TO:	**CHAIR AND MEMBERS** **CORPORATE SERVICES COMMITTEE** **MEETING ON OCTOBER 22, 2019**
FROM:	**ANNA LISA BARBON** **MANAGING DIRECTOR, CORPORATE SERVICES AND CITY TREASURER, CHIEF FINANCIAL OFFICER**
SUBJECT:	**VACANT/EXCESS LAND SUBCLASS TAX REDUCTIONS AND OTHER TAX POLICY ISSUES**

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/excess land subclass tax reductions in the commercial and industrial property classes and other tax policies noted in this report:

a) That City Council **PASS A RESOLUTION** to request that the Minister of Finance file the necessary regulation to eliminate the 30% municipal tax reductions on vacant commercial and industrial land and excess land in the City of London, beginning with the 2020 calendar year, so that City policy for these subclass reductions for municipal taxes will be the same as the Provincial policy subclass reductions for education taxes that will be applicable in the year 2020.

b) That the City Clerk **BE DIRECTED** to send a copy of the resolution referenced in (a) to the Minister of Finance.

c) That the City **MAINTAIN** the farmland tax ratio for 2020 at the 2019 level and review the future Tax Policy for setting the farmland tax ratio after studying the effect of the Province wide reassessment scheduled for the 2021 taxation year.

d) That the City Clerk **BE DIRECTED** to notify the Agricultural Advisory Committee of the proposed Tax Policy change described in (c) above.

e) That the contents of this report related to setting up an optional class for parking lots and vacant land **BE RECEIVED** for information.

f) That the City Tax Office **SEND A NOTICE** to property owners with vacant and excess land in 2019 after the Province has filed the required regulation to inform these property owners of the change in tax treatment in 2020.

PREVIOUS REPORTS PERTINENT TO THIS MATTER

Corporate Services Committee, March 28, 2017 Item # 2.3 Vacant Unit Rebate and Vacant/Excess Land Subclass Tax Reduction

Corporate Service Committee, November 21, 2017 Item # 2.4 Vacant Unit Rebate and Vacant Excess Land Subclass Reduction

Planning and Environment Committee, December 4, 2017 Item # 4.27(b), Parking Strategy for Downtown London

Corporate Services Committee, April 30, 2019, Item # 2.1, Year 2019 Tax Policy

BACKGROUND

Legislation Changes

In December 2016, sections 313 and 364 of the *Municipal Act, 2001* were amended to provide more flexibility to municipalities to amend or eliminate subclass tax rate reductions for vacant land and vacancy rebates for portions of vacant buildings. These legislation changes were worded in such a way that any action to eliminate the rebates/reductions will require a further specific regulation by the Minister of Finance. These legislation changes only apply to land in the commercial and industrial property classes. Section 313 sets out the rules for subclass tax rate reductions for vacant and excess land. Section 364 sets out the rules for rebates to vacant buildings.

In January 2017, the Ministry of Finance issued a checklist of actions, which includes a recommendation to “engage” and “communicate” with the local business community, municipalities should take prior to changing or eliminating the vacancy rebates or vacant/excess land tax reductions previously mandated by the *Municipal Act, 2001*. A copy of the checklist is attached as Appendix “A”. The Province required a resolution passed by Council indicating approval of any changes to the existing vacancy rebate program and subclass reductions in the commercial and industrial property classes. If Council wished to make any changes affecting the payment of rebates in 2017, a Council resolution was required to be submitted to the Minister of Finance prior to July 1st, 2017.

Council Actions in 2017

In March 2017 Council adopted a policy in principle to phase out the vacancy rebate program and subclass reductions for vacant and excess land in the commercial and industrial property classes, and directed the Civic Administration to obtain comments on the proposed policy from the London Economic Development Corporation (LEDC), the boards of management of Business Improvement Areas (BIA) in the City and London Chamber of Commerce in order to obtain comments on behalf of their clients and members in the commercial and industrial sectors. The feedback from these various organizations was summarized and reported back to Council in a report to the Corporate Service Committee meeting of November 21st 2017. Civic administration also sent out a notice in May 2017 of the proposed possible tax policy change to all property owners who had received a vacancy rebate or received a subclass tax reduction in 2016 for vacant or excess land in the commercial or industrial property classes. A copy of the notice is attached as Appendix “B”.

The Corporate Services Committee report, dated November 21st 2017, included a copy of the written feedback received from the organizations referenced above, see attached Appendix “C”. Obviously most individual property owners were not in favour of changes to the tax system, as that would have the effect of increasing their share of the property tax burden. This was clearly expressed at a meeting held at the London Chamber of Commerce to seek input from property owners. Some BIA organizations, however, did have a different perspective in that they seemed to express an interest in policies that might encourage commercial development and discourage speculation in undeveloped or underutilized land. Business groups expressed concerns about change from past practice, fairness to the commercial sector, and effects on general economic development of the changes proposed.

In 2017, Council did approve the phase out and elimination of the vacancy rebate program which provided tax rebates for vacant portions of buildings. For 2018, the vacancy rebate program was reduced from 30% to 15% and in 2019 the program was eliminated. In 2017, however, Council deferred a decision on the subclass reduction for vacant and excess land until more information was available as to what other municipalities and the Province intended to do with respect to this tax policy issue. In 2017 and 2018 many municipalities did eliminate the vacancy rebate program for buildings but not many eliminated the subclass in reduction for vacant and excess land.

Province of Ontario and Other Municipal Actions on Subclass Reductions

On April 19th 2019 the Province issued a letter notifying all municipal treasurers that the Province was proceeding on its own to eliminate the subclass reduction for vacant and excess land in reference to the education tax portion of the property tax bill and indicated it would discontinue any education tax participation in municipal vacancy rebate programs for buildings beginning in 2020. The Province indicated the subclass reduction for 2019 would be 15% instead of 30% and in 2020 there would be no subclass property tax reduction in education taxes for vacant and excess land. This announcement came at a point in time when most municipalities had already finalized, or were very close to finalizing, tax policy decisions for 2019.

As a result of the timing by the Province most municipalities did not have the ability to reopen or modify tax policy recommendations made to Council for 2019. Based on the action of the Province in 2019, however, it is anticipated that many municipalities in the future will be adopting the same policy as the Province for commercial and industrial subclass reductions. This is to ensure that, going forward, tax policy for the municipal portion of the property tax bill will be the same as the provincial tax policy for the education portion of the property tax bill.

We have contacted the Ministry of Finance to obtain a list of municipalities that have eliminated, or have indicated an intention to eliminate, the subclass tax reduction for vacant and excess land in the commercial and industrial property classes. The list includes the following municipalities:

1. City of Greater Sudbury
2. Elgin County
3. Renfrew County
4. Perth County
5. Durham Region
6. Waterloo Region
7. Haldimand County
8. City of Kenora
9. Region of Niagara
10. Wellington County
11. Fort Frances
12. Lennox and Addington

Financial Impact on Property Taxpayers

The subclass tax rate reduction for vacant and excess land does not involve any 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 $1.4 million additional municipal taxes to vacant and excess commercial and industrial land in the City and away from all other property classes. Municipal taxation of vacant and excess land currently totals about $3.3 million prior to any elimination. The immediate elimination would result in an approximate 43% increase in municipal taxation on vacant land and excess land at improved commercial and industrial sites. The total municipal tax levy for the City of London for 2019 is approximately $606.5 million.

To give some context to the dollar amounts involved on individual properties, the average total property taxes including education on vacant commercial land in 2019 is $13,400. The average total tax for industrial land is $6,100. Median tax amounts for commercial and industrial vacant land are $6,900 and $3,300 respectively. The education portion of the property tax bill for vacant and excess commercial and industrial land in 2019 was approximately 41% (municipal 59%). A tax increase amount of 43% on the municipal portion of these two median amounts would therefore be approximately $1,751 (6,900 x 59% x 43%) and $ 837 (3,300 x 59% x 43%) respectively. There are 183 vacant commercial land parcels and 205 vacant industrial land parcels in the City of London for the 2019 year.

Excess land is land included in a parcel that is in excess of the municipal requirement for the existing development elsewhere on the parcel. Excess land is normally a small portion of the total assessed value of the property. In the commercial class the average excess land portion of the total assessed value is about 10.2%. In the industrial class the average excess land portion is approximately 8.5%. As a result a 43% increase in the taxes on the excess land portion of the assessed value translates into a much smaller increase of the total taxes associated with the property. On average it would amount to about approximately 4.4% in the case of excess commercial land and approximately 3.4% in the case of industrial property. There are 201 commercial properties with excess land and 59 industrial properties with excess land in the City of London.

If the vacant and excess land subclass reductions had been eliminated in 2019, the effect on tax increases, including education taxes on other property classes, is illustrated in the following table:

Property Class	2019 average tax increase % including education approved by Council	2019 tax increase % if subclass reductions had been eliminated	Effect of eliminating subclass reductions
Residential	1.2%	1.0%	-0.2%
Multi-residential	1.6%	1.4%	-0.2%
Commercial buildings	4.5%	4.4%	-0.1%
Industrial buildings	0.9%	0.7%	-0.2%
Farm	3.9%	3.7%	-0.2%

Arguments for Eliminating the 30% Subclass Reduction for Excess and Vacant Land in the Commercial and Industrial Property Classes

The arguments for elimination are as follows:

1. Vacant and excess land valuations by MPAC already reflect the fact that there are no improvements on the land and it can, therefore, be argued logically that there is no need to also adjust the tax rate to a lower level for these properties.

2. Vacancy rebates may be providing some financial incentive to property owners who may be acquiring land for longer term speculation rather than immediate productive use. The elimination of vacancy rebates may provide an incentive to more actively pursue productive use of vacant property by commercial and industrial property owners.

3. In 2019 the current Provincial Government made the decision to eliminate all subclass reductions for education property taxes on excess and vacant land in the commercial and industrial property classes beginning in 2020. (The Province eliminated 50% of the education subclass reduction in 2019 and will totally eliminate the reduction in 2020. In 2019 education taxes are approximately 41% of the total property taxes on vacant and excess land in the commercial and industrial property classes).

Arguments for not eliminating the 30% tax subclass Reduction Program

The arguments against elimination of the program are as follows:

1. The primary argument by property owners who own vacant land and excess land would be that their share of the tax burden should not be increased from what it was historically prior to the 1998 tax reform.

2 Sudden large percentage tax increases are unfair to property owners

The Arguments for and against the elimination of the vacancy rebate and reduction program are summarized below:

For Elimination	Against Elimination
• Valuations already reflect no improvements on land.	• Share of the tax burden should not be increased above historical level.
• Incentive for longer term speculation is decreased and incentive to pursue productive use is increased.	• Sudden large percentage increases are unfair to property owners.
• Province is eliminating the subclass reduction on education property taxes completely in 2020.	

Comments on Arguments For and Against Program Changes

The arguments against the subclass rate reduction appear to be based primarily on maintaining the allocation of taxes as they existed prior to 1998 and concerns about large sudden changes in taxation. Eliminating the subclass reduction does increase the tax level by approximately 43%. It should be noted that communication was issued to property owners in 2017 indicating that Council had adopted a policy in principle to eliminate the subclass reduction.

The primary arguments for elimination of subclass reductions in 2020 would appear to be that the Province is eliminating the subclass reduction for education property taxes and it would seem logical for municipalities to make the tax structure for municipal taxes the same as the Provincial approach. In addition there does not seem to have been any logical justification for the subclass reduction after the elimination of the business occupancy tax in 1998 because the property valuation prepared by MPAC already discounts the land valuation for the fact that there is no building on the land. Finally the elimination of the subclass reduction may reduce the incentive for land being held idle for speculation purposes and create an incentive to pursue development.

Considerations for the Timing of Implementing Changes

If Council approves eliminating the subclass rate reduction, it may want to give consideration to the issue of timing. As referenced above the immediate elimination of the subclass rate reduction would result in approximately 43% increase in municipal taxes on vacant commercial land. The effect on excess land would be far less significant since the excess land component of a parcel, in general, is a small portion of the total value.

As indicated previously when the communication was sent out notifying the potentially affected property owners about the proposed changes, the primary focus of the feedback seemed to be concern about the elimination of the vacancy rebate program for buildings rather than the vacant/excess land subclass reductions. The actions by the Province to eliminate the vacant land/excess land subclass reduction for education property tax rates completely in 2020, however, would seem to argue in favour of municipalities making the same adjustment to municipal tax rates for the 2020 taxation year.

If Council wished to change the tax rate reduction for vacant/excess land subclasses effective for the 2020 calendar year vacancy applications, a Council resolution should be submitted to the Minister of Finance before January 1, 2020.

The recommendation in this report is to completely eliminate the vacant land/excess land subclass reduction in the commercial and industrial property classes for the year 2020, and future years, and submit a resolution to that effect to the Minister of Finance requesting that he file the necessary regulation. This recommendation would mirror what the Province is doing in 2020 to eliminate subclass reductions for education taxes completely in that year.

If Council wanted to consider an option to slow down the implementation of the approach recommended in this report, Council could consider reducing the elimination of the subclass reduction to 15% in 2020 and complete elimination in 2021. In this scenario the timing of the complete elimination of the subclass reduction would be one (1) year after the elimination of the education subclass tax reduction by the Province.

Other Tax Policy Issues

At the Corporate Services Committee meeting on April 30th 2019, when the 2019 Tax Policy was reviewed by the committee, two (2) issues were raised for further consideration at a later date. One of them is related to the issue of the elimination of subclass reductions in the commercial and industrial property classes. The other is related to the taxation of farmland in the City.

Creating a separate optional property Class for Parking Lots

At the Corporate Services Committee meeting on April 30th 2019 it was suggested that the City look into the possibility of creating a separate class for parking lots with a higher rate than the rest of the commercial property class. One of the problems with this suggestion is that assessment legislation does not permit the creation of a property class consisting solely of parking lots. Under *Ontario Regulation 282/98* as amended, it is only possible to create an optional property class consisting of both parking lots and vacant commercial land. As a result this property class would capture all the commercial vacant land as well as all the parking lots in the City.

In addition the experience of other municipalities appears to be not advisable to create a higher tax rate for parking lots since the approach could have the effect of decreasing the amount of parking in commercial areas below an appropriate level. It would appear that other municipalities that have created optional property classes for parking lots and vacant commercial land have done so to promote the creation of parking lots in commercial areas. Appendix "D", attached, lists all the municipalities in the 2018 BMA Municipal Study that have adopted optional commercial classes. In all cases the municipality adopted a parking lot and vacant land property class lower than or equal to the other commercial tax rates – in most cases lower than the other commercial rates. Presumably this was to encourage the development of parking lots in commercial areas.

The Planning and Environment Committee received a report on a long term strategy for Downtown Parking on December 4, 2017. One of the key conclusions of the report was that "the parking supply typically provided by developers for commercial development is below the typical demand" and "future construction projects…will result in the loss of on-street parking within the downtown." It would seem the best approach to target a parking issue particular to a certain area, such as downtown, would be financial incentives through a community improvement plan or development agreements, rather than the adoption of a tax policy that cannot be isolated to parking lots and would have application throughout the entire City.

If the City were to create a new optional class for Parking Lots and Vacant Commercial Land, Council would be required under section 13 of Ontario Regulation 282/98 (*Assessment Act*) to pass a by-law. Under section 3.4 of the *Assessment Act,* the by-law would be required to be sent to the Minister of Finance within 14 days of passage. The Minister of Finance would then issue regulations under section 3.1 of the *Assessment Act* and section 308(11) of the *Municipal Act, 2001* to “allow the creation of an optional class” and to set an average transition ratio for the commercial class in the City of London.

Tax Ratio setting for Farmland

Since 1998 when major tax reform occurred throughout the entire Province, the City adopted a policy to equalize the municipal tax increases each year in the residential and farm property classes by adjusting the tax ratio for farmland. The effect of this policy has been to lower the tax ratio for farmland significantly below 0.25000. This has occurred because the value of farmland has increased at a significantly greater rate since 1998 than the value of residential property in the City. By legislation the tax ratio is set each year at 0.25 or such lower amount as determined by Council (section 308.1(3) of *Municipal Act, 2001*). In 2019 the tax ratio for farmland in the City of London is 0.10282.

All the Cities in the 2018 BMA municipal study that have a farmland tax ratio less than 0.25 are listed on Appendix “E”. London has the lowest ratio on the list. On Appendix “F”, the 2018 farm tax rates for municipalities in the County of Middlesex are listed. As can be seen from that list London has the lowest farm tax rate in Middlesex County.

It should be noted, that in accordance with subsection 19(5) of the *Assessment Act,* lands used in farming are valued in a different way from other property classes. For lands used in farming the valuation may consider the current value of the lands <u>for farm purposes only</u> and the valuation shall not give consideration of value based on the sale of the land for any purpose other than farming. As a result, land within the City of London limits with development options beyond farming would not have this potential considered in the valuation for tax purposes.

Based on a review of the tax level for farmland in the City of London it is recommended that the City consider discontinuing the policy of equalizing tax increases in the residential and farm property classes and notify the Agricultural Advisory Committee of this possibility. Because the farm land assessment is such a small part of the total assessment of the City, this change will not have significant financial impact on the City.

If the farm ratio were suddenly increased to 0.25 in 2019 the change would have increased total farm taxation in the City by $258,000 or 115.4%. The following table shows the effect on all the major property classes if the farm tax ratio had been 0.250000 instead of 0.102820:

Property Class	2019 tax increase % including education taxes approved by Council	2019 tax increase % if farm ratio were changed to 0.250000	Effect of increasing tax ratio to 0.250000
Farm	3.9%	115.4%	+111.5%
Residential	1.2%	1.1%	-0.1%
Multi-residential	1.6%	1.5%	-0.1%
Commercial Buildings	4.5%	4.4%	-0.1%
Industrial Buildings	0.9%	0.8%	-0.1%

Future Tax Policy

Based on the actions taken as a result of this report, Civic Administration will bring forward a future tax policy report at a later date prior to the setting of the 2020 Tax Policy. Currently, the City is participating in a working group setup by the Ontario Regional and Single Tier Treasurers reviewing the tax treatment of the multi-residential property class in the context of legislative changes.

SUMMARY

In summary, it is recommended that City Council approve and submit a resolution to the Minister of Finance to eliminate the 30% subclass tax reduction in municipal taxes for vacant/excess land in the commercial and industrial property classes. As the Province is eliminating the reduction for education taxes in 2020, the recommended action by Council will mirror what the Province is doing and will eliminate the reduction for municipal taxes in the same year.

In reference to other tax policy issues discussed at the Corporate Service Committee meeting of April 30th 2019, it is recommended that Council take no action to create a separate property class for parking lots and vacant commercial land and in 2020 Council not decrease the tax ratio for farmland below the level established in 2019.

SUBMITTED BY:	CONCURRED BY:
JIM LOGAN, CPA, CA **DIVISION MANAGER, TAXATION & REVENUE**	**IAN COLLINS, CPA, CMA** **DIRECTOR, FINANCIAL SERVICES**

RECOMMENDED BY:
ANNA LISA BARBON, CPA, CGA **MANAGING DIRECTOR,** **CORPORATE SERVICES & CITY TREASURER,** **CHIEF FINANCIAL OFFICER**

Attachments: Appendix “A”
Appendix “B”
Appendix “C”
Appendix “D”
Appendix “E”
Appendix “F”

Appendix "A"

Ontario

Ministry of Finance

VACANCY REBATE AND REDUCTION PROGRAM CHANGES
CHECKLIST
January 2017

BUSINESS COMMUNITY ENGAGEMENT

- ✓ Have you engaged the local business community?
- ✓ Can you provide details on how and when you have engaged the local business community?
- ✓ Have you considered the potential impacts the proposed changes may have on local businesses?
- ✓ Have you communicated potential impacts of proposed changes to the business community?
- ✓ Has Council been made aware of the potential impacts on the business community?

PROGRAM DETAILS

- ✓ Have you outlined details of program changes in your submission?
- ✓ For municipalities in a two-tiered system, have you discussed proposed changes with lower-tier municipalities?
- ✓ Have you considered how you will implement or administer any potential changes to the vacancy programs?
- ✓ Have you considered these changes as part of a multi-year strategy?
- ✓ Has Council passed a resolution indicating approval of these changes?

FURTHER INFORMATION

If you have any questions about implementation of changes to the vacant rebate and reduction programs, please contact the Ministry of Finance at info.propertytax@ontario.ca.

Appendix "B"

May 1, 2017

[redacted]

RE: [redacted]

NOTICE TO PROPERTY OWNERS REGARDING PROPOSED CHANGES TO THE VACANCY REBATE PROGRAM AND TAXATION OF VACANT AND EXCESS LAND

This is to notify you that City Council has adopted in principle a policy to phase out in future years the current vacancy rebate program and eliminate the subclass tax reduction for vacant land and excess land for properties in the commercial and industrial classes. The report and council resolution related to the adoption in principle of this policy is available on the City's web site at www.london.ca (enter "vacancy rebates" in the search box).

According to our records you own land that received a vacancy rebate in 2016 or was subject to vacant land/ excess land subclass tax reduction in 2016. City Council directed that property owners in this situation be notified of the consultation process under way and the purpose of this letter is to notify you of the proposed changes and the consultation process underway.

As described in the report available on the City's web site the consultation process suggested is for the London Economic Development Corporation, the boards of management of Business Improvement Areas in the City and the London Chamber of Commerce to provide comments back to City Council on behalf of their clients and members on the proposed changes. The deadline for any comments to City Council and the completion of the consultation process as indicated in the report is August 31, 2017.

J. Logan

Jim Logan
Division Manager-Taxation and Revenue

APPENDIX "C"

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 "C"

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 "C"

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 "C"

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 "C"

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

APPENDIX "C"

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%.

APPENDIX "C"

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.***

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

APPENDIX "D"

Municipalities with Optional Commercial Classes

(from BMA Municipal Study 2018)

Municipality	Commercial – Residual Tax Ratio	Commercial – Office Building Tax Ratio	Commercial – Parking Lot and Vacant Land	Commercial – Shopping Centre
Chatham-Kent	1.9504	1.5718	1.9504	2.2512
Kenora	2.1309	2.5751	1.7396	3.0275
Lambton	1.6271	1.5358	1.0912	2.0835
Ottawa	1.8726	2.3238	1.2640	1.5070
Sarnia	1.6271	1.5358	1.0912	2.0835
Sault Ste. Marie	2.1939	3.0500	1.6625	2.3290
Stormont, Dundas and Glengarry	1.6430	1.4565	1.4565	1.4565
Sudbury District	1.8686	1.8686	1.8686	2.6020
Windsor	2.0187	2.0187	1.0167	2.0187

APPENDIX “E”

Farmland Tax Ratios where Reductions have been Implemented

(from BMA Municipal Study 2018)

Municipality	Farmland Tax Ratio
Brant County	0.2400
Caledon	0.1689
Chatham-Kent	0.2200
Durham	0.2000
Greater Sudbury	0.2000
Halton	0.2000
Hamilton	0.1767
Kingston	0.2250
Lambton	0.2260
London	0.1180
North Bay	0.1500
Ottawa	0.2000
Oxford	0.2350

APPENDIX "F"
2018 FARMLAND TAX RATES IN MIDDLESEX COUNTY

Municipality	Lower tier tax rate	Upper Tier Tax Rate	Single Tier Tax Rate	Total Municipal Tax Rate	Education Tax Rate	Total Tax Rate
Adelaide-Metcalfe	0.172850%	0.096813%		0.269663%	0.042500%	0.312163%
Lucan Biddulph	0.154760%	0.096813%		0.251573%	0.042500%	0.294073%
Middlesex Centre	0.145225%	0.096813%		0.242038%	0.042500%	0.284538%
North Middlesex	0.204112%	0.096813%		0.300925%	0.042500%	0.343425%
Southwest Middlesex	0.197355%	0.096813%		0.294168%	0.042500%	0.336668%
Strathroy-Caradoc	0.161983%	0.096813%		0.258796%	0.042500%	0.301296%
Thames Centre	0.114368%	0.096813%		0.211181%	0.042500%	0.253681%
City of London			0.139372%	0.139372%	0.042500%	0.181872%