

**6. VACANCY REBATE PROGRAM REVIEW**

**EXAMEN DU PROGRAMME D'ALLÈGEMENT FISCAL POUR IMMEUBLES  
INOCCUPÉS**

**COMMITTEE RECOMMENDATIONS AS AMENDED**

That Council approve:

1. That the City of Ottawa's Vacancy Rebate Program (VRP) be phased out over a period of two years, with the eligibility criteria during the phase out to be provided for as described in this report, and that the rebate amount is reduced to 15% in 2017 and eliminated in 2018; and
2. That the City request that the Minister of Finance implement Council's decisions with respect to the Vacancy Rebate Program by provincial Regulation.

**RECOMMANDATIONS DU COMITÉ , TELLES QUE MODIFIÉES**

Que le Conseil approuve ce qui suit :

1. Que le Programme d'allègement fiscal pour les immeubles inoccupés de la Ville d'Ottawa soit éliminé progressivement sur une période de deux ans, que le critère d'admissibilité employé pendant ce processus soit celui décrit dans le présent rapport, et que le montant du remboursement soit réduit à 15 pour cent en 2017, puis supprimé en 2018; et
2. Que la Ville demande au ministre des Finances d'appliquer les décisions du Conseil concernant le Programme d'allègement fiscal pour les immeubles inoccupés, conformément à la réglementation provinciale.

DOCUMENTATION/DOCUMENTATION

1. Deputy City Treasurer's report, Revenue , dated 25 April 2017 (ACS2017-CSD-REV-0004)

Rapport de la Trésorière municipale adjointe, Recettes daté le 25 avril 2017 (ACS2017-CSD-REV-0004)

2. Extract of draft Minutes, Finance and Economic Development Committee, 2 May 2017.

Extrait de l'ébauche du procès-verbal, Comité des finance et du développent économique, le 2 mai 2017.

**Report to  
Rapport au:**

**Finance and Economic Development Committee  
Comité des finances et du développement économique  
2 May 2017 / 2 mai 2017**

**and Council  
et au Conseil  
10 May 2017 / 10 mai 2017**

**Submitted on April 25, 2017  
Soumis le 25 avril 2017**

**Submitted by  
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**Ward: CITY WIDE / À L'ÉCHELLE DE LA VILLE      File Number: ACS2017-CSD-REV-0004**

**SUBJECT: VACANCY REBATE PROGRAM REVIEW**

**OBJET: EXAMEN DU PROGRAMME D'ALLÈGEMENT FISCAL POUR  
IMMEUBLES INOCCUPÉS**

## **REPORT RECOMMENDATIONS**

**That the Finance and Economic Development Committee recommend Council  
approve:**

- 1. That the City of Ottawa's Vacancy Rebate Program (VRP) be phased out over a period of three years as described in this report and such that the rebate amount is reduced to 20% in 2017, reduced to 10% in 2018, and eliminated in 2019.**
- 2. That the City request that the Minister of Finance implement Council's decisions with respect to the Vacancy Rebate Program by provincial Regulation.**

## **RECOMMANDATIONS DU RAPPORT**

**Que le Comité des finances et du développement économique recommande au Conseil d'approuver ce qui suit :**

- 1. Que le Programme d'allégement fiscal pour les immeubles inoccupés de la Ville d'Ottawa soit échelonné sur une période de trois ans, comme il est décrit dans le présent rapport, et que le montant du remboursement soit réduit à 20 pour cent en 2017, à 10 pour cent en 2018 et supprimé en 2019.**
- 2. Que la Ville demande au ministre des Finances d'appliquer les décisions du Conseil concernant le Programme d'allégement fiscal pour les immeubles inoccupés, conformément à la réglementation provinciale.**

## **EXECUTIVE SUMMARY**

All municipalities in Ontario currently offer a Vacancy Rebate Program (VRP) to allow commercial and industrial property owners to apply for property tax rebate for periods of vacancy in excess of 90 days and subject to general eligibility criteria defined in the Municipal Act, 2001 and Regulation 325/01 as amended. Commercial and industrial property owners with eligible vacancy can benefit from a partial rebate of their property taxes: 30% rebate for commercial vacant property, i.e. for vacant office and retail space and, 35% rebate for vacant industrial property. The City of Ottawa received approximately 920 applications for 2015 vacancies, with rebates totalling over \$17M returned to commercial and industrial property owners. The VRP is offered only to commercial and industrial property classes with no similar programs offered to other property classes.

In January 2017, the Province of Ontario informed all municipalities that they would be given the option to review the VRP and make changes to reflect their circumstances. While municipalities have been provided with the authority to change, amend or eliminate the VRP, the Province retains regulatory authority. As a result the City must formally request, no later than July 1, 2017, a regulatory change from the Province to reflect any changes Councils decide to make to the program.

In response, municipalities across Ontario are undertaking reviews of their VRP history and consulting with stakeholders with the intention of proposing changes to the program. Instead of mandating a standardized province-wide approach, the Province will review individual municipal proposals and permit interested municipalities to determine their respective vacancy rebate policy as is appropriate to the needs of the municipality.

Staff have reviewed the VRP from various perspectives including the administration of the program, financial implications, tax policy objectives, eligibility criteria, types of vacant property, and the overall property market context in terms of vacancy rates.

Since program inception the cost of vacancy tax rebate program have been paid for by all property classes, including the residential taxpayer class. The VRP is a tax benefit available only to commercial (e.g. retail and office) and industrial property owners experiencing a vacancy. Other business properties owners, such as landlords of both single and multi-unit residential properties who experience a vacancy are not entitled to a rebate when their properties are vacant. This is in effect a tax subsidy available to some but paid for by all.

The Municipal Property Assessment Corporation (MPAC) factors in vacancy during their assessment process, so that the assessed values take into consideration regular or even chronic vacancies in rental properties. As the vacancy is already built into the property value the ability to then apply for tax relief for vacancies results in property owners benefiting from two sets of tax relief for vacant space. From a policy perspective, there is concern that these two levels of tax relief for vacant space may create disincentives to accepting short term rental opportunities, or to improving buildings left vacant that are in need of repair.

Significant consultation was held with the property owners and the business community. Options for changes to the program were presented and numerous meetings and

communications channels were used to solicit feedback and foster discussion. While the timeline to provide the Province with any changes was short, at the request of the stakeholders consultations were extended to allow stakeholders to bring forward a self-funding option within the commercial and industrial tax class to support a continued VRP. The option ultimately presented by the stakeholders was not self-funding as there was difficulty in accepting an increase in taxes within the commercial and industrial class to fund the program.

Among beneficiaries of the program, feedback was generally strong in support of keeping the VRP intact. There was support to streamline eligibility criteria to avoid abuse or inappropriate applications for space that did not fit the intent of the VRP and to limit the number of years a property could apply.

The VRP is a part of the City's annual budget. Over the years the budget has not kept pace with the actual use of the program. Currently the budget is set at \$6.9 M with an actual usage of \$17 M per year. Deficits in this program have been offset with other taxation as part of the year-end process.

The result of this work is that staff are recommending the gradual elimination of the Vacancy Rebate Program over a three-year period.

## **SOMMAIRE**

À l'heure actuelle, toutes les municipalités de l'Ontario ont un programme d'allègement fiscal pour immeubles inoccupés, qui offre aux propriétaires d'immeubles commerciaux et industriels une remise d'impôt foncier pour les périodes d'inoccupation de plus de 90 jours, à condition qu'ils respectent les critères généraux d'admissibilité prévus par la *Loi de 2001 sur les municipalités* et le Règlement 325/01, dans leur version modifiée. Les propriétaires admissibles peuvent profiter d'une remise partielle de 30 % pour les immeubles commerciaux vacants (bureaux et espaces commerciaux vacants) et de 35 % pour les immeubles industriels vacants. La Ville d'Ottawa a elle-même reçu environ 920 demandes pour l'année 2015 et remboursé plus de 17 millions de dollars. Le Programme d'allègement fiscal pour immeubles inoccupés se limite aux catégories commerciales et industrielles, et aucun programme semblable n'est offert pour les autres types de propriété.

En janvier 2017, la Province a informé ses municipalités qu'elles auraient la possibilité de réviser leur programme et apporter des modifications pour tenir compte de leur situation. Tandis que les municipalités ont obtenu le pouvoir de changer, de modifier ou d'éliminer le Programme d'allègement fiscal, le gouvernement provincial conserve son pouvoir de réglementation. En conséquence, la Ville doit officiellement demander au gouvernement provincial de modifier la réglementation pour tenir compte de tout changement qu'un conseil déciderait d'apporter au Programme d'ici le 1<sup>er</sup> juillet 2017.

Des municipalités d'un peu partout en Ontario ont donc recommencé à étudier l'historique de leur programme et à consulter des intervenants, en vue de proposer des changements au Programme. Au lieu d'imposer une même façon de faire pour l'ensemble de l'Ontario, la Province examinera chaque proposition et permettra aux municipalités concernées de définir leur propre politique sur l'allègement fiscal pour les immeubles inoccupés, selon leurs besoins particuliers.

Le personnel a évalué le Programme d'allègement fiscal selon diverses perspectives, y compris celle de l'administration du Programme, des répercussions financières, des objectifs de la politique fiscale, des critères d'admissibilité, les types de propriétés et le taux d'inoccupation dans le marché immobilier en général.

Depuis le lancement du Programme, les coûts de l'allègement fiscal pour immeubles inoccupés ont été assumés par toutes les catégories de propriétaires, y compris la catégorie résidentielle. Le Programme est un avantage fiscal qui n'est cependant offert qu'aux propriétaires d'immeubles dont une partie est inoccupée des catégories commerciales (bureaux et espaces commerciaux) et industrielles; il n'est pas offert aux personnes détenant un autre type de biens d'entreprise, comme un bâtiment résidentiel individuel ou à logements multiples. Il s'agit en effet une subvention fiscale qui est offerte à certains, mais qui est payée par tous.

La Société d'évaluation foncière des municipalités tient également compte des inoccupations dans son processus d'évaluation, afin que la valeur imposable tienne compte des immeubles locatifs qui sont inoccupés de façon régulière ou même chronique. Comme la valeur de l'immeuble inoccupé est déjà calculée dans celle de la propriété, la possibilité d'appliquer ensuite un allègement fiscal pour ces immeubles inoccupés permet aux propriétaires de ces biens de profiter de deux ensembles d'allègements fiscaux pour leurs immeubles vacants. Du point de vue stratégique,

certain craignent que ces deux avantages ne découragent les propriétaires de louer leurs immeubles à court terme ou de rénover les immeubles inoccupés qui bénéficient d'une évaluation foncière réduite en raison des réparations qui doivent y être effectuées.

Une consultation approfondie a été menée auprès des intervenants. Les possibilités de changement au Programme ont été présentées, et un grand nombre de réunions ont été organisées et de moyens de communication employés pour solliciter des commentaires et favoriser la discussion. Puisque le délai pour présenter les modifications demandées au gouvernement provincial était court, les consultations ont été élargies, à la demande des intervenants, pour permettre à ceux-ci de présenter une option d'autofinancement pour la catégorie fiscale des immeubles commerciaux et industriels à l'appui du maintien du Programme d'allègement fiscal. L'option finalement présentée par les intervenants n'était pas autofinancée, les propriétaires d'immeubles commerciaux et industriels ayant du mal à accepter l'augmentation des impôts nécessaire.

Les bénéficiaires étaient généralement favorables à l'idée de conserver le Programme. Certains étaient d'accord pour uniformiser les critères d'admissibilité afin d'éviter les cas d'abus ou de demandes inappropriées pour des locaux qui ne s'inscrivent pas dans l'esprit du Programme ainsi que de limiter le nombre d'années pendant lesquelles une même propriété peut bénéficier du remboursement.

Les coûts du Programme d'allègement fiscal pour immeubles inoccupés font partie du budget annuel. Au fil des ans, le budget n'a pas suivi le rythme d'utilisation réel du Programme. Actuellement, le budget est fixé à 6,9 M\$, avec une utilisation annuelle réelle de 17 M\$. Les déficits de ce programme ont été compensés par d'autres mesures fiscales dans le cadre du processus de fin d'exercice.

À la suite de cet exercice, le personnel recommande d'échelonner l'élimination du Programme d'allègement fiscal pour immeubles inoccupés sur une période de trois ans.

## **BACKGROUND**

Following the elimination of the business occupancy tax and introduction of the new tax regime in 1998, the Government of Ontario introduced a prescribed vacancy rebate program in the *Municipal Act*. To facilitate, the *Municipal Act, 2001* included the new



section 364 (Vacant unit rebate) along with the accompanying *Ontario Regulation 325/01*.

Section 364 of the *Municipal Act* and *Ontario Regulation 325/01* require all municipalities to provide a property tax rebate for eligible vacant units. This mandatory program provides a 30% rebate of taxes for eligible property in the commercial classes and a 35% rebate for eligible property in the industrial classes. The main criteria for eligibility are the following: the unit (or portion) was vacant for more than 90 consecutive days and the property is in any of the commercial or industrial classes. In order to claim the vacancy rebate, property owners must submit an application before the last day of February of the year following the taxation year in respect of which the application is made.

In the fall of 2016, the Province of Ontario announced its intent to provide municipalities with increased flexibility to manage the VRP. To avail themselves of the increased flexibility, municipalities were given an aggressive timeline in which to undertake stakeholder consultations and submit a proposal to the Ministry of Finance. The City of Ottawa must submit a proposal to the Ministry of Finance by the final deadline of July 1, 2017 in order for the Ministry to review and implement changes in 2017 to Ottawa's VRP.

The Province has provided a checklist to municipal staff prior to making submission for changes to the VRP. The checklist includes the following considerations:

- engaging the local business community with details of how and when
- considering and communicating the potential impacts the proposed changes may have on local businesses
- ensuring Council is aware of the potential impacts of the proposed changes
- ensuring the details of the program are outlined to the Ministry in the City's submission
- consideration to implementation or administration of any potential changes to the VRP
- that Council has passed a resolution indicating its proposed changes for implementation by provincial regulation

## **DISCUSSION**

With the flexibility announced by the Province, the City undertook a review of the 16-years of VRP delivery. Over the last seven years, applications and rebates paid have increased at a greater rate than the commercial and industrial tax base. The Municipal portion of monies paid out in Vacancy Rebates in 2013, 2014, 2015 and 2016 were \$8.0M, \$12.3M, \$13.7M and \$17M respectively. The estimated proportion of funds paid out is 94% to commercial properties and 6% to industrial properties which is in line with their respective share of assessment.

In 2015, the VRP also led to reduction and claw back in the education tax collected for the local school boards of approximately \$4M. The Ottawa area BIAs also received a reduction in their overall levies of approximately \$71K in 2016. For the ten-year period 2006 to 2016, the impact on BIAs totaled \$404k.

A review of the delivery of the VRP indicated that there are a number of concerns from a tax policy perspective with the current VRP

- The VRP is a tax benefit available to only commercial and industrial property owners experiencing a vacancy whereas the costs of are paid by all classes, including the residential taxpayer class
- Other business properties such as landlords of both single and multi-unit residential properties are not entitled to a rebate when parts of their properties are vacant
- In addition to applying for the VRP, property owners can also seek tax relief for vacancy via a lowered assessed property value. When the Municipal Property Assessment Corporation (MPAC) determines the property values they include a vacancy allowance to adjust for reduced income due to vacant space. They also take into consideration chronic vacancy resulting from the condition of the property, thereby lowering the assessed value and the overall taxes for the property for the assessment period. Accordingly, when owners appeal their assessment values, one of the factors negotiated is the vacancy allowance adjustment.
- The VRP eligibility of 90 days minimum vacancy does not incent landlords to accept requests for short term leases to generate revenue.
- The VRP has no maximum time limit that a property can receive the rebate and there is concern that this may not encourage landlords to renovate their spaces to make them fit for occupation.

- The VRP requires significant administrative resources that must be redeployed from more value-added activities, such as assessment base management activities

**Table 1 - Rolling 5-year average of the split of the total vacancy rebates paid out by the City, annually and by sub-class**

TAX CLASS	NUMBER OF PROPERTIES	NUMBER OF PROPERTIES RECEIVING VRP	REBATE SHARE IN DOLLARS
OFFICE	437	185	53%
COMMERCIAL	8,998	452	30%
SHOPPING CENTRES	333	151	10%
SPORTS FACILITIES	11	0	0%
PARKING LOTS AND VACANT LAND	449	0	0%
INDUSTRIAL	670	25	2%
LARGE INDUSTRIAL	23	7	5%
<b>OVERALL</b>	<b>10,921</b>	<b>820</b>	<b>100%</b>

Further analysis shows that the beneficiaries of the program tend to be the large property owners. The table below shows the 5-year rolling average of the vacancy rebate and the share of rebate paid.

**Table 2 - 5-year rolling average of the vacancy rebate and the share of rebate paid**

PROPERTY ASSESSMENT	NUMBER OF PROPERTIES	NUMBER OF PROPERTIES RECEIVE VRP	REBATE SHARE IN DOLLARS
<b>LARGE</b> (greater than \$25M)	394	69	50%
<b>MEDIUM</b> (\$2.5M to \$25M)	2,145	400	38%
<b>SMALL</b> (less than \$2.5M)	8,382	351	12%
<b>TOTAL</b>	<b>10,921</b>	<b>820</b>	<b>100%</b>

### **City Tax Policy: Commercial Tax Ratio**

In 2016 and 2017, the City reduced the commercial ratio, resulting in a 3.5% reduction to the commercial tax base over this period. This effectively means the average commercial property is now paying 3.5% less taxes than they would have been had the City adopted commercial neutral ratios. As a result of this ratio reduction the commercial class now shares equally in the 2% municipal budgetary tax increase.

The reduction in Commercial taxes more than covers the full cost of any vacancy rebates that the class may experience and leaves business and landlords financially whole should the City consider eliminating or phasing out the vacancy rebate program.

### **Vacancy Incorporated Into Assessment Methodology**

In assessing commercial and industrial properties in Ontario, MPAC commonly uses the income methodology. Built into this methodology is a standard vacancy rate for each of the property classes. The Office sub-class applies a 10 to 11% vacancy rate and retail applies a 4 to 5% vacancy rate. These are reflective of the local market place reports for Ottawa. As a result, all properties, vacant or not receive the benefit of a reduced assessment with a built in vacancy factor.

When the Municipal Property Assessment Corporation (MPAC) prepares the property assessment for taxation purposes, a vacancy allowance, chronic vacancy and/or reduced income due to vacant space is factored into the assessment value from the start. Subsequently, when owners appeal their assessment values, one of the factors negotiated is the vacancy allowance. This means that generally, vacancy is already

accounted for in the assessed value of the property, and rebates represent an additional benefit.

### **VRP Reviews across Ontario Municipalities**

Many municipalities across Ontario are conducting reviews of their VRP. There is a general trend across the Province to either eliminate the VRP or phase it out over a period of time. Staff surveyed various municipalities, and at this time, the trend across Ontario is to eliminate the program over a one to two-year period.

The following approaches are in progress:

**Toronto:** Toronto has come out the clearest with its decision to discontinue their VRP:

The City of Toronto has confirmed through Council motion that it will eliminate the program as of 2018. For January 1 to June 30, 2017, the City will continue to offer the full vacancy rebate and as of July 1, 2017, the vacancy rebate percentages will be reduced by half. They are currently in the process of consulting with the local business community.

**Port Hope:** Port Hope has passed a Council resolution requesting the Province remove section 364 from the Municipal Act. This equates to the elimination of the vacancy rebate program.

**Parry Sound:** On April 18, 2017 the Council of Parry Sound passed a council resolution to eliminate the program as of January 1, 2017.

**Region of York:** The Region of York is reviewing its program, in consultation with its lower-tier municipalities. Local municipalities have sought direction from their Councils regarding the future of the program and the Region is now in the process of preparing to consult with the local business community.

**Kawartha Lakes:** City of Kawartha Lakes Council approved a report dated April 18, 2017 to phase out the vacancy rebate program out over a two-year period, commencing in 2017. The vacancy rebate percentages for 2017 will remain as prescribed and in 2018 they will be zero. The recommendation came

after Council passed a resolution to consider to elimination of the program and staff have completed their consultation with the business community.

**Belleville, Prince Edward County and Quinte West:** City of Quinte West is following the leads of Prince Edward County and the City of Belleville when it comes to the Commercial and Industrial Vacancy Rebate Program. Quinte West's Corporate Finance Committee voted to stop the rebates after consulting with the local business community.

**Region of Halton:** The Region is eliminating the program with a phase out over 2018 and 2019. For the 2017 tax year, the existing rebate will be available. For the 2018 tax year the rebate will be reduced to 15% for commercial and 20% for industrial; and for the 2019 tax year the rebate will be fully eliminated.

**Region of Peel:** The Region is reviewing its program and commencing consultations in May, 2017.

### **Stakeholder consultations: Options presented**

A series of consultations were held with a range of stakeholders. The objective of the consultations was to solicit open feedback and ideas on a set of potential changes to the VRP. The consultations were structured to receive feedback from local commercial real estate, landlord and tax agent stakeholder groups on the proposed program parameters and to identify impacts of proposed changes on the business community.

Prior to the consultation, staff reviewed many factors affecting the VRP program, including the financial pressures of the program over the last several years, the local market vacancy trends as well as conducted discussions with other Municipalities regarding the future of the VRP. The review concluded that the VRP could not remain as currently prescribed and that the City would seek to reduce its financial burden or eliminate it.

The consultation included three options; 1. Discontinue the program immediately; 2. Phase out the program over a number of years; or 3. Maintain the program but continue with different benefit levels over time. The following VRP options were tabled for consultation with the business community:

**Option 1: Elimination of the Program (0% option)**

Under Option 1, the City would adopt the simplest and direct path to full elimination of the VRP, which could be implemented in 2018 and would therefore apply to vacancies in the 2017 tax year. The elimination of the VRP addresses the concerns noted above and will immediately result in derelict properties no longer being able to obtain a vacancy rebate.

Property owners would still be able to address vacancies above what has been factored into their assessment by appealing to MPAC.

**Option 2: Three-Year Phase-Out of the Program (20%, 10%, 0% option)**

This option would see the VRP rebate levels harmonized for both commercial and industrial and they would be phased out over a three-year period, with the rebate offered in 2018 (for the vacancies in 2017 taxation year) dropping to 20% for both commercial and industrial classes. Subsequently, the rebate offered in 2019 (for the 2018 taxation year) would drop further to 10% and in 2020, the City would fully exit the program and vacancies in 2019 would no longer be eligible for any rebate. This is illustrated in the table below. This would provide for equal declining rate for all eligible properties over taxation years 2017, 2018 and 2019. This option would provide time for the business community to adjust their financial/operating plans accordingly.

**Table 3 - Three-Year Phase-Out of the Program (20%, 10%, 0% option)**

<b>Taxation Year</b>	<b>Option 2 Rebate Percentage</b>
2016 (Year 0)	Prescribed: 30% Commercial / 35% Industrial
2017 (Year 1)	Reduction to 20%
2018 (Year 2)	Reduction to 10%
2019 (Year 3)	VRP Elimination 0%

As with Option 1, the ultimate phase out of the VRP addresses concerns about the program not incenting owners to improve properties and achieve full occupancy. Property owners would still be able to address vacancies above what has been factored into their assessment by appealing to MPAC.

**Option 3: Three-Year Declining Benefit VRP**

This third option presented to stakeholders would continue the VRP, but with declining rebate levels for vacancies over a defined time period. Under this option the VRP would not be eliminated by the City but would continue but the benefit would reduce over time and re-entry into the program would be allowed after a defined period of time and established criteria. The rebate percentages by year are indicated in the table below.

**Table 4 - Three-Year Declining Benefit VRP**

<b>Example Taxation Year for a vacant application</b>	<b>Option 3 Rebate Percentage</b>
2016 (Year 0)	Prescribed: 30% Commercial / 35% Industrial
2017 (Year 1)	Reduction to 20%
2018 (Year 2)	Reduction to 10%
2019 (Year 3)	Reduction to 0%

This option addresses the concern that properties in the current program have no limit on the number of years they apply for a vacancy rebate. The City would still provide some tax relief to owners who have difficulty leasing out their properties for a determined period of time, but not indefinitely.

This option leads to significant concerns including the potential to be administratively burdensome. Another significant concern is that it does not provide for financial predictability for the City and that continuance of the program would not achieve broader policy objectives to promote property improvements and occupancy. Duplication of tax relief through assessment reductions for vacancy would also continue to occur. Additionally, there was no consensus amongst stakeholders on re-entry criteria.

**Stakeholder Consultation: Who we heard from**

Feedback was solicited from a broader community of retail, industrial and/or office space property owners ranging in size from small, medium and large owners using a survey tool and face-to-face meetings. Information was posted on ottawa.ca highlighting the VRP review process and encouraging feedback from businesses and residents. A series of in-person consultations and bilateral meetings were also held with property owners and their representatives who have benefited from the VRP.



Initial feedback was that the consultation was limited in terms of time and ability to comment. Accordingly, additional time was added for stakeholders to provide feedback, and additional meetings were held. The general public was able to participate through surveys and feedback by email. The consultation participation can be categorized as follows.

- 1) Direct beneficiaries of the rebate (e.g. small, medium and large private property owners of commercial and industrial properties)
  - i) Recent applicants to the VRP who have directly benefited from the rebate attended in-person consultations, submitted surveys and sent direct correspondence. Large corporate owners of office and retail real estate were strongly represented within this group.
- 2) Indirect beneficiaries of the rebate (e.g. property managers, tax agents)
  - i) Representative agents of recent applicants to the VRP who have indirectly benefited from the program in their management of real estate holdings/finance, attended in-person consultations, submitted surveys and sent direct correspondence. Large corporate property managers and tax agents were strongly represented within this group.
- 3) Business Improvement Areas (BIAs)
  - i) Representatives from the City's BIAs (some are also local business owners) attended in-person consultations, submitted surveys and sent direct correspondence. Collectively, the BIAs could not hold an official position on any of the three proposed options as they felt it would be a conflict of interest with their membership, which includes both property owners and commercial tenants. Also included in this consultation were staff from the City's Economic Development Branch.
- 4) Federal property owners
  - i) Bilateral meetings were held with the National Capital Commission and Public Services and Procurement Canada.
- 5) Other
  - i) With the extension of the consultation to a broader base, comments were also received from a small number of tenant businesses and residents.

### **Summary of Feedback**

Participation levels were generally low with less than one third of those invited to comment providing feedback at meetings or through written submissions (email or survey). However, those that did participate were forthcoming with comments and opinions.

Beneficiaries of the rebate felt that elimination of the rebate would represent an economic hardship for property owners, and were not supportive of it. They contend that the VRP was introduced as a key part of the evolution of the tax regime when the Business Occupancy Tax, associated with occupancy, was removed in 1998 and the Commercial/Industrial Property Tax regime commenced. While the assessment values already account for the historical vacancy rates, the VRP was viewed by beneficiaries as a separate mechanism to reduce the commercial and industrial owners' tax burden. This group did support the review of administration and eligibility criteria to ensure that properties which were not fit to be occupied due to constraints in size or derelict upkeep would not be able to access the program and to deal with uncooperative property owners refusing to allow inspections in a timely manner.

Property owners have asserted that the rebate supports economic recovery and that the City should be a partner in these efforts. Feedback was at times pointed with suggestions from beneficiaries that if rebates were removed then property owners would simply use other options to lower their costs, including:

- Cost-cutting by property owners that could lead to non-compliance with environmental and City Building Code requirements as property owners would need to find a way to finance the loss of the VRP. The Building Owners and Managers Association (BOMA) submission (described further below) reiterated this position indicating they believe that elimination of the VRP will cause considerable uptake in appeals of property assessments, applications to other programs, and cost-cutting by landlords in other areas that might be inconsistent with City policy.
- Large property owners could choose to sell and leave the City of Ottawa.
- Increased appeal of property assessments since property owners would seek lower MPAC assessments for property values when experiencing vacancies in order to lower the overall taxes they would be paying.

- Higher costs of taxation borne by property owners will result in higher costs being passed on to tenants and it will be businesses/current tenants who end up paying.
- Rather than improve long-term vacant properties for occupancies it would be easier to seek teardown and leave empty land, there by subjected to lower taxes.

Comments from participants who are not active beneficiaries of the VRP raised different concerns. Property owners who have not been able to benefit from the program indicated that it should be discontinued and indicated no support for transferring the cost across their property class. Some residents also submitted written feedback that reiterated support for the elimination of the VRP with concerns that the rebate should not be supported by the entire tax base.

BIA representatives indicated they could not take a position on any of the options given the mix of stakeholders they represented. They did however raise concerns that this general spreading of vacancy rebate costs across the commercial/industrial tax base to continue a rebate program would result in the uncertain costs of vacancy in some properties and may result in costs being passed on to existing business tenants. In this regard, business tenants could bear the burden of any new program costs, directly or indirectly, and it was hard to predict what economic impact that could represent.

Generally, stakeholders also discussed economic considerations and implications associated with vacancies. The importance of economic investment by the City was identified and concern was that funds currently allocated in the City VRP budget could be better served as investment in economic development initiatives.

The City's Economic Development Branch currently provides certain funding initiatives as well as ongoing support to Ottawa's 19 BIAs. BIAs have the ability to raise funds to improve, promote and market the BIA area, and as such play a significant role in creating and sustaining a vibrant economic environment for commercial main streets and/or business districts. Their initiatives can increase demand for retail and office space, decrease commercial vacancy rates and increase property values.

### **Self Funding Model**

A group of consultation participants did request that a self-funding proposal be considered to establish a reserve to fund a rebate across the commercial/industrial

class. The industry requested time to explore and submit such a proposal to which staff agreed. Staff requested that the proposal address tenants' concerns as self-funding would result in a tax increase to the Industrial and Commercial tax classes and ultimately to their rental costs. In addition, staff requested the self-funding model be guided by the following principles which were shared with those consulted:

- all costs of the VRP, including the City's administration costs and rebates, be borne by the commercial and industrial classes;
- proposed changes must not be administratively burdensome for the City; and
- that consultations be held with tenants, with respect to the self-funding model, as it would result in a tax increase to the commercial and industrial classes, which might be passed on to them.

The Building Owners and Managers Association (BOMA) made a joint submission on March 29, 2017 and presented the submission to staff on March 31, 2017. As noted above, additional time was granted to the local business community to prepare and submit a self-funding model to maintain a VRP while ensuring that the costs and tax burden were borne by the commercial and industrial class alone. Their proposal did not recommend a self-funding option, as BOMA advised that there was difficulty in accepting an increase in taxes within the commercial and industrial class to fund the program as well as acknowledging the difficulty to reasonable forecast annual rebates.

Instead of a self-funding proposal, BOMA submitted a set of recommendations that requested the continuation of the VRP with some administrative and eligibility adjustment. The submitted suggestion can be summarized as requiring a tiered application fee schedule, and then three years of rebate eligibility for a property, with a vacancy period longer than 90 days prior to eligibility and an overall reduction in the rebate rate (at a level less than 30%). The submission would still rely on the financial support for the program being absorbed across all classes including residential.

During the consultation sessions, staff discussed the potential impact of a tax increase resulting from a self-funding model for the commercial and industrial class. Such a model would increase taxes in the commercial and industrial classes annually by approximately 2.5%, not including the education tax portion which landlords could seek to recover from tenants. One of the other issues of a self-funding model is the tax ratio

cap set for the commercial and industrial classes. If the self-funding model pushed taxes above the ratio, the burden would still fall to all other classes as it does today.

As the City did not receive a self-funding proposal from BOMA, it is not included in this report as an option. The business community concluded it was too difficult to reasonably predict or forecast the annual rebates for the two classes, nor did they wish to push the cost on to tenants.

**Program Recommendation: Declining rebate levels with Phase Out of the VRP**

It is not recommended that the VRP be maintained over the long-term given the general strength of the Ottawa market and the expectations that key Ontario markets will be reviewing their delivery of VRP as well. The concerns raised by stakeholders regarding their ability to mitigate the impact of a shift in their business environment have been noted. The result is the following recommendation:

That the VRP be phased out over a period of three taxation years with rebate amounts for the commercial and industrial classes to decrease as follows:

Taxation year 2016: the prescribed rebate amount is 30% for properties in the commercial class and 35% for properties in the industrial class

Taxation year 2017: reduced rebate amount to 20%

Taxation year 2018: reduced rebate amount to 10%

Taxation year 2019: program eliminated with 0% rebate;

This recommendation is Option 2 presented during the consultations.

This recommendation also includes refinement of the VRP administration and eligibility guidelines as was discussed in the consultations. Eligibility criteria refinement was supported by stakeholders and has been reflected in the detail below:

1. the vacant portion of the building has no less than 1,000 contiguous square feet
2. the vacant portion of the building was not used and was separated by permanent or semi-permanent physical barriers from any portion of the building that was used
3. the vacant portion of the building or structure supports an occupancy permit

4. that vacant portion of the building or structure is capable of being leased and available for lease.
5. the vacancy must be equal to or greater than 90 consecutive days within the calendar year
6. the property be ineligible if during the vacancy period claimed it is not in compliance with City Property Standards By-law 2013-416, Zoning by-law 2008-250 as amended, Property Maintenance By-law 2005-208 as amended, Graffiti Management By-law 2008-1 as amended, the Building Code Act/Regulations, or the Fire Protection and Prevention Act/Regulations
7. the property be ineligible if a strike, lockout or other labour disruption was in progress throughout the vacancy period
8. the property be ineligible if a property standards order remains outstanding on the last day to submit an application for a vacancy rebate
9. no interest shall begin to accrue until 60 days after the day the City receives the determination of the value of the eligible property from MPAC
10. the property be ineligible if a request to inspect the property for vacancy is not granted within 30 days of the request
11. the property be ineligible if false or inaccurate information is provided in the application
12. that the due date be the last day of March of the following taxation year
13. only one application per year may be submitted, meaning in-year/interim applications will not be accepted by the City

The above mentioned refinements provide additional clarity in the eligibility requirements for vacancy rebates without additional administration. Refinements address concerns with derelict properties, nuisance applications and allow for a transition period for commercial and industrial property owners.

## **RURAL IMPLICATIONS**

The report must explain how the recommendations will affect rural residents, lands, services or businesses, including implications on rural land use, by-laws, green space, quality of life, agricultural issues, water quality, wildlife management, forest management, etc.

## **CONSULTATION**

In preparing this report, Revenue Services staff have consulted with the business community, the Federal Government, local BIAs, Chambers of Commerce, The West Ottawa Board of Trade, Legal Services, Economic Development, Emergency and Protective Services, The Ministry of Finance and the Municipal Property Assessment Corporation regarding the proposed changes. Findings and detailed feedback are outlined in the discussion section above.

## **COMMENTS BY THE WARD COUNCILLOR(S)**

This is a citywide matter.

## **ADVISORY COMMITTEE(S) COMMENTS**

There are no advisory committee implications for this report.

## **LEGAL IMPLICATIONS**

There are no legal impediments to approving the recommendations in this Report.

## **RISK MANAGEMENT IMPLICATIONS**

There are no risk management impediments to implementing the recommendation in this report

## **FINANCIAL IMPLICATIONS**

If the recommendation is approved to phase out the Vacancy Tax Rebate Program the \$6.9M currently budgeted for the program will be available to be fully reallocated to other programs starting in 2020. As the current budget does not reflect the actual use of the program, the budget would remain intact for the life of the program. This could change depending on the impact the new eligibility criteria have on program uptake. Any change to the budget for the VRP would be identified during the budget process for Council to consider.

## **ACCESSIBILITY IMPACTS**

There are no accessibility impacts of this report.

**TERM OF COUNCIL PRIORITIES**

This meets Council's priority with respect to Financial Stability.

**DISPOSITION**

Upon Council approval, Revenue Services, Corporate Services Department will submit a formal request to the Ministry of Finance to issue a regulation. Legal Services will assist Revenue Service staff as required and subject to receiving the necessary regulation, the City Clerk and Solicitor will place on the agenda of Council any by-laws as may be required, as soon as practical.