

Report To:	Regional Chair and Members of Regional Council
From:	Cyndy Winslow, Commissioner, Finance and Regional Treasurer
Date:	April 20, 2022
Report No:	FN-15-22
Re:	Optional Vacant Homes Tax in Halton Region

RECOMMENDATION

1. THAT staff be authorized to proceed with the design and implementation of a proposed Vacant Homes Tax in Halton Region which includes undertaking public engagement to obtain input and feedback from Halton Residents and stakeholders and report back to Regional Council for approval, as outlined in Report No. FN-15-22 re: Optional Vacant Homes Tax in Halton Region.
2. THAT staff be authorized to transfer \$300,000 from the Tax Stabilization Reserve (501020) in order to fund the design and implementation study on a proposed Vacant Homes Tax in Halton Region.
3. THAT the Regional Clerk forward a copy of Report No. FN-15-22 to the City of Burlington, the Town of Halton Hills, the Town of Milton and the Town of Oakville, for their information.

REPORT

Executive Summary

- At the Regional Council meeting on June 16, 2021, Council requested staff to report back on a tax on vacant homes, the impact of corporate purchases of single family homes, and the related impact on affordable housing.
- The Region retained Ernst & Young LLP (EY) for the purpose of conducting a feasibility assessment of adopting a Vacant Homes Tax (VHT) in Halton. This report provides Regional Council with the findings of the VHT Feasibility Assessment and the anticipated impact on affordable and assisted housing.

- Regional Council also requested to know the impact of corporate purchases of single family homes in Halton. Aggregate information related to the sale and ownership of homes by corporations is not available, so this request could not be responded to.
- The EY report titled “Feasibility Assessment for Vacant Homes Tax”, presented in Attachment #1, provides indication that the implementation of a VHT in Halton would lead to a reduction in vacant homes and result in positive net revenues which could be invested to support Halton Region’s Comprehensive Housing Strategy objectives.
- This report seeks approval for staff to proceed with the design and implementation of a VHT program in Halton which starts with undertaking public engagement to obtain input and feedback from Halton Residents and stakeholders to help design the program. This will be followed by staff undertaking a design and implementation study with the engagement of a third party consultant and will develop the proposed VHT program framework.
- It is recommended that a third party consultant be retained through a competitive procurement process to assist with development of the design and implementation study. The estimated cost of the study is projected to be \$300,000, and it is recommended that this cost be funded through a transfer from the Tax Stabilization Reserve (501020) in 2022.
- Staff will report back to Regional Council in 2023 with the public engagement findings and the proposed VHT program framework for approval. Upon approval, Halton Region would need to submit a request to the Ministry of Finance for Halton Region to be a designated municipality under Part IX.1 Optional Tax on Vacant Residential Units, of the *Municipal Act, 2001*. Thereafter a report would be brought forward with the associated by-law for Council approval to implement the VHT program. While it is not yet known how long it will take to receive approval from the Minister of Finance, it is estimated that the earliest that the VHT could be implemented would be billing in 2024 based on the 2023 taxation year; however billing in 2025 based on the 2024 taxation year may be a more realistic estimate.

Background

On May 17, 2017, *Bill 127 – Stronger, Healthier Ontario Act (Budget Measures), 2017*, received Royal Assent and amended and repealed various Acts to implement the measures contained in the 2017 Ontario Budget, including the Fair Housing Plan. The *Municipal Act, 2001* (the Act) was also amended and Part IX.1 Optional Tax on Vacant Residential Units was introduced. Under this legislation, interested municipalities may seek designation status from the Minister of Finance to be granted the authority to impose a tax on vacant residential units in certain circumstances.

Under section 338.2 of the Act, designated municipalities in Ontario can impose a tax on vacant residential units that meet the criteria established by the municipality. Council has the authority to pass a by-law to impose a VHT on the assessed value of a vacant home in the residential property class. The by-law must contain the applicable tax rate and the conditions of a vacancy that, if met, make a unit subject to the tax. The by-law may also contain, if Council deems appropriate, possible exemptions from the tax, rebates of tax, audit and inspection powers and a dispute resolution mechanism.

The Act preserves the right of the Minister of Finance to make regulations pertaining to the tax including any conditions or limits on how the tax is imposed, defining a vacant unit, governing the collection of a tax, and dispute resolution. As of the date of this report, no such regulation has been filed.

Municipal Scan

As shown in the table below, a survey of neighbouring municipalities indicates that only the City of Toronto currently has authority to implement the vacant homes tax through an amendment to the *City of Toronto Act, 2006*, and plans to begin collecting the tax in 2023 based on the 2022 taxation year. Other municipalities that are planning to proceed forward with the tax are in various stages in the process, and have projected that the process will take a number of years prior to implementation of tax collection. Halton Region’s projected timeline, shown in the table below, is discussed in further detail in this report.

Municipality	VHT Feasibility Study	VHT Program Framework Approved	VHT Minister of Finance Approval	VHT Effective Date	Tax Collection Year
City of Toronto	2017 - 2021	December 2021	Not Applicable*	2022	2023
City of Ottawa	2020 - 2021	March 2022	Data not available	2022 Projected	2023 Projected
City of Hamilton	2019 - 2022	Data not available	Data not available	2022 Projected	2023 Projected
Peel Region	2021 - 2022	2023 Projected	2023 Projected	2023/2024 Projected	2024/2025 Projected
Halton Region	2021 - 2022	2023 Projected	2023 Projected	2023/2024 Projected	2024/2025 Projected

* The Provincial government amended the *City of Toronto Act, 2006*, in 2017 allowing the City of Toronto to impose an optional tax on vacant residential units

Discussion

Vacant Homes Tax Feasibility Assessment

The Region retained EY for the purpose of investigating the feasibility of adopting a VHT in Halton. A stakeholder group including Regional staff from Finance, Housing and

Economic Development and the Area Treasurers have been working together with EY to conduct a feasibility assessment on a VHT. The feasibility assessment includes the following key components:

- A current state overview of housing market trends in Halton;
- Overview of the VHT;
- Operational components of administering a VHT program and;
- Financial and feasibility analysis of the VHT.

The EY report titled “Feasibility Assessment for Vacant Homes Tax” can be found as Attachment #1 to this report.

State of Housing

The VHT is commonly implemented in high-growth urban centres which face challenges related to housing such as rapidly appreciating home-prices (at a rate higher than the growth of income) or low availability of homes for sale or rent. As reported through Report No. SS-19-19/LPS86-19 re: “Comprehensive Housing Strategy 2014-2024 – Five Year Review”, housing in Halton Region has become less affordable in both the ownership and rental markets. The cost of housing has outpaced household income. The average price of house sales in 2018 was 39 per cent higher than in 2014, while household incomes between 2011 and 2016 increased by 16.7 per cent on average. This trend has continued, as reported through Report No. LPS50-21 re: 2020 State of Housing Report. The average price of all sales was \$902,576 in 2020, an increase of 8.1 per cent compared to 2019, while average rent increased 7.0 per cent over 2019.

The percentage of gross income spent on housing/shelter costs is a key measure of affordability adopted by the Canadian Mortgage and Housing Corporation (CMHC), with the current threshold being 30 per cent. As reported through Report No. SS-11-21 re: Comprehensive Housing Strategy Update 2014-2024 Annual Progress Report, according to the CMHC Halton Region has surpassed Toronto with the most cost prohibitive rents in Ontario. Halton Region had the highest average market rent across the Province in 2020 at \$1,583, which illustrates the affordability challenges that the residents of the Region are facing.

This has put significant pressure on Halton’s affordable and assisted housing programs. As reported through Report No. SS-19-19/LPS86-19, the waitlist for subsidized, or rent-geared-to-income housing in the Region is over 3,200 applicants, and the Region has seen a significant increase throughout the pandemic in demand for assisted housing in the Region and increased this waitlist. To relieve pressure on the housing system, the Region has created 1,005 new assisted housing opportunities since 2014, and 80 additional new assisted housing opportunities are projected to be delivered in 2022. As reported through Report No. LPS84-21/SS-25-21 re: Portfolio Approach to Achieving Comprehensive Housing Strategy Objectives, the Region is well positioned to deliver a mix of up to 600 units of purpose built rental and assisted rental housing programs between 2021-31 in support of the Region’s portfolio approach to assisted housing creation with funding support from the federal and provincial governments. Many factors

influence housing affordability and the demand for assisted housing. Reviewing the feasibility of introducing the VHT in Halton is timely and may provide a revenue source to enhance affordable and assisted housing in the Region.

Objectives / Purpose of a VHT

The purpose of implementing a VHT is two-fold. First, it is a policy measure to encourage owners of vacant homes to rent, sell or occupy the home. This should provide incentive to increase the supply of units to the housing market. Secondly, revenue generated from the VHT could be used to enhance affordable and assisted housing programs in support of the Region's Comprehensive Housing Strategy.

As indicated in EY's report, the enabling legislation was announced as part of Ontario's Fair Housing Plan and as such, using the funds from this tax for the benefit of housing affordability aligns with this plan. This is consistent with what neighbouring municipalities in Ontario have put forward in their proposed VHT Programs, and is also the consensus of the stakeholders in the EY VHT Feasibility Assessment. It should be noted however, that the legislation does not specifically indicate that the revenue must be used for housing. Currently in Ontario, the Province has not yet approved any VHT requests through this legislation, therefore there is not yet precedent with respect to approvals and utilization of revenues. The Provincial government amended the City of Toronto Act, 2006, in 2017 allowing the City of Toronto to impose an optional tax on vacant residential units.

Required Components of the VHT

The Act sets out certain requirements and conditions to impose taxes on vacant residential units, which include:

- It must be a tax applied on a property's assessed value
- The tax may only apply to the residential class
- The property must be taxable under the *Assessment Act* for municipal purposes
- It must be imposed by a by-law stating the tax rate, identifying the conditions of vacancy (definition of an eligible property), and other necessary conditions with respect to collection of the taxes.

VHT Tax Rate

When designing the VHT, the selection of the tax rate to charge is an important component. The neighbouring municipalities in Ontario that are planning to implement a VHT are starting with a tax rate of 1 per cent of the assessed value. This tax rate would be levied annually against the property's assessed value and would be in addition to the residential property tax rate. The EY VHT Feasibility Assessment reviewed a range of possible tax rates and estimated revenues, however the feasibility analysis focused on a tax rate of 1 per cent. The optimal tax rate would be reviewed further through the design and implementation study.

Conditions of Vacancy

Most neighbouring municipalities that have or are close to implementing the VHT have defined an eligible property to be one that has been vacant for more than six months. The definition can include allowable exemptions from the tax even for those properties that have been vacant beyond six months. These exemptions can include principal residences (e.g. Snowbirds/Cottagers for more than 6 months would still be exempt), extended renovations, sale of a property, medical conditions, change of ownership, etc. The EY VHT Feasibility Assessment includes these and additional exemptions considered by other municipalities for reference. The potential exemptions would be reviewed further through the design and implementation study.

Operational Components of Administering a VHT Program

There are four main operational components of administering the VHT:

1. Reporting: A process would need to be put into place that enables the municipality to identify the homes eligible to be taxed. Generally there are three processes that would be considered when implementing a VHT:
 - Mandatory Declaration: the most common thus far, requires all property owners to declare yes or no as to the vacancy status of their property per the definition each taxation year;
 - Self Declaration/Declaration by Exemption: requires only those that fit the definition to declare their property as vacant each taxation year;
 - Complaints Based: relies on complaints or tips received to identify potentially vacant homes.
2. Collections: The collections process includes collection of tax revenue from vacant homes and penalties from homeowners who are non-compliant or who present fraudulent declarations.
3. Compliance: The compliance process includes conducting investigations to determine if a property is vacant and understand if declarations submitted by property owners are truthful. Investigations will be required to determine if there are properties not in compliance. Considerations for compliance will vary depending on the declaration method chosen, and would include various forms of audits.
4. Communications: The communications process includes addressing queries and complaints, and building awareness of the tax to help the public understand the scope, reporting guidelines, and compliance processes.

Designing the administration of a VHT is quite complex, especially in a two-tier municipal structure. The EY VHT Feasibility Assessment reviewed several models of administering a VHT program, including fully administered by the Local Municipalities, fully administered by the Region, and a hybrid approach. Currently, the Municipal Act does not allow regional

governments to levy or collect taxes therefore, a fully regionally-administered model would require legislative changes and would not be recommended for further consideration. If Council approves moving forward with the next steps of implementing a VHT program in Halton, Regional and Local staff would work together through the design and implementation study to undertake further review and analysis to determine the preferred administration model.

Financial Analysis

Implementation of the VHT requires careful consideration of the potential financial impacts to the Region and the Local Municipalities. EY's modelling provides 10-year estimates for revenues, operating costs, implementation costs, and impacts on housing supply. Data provided by the Region, case studies and assumptions were used to prepare the financial analysis presented in EY's report.

The financial analysis is comprised of two components: revenues and costs.

Revenues from the VHT is derived from two sources:

- Tax levy – revenue earned from homeowners who declare/report their homes as vacant; and
- Audits – revenue from homeowners found to be non-compliant or fraudulent in their declaration/reporting, and charged a penalty.

Costs incurred for implementing the VHT are categorized as:

- One-time costs – the upfront costs associated with implementing the VHT, such as software costs to upgrade the tax collection systems, etc.; and
- Ongoing costs – the costs associated with operating the tax annually, such as salaries of compliance and audit staff, etc.

Revenue Estimation

Revenue estimates were developed by EY's financial model using key inputs and assumptions provided by the stakeholder group and EY's own research. For the financial model, the estimated number of vacant homes was derived using aggregate water consumption data with a low usage threshold of 50 litres/day to determine vacancy. This analysis identified approximately 4,700 vacant homes in the Region. This estimate was then adjusted to reflect the projected number of eligible vacant homes, taking into account possible exemptions, based on experience to date derived from the City of Vancouver. This analysis projected an estimate of 985 vacant homes in the Region, or 0.5 per cent of the total housing supply, that would be eligible to pay the VHT. Annual growth rates of 2.19 per cent in housing supply and 1.7 per cent in assessment values were included in the model based on historic trends, and a 1 per cent tax rate was applied. Based on these key inputs and assumptions, the model projected average annual revenues of \$6.1 million for the first 10-years of the program, comprised of \$5.8 million in tax levy revenues and \$0.3 million in penalty revenues.

Cost Estimates

Cost estimates for administering a VHT program in the Region include one-time implementation costs and annual operating costs. Depending on the delivery model chosen, i.e. local municipal delivery or hybrid delivery, costs will differ across cost categories. The EY VHT Feasibility Assessment indicates that the hybrid delivery model would have lower implementation and operating costs due to efficiencies that may be realized by centralization of functions at the Regional level. However, additional analysis will be required of the tax systems in each of the Local Municipalities to estimate the effort required to implement and operate a VHT program.

The EY financial model calculated cost estimates based on the experience of the City of Vancouver, adjusted for inflation and other factors to project the estimated costs for Halton Region. Based on available data and assumptions, it is estimated that the implementation costs would range from \$3.3 million (hybrid model) to \$3.9 million (local municipal model), and the annual costs to operate the program are estimated in the range of \$1.8 million (hybrid model) to \$2.0 million (local municipal model), as shown in Table 1 below.

Table 1: Costs Summary

	Implementation Costs	Annual Operating Costs
Total Estimated FTEs	6 - 9	11 - 12
FTE Costs (\$ Millions)	\$0.8 - \$1.2	\$1.2 - \$1.3
Professional Services	\$1.2 - \$1.4	
Infrastructure Costs	\$0.2	
Technical Implementation Costs	\$1.1	
Notices and Advertising		\$0.12 - \$0.15
IT Support & Maintenance		\$0.13 - \$0.16
Customer Service		\$0.33
Total Costs (\$ Millions)	\$3.3 - \$3.9	\$1.8 - \$2.0

The table below illustrates the estimated average annual net revenues projected for the program, after deducting the estimated annual operating costs of \$1.8 to \$2.0 million from the revenues after full implementation of the VHT program. The model estimates that the number of vacant homes required to break even annually is between 348 and 376, not including the implementation costs that would need to be recovered. It is expected that the implementation costs which are estimated at \$3.3 to \$3.9 million would be recovered from the net revenues of the program, however a payback period for the implementation costs would need to be further reviewed during the design and implementation study.

Table 2: Summary of Annual Net Revenues

Annual Net Revenues (\$ Millions)	Estimated Range
1.0% Tax Rate Revenue	\$5.8
Penalties	\$0.3
Total Estimated Revenues	\$6.1
Annual Operating Costs	\$1.8 - \$2.0
Net Revenues	\$4.1 - \$4.3
Number of Vacant Homes Required to Break Even	348 - 376

Risks

It is important to note that estimated revenue and cost projections in the EY VHT Feasibility Assessment will require further review as part of the design and implementation study. The VHT is a complex program which is further complicated in a two-tiered municipal structure. Detailed planning to identify the scope and complexity of tax system upgrades will be required, along with the design of an administration model outlining the roles and responsibilities of the Region and Local Municipalities. The revenue and cost projections will be updated through this detailed review and planning process, and as such, may differ from the projections from the EY VHT Feasibility Assessment presented in this report and Attachment #1.

While the EY VHT Feasibility Assessment indicates that the VHT is financially feasible to implement in Halton Region, the following risks have been identified with proposed mitigation strategies including:

- **Inadequate revenues to fund implementation and annual program costs:** The program would require continuous monitoring to ensure there are sufficient revenues to offset costs to administer the program.
- **Tax System and process challenges:** Detailed systems planning and process mapping exercises would be undertaken through the design and implementation study to identify the scope and complexity of systems and processes required in a two-tier municipal structure.
- **High non-compliance rates of status declaration:** Incorrect declarations of occupancy status or exemption applications could be mitigated through the design and implementation of a rigorous, risk-based audit process. Detailed review and development of an audit and compliance process would be undertaken through the design and implementation study.

- Lack of resident support for the VHT: Public engagement will be conducted to gauge public support, and communicate the benefits of the tax. The findings will be considered in the design and implementation study.

Staff will consider these risks and mitigation strategies further as part of the design and implementation study.

Key Takeaways

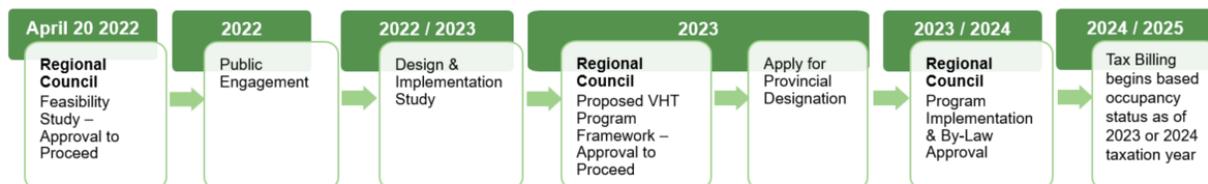
The findings of the EY VHT Feasibility Assessment indicate that the VHT appears to be a feasible policy and revenue tool for Halton Region, to reduce the number of vacant homes thereby increasing housing supply, and can provide positive net revenues to support Halton Region's affordable and assisted housing programs. Key takeaways from the EY VHT Feasibility Assessment include the following:

- It is projected over a ten year period that 330 vacant homes would be sold or converted to rental properties as a result of the VHT.
- The VHT is expected to generate net positive revenues that could be used to invest in Halton Region's affordable and assisted housing priorities and programs.
- A hybrid administration model may have lower implementation and operating costs. However, additional analysis will be required of the tax systems in each of the Local Municipalities to estimate the effort required to implement and operate a VHT program.
- Net revenues will need to be continuously monitored to ensure that there are sufficient revenues to fund the implementation and operating costs of the program; it is expected that revenues will decline over time as vacant homes are converted to rental properties or sold as a result of the tax.
- A design and implementation study will be key in establishing the VHT Program Framework which includes
 - The definition of vacant homes and recommended exemptions
 - The optimal tax rate (or a range of rates)
 - Audit and inspection powers and processes
 - Set out preferred program administration process in a two-tier municipal structure
 - The most appropriate way to utilize the VHT revenue net of administrative costs
 - Updated revenue and cost projections based on the proposed VHT Program Framework
 - Performance evaluation and reporting processes

Recommended Next Steps

Based on the findings of the EY VHT Feasibility Assessment, staff recommend proceeding with the next steps to develop a proposed VHT Program Framework for Halton Region which starts with public engagement to obtain input and feedback from Halton residents and stakeholders. Regional staff will work together with the Area Treasurers to develop a public engagement plan to consult and engage with residents and appropriate community stakeholders which aligns with Halton Region's Public Engagement Framework. This will be followed by staff undertaking a design and implementation study, with the engagement of a third party consultant to develop the proposed VHT Program Framework. Staff will report back to Regional Council in 2023 with the results of public engagement and bring forward the proposed VHT program framework for approval.

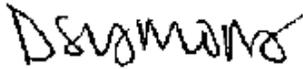
Following Regional Council approval of the VHT Program Framework, in order to implement the VHT program, the Region will need to submit a request to the Ministry of Finance for Halton Region to be a designated municipality under Part IX.1 Optional Tax on Vacant Residential Units, of the *Municipal Act, 2001*. Thereafter a report would be brought forward with the associated by-law for Council approval to implement the VHT. While it is not yet known how long it will take to receive approval from the Minister of Finance, it is estimated that the earliest that the VHT could be implemented would be billing in 2024 based on the 2023 taxation year; however billing in 2025 based on the 2024 taxation year may be a more realistic estimate. A projected timeline for implementing a VHT in Halton Region is presented below.



FINANCIAL/PROGRAM IMPLICATIONS

Following approval of this report, a consultant will be retained through a competitive procurement process to undertake a design and implementation study of a Vacant Homes Tax in Halton Region. The estimated cost of the study is projected to be \$300,000, and it is recommended that this cost be funded through a transfer from the Tax Stabilization Reserve (501020) in 2022.

Respectfully submitted,



Debbie Symons
Director, Budgets and Tax Policy



Cyndy Winslow
Commissioner, Finance and Regional
Treasurer

Approved by



Jane MacCaskill
Chief Administrative Officer

If you have any questions on the content of this report,
please contact:

Debbie Symons

Tel. # 7155

Attachments: Attachment # 1 – Ernst & Young LLP Halton Region Feasibility Assessment for Vacant
Homes Tax (Under Separate Cover)