



Vacant Home Tax Policy Review

Regional Council Meeting

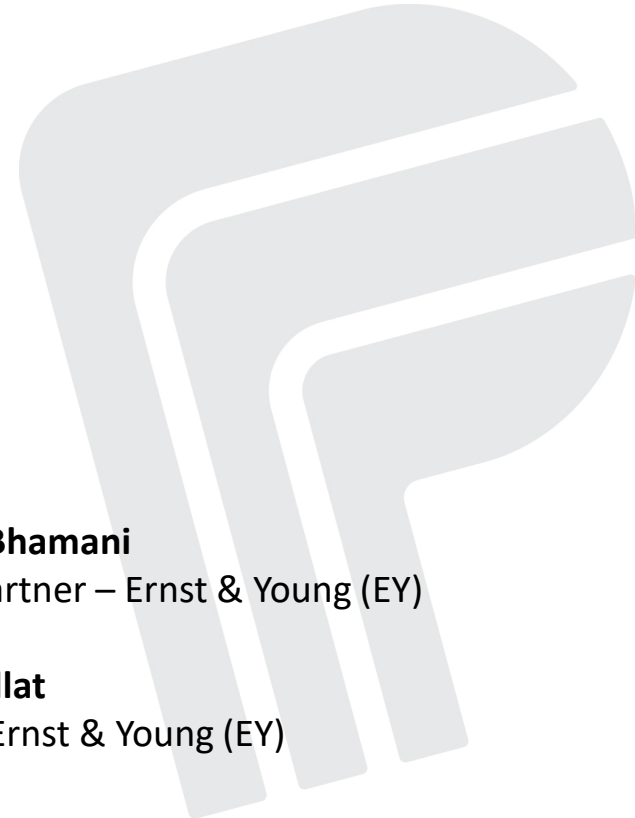
January 27, 2022

Mohamed Bhamani

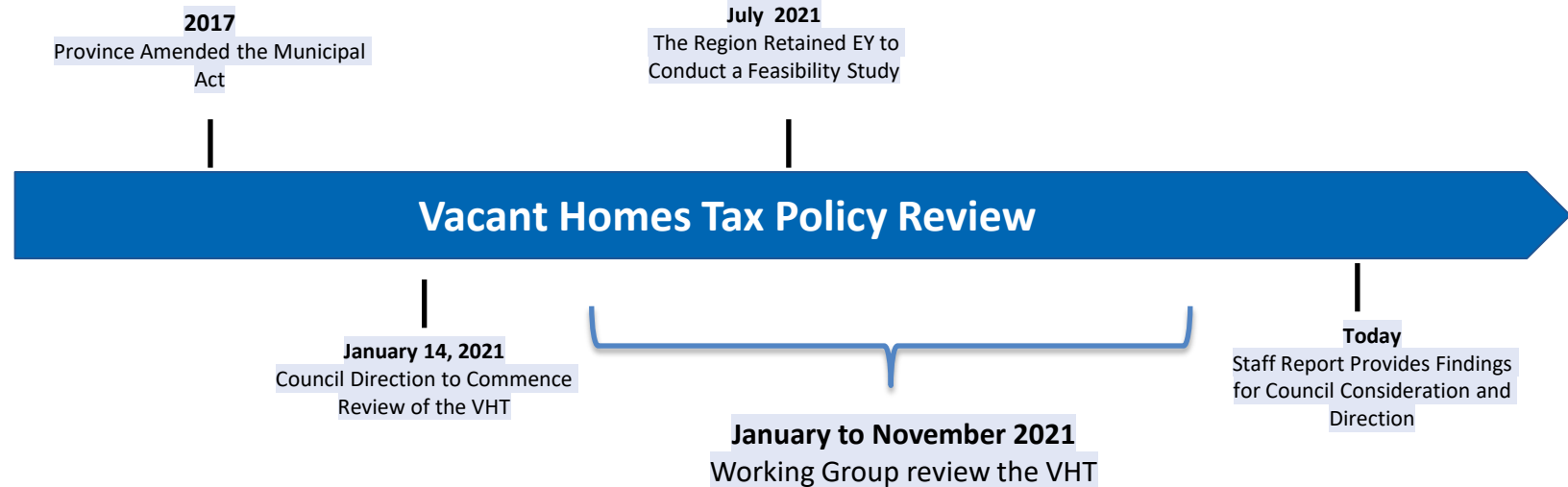
Associate Partner – Ernst & Young (EY)

Navneet Vallat

Manager – Ernst & Young (EY)



Timeline and Approach



- Integrated and Collaborative Approach
- Established Working Groups Comprising Staff from Local Municipalities
- Participated in Various Discussions with Municipal Partners

Region of Peel Feasibility Assessment for Vacant Homes Tax

Summary of Findings

January 2022

Contents



Purpose

This presentation summarizes the findings of EY's feasibility study for a Vacant Homes Tax at the Region of Peel, and provides guidance on next steps to be considered by the Region regarding public consultations and implementation



Background of the drivers behind a Vacant Homes Tax



Overview of the operations of a Vacant Homes Tax in a two-tier municipal system



High level financial estimates, including revenue projections and sensitivity analysis for various tax rates, and operating costs (one-time and ongoing) for different delivery models



Feasibility assessment, through an evaluation of net financial impact (revenue less operating costs) and risks



Public communications and consultation plan summarizing the key stakeholder groups to be engaged for the development and finalization of the Vacant Homes Tax by-law

Appendix II - Vacant Home Tax Feasibility Study

Introduction | Project Objectives

The Region of Peel engaged EY to conduct an assessment to evaluate the feasibility of implementing a Vacant Homes Tax, and develop a public consultation plan and communications strategy for the same. The assessment provided includes the following:



Analysis of the current housing market conditions in Peel, including the secondary rental market and the potential short- and long-term impacts of COVID on the housing market



Evaluation of the impacts of implementing a Vacant Homes Tax including changes to availability and affordability of housing, and potential revenue generated from this tool



Review of potential structures for the tax, taking into account experiences other jurisdictions have had with Vacant Homes Tax



Modelling of different structures and rates, and analysis of the impact on housing supply and the amount of revenue generated;



Developing measures of effectiveness and efficacy for a potential Vacant Homes Tax - both from a revenue generation and housing affordability perspective

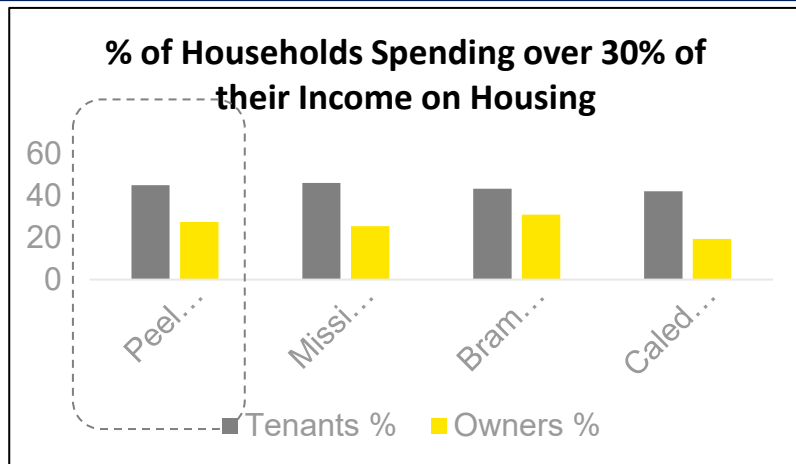
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Background | Housing Affordability Challenges in Peel

Over 40% of Peel's residents spend higher than 30% of their income on housing – indicating an affordability crisis that is worsened by low rental vacancy rates

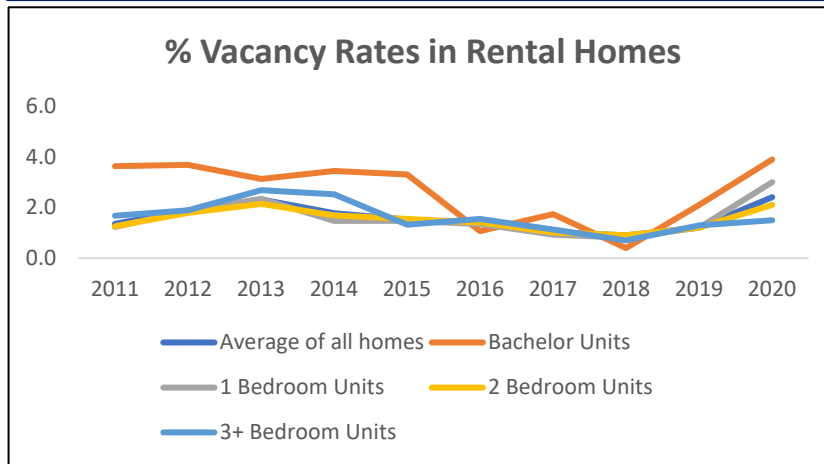
There is an affordable housing crisis in Peel...

As indicated in the graph below, over 40% of tenant households across the Region of Peel spend more than 30% of their income on housing as per the 2016 census – which illustrates the affordability challenges that the residents of the Region are currently facing.



...and is expected to re-surge after the COVID-19 pandemic

Vacancy rates for rental units have witnessed a continuous decline between 2011 – 2019, which worsens affordability due to lack of housing supply. While vacancy rates improved during 2020, due to a lack of demand owing to the pandemic. It can be expected that, as the province returns to normalcy, more units may be converted back to short-term rentals, thereby creating a resurgence of the affordability crisis



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Background | Purpose and Objectives of the Vacant Homes Tax

Leaving homes vacant lowers the rental housing supply – which negatively impacts housing affordability

The Vacant Home Tax is a policy and revenue tool that aims to address affordability challenges in municipalities - commonly implemented in rapidly growing urban centres which face challenges related to housing such as rapidly appreciating house prices (at a rate higher than the growth of income) or low availability of homes for sale or rent. The tax is generally applied to homes that are vacant for at least 6 months over a 12-month period (calendar year or fiscal year). The objectives of this tax are two-fold:

1. POLICY TOOL TO IMPROVE HOUSING AFFORDABILITY



- By implementing this tax, the Region may be able to incentivize owners of vacant properties to either sell or rent out their units.
- This increases supply of units on the market which may moderate average property sale and rent price growth; improving the affordability of housing in the Region, especially for middle-income households

2. REVENUE TOOL TO SUPPORT HOUSING PROGRAMS



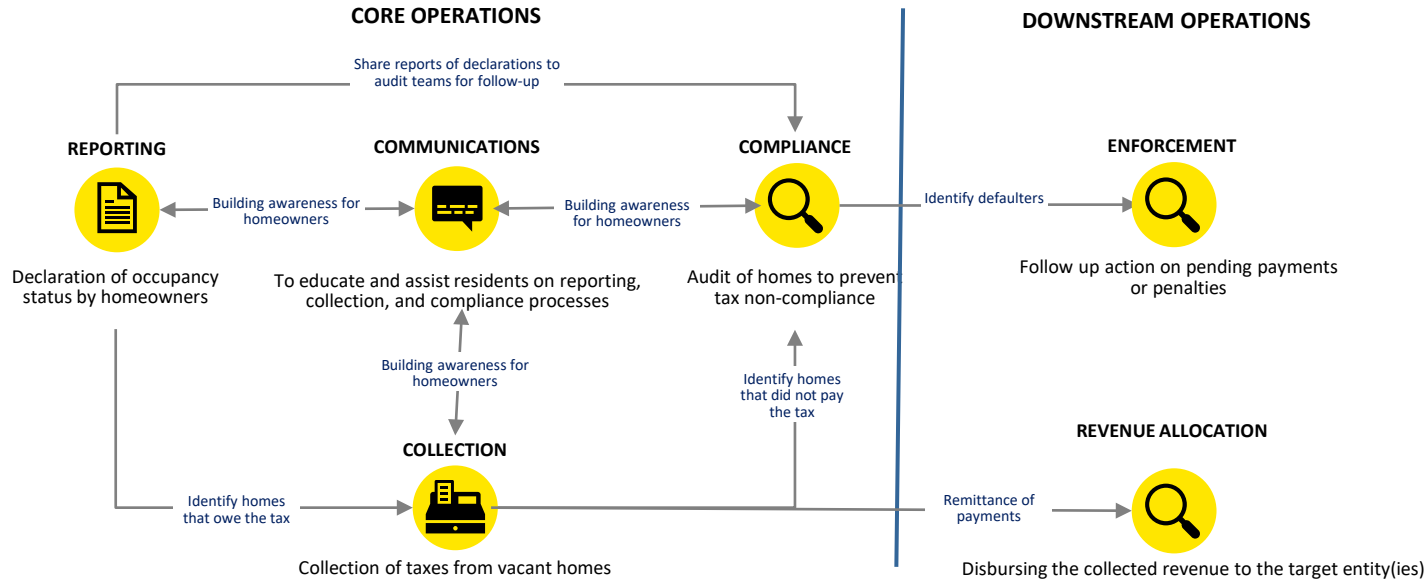
- While not mandated by legislation, all jurisdictions that have implemented (or considering to implement) the Vacant Homes Tax have pledged to use revenues collected from this tax to support affordable housing
- This includes rent relief programs, building and maintaining affordable housing, and providing grants to non-profit organizations to assist the community.

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Operating the Vacant Homes Tax

Existing mechanisms, processes, and systems at the Regional and Local level may be leveraged to operate the vacant homes tax

Operations of the vacant homes tax can be segmented into two major groups – core operations and downstream operations – as illustrated below. There are various delivery model options for division of responsibilities of core operations between the Region and the lower tier municipalities.



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Core Operations | Overview

Understanding the four processes that form the core operations of the vacant homes tax

Core operations of the vacant homes tax comprises of 4 major processes as described below. In a two-tier municipal system, the Region and the lower tier municipalities would need to make decisions on how to delineate responsibilities associated with these processes



Reporting

- Process of identification of vacant homes in the Region through declarations reported by homeowners
- Mandatory declaration to be submitted each year through online/physical forms



Collections

- Collection of tax revenue from vacant homes and penalties from homeowners who are non-compliant or who present fraudulent declarations
- Can be done through enhancements in existing property tax collection systems at municipalities



Compliance

- Conducting investigations to determine if a property is vacant and understand if declarations submitted by property owners are truthful
- Can be done through random audits, risk-based audits, and complaint-based audits



Communications





- Addressing queries and grievances, and building awareness of the tax to help the public understand the scope, reporting guidelines, and compliance processes

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Delivery Model Options

Developing delivery options that cater to the two-tier municipality system by delineating responsibilities between the entities involved

As the Region of Peel is a two-tiered municipality, the implementation and operations of Vacant Homes Tax requires a unique solution that accommodates or leverages the existing systems, responsibilities, and processes of the jurisdictions to deliver the tax. There are three delivery models for Peel's consideration with the distribution of responsibilities as illustrated below

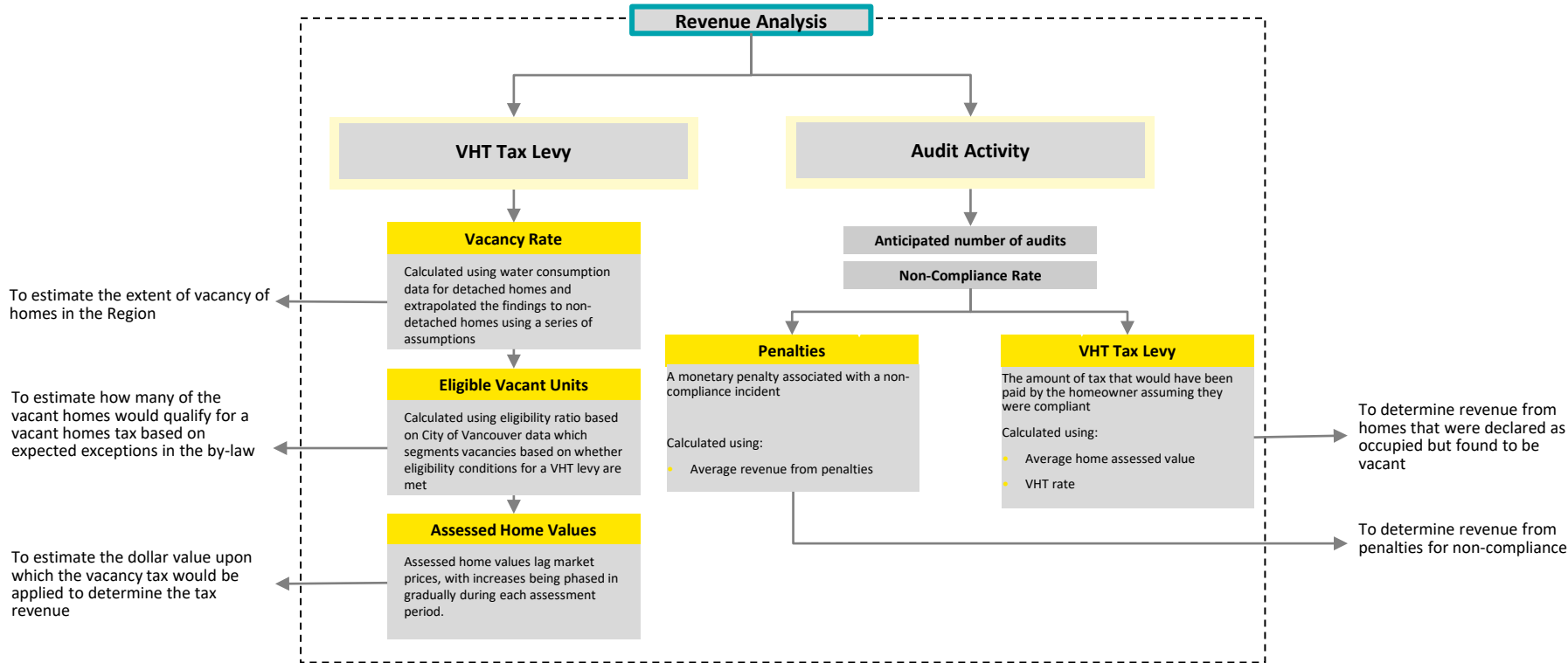
	Option 1: Municipal Delivery		Option 2: Hybrid Delivery		Option 3 : Regional Delivery	
Activity	Regional responsibility	Municipal responsibility	Regional responsibility	Municipal responsibility	Regional responsibility	Municipal responsibility
 Communication and customer service: Public communications and awareness building about the tax		✓	✓		✓	
 Reporting: Providing the platform where the resident is able to declare property status		✓		✓	✓	
 Collection: Collecting the tax when applicable		✓		✓	✓ <i>Requires amendments to Municipal Act</i>	
 Auditing: Auditing and compliance functions		✓	✓		✓	

Appendix II - Vacant Home Tax Feasibility Study

Financial Analysis | Revenue Estimation

Revenue from vacant homes would be obtained in two streams – taxes remitted by home owners who declare their homes to be vacant, and taxes and fines levied from homeowners who did not declare their homes to be vacant, but was identified through audits / complaints

The methodology used to calculate the potential revenue from the vacant homes tax is discussed below.



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Appendix II - Vacant Home Tax Feasibility Study

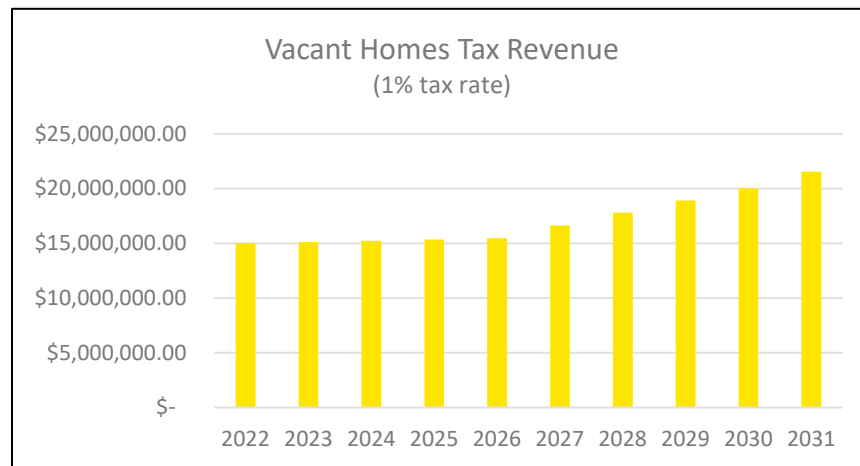
Financial Analysis | Revenue Estimation

Conservative estimates indicate that the Region may generate an average annual revenue of \$17M over 10 years with a 1% tax rate using the 2016 Current Value Assessment (CVA) data from MPAC

Below are the revenue estimates for eight different scenarios involving various tax rates,. These tax rates represent a continuum from a low of 0.5% to a high of 3.0% (rate that is currently being considered for implementation at the City of Vancouver), and are multiplied by the average assessment value of homes to obtain the revenue from the tax levy.

			Average Revenue/Year (10 years)	
	Tax Rate	ABRR*	Self Declaration	Audit Activity
Scenario 1	0.50%	1.50%	\$8,598,232	\$476,400
Scenario 2	1.00%	2.50%	\$16,359,562	\$750,825
Scenario 3	1.25%	3.00%	\$19,948,452	\$888,037
Scenario 4	1.50%	4.00%	\$22,786,290	\$1,025,249
Scenario 5	2.00%	5.00%	\$28,931,706	\$1,299,673
Scenario 6	2.25%	5.50%	\$31,767,071	\$1,436,886
Scenario 7	2.50%	6.00%	\$34,453,494	\$1,574,098
Scenario 8	3.00%	6.50%	\$40,361,032	\$1,848,522

10 year revenue projections for a 1% tax rate (most common rate chosen by cities)



*Annual Behavioral Response Rate: The expected total number of units that will be returned back to the rental or for sale market on an annual basis.

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Financial Analysis | One-Time Costs

Based on the currently available inputs, the hybrid model has the lowest implementation costs – however, detailed systems analysis is required to improve the degree of certainty of the technical support costs

One-time implementation/start-up costs for both delivery model options is provided below*.

Category	Cost	
	Municipal Delivery	Hybrid Delivery
Project Management	\$1.65M	\$1.32M
Subject Matter Advisors	\$0.60M	\$0.45M
Technical Support	\$2.9M- \$4.4M	\$2.9M- \$4.4M
Professional Services	\$5.79M	\$5.19M
Infrastructure costs	\$0.52-\$0.78M	\$0.52-\$0.78M
Contingency	\$0.89M	\$0.81M
TOTAL	\$14.10M-\$12.41M	\$12.99M-\$11.27M

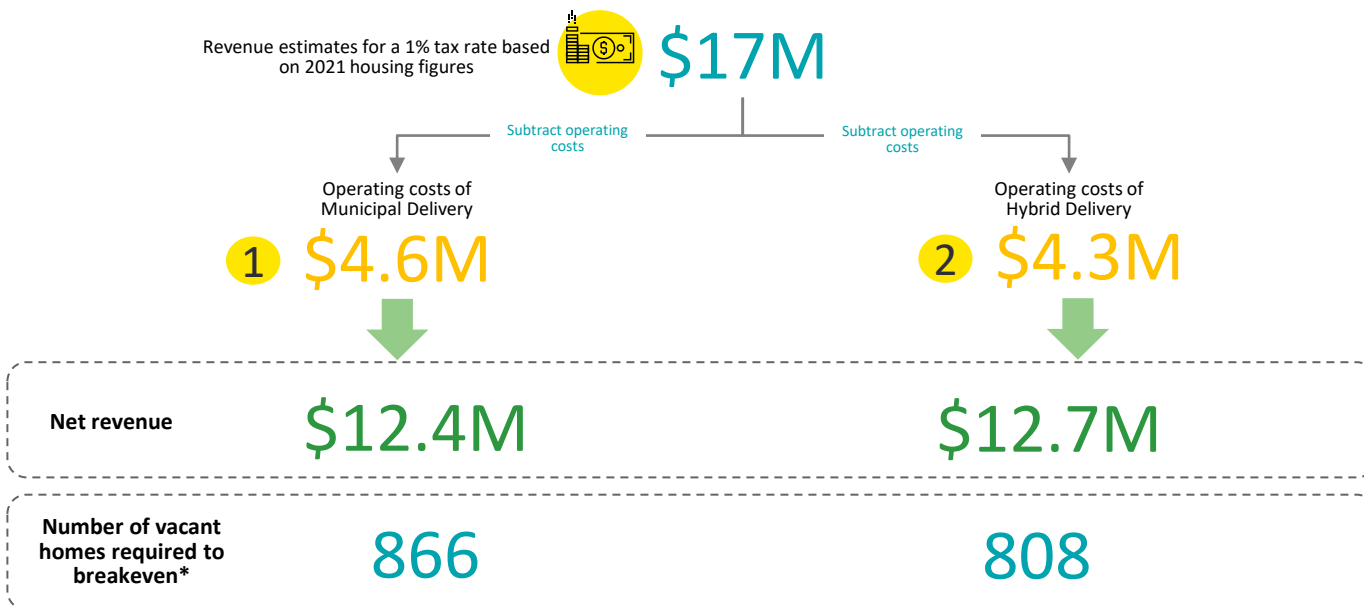
- Differences in implementation costs are driven by the level of complexity involved in each model. E.g. Implementing the municipal delivery model requires changes in processes and systems across three municipalities, and hence requires a higher number of resources to manage, thereby potentially escalating costs related to project management and professional services. However, the hybrid model involves centralization of some processes at the Regional level, thus creating efficiencies for the project management and professional services teams

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Feasibility Analysis | Net Financial Impact

In spite of conservative estimates used for revenue projections, it is expected that the vacant homes tax will generate a positive budgetary impact at the Region of Peel

Feasibility analysis was done by comparing the net revenue (revenue less operating costs*) and assessing the breakeven point for each delivery model option (minimum number of vacant homes required to generate tax revenue that is greater than the operating costs)



The findings above indicate that, irrespective of the chosen delivery model option, the vacant homes tax is expected to generate net positive financial benefits for the Region, and hence, is a feasible tool to be explored in further detail.

*Operating costs includes staffing costs for tax administration, audit and compliance, customer service and costs associated with communications, IT support, and customer service

**As indicated in the revenue estimates, the estimated number of vacant homes is over 3,000

Appendix II - Vacant Home Tax Feasibility Study

Feasibility Analysis | Key Takeaways

Preliminary estimates based on available data and assumptions from Vancouver's case study indicate that it is financially feasible to implement the Vacant Homes Tax at the Region – generating revenue for affordable housing programs and increasing housing supply

Key takeaways of the feasibility analysis is discussed below



Vacant Homes Tax is expected to generate a net positive revenue

- Despite conservative estimates around vacancy rates based on water consumption thresholds, and a low tax rate, the vacant homes tax is still expected to generate revenues that are greater than the operating costs for the program
- While upfront investment for implementing the vacant homes tax is >\$10M, the Region is expected to recover the investment within the first two years of implementing the tax, with a tax rate of 1%
- In addition to generating revenue for affordable housing purposes, the vacant homes tax is also expected to improve the housing supply if homeowners put up their homes for rent/sale



Hybrid Model expected to provide highest benefits

- Preliminary analysis indicates that the hybrid delivery model has the lowest implementation and operating costs. However, additional analysis is recommended to ascertain the costs by conducting an analysis of the tax systems in all three municipalities to estimate the effort required to create a module for the vacant homes tax.
- The Region and municipalities may benefit from leveraging existing tax collection/administration capabilities at the lower-tier level through a hybrid delivery model, while realizing efficiencies through centralizing activities such as compliance and communications.



Need for continuous monitoring of net revenue to inform future decisions

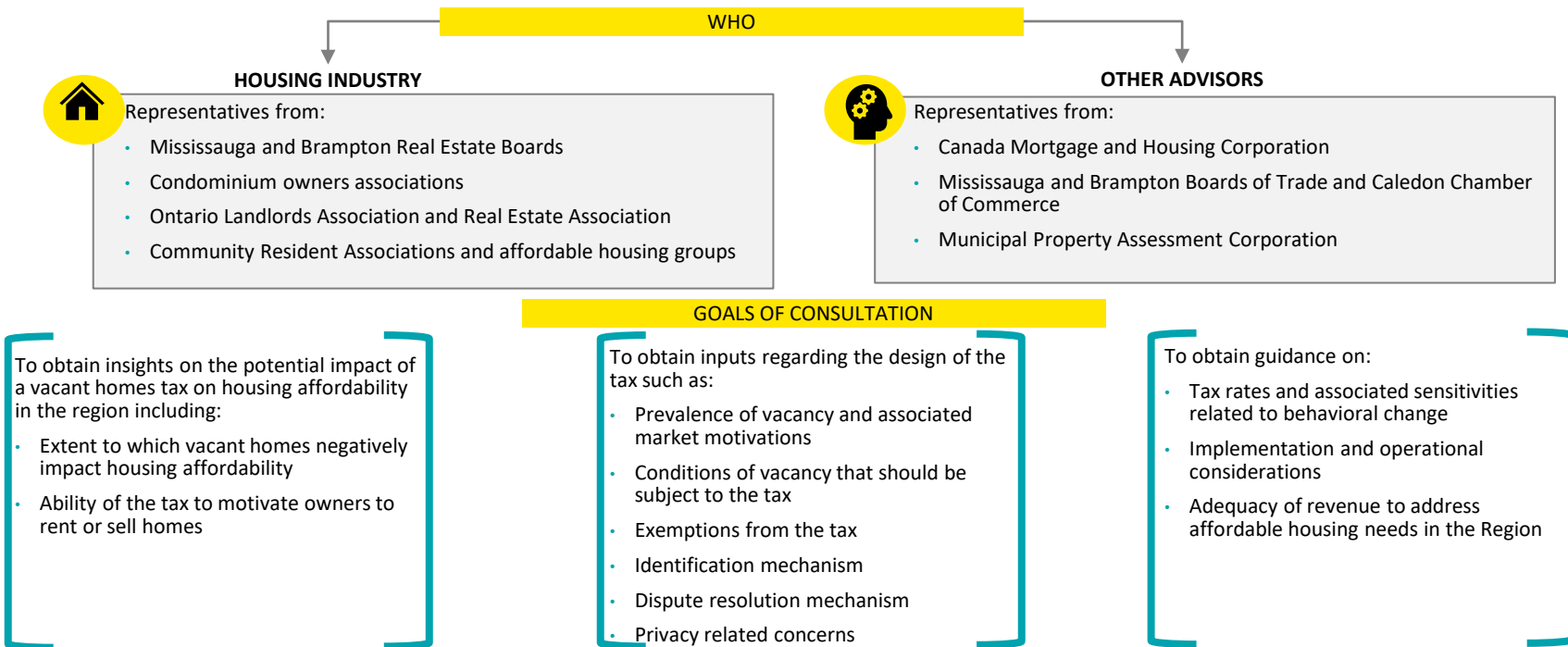
- The Region would need to continuously monitor net revenues from the vacant homes tax to make decisions around the future of the program. For e.g.
 - Continued prevalence of vacant homes may require decisions around increasing tax rates to enforce behavioral changes (e.g. City of Vancouver is tripling the tax rate from 1% to 3%)

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Public Communications Target Audience

Understanding the key subject matter advisor groups and industry representatives whose inputs are required for designing the tax

Consultation with the public and key stakeholders is a critical step, ensuring that the action to implement a tax on owners of empty housing is appropriately targeted and fair. The consultation process will engage the public across a range of platforms such as surveys, public events and other forms of outreach. Indicative list of stakeholders to be engaged for the targeted consultations is listed below:



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Conclusion and Next Steps

As indicated in the financial analysis, the vacant homes tax appears to be a feasible policy and revenue tool to address housing affordability at the Region of Peel. However, prior to making decisions around the implementation of the vacant homes tax, the following steps are to be undertaken at the Region and the lower tier municipalities



In-depth assessment of implementation costs by conducting a review of the functionality of the existing payment collection systems, and determining level of effort required to implement upgrades to collect a vacant homes tax



Assessment of the key processes that need to be re-engineering, and new processes that are to be deployed to facilitate the implementation of the vacant homes tax



Deployment of public communications and consultation tools to elicit feedback from the public to gauge support for the tax, and obtain inputs to help design the tax



Develop draft framework for the Vacant Homes Tax by-law and submit for Council approval

Preliminary Roadmap

