increased. Property owners stated that as the vacancy rate has diminished, they have been able to secure more stable tenants with longer leases at market value rents. The Old East Village tax base since the early days of revitalization has increased by 42% which is a direct result of building occupancy and improvements.

Additional Questions

The Old East Village BIA Board of Directors recommended that the survey include suggestions for how the recovered tax revenue may be spent if the Tax Vacancy Rebate is eliminated. It was understood that there has been no formal recommendation for fund allocation at this time. Each participant was able to choose two of the following five options, however some only chose one. The choices and results are as follows:

1. **Limited Time Targeted Use Community Improvement Plan Incentives** – 22 respondents chose this option. **This option would request a portion of the recovered tax revenue to provide additional grants for the CIP incentive programs for a limited time period. The intent is to spark investment that otherwise may not have been realized.
2. **Limited Time Targeted Use Occupancy Incentives** – 10 respondents chose this option. **This option would request a portion of the recovered tax revenue to provide occupancy incentives for properties located in CIP areas that are currently vacant.
3. **Overall City Tax Reduction** – 6 respondents chose this option
4. **Contribution to City Reserve Fund** – 2 respondents chose this option
5. **Other** – No respondents chose this option.

In conclusion, the feedback from the Old East Village property owners, business owners and business operators is decisive. According to those surveyed, the Tax Vacancy Rebate is not necessary nor is it helpful to develop a healthy commercial corridor and Main Street. The vast majority (85%) of OEV property owners surveyed stated that they have never used the incentives and that they should be eliminated, and of the 30 surveys completed 93% agreed that the Tax Vacancy Grant should be eliminated either immediately or by 2020.

The Old East Village BIA is pleased to provide this research and we are willing to assist further in this process if requested. The outcome of this review will have a significant effect on London's small business owners and entrepreneurs so the BIA would like to thank the Corporate Services Committee for the opportunity to participate and to provide the feedback of Old East Village property owners, business owners and operators.

APPENDIX "D"

Tax Vacancy Rebate Survey

On March 28th, 2017 the Managing Director of Corporate Services and City Treasurer, Chief Financial Officer and Acting City Manager recommended that a policy be adopted in principle to phase out the current vacancy rebate program and eliminate the subclass tax reductions on vacant commercial and industrial land and add excess land EITHER immediately beginning with the calendar year 2018 or over a two year period beginning in the year 2018 with complete elimination before the 2020 calendar year. (*1)

The timing of the elimination will be determined after consultation with the business community which includes the London Economic Development Corp, City of London BIA's and the London Chamber of Commerce. (*2)

Currently the City of London expenses approximately $1.8 million per year on its vacancy rebate program. The subclass tax rate reduction for vacant and excess land does not involve and City expenditure but it does reduce the portion of the tax levy allocated to vacant and excess land in the commercial and industrial classes. Elimination of the reduction would reallocate $1.2 million additional municipal taxes to vacant and excess commercial and industrial land in the City. (*3)

Therefore, the total revenue recovery as a result of the vacancy unit tax rebates and vacant/excess land subclass tax reductions in commercial and industrial lands would be $3 million.

Survey Questions:

Please identify all that apply:
___ I am business owner in the Old East Village BIA
___ I am a property owner in the Old East Village BIA
___ I am business operator in the Old East Village BIA

If you are a property owner, have you utilized the rebate or reductions?
___ Yes, in the past 3 years
___ Yes, prior to the past 3 years
___ Never
___ Choose not to disclose

1) Should the vacancy unit tax rebates and vacant/excess land subclass tax reductions in commercial and industrial lands be eliminated immediately beginning in the 2018 calendar year or be phased out over a two year period beginning in the year 2018 with complete elimination before the 2020 calendar year?

___ Be **eliminated immediately beginning in the 2018 calendar year.**
___ Be **phased out over a two year period** beginning in 2018 with complete elimination before the 2020 calendar.
___ The vacancy unit tax rebates and vacant/excess land subclass tax reductions in commercial and industrial lands **should not be eliminated.**

2) If the Tax Rebates and Reductions are eliminated how do you think the recovered $3 million in revenue would be best utilized? Choose your top 2.

___ Limited Time Targeted Use Enhanced Community Improvement Plan Incentives
___ Limited Time Targeted Use Occupancy Incentives
___ Overall City Tax Reduction
___ Contribution to Reserve Fund
___ Other -

____

____

*1, 2, 3 are directly taken from the March 28th Corporate Services Meeting report. The report can be found at www.london.ca under Corporate Services Committee Meetings.

This survey is being conducted by the Old East Village BIA at the request of City of London Council. Please contact BIA Manager Jen Pastorius with any further questions.

APPENDIX "D"

DOWNTOWN LONDON

September 21, 2017.

City of London
300 Dufferin Avenue
London, ON. N6A 5P6.

Attention: Chair and Members, Corporate Services Committee

Re: Vacant Unit Rebate

Dear Chair and Members:

Downtown London is the organization that focuses on recruitment and retention of investment and businesses in London's downtown. We are both the London Downtown Business Association (LDBA) and MainStreet London, a downtown revitalization organization, and our expanded boundary encompasses over 1,160 properties and businesses whose taxable assessment is well over $1 Billion. In reply to your April 4, 2017 resolution we are writing today to share our findings and recommendations on the Vacant Unit Tax Rebate.

Upon receipt of the City's report we formed a task force, examined the pros and cons of cancelling/phasing out the Vacant Unit Rebate and concluded that the rebate served no real purpose in achieving our occupancy goals and reducing vacancy.

We researched and consulted with other municipalities and how they have dealt with the VUR.

We decided to survey our membership and did not delineate between building and business owners. The open rate of the survey was 50% but only 54 of 980 responded. Of the 54 responses, 60% are in favour of cancelling the rebate.

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What we know:

- Some recipients have regarded the rebate as a "right" and forms part of the property revenue/expense.
- There has been no demonstrable evidence that it does in fact act as an attraction rebate to encourage recipients to have their property rented.
- Most of the rebate recipients have properties that are not up to code and thus are not in a rentable state.
- When a property becomes vacant and is in a rentable state – it gets rented.

Our recommendations going forward:

- That should the City choose to discontinue the VUR that it is phased out over a period of 2 years ending in 2020.
- That the City directs the equivalent funding (from the Downtown buildings owners) to a "reserve fund" for a period of 5 years. This could be a substantial fund that could incent occupancy and restoration of heritage buildings, especially along Dundas Place, improve and animate laneways as described in the OMF (Our Move Forward – the downtown plan.)
- In combination with the enhanced incentive program that was approved in April effective Jan 1, 2018, this could be a very effective incentive to promote occupancy and not reward vacancy that has been the effect of the vacancy rebate since 1998.

"Downtown London is in the occupancy business and it is developing a recruitment program, complete with our proprietary incentives – About Face Façade Improvement Grant Program and our interest-free Tenant Improvement Loan. These programs, leveraged with the City's expanded programs, are a very attractive offering to promote occupancy."

What will ending the vacancy rebate discourage?

- Landlords buying and holding – waiting for the rare occasion when a perfect tenant will occupy an entire building for a long-term lease.
- Leaving significant heritage properties to decay and become derelict – some have no heat or hydro and are rotting.

What will ending the vacancy rebate encourage?

- Active occupancy of properties in the downtown core at large and specifically on Dundas Place that requires a mix of targeted uses to ensure that the investment pays off by being vibrant, interesting and well cared for.
- Active use of pop up businesses will be more likely. With no tax implications, landlords can allow pop ups to actively occupy the spaces.

- The notion of non-traditional short-term leases/ graduated leasing and other ways to encourage and incent small businesses and entrepreneurs to start up in the heart of our city without a five-year locked in lease over their heads.

We have always maintained that we cannot achieve the desired amount of heritage restoration without funds devoted to it. This is an ideal opportunity to create this fund.

We believe that the heritage advocates will get behind this program since it will provide meaningful funding to encourage restoration as opposed to demolition.

Developers will likely get behind this recommendation and incorporate heritage buildings into their development as opposed to automatically demolishing them.

Recommendation:

That the City of London cancel the VUR and direct the amount that would have been refunded to downtown property owners into a reserve fund to promote occupancy and restoration of downtown Heritage properties. (Policy and criteria to be determined.)

That this fund be created over a five-year period, with an annual review to measure the success of the incentive.

Please note that we would not endorse the cancellation or phasing out of the Vacant Unit Tax Rebate if the funds are being directed to general coffers.

Sincerely,

DOWNTOWN LONDON

Gerald Gallacher Chair - LDBA	Janette MacDonald CEO and General Manager	Don McCallum Chair - MainStreet.

cc. Martin Hayward, City Manager
Anna Lisa Barbon, City Treasurer
Mayor Matt Brown
Councillor Tanya Park

APPENDIX "D"

ARGYLE
BUSINESS IMPROVEMENT ASSOCIATION

City of London
300 Dufferin Avenue
London, ON N6A 5P6

October 11/2017

Attention: Chair and Members, Corporate Services Committee
Re: Vacant Unit Rebate

Dear Chair and Members:

The Argyle BIA's mandate is to promote and beautify the area on Dundas Street between Highbury and Wavell for over 200 businesses we also strive to recruit and retain businesses in our area. We are writing today to share our findings and recommendations on the Vacant Unit Rebate.

Upon receipt of the City's report we decided to survey our membership; 7 out of 205 responded with 57% of the respondents not in favour of cancelling the rebate.

What we know:
• There has been no evidence that it does in fact act as an attraction rebate to encourage recipients to have their property rented.

Our recommendations going forward:
- That should the City choose to discontinue the Vacant Unit Rebate and that it is phased out over a period of 2 years ending in 2020.
- That the City direct the amount that would have been refunded to property owners to a "reserve fund" for a period of 5 years with an annual review to measure the success of the incentive (funding to promote occupancy of the Argyle BIA, continued expansion and beautification).

What will ending the vacancy rebate discourage?
• Landlords buying and holding – waiting for the rare occasion when a perfect tenant will occupy an entire building for a long-term lease.

What will ending the vacancy rebate encourage?
• Active occupancy of properties in the Argyle BIA that requires a mix of targeted uses to ensure that the investment pays off by being vibrant, interesting and well cared for.

Sincerely,
Argyle BIA

Manager, Heidi Currie

Chair – ~~Matt McHardy~~

cc. Martin Hayward-City Manager
Anna Lisa Barbon-City Treasurer
Mayor Matt Brown
Councillor Bill Armstrong

APPENDIX "D"

London Chamber of Commerce

Jim Logan, CPA, CA
Division Manager – Taxation and Revenue
Taxation – Finance and Corporate Services
City of London
300 Dufferin Ave, P.O. Box 5035,
London, ON N6A 4L9

Re: Proposed changes to the:

VACANT UNIT REBATES IN THE COMMERCIAL AND INDUSTRIAL PROPERTY CLASSES SUBCLASS TAX RATE REDUCTIONS FOR VACANT AND EXCESS LAND IN COMMERCIAL INDUSTRIAL PROPERTY CLASSES

Dear Mr. Logan

Thank you again for your time in delivering your presentation to those stakeholders assembled at the London Chamber of Commerce on September 7th. As a reminder, your presentation was in response to our original letter to City Manager Martin Hayward dated May 26th 2017 and my subsequent meeting with you. We appreciate the opportunity to share our collective concerns and recommendations and also appreciate the extension of the August 31st deadline for stakeholder input.

In attendance at the Chamber organized meeting of September 7th were representatives of Cadillac Fairview (Masonville Mall), the London Chamber of Commerce, Farhi Holdings, the London Home Builders Association, Bentall Kennedy (White Oaks Mall, Westmount Shopping Centre), ICORR Properties, Altus Group and Princeton Properties. Additional inputs were received electronically from Bluestone Properties and RioCan (over 1million gross leasable area of commercial space in London).

The meeting was prompted by several concerns fielded by my office around a proposed City of London Council Policy which reads:

A policy BE ADOPTED IN PRINCIPLE to phase out the current vacancy rebate program and eliminate the subclass tax reductions on vacant commercial and industrial land and excess land either immediately, or over a two-year period beginning in the year 2018 with complete elimination before the 2020 calendar year; it being noted that any timing will be determined after consultation with the business community as described in (b) below; and

Part B

The City Clerk BE DIRECTED to send this report to the London Economic Development Corporation, the boards of management of Business Improvement Areas in the City and the London Chamber of Commerce in order to obtain comments on behalf of their clients and members in the commercial and industrial sectors with respect to the elimination or phase-out as described in (A) above and for the City to make contact with property owners that received a vacancy rebate or subclass reduction in 2016 to inform them of the process being undertaken by the City, with such comments to be returned to the City no later than August 31 2017 for review by Council.

101-244 PALL MALL STREET, LONDON, ONTARIO N6A 5P6
PHONE : (519) 432-7551 FAX : (519) 432-8063 WEB : londonchamber.com

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In listening to your presentation, it became clear to the attendees that the motivation behind this proposed Council Policy on the Vacancy Rebate Program (VRP) was twofold. One was cost mitigation (reducing or eliminating the VRP would have an assumed positive impact on the City Budget) and two; that other municipalities in Ontario had similarly floated the idea or had already begun to implement the phasing out of their respective VRPs thus creating a potential imbalance in business competitiveness across Ontario jurisdictions.

As with any Council directive involving the business community, proposals like these not only require comprehensive consultations with affected stakeholders, they require a critically important desire to strike a fair balance. Understanding some of the unintended consequences of such proposals will, we believe, go a long way towards finding that balance.

Background

Back in 1998 the then "*Business Occupancy Tax*", a tax levied directly on all businesses operating in the city, was cancelled and subsequently added to the property taxes assessed against the property and billed directly to the property owner. Under that old system, vacant areas did not pay business occupancy tax.

This move was designed to simplify revenue generation for the city and its subsequent collection. The VRP was born out of a recognition that vacant space created a financial burden on the owner of the real estate. It acted to reduce the additional tax burden placed upon the owner of vacant space as a result of the changes to Provincial property tax legislation. To our knowledge, nothing in our economic environment has changed that would warrant any deviation from the current VRP.

Flawed Assumptions

We understand that there exists a perception that landlords hold onto vacant space longer once they have applied for and received VRP payments. With annual gross revenues averaging between $20 and $25 per square foot, why would any rational property owner purposely leave space empty in order to receive a rebate of only $1.50 to $2.00 per square foot? Clearly there is no reasonable financial analysis that would support such a move.

The City argues that MPAC (Municipal Property Assessment Corporation) already accounts for "vacancy" in its valuations. MPAC's valuation methodology for commercial property has not changed since before the 1997 Provincial tax reform whereby only "normal vacancy" and not actual vacancy is accounted for in all income property valuations. MPAC may reflect chronic vacancy in the valuation but only in exceptional circumstances if the space is vacant for more than three years. What is not captured immediately in their valuation are sudden catastrophic vacancies when huge amounts of square footage are suddenly vacated without warning such was the case when Target departed our community.

Current Circumstances

Commercial properties in the City of London, particularly shopping centres, are facing substantial tax increases as a result of reassessment and the City's tax policy decisions. Shopping centre assessment increases are coming at a time when the industry in Canada is suffering. MPAC has increased values in many cases by 30% at a time when leasing has become increasingly difficult.

Several stakeholders have advised us that many of their properties are currently facing tax increases of up to 43%. For properties with minimal historical vacancy, the additional increase may seem small, perhaps 1-3% - but combined with the assessment increase and tax policy changes the increase is 11-33%. If the VRP were to be eliminated a distressed, struggling property could face additional increases of 10-15%.

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The impact on these businesses will only be exacerbated when and if the province goes through with Bill 148 and increases minimum wage by 32% in the next 18 months. This along with other proposed provincial initiatives are deemed to have a chilling effect on many Ontario businesses.

Conflicting Priorities

To its credit, the City of London has also taken an aggressive stance on the rejuvenation of the downtown core with the adoption of the ***Bus Rapid Transit Plan***, which is designed to move more people more easily to our commercial centres and learning institutions.

In tandem with the London Plan, the City's own Strategic Plan and the Community Economic Road Map whose goals include: *supporting a city for entrepreneurs; creating a supportive business environment; and developing an exceptional downtown and vibrant urban environment* - the BRT may indeed be just the tonic needed to accomplish all of that. With that in mind, the elimination of the VRP would seem to run counter to those ambitions.

On the Industrial side of the argument, the removal of the rebate program could have negative consequences for investment and job growth as many, if not most, of London's industrial players construct buildings and acquire land years ahead of anticipated future growth. Many of these industries base their business models on 10-20 year growth projections so to not have buildings and land set aside for that growth could potentially mean no growth at all.

In many cases, production spaces are built 5-10 years before they will be fully utilized as it would be far too expensive to attempt to build only at the moment they are required. You will find numerous examples of this long-standing industrial strategy up and down the 401 corridor and specifically along the VMP.

This concept is one that is clearly understood by economic development professionals across the country including our own LEDC. Having said that, if London were to remove the Vacant Land Rebate Program we could find ourselves behind the competitive eight ball compared to competing jurisdictions.

Recommendations:

1. ***Maintain the Vacancy Rebate Program for both commercial spaces and vacant land as it is presently structured*** until and unless the Province of Ontario elects to pass legislation that is applied fairly and universally across the entire province.

   All of the stakeholders involved in these consultations agree that maintaining the VRP would be their number one priority. Cost mitigation from a budget perspective can be achieved in other ways. The City of London has never been afraid to chart its own course with respect to how it conducts its own business. While some municipalities have elected to or will elect to eliminate the VRP, not all have chosen the same direction.

2. Should the City of London fail to maintain the VRP in its present form, then adopt a policy that will see ***the elimination of the VRP for commercial spaces for units chronically vacant exceeding a 3-5 year period.*** *This should then allow sufficient time for a landlord to get a plan in place that would either reconfigure existing rent structures or for sourcing new tenants.* ***This revised policy to come into force not before 2019.***

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3. ***Leave the current VRP on Unused or Excess Industrial Lands and Buildings in its current format*** for reasons alluded to in the preamble and for the advancement of economic development in this important space.

4. Abuses to the eligibility criteria for the VRP should result in the ***elimination of the VRP for only those operators charged with those abuses.***

Respectfully submitted by:

Gerry Macartney, CEO

London Chamber of Commerce

On behalf of: Cadillac Fairview (Masonville Mall), the London Home Builders Association, Bentall Kennedy (White Oaks Mall, Westmount Shopping Centre), ICORR Properties, Farhi Holdings, Altus Group, Princeton Properties, and RioCan Management Inc.

Copies: The Mayor and Council, Martin Hayward City Manager, the Board of Directors of the London Chamber of Commerce, the LEDC