



**The Corporation of the
City of Sault Ste. Marie**

COUNCIL REPORT

April 29, 2024

TO: Mayor Matthew Shoemaker and Members of City Council

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DEPARTMENT: Corporate Services

RE: Municipal Vacant Home Tax

Purpose

The purpose of this report is to seek Council approval to implement a Municipal Vacant Home Tax (VHT) and to begin the development of the program.

Background

On March 20, 2023, Council passed the following resolution:

Whereas the City of Sault Ste Marie has seen a large increase in vacant homes and properties in the last 10 years, including a large increase in out of town investors buying property and allowing it to sit empty; and

Whereas much like the rest of the province, Sault Ste. Marie is in need of more housing, specifically affordable housing; and

Whereas Council has identified housing affordability as a major issue in Sault Ste Marie with a need to identify available tools to address this issue, thus creating the Affordable Housing Task Force; and

Whereas if successful, the vacant property tax would be a tool aimed at changing the behaviour of property owners and help release more housing to the market, as well as lowering the number of boarded up properties within the community; and

Whereas any revenue generated from this tax could go directly toward supporting affordable housing initiatives identified by the Affordable Housing Task Force;

Now Therefore Be It Resolved that the Affordable Housing Task Force review and report back to Council on the feasibility and benefit of

implementing a Vacant Property Tax in Sault Ste Marie (included in this report would be the definition of vacant for the purpose of the tax, parameters of implementation and enforcement, comparisons with other municipalities who have implemented a similar tax, an estimate on the amount of revenue that could be generated, and the rate at which vacant properties would be charged.)

Analysis

Housing Action Plan

The City's Housing Action Plan 2023-2028 includes a sub-action to assess the viability of enacting a VHT to discourage owners from leaving their residential properties unoccupied (sub-action 3.9). The Housing Action Plan was developed through extensive consultation with the Affordable Housing Task Force as well as stakeholders and the public.

The implementation of a VHT will contribute to achieving the goals of the Housing Action Plan by:

- *Decreasing the number of empty rental units in the City* - a VHT will motivate property owners to rent out or occupy their empty units. Similarly, a VHT will encourage property owners who do not intend to rent or occupy their vacant units to sell them to someone who will.
- *Increasing affordable housing options within the City* - a VHT is meant to increase rental housing supply which may have a downward pressure on rental prices within the City.

Municipal Vacant Home Tax Program

The Province announced a series of measures to address a number of housing issues under Ontario's Fair Housing Plan of 2017. Included in these measures was permitting designated municipalities to impose a tax on vacant homes with the intent to encourage owners to rent or sell empty properties to increase the supply of available housing in a community.

The 2024 Ontario Budget released on March 26, 2024 implemented a change to the municipal vacant home tax as "an unoccupied home is unacceptable in a housing crisis". Ontario empowered municipalities to make more vacant homes available for housing by:

- Extending authority broadly to all single and upper-tier municipalities to impose a tax on vacant homes, effective immediately.
- Releasing a Provincial Policy Framework that will support municipalities by setting out best practices for implementing a VHT.

Authority to impose an optional tax on vacant residential units is provided under Part IX.1 of the *Municipal Act, 2001*. A by-law must be passed by Council and contain the following criteria:

- The tax rate to be used;
- Conditions of vacancy that, if met, make a unit subject to the tax;
- Exemptions from the tax;
- Rebates of the tax;
- Audit and inspection powers; and
- The establishment and use of dispute resolution mechanisms.

The Province released its Provincial Policy Framework on April 4, 2024 (Appendix A). The policy sets out recommended exemptions and the definition of vacancy. Prior to the change in the 2024 Ontario Budget very few municipalities had implemented the VHT with the required Ministry approval. Current municipalities that have implemented include Toronto and Ottawa. Hamilton was to implement the tax in 2024 but was deferred and is now slated to be in effect for 2025. Windsor deferred 2024 implementation to await the Provincial Policy Framework, but it is expected to still be in place for 2024. A comparison of these municipal VHT programs and the Provincial Policy Framework are included in Appendix B.

Program Elements

The VHT is not intended to generate revenue. The intent is to encourage properties to be used for housing. If the program is successful, the amount of VHT collected annually will likely decrease and could result in an annual operating deficit after offsetting administrative costs of the program. If there is excess revenue it would be recommended that it be transferred to a new Housing Reserve that would be utilized to forward the City's housing initiatives.

Definition of Vacancy

The definition of vacancy as set out in the Provincial Policy Framework is a self-contained residential unit suitable for habitation that is classified in the residential property class. Although the Framework does not state a vacancy timeframe, the exemptions in the Framework reference greater than 6 months. Some other VHT programs state 183 or 184 days which provides better clarity to the definition. Specific property codes used by the Municipal Property Assessment Corporation are included in some by-laws to set out clearly the properties that would be subject to the VHT and those exempted. The City of Sault Ste Marie has 27,420 properties in the residential class, 89 of which, are estimated to be vacant.

Tax Rates

The rate of tax charged for implemented VHT's in Ontario are either 1% or 3% of the property's assessment. With only four municipal comparators with recent rollouts of VHT, there is not enough data to determine what rate accomplishes the best outcomes for the program. The intent of the program is to encourage owners to move vacant residential property to homes available for occupancy so the rate charged should be looked at as punitive. For comparison, the 2024 residential tax rate, including education is 1.789136%

The estimated VHT per \$100,000 of assessment is reflected in the table below.

Rate	Tax per \$100,000 assessment
1%	\$1,000
2%	\$2,000
3%	\$3,000

Types of VHT Programs

There are three primary methods of determining vacant units that have been identified by municipalities that have implemented the VHT:

- 1) Mandatory Declaration – all residential property owners would be required to declare annually if the property is occupied either as a principal residence, rental or other. This type of program could provide that a failure to respond results in the property being “deemed” vacant.
- 2) Vacant Unit Declaration– only those residential property owners who have a vacant property would be required to notify the municipality.
- 3) Complaint-based Enforcement – vacant residential properties would be identified at the time that a complaint or tip is received from the public. The City would also be able to register complaints on properties identified by staff in their duties, such as Taxation and Building, that possibly meet the criteria.

The mandatory declaration is being used by Toronto and Ottawa currently and is the proposed program for Hamilton. Toronto has been in the media for a “disastrous rollout” of the VHT due to confusion over billing errors and the declaration process. They have increased the tax from 1% to 3% in 2024.^{1 2}

Hamilton also experienced issues over the clarity of the implementation of the VHT, which delayed the implementation.³

A mandatory declaration requires all 27,420 residential property owners to declare annually, creating significant staff administration costs to review, audit, enforce, track and bill the tax. Having all residential properties declare annually also places an administrative burden on a significant majority of property owners who are not impacted by the VHT.

The vacant unit declaration has not been utilized by any municipalities. A property owner self assessing a tax may not provide the outcomes required as there would not be an incentive to declare ones own property to be taxed. This would lead to higher administrative costs to audit and verify vacancies that were not declared.

¹ https://www.thestar.com/news/gta/after-disastrous-rollout-of-vacant-home-tax-city-staff-propose-a-host-of-fixes/article_d9a7535e-f8fc-11ee-9767-33d65ca9905c.html

² <https://globalnews.ca/news/10404140/toronto-vacant-home-tax-late-fee-issues/>

³ <https://www.cbc.ca/news/canada/hamilton/vacant-unit-tax-1.7093382>

A complaint-based enforcement is being implemented by the City of Windsor in 2024. After a review of the Windsor program and the administrative requirements to manage it, staff recommend that this would be an effective and efficient program for the City.

Estimated VHT Budget

It is difficult to predict the number of vacant homes in the residential class within the City. Staff in the Building Division have been maintaining a list of vacant properties noted from their inspections and other reviews. Residential class properties on this list total approximately 90. It is not known how many would qualify for exemptions nor what the exemptions would be for the program at this time. A high-level conservative estimate of 45 properties and the average assessment of the properties identified in the Building Division list were used to provide budget scenarios.

There is the risk of non-remittance of tax, especially if the property is in a tax arrears position. Tax sale proceedings would apply but collection would be longer term.

Additional resources would be required in Finance's Taxation Division, to administer the program. It is anticipated that one Local 67, Tax Analyst would be required to implement the program. Program development and oversight can be managed at the start by the non-union Assessment Review Analyst due to the postponement of reassessment by the Province. Depending on when the program is rolled out, a 2024 in-year complement increase may be required with funding recommended from future VHT revenues. Once the program is running and the actual administrative requirements for Finance, and other supporting departments is known there may be additional resources required.

Once the program is implemented, it will be internally reviewed on a regular basis to determine if changes are required and to report thereof to Council.

There is a possible levy impact if revenue is less than administrative costs.

The estimated budget scenarios below are based upon a conservative estimate of 45 properties and provides a slightly better than breakeven point with a 2% tax.

Municipal Vacant Home Tax

April 29, 2024

Page 6.

Revenue:

Estimated number of vacant homes	45
Average assessment	115,000

Proposed tax rate	1%	2%	3%
	<u>\$51,750</u>	<u>\$103,500</u>	<u>\$155,250</u>

Net surplus(deficit) after administration	<u>\$(44,910)</u>	<u>\$6,840</u>	<u>\$58,590</u>
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Expenditures:

Staffing Requirements	
Tax Analyst (Local 67 Job Class 10)	86,660
Program Expenses	10,000
	<u>96,660</u>

Program expenses include office set up, postage, website for online reporting, and other administrative costs.

Next Steps

If Council approves the implementation of a VHT, staff would seek to implement the tax in 2025, based upon 2024 vacancies.

The Provincial Policy Framework highly recommends public consultation on the implementation of the tax and that the results of these consultations be shared with the Province to help inform best practices going forward. The consultation would look to identify the support of a vacant home tax, the rate of tax that should be applied, and the type of exemptions that should be granted.

Further collaboration with other departments is required. This includes formalizing the definition of vacancy, program implementation requirements, appropriate tax rate, other possible immediate resource requirements, refinement of revenue and expense estimates, exemptions that best fit the community, audit and inspection requirements, dispute resolution mechanism, etc. The by-law would then be developed in conjunction with the Legal Department and presented to the Housing Task Force for review and endorsement. Subsequently staff would report back to Council with the implementation plan and to request approval of the by-law to establish the VHT.

A robust communication strategy is important. As noted previously, Toronto reported significant issues on roll out and incorrect penalties and taxes assessed. Hamilton deferred implementation due to lack of clarity in process. Corporate Communications would be utilized to implement a communication strategy, starting with a public announcement of the potential VHT for vacancies in 2024 to allow owners to have their properties occupied, if necessary, in 2024.

Financial Implications

At this time with limited information on estimated revenue and administration costs as well as an approved tax rate, there is not an ability to estimate the total net revenue position if the VHT program is implemented.

The intent of the program is not to generate revenue. The intent is for vacant residential properties to be used for housing. If the program outcomes are successful the amount of the VHT collected annually will likely decrease and could result in cost that would increase the levy in future years.

If a surplus does occur for the program, it is recommended that it be transferred to a new reserve that would be set up for the purpose of supporting the City's housing related initiatives.

Strategic Plan / Policy Impact / Climate Impact

Although addressing the increase in housing with the community is not a specific item on the 2021-2024 Corporate Strategic Plan, the implementation of a VHT does align with several strategic focus areas.

Promote Quality of Life Advantages: Adequate and affordable housing is a key quality of life indicator. A VHT promotes an increase in the overall housing supply and may have a positive effect on rental housing affordability within the City; thereby providing more housing options to a broader range of income levels.

Vibrant Downtown Areas: A disproportionate number of vacant homes are within the Downtown and older core areas of the City. A VHT will result in an increase in occupied residential dwellings in the Downtown and can help create a vibrant, complete community where people want to live and work.

The implementation of a VHT also aligns with the goals of the City's Housing Action Plan as it will contribute to an increase in the housing supply and may have a positive impact on housing affordability.

There is no climate impact

Recommendation

It is therefore recommended that Council take the following action:

Resolved that the report of the Chief Financial Officer and Treasurer and the Director of Planning dated April 29, 2024 concerning a Municipal Vacant Home Tax be received and that a municipal vacant home tax be implemented in 2025 for 2024 vacancies.

Municipal Vacant Home Tax

April 29, 2024

Page 8.

Respectfully submitted,

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