



SUBJECT: Vacant Home Tax
TO: Committee of the Whole
FROM: Finance Department

Report Number: F-27-24

Wards Affected: All

Date to Committee: September 9, 2024

Date to Council: September 17, 2024

Recommendation:

Direct the Chief Financial Officer to advise Halton Region that the City of Burlington would like to be excluded from the by-law(s) that would implement a Vacant Home Tax within the municipality; and

Direct the City Clerk to forward a copy of the City of Burlington's resolution along with finance department report F-27-24 to the Region of Halton, Town of Oakville, Town of Milton and the Town of Halton Hills.

PURPOSE:

Vision to Focus Alignment:

- Designing and delivering complete communities
- Providing the best services and experiences
- Protecting and improving the natural environment and taking action on climate change
- Driving organizational performance

Executive Summary:

This report is prepared to allow Council to establish a position on a Vacant Home Tax (VHT) within the City of Burlington.

- Halton Regional Council, on April 17, 2024, approved the resumption of work to review and finalize the design, costing and timelines of the Optional Vacant Homes Tax (VHT). The Region intends to seek statements of exclusion or endorsement from the local municipal Councils in the fall of 2024.
 - The feasibility assessment work conducted by Ernst & Young LLP (EY) in 2022 estimated that in Burlington potentially 265 vacant homes would be eligible to pay the Vacant Homes Tax.
 - Further, the current recommended method of declaration for Halton Region is the universal method, requiring all homeowners to self-declare each year whether their homes are vacant or occupied.
 - To date, VHT has been implemented in a few single tier cities in Ontario: Ottawa, Toronto and Hamilton. Some municipalities that have reviewed the VHT and decided not to implement the program include the Regions of Durham, York, Niagara and Waterloo, as well as the cities of Guelph, Kitchener and London. Other municipalities remain at various stages of assessment of the VHT.
 - Staff suggest it is in Burlington's best interest to be excluded from the implementation of a VHT, at this time. In staff's opinion, the feasibility assessment work and municipal scans taken place since the start of the evaluation process in 2021 provides support for the recommendation.
 - Housing affordability and the availability of housing is a priority for the City of Burlington and all levels of government. The City continues to implement many initiatives to increase housing densities, accelerate approval timelines, provide financial incentives (e.g. DCs), dedicated planning staff and other resources to support implementing the Housing strategy.
 - Should Council choose to wait for the Region's Q4 2024 report to adopt a position on the VHT, Council could receive report F-27-24 for information.
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Background and Discussion:

In 2017 through *Bill 127, Stronger, Healthier Ontario Act*, the Province established the legislative framework providing municipalities with the option to implement a Vacant Homes Tax (VHT). Regional Council holds the authority to pass a by-law to impose a VHT in the Region. For two-tier municipalities, the Provincial Policy Framework recommends that the lower tier municipalities provide statements of exclusion or endorsement for participation in the program.

Highlighted below is a summary of Region reports and related information brought forward to Regional Council on VHT to date.

- April 20, 2022, through Halton Region report FN-15-22, regional council received a VHT feasibility assessment of adopting a VHT prepared by Ernst & Young LLP (EY). Based on the report, Regional council gave direction to staff to proceed with undertaking the design and implementation study of a proposed VHT program in Halton Region.

- November 22, 2023, a subsequent report FN-41-23 was provided to Regional Council with an update on the work undertaken to date on a VHT Program for Halton Region, which included results of a public consultation process undertaken by MTE Consultants Inc. on behalf of the Region. As well, at the council meeting, a motion was passed to pause the VHT work until such time the Provincial Policy Framework for a VHT were established and released by the Province.
- March 27, 2024, the policy framework was released by the Province which included guidelines and recommendations for the Vacant Home Tax.
- On April 17, 2024, through report FN-12-24, with the release of the Provincial Policy Framework Regional, Council approved the resumption of work on the study of a potential VHT program for Halton Region, and report back in the fall of 2024.

The Provincial Policy Framework makes it clear that VHT by-laws established by the upper tier municipality should specify which lower tier municipalities the VHT will be in effect for, and which it will not be.

Halton Region report FN-12-24 outlined the intended next steps, which include finalizing the design of the proposed residential VHT program, as well as the implementation timeline for Regional Council's consideration. Statements of endorsements or exclusion will be sought from the local municipalities, followed by approval of Regional VHT by-laws for the participating municipalities. Regional staff are scheduled to report back in Q4 of 2024 with Halton Region's proposed VHT program and implementation timeline for Council's consideration.

As of the date of this report, the Town of Milton and Town of Halton Hill's Councils have approved resolutions to be excluded from a VHT program and by-law(s) that would implement a Vacant Home Tax. It is anticipated that the Town of Oakville will provide their position and a resolution later this fall.

Local municipalities do have the choice to opt into the program each year as part of the Region's annual tax policy review and by-law(s) approval at Regional Council.

This report is brought forward to provide Council with an opportunity to establish a position regarding a Vacant Home Tax (VHT) for the City of Burlington at this time. For reasons highlighted later in this report staff are of the opinion there is adequate information available to inform a decision.

Strategy/process/risk

The VHT Provincial framework was established as a tool to potentially improve housing affordability within the province. It allows municipalities to levy a tax on vacant residential units based on established criteria. Once established, Regional Council has the authority to pass a by-law to impose a VHT based on assessed property values, inclusive of tax rates, vacancy conditions, exemptions, rebates, audit and inspection powers, and dispute resolution mechanisms.

Staff continue to scan surrounding municipalities to monitor their VHT status. A vacant home tax has been implemented by the single-tier municipalities of Ottawa, Toronto, Hamilton and Windsor. Some of the municipalities that have reviewed the optional VHT and decided not to implement a VHT include, but not limited to, the Regions of Durham, York, Niagara and Waterloo, including cities such as Guelph, Kitchener, and London. Reasons for refraining from implementing include concerns over financial feasibility and sustainability, insufficient vacant properties to justify VHT costs and administration, and skepticism regarding achieving intended policy or economic goals. Other municipalities are currently at different phases of their VHT review. At present, a VHT program has not been implemented in a two-tier municipality in Ontario.

Commencing in 2021 Halton Region has led the VHT process including retaining external consultants to assist in the review of the VHT design and implementation process. The local municipalities have supported the review process by providing information, analysis, data and feedback.

Halton Region's report FN-15-22 identified two key objectives of a VHT implementation:

- A policy measure to reduce the number of vacant homes and encourage owners of vacant homes to rent, sell, or occupy the home, and
- To provide net revenues to support Halton Region's assisted housing programs and comprehensive housing strategy.

The operational components of the VHT involves four key components:

- Reporting: a process to identify residential homes that are to be taxed. Options include universal declaration by all property owners, self-declaration for vacant properties only, or a complaint-based program identifying vacant homes.
- Billing and Collections: collection of the VHT and associated penalties for non-compliance.
- Audit and Compliance: includes investigations to determine property compliance.
- Communication: addressing inquiries, complaints, and enhance property owners' awareness of the program and their responsibilities.

Ernst & Young LLP (EY) assessed the VHT potential to achieve the primary objectives and created an operational implementation plan for the Region of Halton. Below are early findings noted in Region report FN-15-22.

- Projected 985 vacant homes eligible for VHT in Halton Region (an average of 0.5% of total housing supply in Halton).
 - For Burlington specifically, 265 properties were identified as possibly eligible.
 - Further analysis suggests that 33% of all Regional projected properties, which is about 330 units over a 10-year period, could potentially be sold or rented in response to the VHT.
- Currently based on this estimate and additional assumptions (for all four municipalities), an annual revenue projection of \$6.1 million for the Region was estimated (comprising \$5.8 million from VHT and \$0.3 million from penalties).
- Initial implementation costs were projected at \$3.3 million to \$3.9 million, with annual operating costs estimated at \$1.8 million to \$2.0 million, necessitating 11-12 Full Time Equivalent (FTE) required.
- The feasibility assessment recommended a universal declaration method, consistent with Toronto and Ottawa, to be the primary approach for the potential VHT implementation in Halton Region.
- Estimates are preliminary and subject to change with more detailed modeling and an implementation plan. Identified risks include revenue uncertainty, tax system and processes challenges, and potential high rates of non-compliance or incorrect declarations based on declaration methodologies.

With additional work on the design of the VHT program in 2023, EY also identified the following:

- The preliminary detailed work suggests the staffing complement and related costs required are projected to be greater than originally anticipated in the 2022 feasibility assessment noted above.
- Halton Region and local municipalities currently do not have the system capabilities to support the declaration process for VHT. New software systems and processes will be required.
- Also, it was noted that several local municipalities are in the process of migrating to a new property tax software system (CentralSquare), with completion dates ranging from 2024 to 2026. These software migrations are currently separate from the execution of a VHT declaration and administration platform.

Also, further work on detail design and financial modeling for the program has been underway by EY with Regional staff scheduled to report back to Regional Council later this fall. This includes updates to the financial analysis and a review of the financial structure of the program including lower tier(s) responsible for implementation and administration given that two municipalities have opted out of the VHT program.

Recommendation

Staff are recommending the City be excluded from the implementation of a Vacant Home Tax (VHT) program at this time and advise the Region accordingly. The reasoning for the recommendation includes the following:

- Based on the assessment work, neither of the primary objectives for a VHT appear to be achieved with sufficient certainty or in any material way:
 - Based on the modeling estimates indicate a minimal impact on vacant units are anticipated. With only 265 eligible VHT units in Burlington of which possibly 33% were anticipated to be sold or rented over a ten-year time period.
 - Uncertainty exists regarding the financial viability of the program, and the risk associated with both the anticipated revenue that could be generated and administrative costs related with the program.
- Given the relative minor number of housing units anticipated to revert to the market in response to a VHT, there is no material impact on housing prices or availability is expected to occur as a result of a VHT program.
- Concerns arise regarding the universal declaration method. With 99.5% of residential properties expected not to be vacant and considering the high prevalence of non-responses to annual declarations, as observed in other municipalities, this method may not appear to be an effective or fair form for program implementation. As an example, it was reported in the City of Toronto for the year 2022, there were 2,336 properties that declared as vacant, yet initially there were 44,902 properties deemed vacant due to no response being made under the universal method (the majority of which were not vacant).
- Based on a municipal scan, several municipalities with similar characteristics to Burlington have come to the same conclusions and ceased efforts to proceed with a VHT.
- In the past few years, the Federal Government introduced the Underused Housing Tax (UHT), which applies a 1% tax on vacant properties owned by non-Canadian residents. This initiative may achieve some of the intended outcomes of the VHT (without municipal duplication).
- Burlington is also undergoing an important transition to a new property tax system, initiating the integration with our ERP software (Workday) alongside plans of introducing an on-line public portal platform for property owners to manage their property tax accounts in the upcoming year. It is recommended the City focus resources and efforts on these initiatives prior to pursuing an uncertain and complex two-tier VHT implementation.

Based on information to date and the uncertain financial viability of the VHT, staff propose Council adopt a position to be excluded from the VHT program at this time.

Housing affordability and housing solutions will continue to be a crucial focus for the City of Burlington and the Region. Even though the assessment of a VHT has not demonstrated that the program will have a material change the housing market, there

are many projects underway, at all levels of government, to improve the availability of housing. Here in Burlington, examples of current initiatives include but are not limited to:

- Working toward implementing Council's motion on four units as of right and increasing housing options.
- Building new tools like the Community Planning Permit System and generally enhancing delegated authority to expedite approval processes.
- Initiating work on a Housing focused Community Improvement Plan and providing financial incentives for affordable and rental units that are created (e.g. DCs).
- Enhanced the public portal that is available for building permit approval to streamline and improve the approval process.
- Providing dedicated planning staff and other resources to support implementing the Housing Strategy and the Housing Accelerator Fund Action Plan (CMHC) with a focus on affordable housing solutions.

Options Considered

Halton Region's report FN-12-24 noted that additional program design, updated financial projections and proposed VHT program will be reported to Regional Council in Q4 of 2024. Subsequently, the remaining local municipal council(s) will be required to provide their statements of exclusion or endorsement. Should Council prefer to wait till after the Region's fall report to adopt a position on a potential VHT, Council could receive and file report F-27-2024.

Financial Matters:

Total Financial Impact

The City's contributions to date include staff time to assist in the review process, including research, analysis, and consultation. The costs of external consultants supporting the review of the VHT has been funded by the Region of Halton.

Should a VHT program is implemented, based on Halton Region reports to date, revenues (net of VHT program expenses) will be managed by Halton Region and used mainly to enhancing affordable and assisted housing opportunities throughout the Region.

Other Resource Impacts

Potential additional risks to net revenues, including additional enforcement resourcing needs, possible litigation costs, revenue impacts of any additional exemptions, limited number of vacant homes, and complexities related to implementing a VHT in a two-tier municipal environment, which cannot be quantified.

Climate Implications:

N/A

Conclusion:

The VHT feasibility assessment has not demonstrated to have a material effect on the key policy objectives to materially increase the supply of housing or enhance affordable and assisted housing program. As well, uncertainty exists regarding the financial sustainability of the program with the risk associated with the anticipated revenue that could be generated and costs to administer the VHT program. Staff will continue to have dialogue with the Region through Tax policy discussions for future consideration of the VHT program. As resonated through Council's mandate, Burlington will continue to focus efforts on housing affordability and solutions, continued enhancements to our planning and building permit approval processes and the dedicated resources to support the Housing Strategy and the Housing Accelerator Fund Action Plan

Respectfully submitted,

Ann Marie Coulson

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Notifications:

Region of Halton, Town of Oakville, Town of Milton, Town of Halton Hills

Report Approval:

All reports are reviewed and/or approved by Department Director, the Chief Financial Officer and the Executive Director of Legal Services & Corporation Counsel.