

Feasibility Assessment for Vacant Homes Tax Halton Region

Final Report

March 2022

Disclaimer

Ernst & Young LLP (“EY”) prepared the attached report only for Halton Region (“Client”) and the Project Steering Committee comprising of senior officials from the Region (collectively, the “Steering Committee”) pursuant to an agreement solely between EY and Client. EY did not perform its services (the “Review”) on behalf of or to serve the needs of any other person or entity. Accordingly, EY expressly disclaims any duties or obligations to any other person or entity based on its use of the attached report. Any other person or entity must perform its own due diligence inquiries and procedures for all purposes, including, but not limited to, satisfying itself as to the financial condition and control environment of the Steering Committee, and any of its funded operations, as well as, the appropriateness of the accounting for any particular situation addressed by the report. EY did not perform an audit or review (as those terms are identified by the CPA Canada Handbook - Assurance) or otherwise verify the accuracy or completeness of any information provided by the Client or the Steering Committee or any of its funded operations financial statements. Accordingly, EY did not express any form of assurance on accounting matters, financial statements, any financial or other information or internal controls. EY did not conclude on the appropriate accounting treatment based on specific facts or recommend which accounting policy/treatment the Steering Committee, or any funded operations should select or adopt. The observations relating to all matters that EY provided to the Steering Committee were designed to assist the Steering Committee in reaching its own conclusions and do not constitute EY’s concurrence with or support of Client's accounting or reporting or any other matters.

Table of contents

	Slide
1. Introduction and Project Background	4
2. Current State Overview	9
3. Understanding the Vacant Homes Tax	17
4. Operating the Vacant Homes Tax	24
5. Financial Analysis	40
6. Feasibility Analysis	56
7. Conclusion and Next Steps	62
Appendix A - Financial Assumptions	65
Appendix B - Jurisdictional Scan	70

Introduction | Project Objectives

Halton Region engaged EY to conduct a feasibility analysis for the potential implementation of a Vacant Homes Tax. The objectives of the assessment are listed below:



Review and analyze Halton Region's housing market conditions, and the short- and long-term impacts of the COVID-19 pandemic on the housing market



Assess the potential impacts a Vacant Homes Tax may have on the availability and affordability of housing at Halton Region



Assess various operating models that the Region can use to implement the Vacant Homes Tax in Halton, taking into account Halton's two tiered municipal structure



Model the impacts of tax rates to estimate potential revenue generated from vacant homes, and determine the operating costs (one-time and ongoing costs) of the vacant homes tax program



Assess feasibility and determine risks of implementing the vacant homes tax

Introduction | Completion Status of RFP Objectives

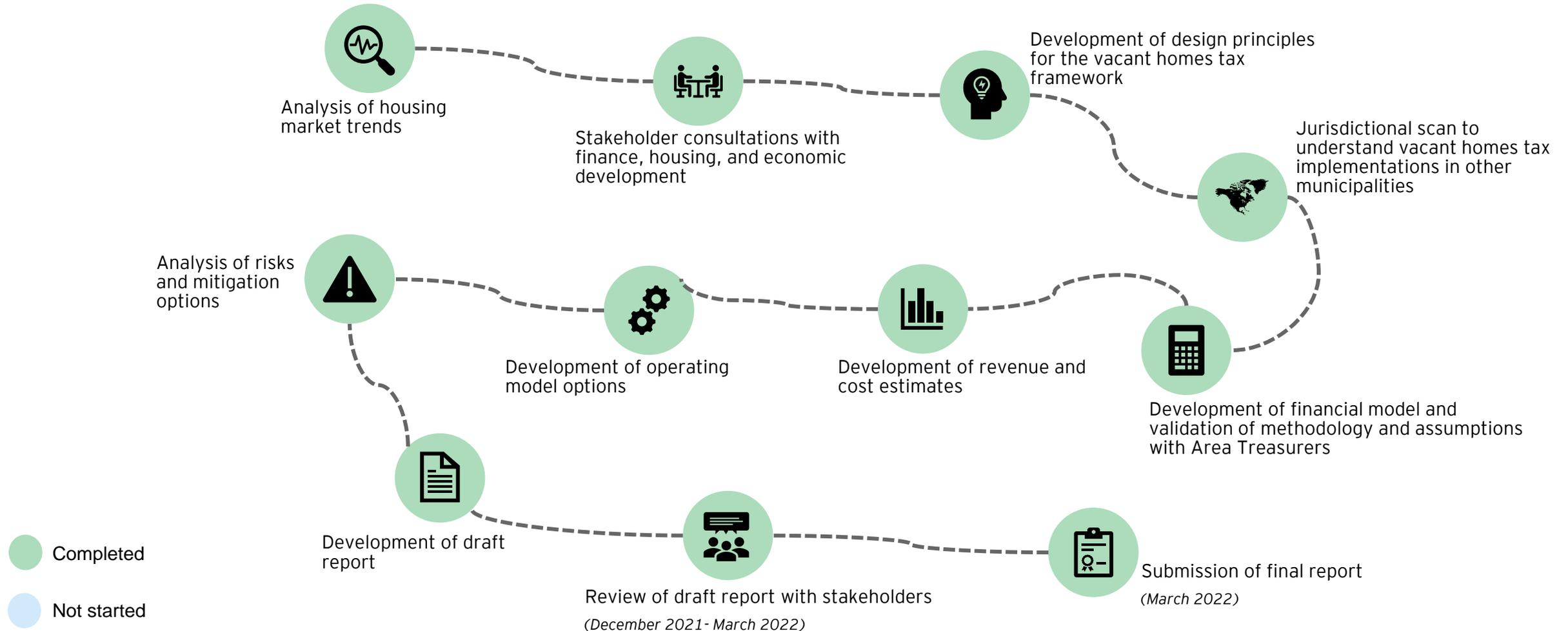
The completion status of the objectives laid out in the RFP is illustrated below:



- Note: The RFP required an analysis of the impact of corporate/institutional purchases of single family homes on housing prices. However, this planning/housing data on the volume/trends on corporate purchases of homes is not available/tracked, therefore this analysis could not be completed and was removed from the scope of the engagement

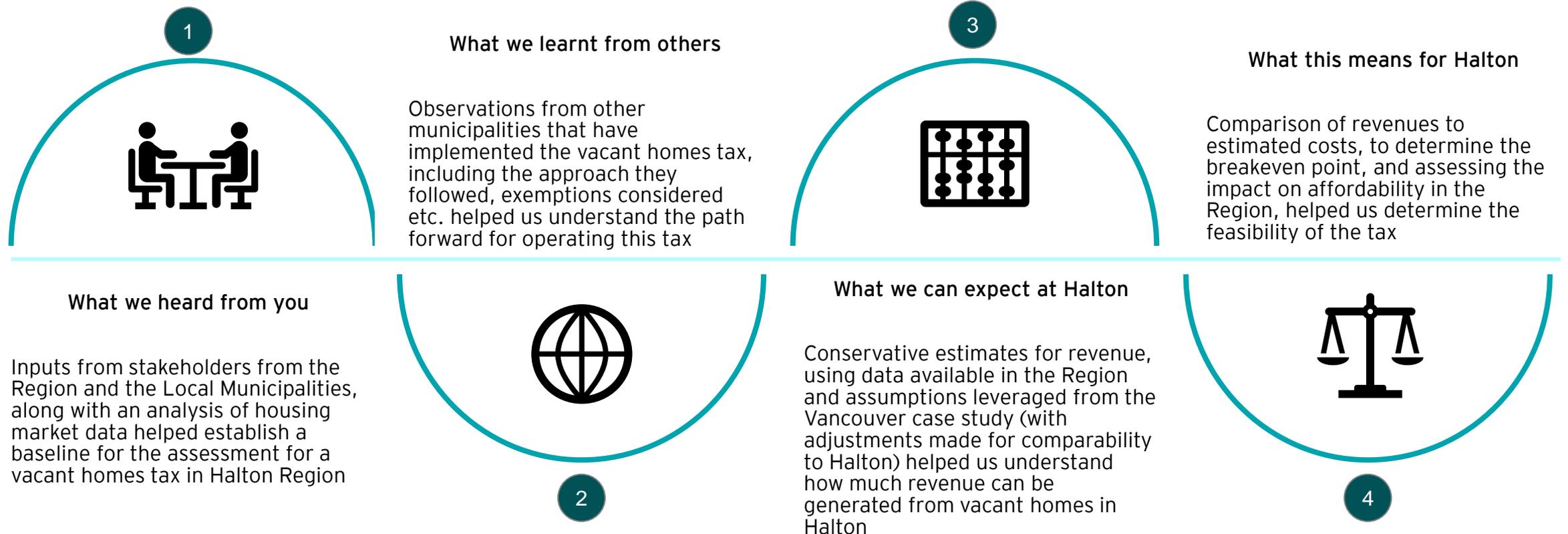
Introduction | Approach

The key project activities for the development of the feasibility analysis of the vacant homes tax at Halton Region, including their completion status, is illustrated below:



Introduction | Report Objective

This report summarize findings from 4 focus areas that guided our approach for this project as illustrated below:



Introduction | Report Overview



Report purpose

This report presents the project team's interim findings through stakeholder consultations, jurisdictional review, secondary research, and data analysis conducted using both publicly available data and data provided by the Region. These findings are to be reviewed and validated by the Region and Local Municipalities before finalizing the report



Current State Overview: The role a Vacant Homes Tax can play to raise funds for assisted housing programs or address affordability at Halton Region



Understanding the Vacant Homes Tax: An overview of what a Vacant Homes Tax is, what it includes (and does not include) and what the objectives of implementing the tax are



Operating the Vacant Homes Tax: An analysis of how the Vacant Homes Tax can be implemented and managed within a two-tiered municipal structure, including an evaluation on the various operating models and risks, synergies and duplications for each model



Financial Analysis: Preliminary financial estimates on the potential revenue at various rates, one-time and operational costs for the various models identified in the previous phase



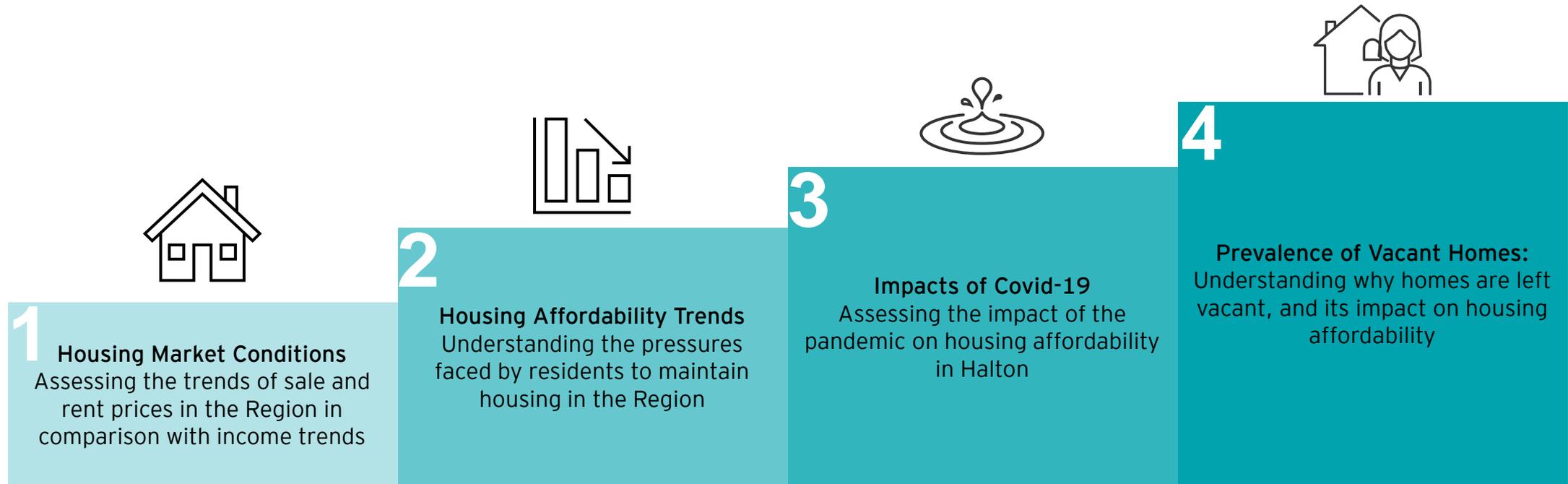
Feasibility Analysis: Feasibility assessment, through an evaluation of net financial impact (revenue less operating costs) and risks



CURRENT STATE OVERVIEW

Current State Overview | Introduction

Understanding housing market trends of availability and affordability is key to assessing the feasibility of a Vacant Homes Tax in Halton Region. In this section, we review the current state of housing in Halton by assessing the following:



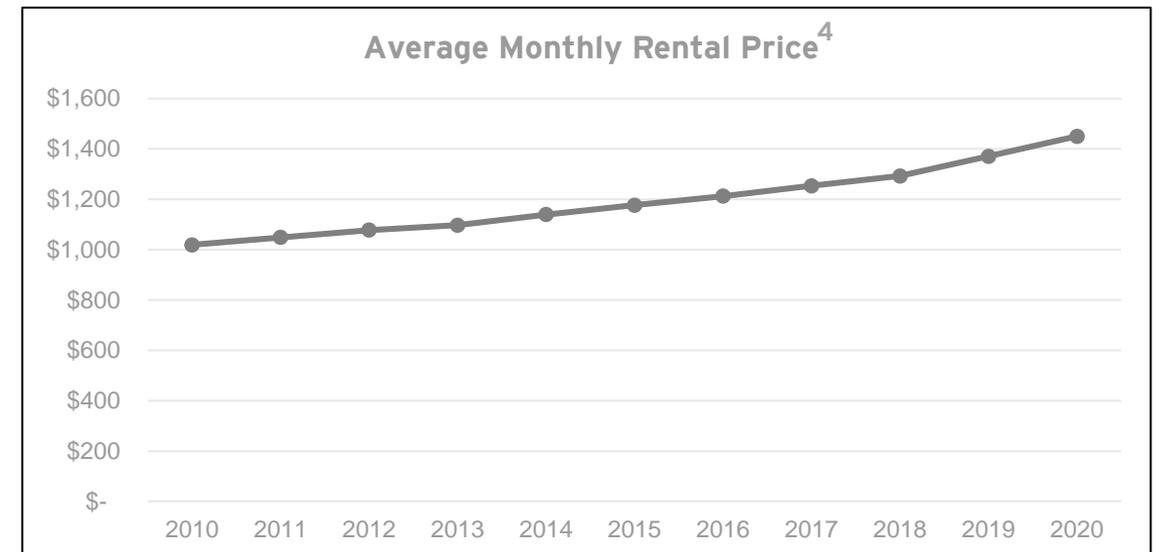
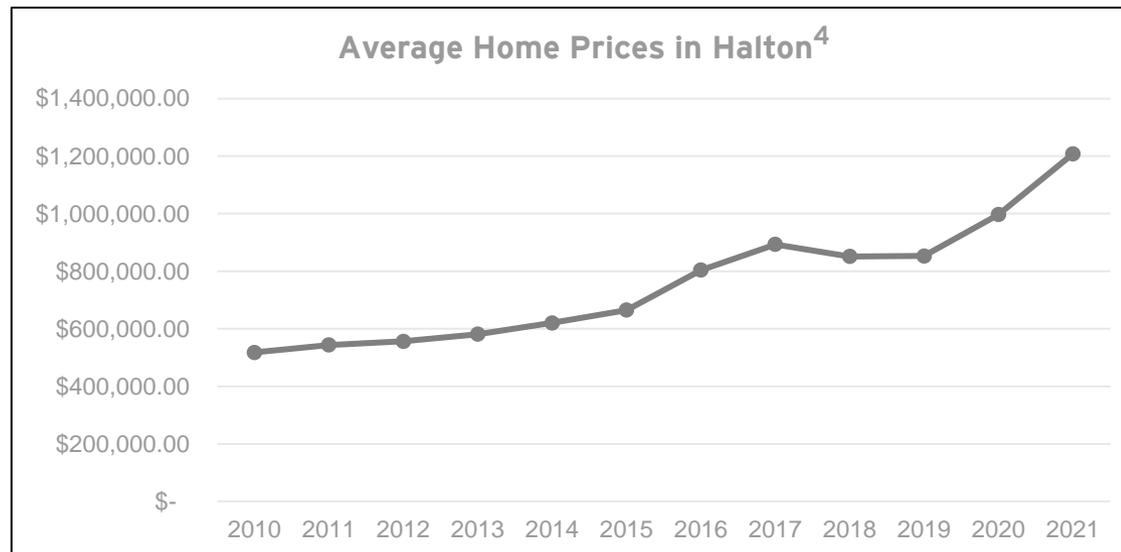
Inputs related to the above were developed through a combination of analysis of housing data submitted by Halton Region, secondary research, and consultations with key stakeholders (tax policy and finance staff at the Local Municipalities, housing staff in the Region, and Halton's project leadership)

Current State Overview | Housing Market Conditions

Challenges with affordability of home ownership in the Region are evident, with average housing sale prices growing 2x faster than the average household income within a 5 year timeframe

HIGHLIGHTS

According to the findings from the Five Year Review¹ of the Region's Comprehensive Housing Strategy (CHS) Update 2014-2024, the average sale price in the Region has increased by over 39% between 2014-18, while household income increased only by 16.7% between 2011-16. The shortfall (gap between supply and demand) for assisted and affordable housing in the Region also increased to 16.9 % and 6.9% respectively in 2020 indicating increased dependency on government assistance to meet housing needs². The 5 year CHS Review Report¹ mentioned above indicates that the waitlist for subsidized, or rent-geared-to-income housing in the Region is over 3,200, and it is likely that the pandemic has exacerbated the 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. The Region is also 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 governments³



1. Halton Region Comprehensive Housing Strategy 2014-24 Five Year Review (SS-19-19/LPS86-19)

2. Halton Region State of Housing Report (LPS50-21)

3. Halton Region report on portfolio approach to achieving Comprehensive Housing Strategy Objectives (LPS84-21/SS-25-21)

4. Data provided by Halton Region

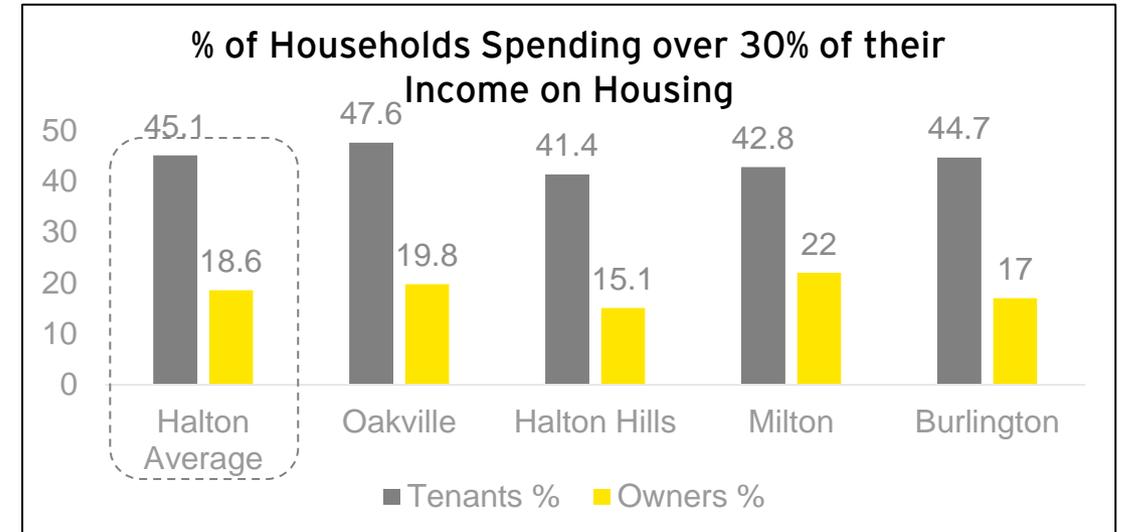
Current State Overview | Housing Affordability

Over 45% of tenants in Halton spend more than 30% of their income on housing - indicating an affordability crisis for a large portion of the Region's residents

Housing affordability is a persistent challenge in the Region...



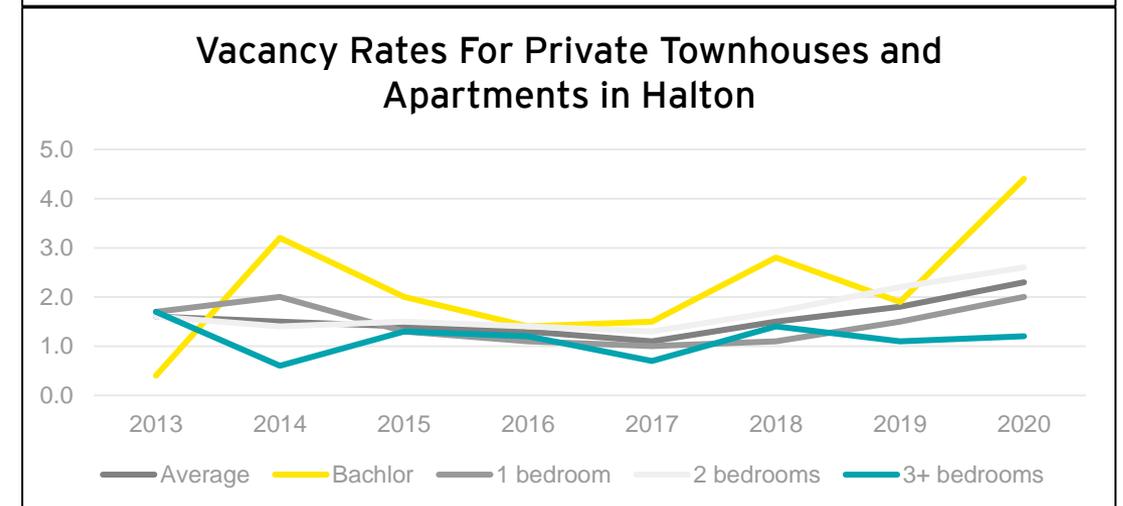
The percentage of gross income spent on housing/shelter costs is a key measure of affordability adopted by the Canadian Mortgage and Housing Corporation - with the current threshold being 30%.¹ As indicated the graph on the right, over 45% of tenant households and 18% of homeowners across Halton Region spend more than 30% of their income on housing as per the 2016 census illustrating the affordability challenges that the residents of the Region are facing.



...and is expected to remain so if left unaddressed



Vacancy rates between 2014-2019 have largely decreased, which worsens affordability due to lack of housing supply. In 2020, vacancy rates within the Region increased (e.g. vacancy in bachelor units reached an 8-year high of 4.4%). However, this may be attributed to the temporary conversion of short-term rentals as a result of the COVID-19 pandemic, and is likely to reverse as the Province moves back to normalcy. However, despite this increase in vacancy rates, the average rental rates in the Region still increased by an average of 7% between 2019-2020.²



¹Data sourced from Canadian Mortgage and Housing Corporation
²2020 State of Housing Report - Halton Region (LPS50-21)

Current State Overview | Impact of COVID-19 On Housing

The pandemic has had varied impacts on the housing market - but there is limited evidence to assess whether those impacts would be short- or long-term

Between September 2019-2021, Halton has seen a 37% increase¹ in the average sale price of homes - this may be attributed to the rising trend of migration by residents of bigger cities (e.g. Toronto) to other regions of the Greater Golden Horseshoe Area. Halton's condo vacancy also dropped to 0.2% in the third quarter of 2021, well below the 3% minimum threshold that is indicative of a healthy rental market. Although it may not be possible to predict whether these impacts of the pandemic would sustain over the long term, it is evident that the pandemic has not had any long-lasting positive effects on improving housing affordability in the Region. Some of these impacts are discussed below.

Trend	Impact
 <p>Demand for short-term rentals (e.g. AirBnB) have decreased due to a decline in interprovincial and international travel, putting pressure on AirBnB owners to either sell or list their unit on the long-term housing market</p>	<p>In the first three months of the pandemic, the GTA housing market saw a 52%² increase in furnished rental listings, while rent prices fell 5.7% year-over-year², largely attributed to be driven by Airbnb hosts. This indicates the pandemic was able to temporarily improve housing supply to ease affordability pressures, but this change is unlikely to be long-term if domestic and international travel return to pre-pandemic levels</p>
 <p>Owners may not list their property for rent due to an unwillingness to handle an increased burden of being a landlord during uncertain times.³ They may also be averse to having unknown persons rent units that are in proximity to the owner's home (e.g. basement apartment attached to the owner's primary residence)</p>	<p>Landlords who would have potentially listed their vacant units onto the market may now do so at an increased price, to compensate for the additional perceived risk, or leaving it vacant to avoid the additional burden or potential exposure to the COVID-19 virus. This negatively impacts housing affordability in the Region.</p>
 <p>Occasional use property owners such as snowbirds or frequent travelers have returned and occupied their previously vacant home due to restrictions on international travel</p>	<p>Homes that were generally left vacant by these classes of homeowners have now been occupied. However, this has no impact on housing affordability as those units were not previously expected to be sold or rented.</p>

¹Calculated using data provided in the Real Estate Housing Sales Data file sent from Halton

²Miscellaneous EY Internal Market Research

³City of Toronto assessment of COVID-19 impact on affordability

Purpose and Objectives of Vacant Homes Tax

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

The Vacant Homes Tax 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. 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 as illustrated below:



Policy Tool To Improve Housing Affordability

Discourage holding of homes as a means to park capital and incentivize owners of vacant properties to either sell or rent out their units. This results in an increase in supply of units on the housing market which may improve the affordability of housing in the Region



Revenue Tool To Support Housing Programs

Raise revenue to fund and support rent relief programs, build and maintain assisted housing, and provide grants to non-profit organizations to assist the community. This helps municipalities improve the reach and outcome of their assisted housing initiatives.

By designing the right tax structure, which is high enough to support a change in behavior and raise adequate revenues, municipalities may be able to access a new source of revenue to address housing challenges and/or increase the supply of housing in the market to address affordability challenges.

Market Motivations of a Vacant Home Owner

A number of short- and long-term reasons exist for leaving a home vacant, which must be understood by a municipality before considering the vacant homes tax

Based on case studies of vacant homes tax implementations in other jurisdictions, there are varied reasons for keeping a home vacant. Below is an aggregated list of reasons identified through research:

Short term reasons*

- 1  Inertia: the owner has a plan to occupy or rent the property out, however due to various reasons, they have not
- 2  Construction: the property cannot be lived in as a result of current renovations or large construction
- 3  Recent sale or transfer: the property recently was sold or ownership was transferred

Long term reasons**

- 4  Recent death, or medical care: Owner currently lives outside of their home due to medical reasons or have recently passed away
- 5  Uninhabitable: the property is no longer safe to live in and homeowner may not have resources to reinstate to a livable condition
- 6  Liquidity: a vacant home is easier to sell than an occupied one allowing the owner more flexibility to time the market
- 7  Aversion to being a landlord: owners may find being a landlord tedious and not worth the financial benefits
- 8  Seasonal or occasional use: the homeowner uses the property occasionally for a few months each year (e.g. snowbirds)
- 9  Speculation: Non-resident or domestic speculators who buy properties to store wealth in the hope of price appreciation

The short and long-term reasons identified above will play a crucial role in informing the designing, implementation and operation of the Vacant Homes Tax within Halton Region, as exemptions from the tax can be used to prevent taxing residents who have legitimate causes for vacancy

*Short term reasons are situations that may be reasonably resolved within 6 months

**Long term reasons are situations that may require more than 6 months to be resolved

Summary of Stakeholder Consultations

Stakeholders across the Region and the Local Municipalities demonstrated a general consensus to the major lines of enquiry around a vacant homes tax

EY conducted interviews with key personnel in the Region and the Local Municipalities to obtain perspectives on various components of the vacant homes tax. Detailed findings from the interviews were submitted to the Region as part of a “Summary of Stakeholder Interviews” deliverable in November 2021. Key takeaways, grouped by the lines of enquiry of the interviews, are as follows:



Purpose

Revenues generated from the vacant homes tax should be used for assisted housing programs and initiatives. However, decisions would have to be made on allocation of funds to assisted housing or housing support programs run by the Region and by Local Municipalities



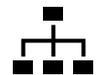
Taxation Principles

Tax rates should be determined using a combination of four factors - benchmark rates set by other jurisdictions, rate required to generate a net positive revenue from the program, rate required to incentivize a behavioral change that impacts housing affordability, and fairness of the rate in comparison with existing property tax rates



Identification of Vacant Homes

Stakeholders expressed agreement that self declaration* would be the most ideal method to identify vacant homes - owing to privacy concerns about other mechanisms such as utility monitoring. However, concerns were also raised about the anticipated level of compliance with self-declarations



Implementation and Operations

Tax collection and administration would remain with the local municipalities in accordance with the Municipal Act. However, stakeholders expressed interest in exploring opportunities to centralize other functions (e.g. audit and compliance) to leverage economies of scale and lower operating costs



Risks

Key concerns flagged by stakeholders predominantly focused on the need for a dispute resolution mechanism, and the liability for the Region and the Local Municipalities in the event that the vacant homes tax does not generate adequate revenue nor address the affordability challenges faced in Halton

*Various methods for declaration are discussed in the next section

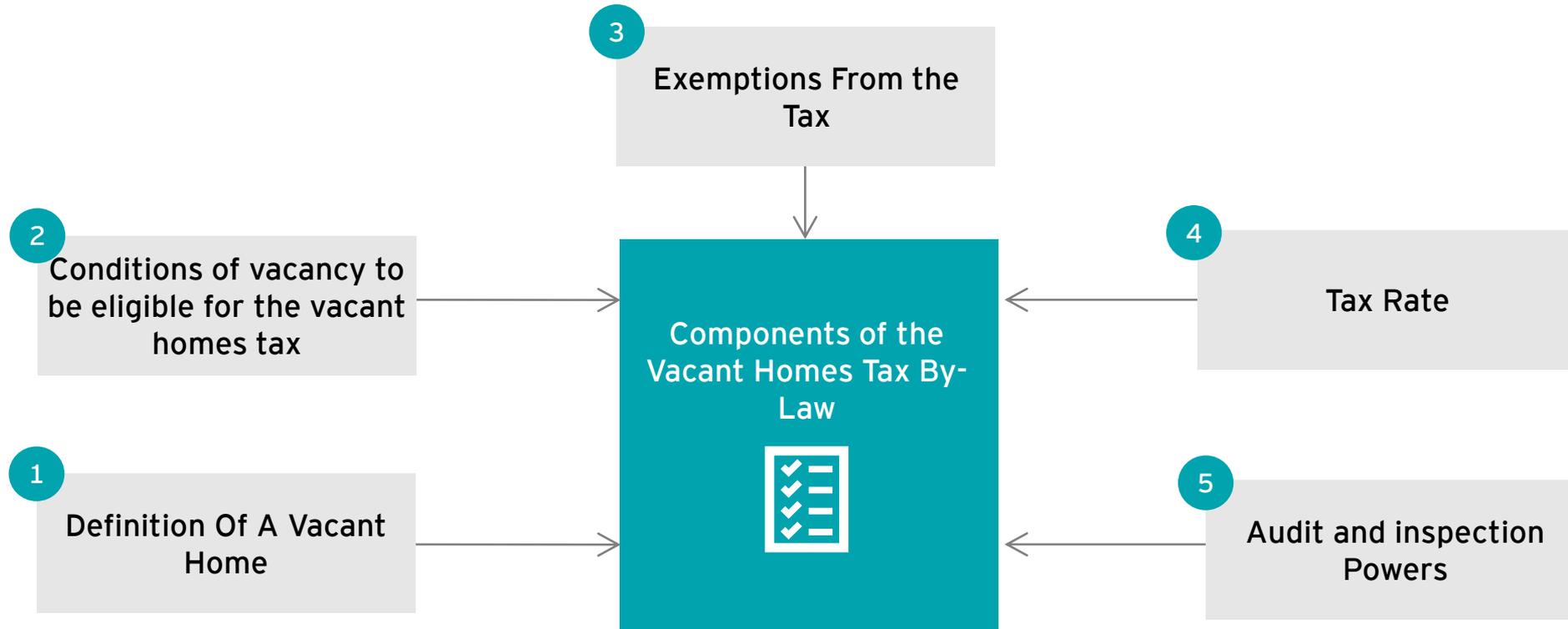


UNDERSTANDING THE VACANT HOMES TAX

"What is a Vacant Homes Tax and who does it apply to?"

Understanding the Vacant Homes Tax | Introduction

In 2017, the Government of Ontario promulgated Bill 127 (Stronger, Healthier Ontario Act), and Schedule 19 of this Act allows municipalities to implement a by-law to impose taxes on vacant residential units in certain circumstances. According to the provincial legislation, the by-law to be passed by each municipality must include the following:



In this section we will explore items 1, 2, and 3 from the list above to help inform decisions around these components for the by-law. Findings were developed through a combination of stakeholder consultations, and secondary research from jurisdictions that have previously implemented, or considering to implement, a Vacant Homes Tax. Items 4 and 5 from the list will be discussed in subsequent sections

Understanding the Vacant Homes Tax | Definition

Most municipalities that have implemented the vacant homes tax deem a home to be vacant when unoccupied for over 6 months/year

While developing the policy and by-law for the vacant homes tax, municipalities are required to define what qualifies a home to be designated as vacant. A jurisdictional scan of municipalities that have implemented, or considering to implement, a Vacant Homes Tax yielded the following findings on the possible definitions of a vacant home.

Definition	Municipalities that include this definition*
Unoccupied for more than 6 months or 184 days within the reference period, and is not the principal residence of the owner	Toronto, Ottawa, Melbourne
Unoccupied for more than 6 months of the reference period, and is not the principal residence of the owner - periods of occupation must be at least 30 consecutive days in duration (e.g. if the home is rented out, it should be for a period of 30 or more consecutive days)	Vancouver
Unoccupied for more than 3 months of the reference period	Paris

* Most suitable definition for Halton Region

As vacant homes taxes are calculated based on assessment values, which are in turn revised at the end of the calendar year every 4 years, the “reference period” for assessing whether a home is vacant can be set to a calendar year basis. This also aligns with property tax calculation and collection schedules in the Region’s municipalities.

Understanding the Vacant Homes Tax | Exemptions

Exemptions applied by municipalities are largely comparable - however exemption for snowbirds is exclusive to Toronto

Not all homes that fall under the definition of “vacant” as discussed earlier are eligible to be taxed, as municipalities enact exemptions to vacant homes for various reasons based on policy decisions. Below is a list of exemptions used by municipalities both domestically and internationally.

Exemption		Definition	Municipalities that include this exemption*
Potential exemptions identified from domestic jurisdictions			
1.1	Snowbirds/ holiday home	Primary residences owned by snowbirds are exempt from the tax	Toronto
1.2	Deceased owner	If the owner is deceased, the property is exempt until the estate transfer process is completed	Vancouver, Toronto, Ottawa
1.3	Large renovations	Large renovations are exempt from this tax. Note - The specific parameters around what constitutes a “large renovation” is unclear and can lead to misinterpretations, hence it would need to be clearly defined by Halton Region (See definition of large renovations used by Paris on the next page)	Vancouver, Toronto, Ottawa
1.4	Owner in Medical Care	Properties owned by an owner who is in medical care can be exempt. In Vancouver, this exemption can be applied for up to two consecutive years	Vancouver, Toronto, Ottawa
1.5	Inability to find tenant or buyer	This includes the situation where the owner could not find suitable tenant(s) for their property or the property has been listed for sale for an extended amount of time	Vancouver
1.6	Change of ownership	If the property has recently changed ownership, it is exempt for one tax cycle to accommodate the changes	Vancouver, Toronto, Ottawa
1.7	Court prohibiting occupancy	Any forms of court related orders that prohibit the owner from renting or selling the property is exempt from the tax	Vancouver, Toronto, Ottawa

*Ottawa’s exemptions are as per staff report #26 submitted in June 9 2021 available in [this link](#)

Understanding the Vacant Homes Tax | Exemptions (Cont'd)

Exemption		Definition	Municipalities that include this exemption*
Potential exemptions identified from international jurisdictions			
1.8	Furnished accommodations such as second homes	Any properties that are furnished and set up to be used as a second home are exempt from this tax. However, by declaring the unit to be a second home, it is then subject to the "Owner Tax", which is 3% of home's fair market rental value	Paris
1.9	Rezoned within the previous year	Properties that were recently rezoned by the City are exempt for one cycle before being subject to a 1% vacant land tax	Melbourne
1.10	Premises are uninhabitable	If the premise is deemed uninhabitable, the City will not charge owners the Tax	Paris
1.11	Large renovations	Renovations that are greater than or equal to 25% of the total value of the property are exempt from the tax, until renovations are completed	Paris
1.12	The unit is of low value	Any vacant properties whose market value is lower than €300,000 (approx. \$440,000 CAD) is exempt from the tax	Paris
1.13	Work purpose unit	The property is used and occupied for work purposes for at least 140 days of the year	Melbourne

Halton Region would need to finalize a set of exemptions that it may apply to owners of vacant homes, as part of the design of the vacant homes tax. Exemptions may include the ones explored in other municipalities, and may also include other occupancy categories (e.g. students, veterans etc.) as per policy decisions of the Region.

Understanding the Vacant Homes Tax | Identification

Universal declaration, supported by a complaints based system, is observed to be the most common method for identification of vacant homes

There are four major methods of identifying vacant homes as discussed below:

Suggested primary method



UNIVERSAL DECLARATION

All homeowners within the Region need to, annually, self-declare their housing status to be occupied or vacant. Failure to do so can either result in a fine, or the property will be automatically deemed vacant. This method ensures the VHT is kept top of mind if an owner's property becomes vacant in the future.

Suggested secondary method



COMPLAINTS BASED

Residents or municipal employees (e.g. waste management staff) can report suspected vacant homes. Complaints may have a higher chance of identifying non-compliant homeowners as neighbours are able to observe the unit over a longer period of time to identify trends or signs of home vacancy. However, identifying vacant units in condos would be challenge.



DECLARATION BY EXEMPTION

Only homeowners of vacant units will be required to self-declare property vacancy. All other homes are automatically deemed occupied and could be potentially subjected to compliance and auditing procedures.

UTILITY MONITORING

Utility monitoring is likely to be the most accurate form of identifying the property status, while requiring minimal effort from property owners. However, residents may find this method to be intrusive and may leave out properties who are not individually metered (E.g. condominium units) or not connected to the Regional utility systems (E.g. farms).

Understanding the Vacant Homes Tax | Identification (Cont'd)

Universal declaration is the only method for identification that has been employed in a Canadian municipality (Vancouver) - and has generated positive results, leading to its adoption by Toronto

Method	Advantages	Disadvantages
Universal Declaration	<ul style="list-style-type: none"> Places the onus of compliance on the homeowners as they are required to declare, on an annual basis, whether their home is vacant or occupied - and indicate if they qualify under any exemptions if their home is vacant Anticipated to have lower non-compliance rate (based on experience of Vancouver) as homeowners would be expected to submit truthful declarations 	<ul style="list-style-type: none"> Requires significant communications effort to ensure that homeowners are aware of the declaration requirements, and understand the definitions and exemptions of the vacant homes tax by-law Requires high administrative effort as the tax administration team of the municipality will have to process and validate a high volume of submissions from property owners annually
Declaration by exemption	<ul style="list-style-type: none"> Requires lower administrative effort as the tax administration team of the municipality will have to process and validate only the submissions from homeowners of vacant properties (and not owners of all homes) 	<ul style="list-style-type: none"> Requires higher investment in audit and enforcement capabilities as compliance staff would be required to assess a larger number of properties to ensure that they haven't been declared as "occupied" for the purpose of evading the tax. This places the onus of compliance on municipal staff Places additional challenges on grievance redressal mechanisms as home owners may seek to avoid tax payment or penalties by claiming lack of awareness of reporting obligations

While the associated administrative effort is higher, the Region may consider adopting the "Universal Declaration" method for identification of vacant homes, as it has been observed to generate positive results in the City of Vancouver. Over time, the Region can also digitize the declaration process thereby simplifying it for the property owner, and improving the administrative efficiency to reduce operating costs



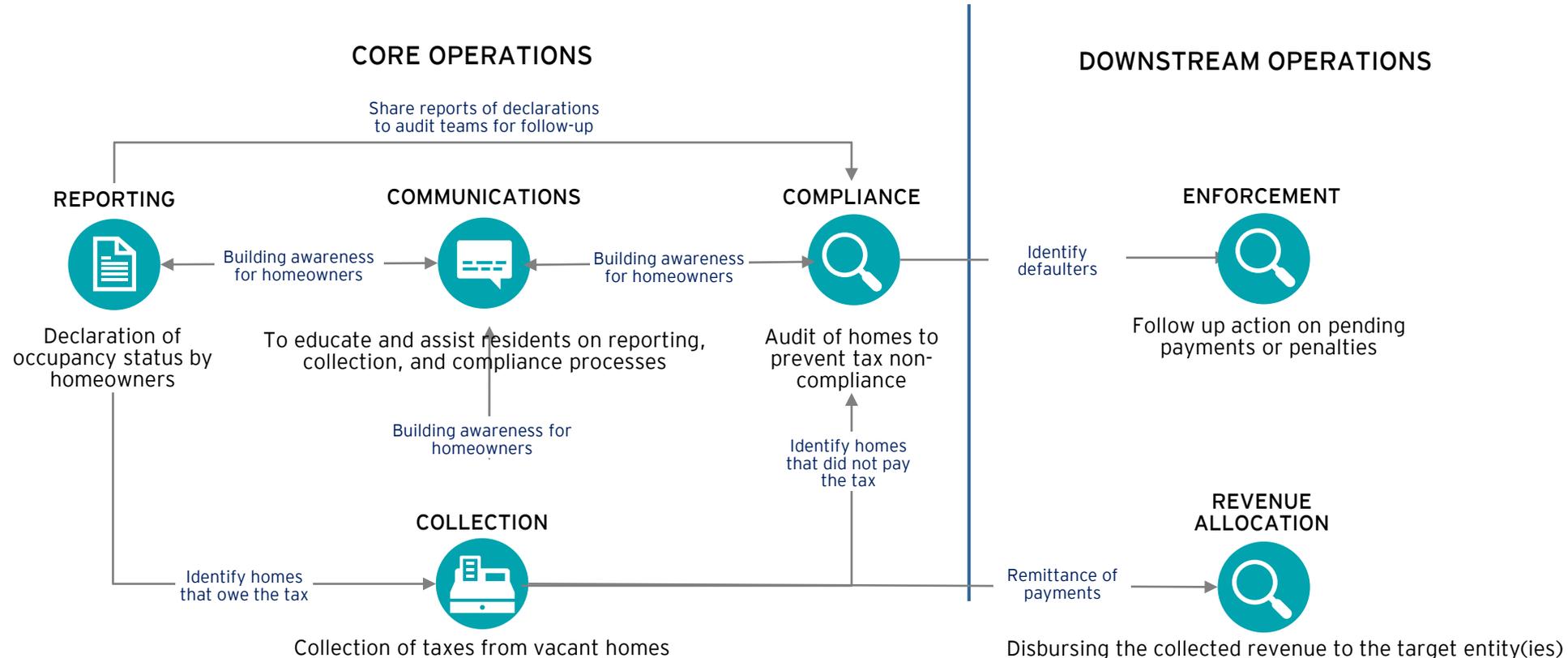
OPERATING THE VACANT HOMES TAX

"How does the Vacant Homes Tax work?"

Operating the Vacant Homes Tax | Introduction

There are several operational components of the vacant homes tax - and the Region and Local Municipalities would need to make decisions on how to allocate responsibilities for each.

Operations of the vacant homes tax can be segmented into two major groups - core operations and downstream operations - as illustrated below. This section provides information on the processes within each of these groups, and also explores various delivery model options for division of responsibilities of core operations between the Region and the Local Municipalities.



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 Local Municipalities would need to make decisions on how to delineate responsibilities associated with these processes - this will be discussed later as part of the analysis of delivery models.

	 Reporting	 Collections	 Compliance	 Communications
What is it	Process of identification of vacant homes in the Region through declarations reported by homeowners	Collection of tax revenue from vacant homes and penalties from homeowners who are non-compliant or who present fraudulent declarations	Conducting investigations to determine if a property is vacant and understand if declarations submitted by property owners are truthful	Addressing queries and grievances, and building awareness of the tax to help the public understand the scope, reporting guidelines, and compliance processes
How is it done	<ul style="list-style-type: none"> Homeowners would submit a mandatory declaration each year to indicate if their property is occupied or vacant. Declaration forms would be issued by the Region/Local Municipalities for submission through online or digital channels The Region/Local Municipalities may request for additional documentation or subject the owner to an audit if there are any concerns about the validity or accuracy of a declaration 	<ul style="list-style-type: none"> Tax collection can be done through the existing property tax collection systems at the municipalities or through a new system that is created and deployed in the Region. The collection system will need to access existing property tax assessment information to calculate the tax amount to be applied to the vacant home. The collection system would share data on homeowners that have defaulted on their payments/penalties with the audit and compliance team 	<ul style="list-style-type: none"> Compliance teams will audit properties to ensure the status of occupancy declared by the homeowner is valid. Audits may be done through a combination of the following techniques - random audits, risk-based audits, and complaint-based audits (discussed in detail in the following pages) Compliance teams would escalate instances of non-payment of the tax/penalties for enforcement actions 	<ul style="list-style-type: none"> The Region, and Local Municipalities, would need to utilize existing communication channels, both physical (e.g. notices) and digital (e.g. website, social media), to spread awareness about the Vacant Homes Tax The Region, or the Local Municipalities, would need to equip their customer service agents to handle queries from homeowners, address grievances, and escalate complaints related to the Vacant Homes Tax.

Core Operations | Compliance Processes

Developing methods to assess if the stipulations in the Vacant Homes Tax by-law are being adhered to and prevent revenue loss

The compliance processes help the Region identify potential cases of non-compliant vacant homes situations. Compliance teams would scrutinize homes that were declared to be occupied or applied for exemptions under the vacant homes tax, and/or investigate complaints lodged by residents. Based on the jurisdictional scan and desktop research, three identified compliance mechanisms are discussed below:

Random Audits

The compliance team will randomly audit units that were self-declared to be occupied to ensure the declaration was correct

- Pro**
1. Encourages compliance and proper declaration as the owner can, at anytime, be audited, and face fines for non-compliance
 2. Increases the number of audited units as there is a dedicated team that is responsible for auditing, potentially lowering non-compliance

- Cons**
1. More expensive to implement as it will require hiring full-time compliance auditors and require customized auditing processes and systems
 2. May be seen as intrusive by the public

Risk Based Audits

The compliance team uses judgemental sampling methods to select units for inspection based on defined risk parameters so that audit resources are dedicated to high risk areas, rather than casting a wide net across all homes

1. Allows audit teams to select homes which are considered to be of special audit interest based on risk-profiles (e.g. same exemption criteria declared for multiple years)
2. High potential for digitization and streamlining through the use of analytics as more information on non-compliance trends become available

1. High reliance on the professional judgement of auditors which can be developed only after a reasonable amount of historical information is available to determine high risk areas
2. Presents risks of bias against various communities

Complaints Based

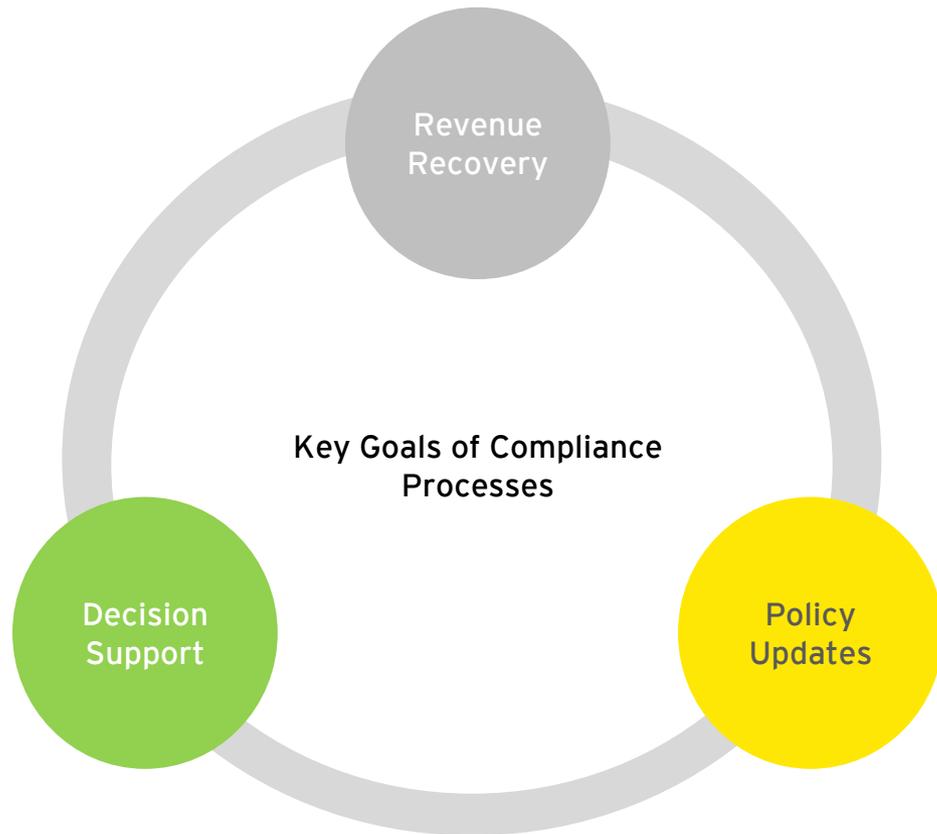
The compliance team would only investigate units that are suspected to be vacant by neighbours, or Regional/City service staff (e.g. waste management staff) who observe the lack of inhabitation at an address

1. Easier to implement, as it does not require a dedicated audit team since only complaints are investigated (can be done by by-law officers)
2. Cheaper to implement as an online form or existing call centres can be leveraged to intake complaints

1. May not have a large uptake if neighbours are not keen to report vacancy
2. May not achieve the goal to increase total housing supply if owners do not believe they will be audited
3. Pushes onus of ensuring compliance onto residents instead of the Region

Core Operations | Compliance Processes (Cont'd)

While the key objective of compliance and audit processes is to help the Region and the municipalities avoid revenue loss/leakage, there are secondary goals that help strengthen the effectiveness of the Vacant Homes Tax program.



Revenue Recovery

- The compliance processes help audit staff validate the occupancy status submitted by homeowners to prevent cases of tax non-compliance
- Occupancy status may be validated through a review of documents submitted by the homeowner in response to the audit request, or by physical verification of the property (after issuing advance notice to the homeowner)
- Audit of occupancy status helps prevent revenue leakage and encourages homeowners to submit truthful declarations as they, at any time, can be audited

Decision Support

- Findings from the compliance processes would help in the development of a data repository that helps the audit team identify key trends in tax non-compliance (E.g. fraudulent or expired tenancy agreements), and develop a risk-based framework for audits

Policy Updates

- Compliance processes would enable the Region identify key loopholes in the Vacant Homes Tax by-law through which homeowners attempt to avoid paying the tax
- The Region would then be able to enact amendments to the by-law to address these loopholes to the extent that it is feasible to do so, thereby strengthening the Vacant Homes Tax by-law to pre-empt and prevent cases of non-compliant owners

Downstream Operations | Enforcement Processes

Enforcement activities are critical in reinforcing the compliance processes and avoiding revenue loss to the Region

Enforcement is a follow-up to the compliance processes discussed earlier, and is necessary when the resident is found to be non-compliant in the auditing process, and if the resident refuses to pay the penalty amount, despite multiple notifications. In such cases, there are three enforcement methods that can be leveraged by the Region and the local municipalities to collect any outstanding dues. These are discussed below:

1. Adding the Vacant Homes Tax and penalty amount to bill

If the owner is found to be non-compliant through the auditing process and refuses to pay associated fines despite reminders (e.g. collection letters, telephone contact, etc.), the Vacant Homes Tax amount and fine would be added onto the property tax bill, along with any additional penalty or interest

2. Third Party Collection

If the owner of the property does not pay the full property tax bill inclusive of the vacant homes tax penalty that was added to the original tax amount, third party services (collection agencies) including a bailiff may be engaged to expedite collection

3. Tax Arrears Certificate

If the owner of the property does not pay the owed amount despite bailiff action, a Tax Arrears Certificate may be registered against the property under section 371 of the Municipal Act, and the property can be advertised for foreclosure if arrears are not paid within one year of registering the Tax Arrears Certificate

The above enforcement steps are already in place at the lower-tier municipal level for non-payment of property taxes. Also, as per the Municipal Act (Part I Section 2.1 and Section 3, Part XI Section 400 (d) and (e)), priority lien status can be accorded to the vacant homes tax. However, some Municipal systems may face issues regarding the total number of line-items allowed on a property tax bill, and upgrades to the collection system will need to be in place to ensure the enforcement penalties can be levied through property taxes

Downstream Operations | Allocation of Net Revenue

Net revenue may be allocated to the Region to be invested in assisted housing programs as the enabling legislation for the vacant homes tax was introduced as part of Ontario's Fair Housing Plan

Consultations with stakeholders from the Ministry of Finance (Government of Ontario), who were responsible for developing the Vacant Homes Tax legislation, indicated that there is no legislative mandate or restrictions on how the Vacant Homes Tax revenue should (or not) be used. Hence, a decision would need to be made if revenue from vacant homes is utilized for general revenue purposes or distributed for homelessness and assisted housing initiatives. These options are listed below:

1 Revenue allocated for Assisted Housing

- Presently, housing programs requiring investments are predominantly delivered at the Regional level, with local municipalities involved only in policy tools and strategies
- The Region receives the net revenue from the vacant homes tax in each of the municipalities, and the revenue would be allocated towards assisted housing programs and priorities outlined in the Comprehensive Housing Strategy 2014-24 and the Portfolio Approach outlined in the Region's Report # LPS84-21/SS-25-21
- The Region would need to introduce a policy/guideline to help determine how investments in assisted housing are allocated for programs in each lower tier municipality based on need.

2 Revenue allocated for General Purposes

- The Region or local municipalities would retain the net revenue raised from the vacant homes and allocate the same for general purposes identified in the operating budget
- Allocation of revenue to general purposes may create challenges with public communications and outreach as there may be a negative reception towards the tax if the proceeds aren't tied to a tangible social goal

While the Province has not indicated any restrictions on how the net revenue may be utilized or allocated within the legislation, it has been directed towards assisted housing initiatives in other jurisdictions. Hence, if the Region allocates the Vacant Homes Tax towards general revenue purposes, it would be an outlier among Canadian municipalities. Allocation of revenue towards assisted housing may also facilitate the approval process of the by-law when submitted for Ministerial assent to the Province

Delivery Model Options

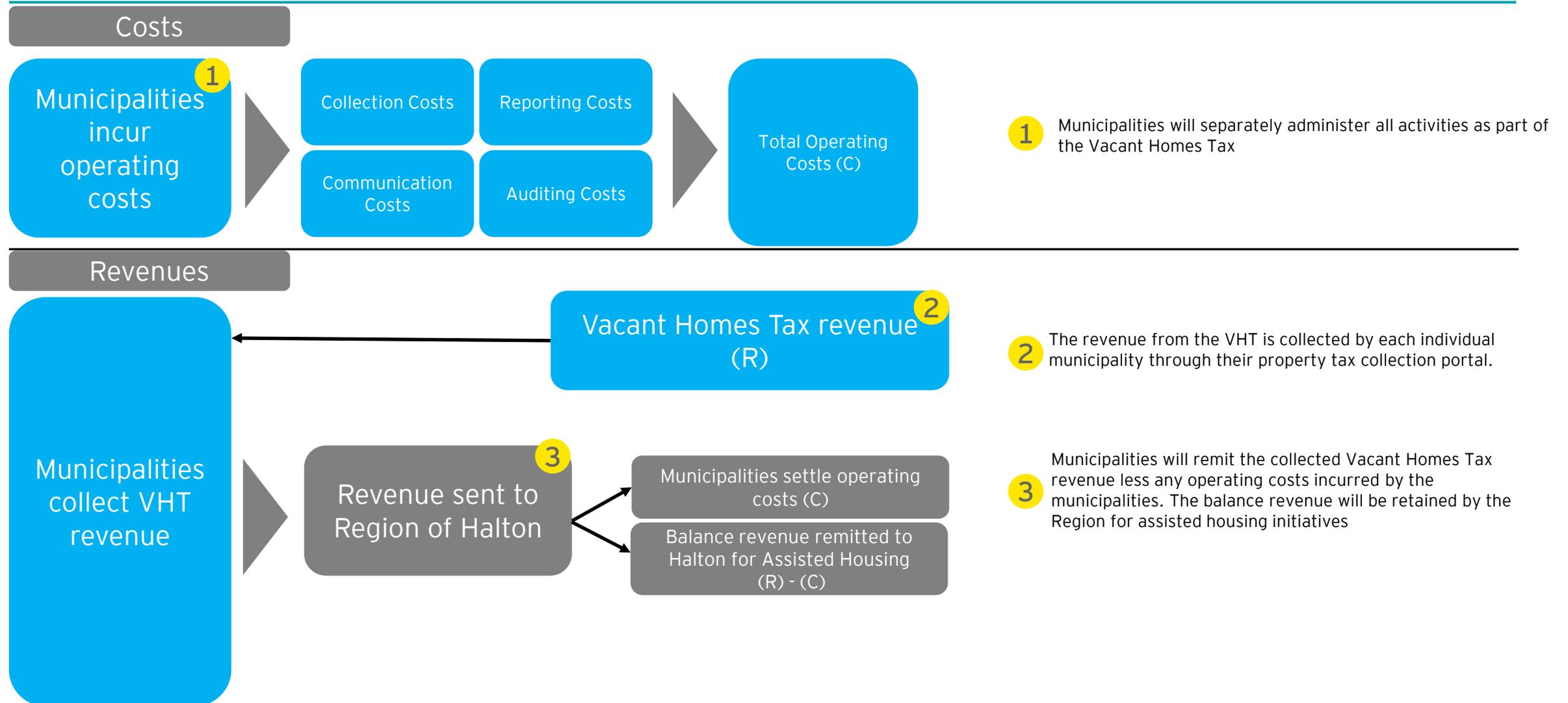
Developing delivery options that cater to the two-tier municipality system by delineating responsibilities between the entities involved

As Halton Region 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. Implementation and operational costs would change based on synergies that may exist within options. Three examples of delivery models are presented for illustrative purposes with the distribution of responsibilities shown in the table below. These options, and possibly additional options, would be considered for further review as part of a design / implementation stage.

		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		✓		✓	✓ (Requires amendments to Municipal Act)	
	Auditing: Auditing and compliance functions		✓	✓		✓	

Option 1: Municipal Delivery | Flow of Responsibilities

The municipal delivery model assigns full responsibility of core operations to each of the Local Municipalities



Option 1: Municipal Delivery | Summary

The municipal delivery model leverages existing infrastructure and processes for tax collection, but may lead to duplication of costs and increased staffing levels if audit and customer service responsibilities are decentralized

HOW IT WOULD WORK

- ▶ The Local Municipalities would be responsible for all the operational activities for the Vacant Homes Tax - This includes administering the reporting forms for self-declaration, collecting taxes, managing the audit processes, and delivering communications/customer service
- ▶ The municipalities may leverage existing property tax collection systems to assess, impose, and collect a vacant homes tax on properties that have been declared as vacant by the homeowner. The municipalities may also leverage existing enforcement mechanisms to collect owed revenue
- ▶ If the net revenue is to be allocated to the Region, the municipalities would settle their internal operating costs from the collected revenue, and remit the balance to the Region.

WHAT WOULD NEED TO CHANGE

PROCESS CHANGES

Design self-declaration forms and implement a reporting process for home-owners

Design reporting mechanism to assess the status of declarations and collections and identify arrears

Implement process changes to existing enforcement mechanism to collect tax arrears from vacant homes

Upskill existing customer service staff to manage queries about the vacant homes tax

Municipal Responsibility

TECHNOLOGY CHANGES

Implement a portal for collecting information on the declaration of occupancy status

Implement upgrades to the existing property tax collection system to include a module for the vacant homes tax

Implement systems to facilitate the audit and compliance process including status tracking

Implement systems to streamline the response process for audited homeowners to submit proof of occupancy or exemptions

Regional Responsibility

WHAT ARE THE RISKS

- ▶ Varying timelines for implementation of the proposed changes and roll-out of the vacant homes tax, as each municipality may have different project timelines
- ▶ Potential for duplication in staffing levels for audit and enforcement teams as each municipality would have to have its own group of compliance officers
- ▶ Lack of standardization in reporting and collection processes, unless the processes are jointly designed
- ▶ Inconsistencies in customer service due to varied interpretations or applications of the by-law

HOW MUCH IT WOULD COST*

ONE TIME COSTS

\$3.9M

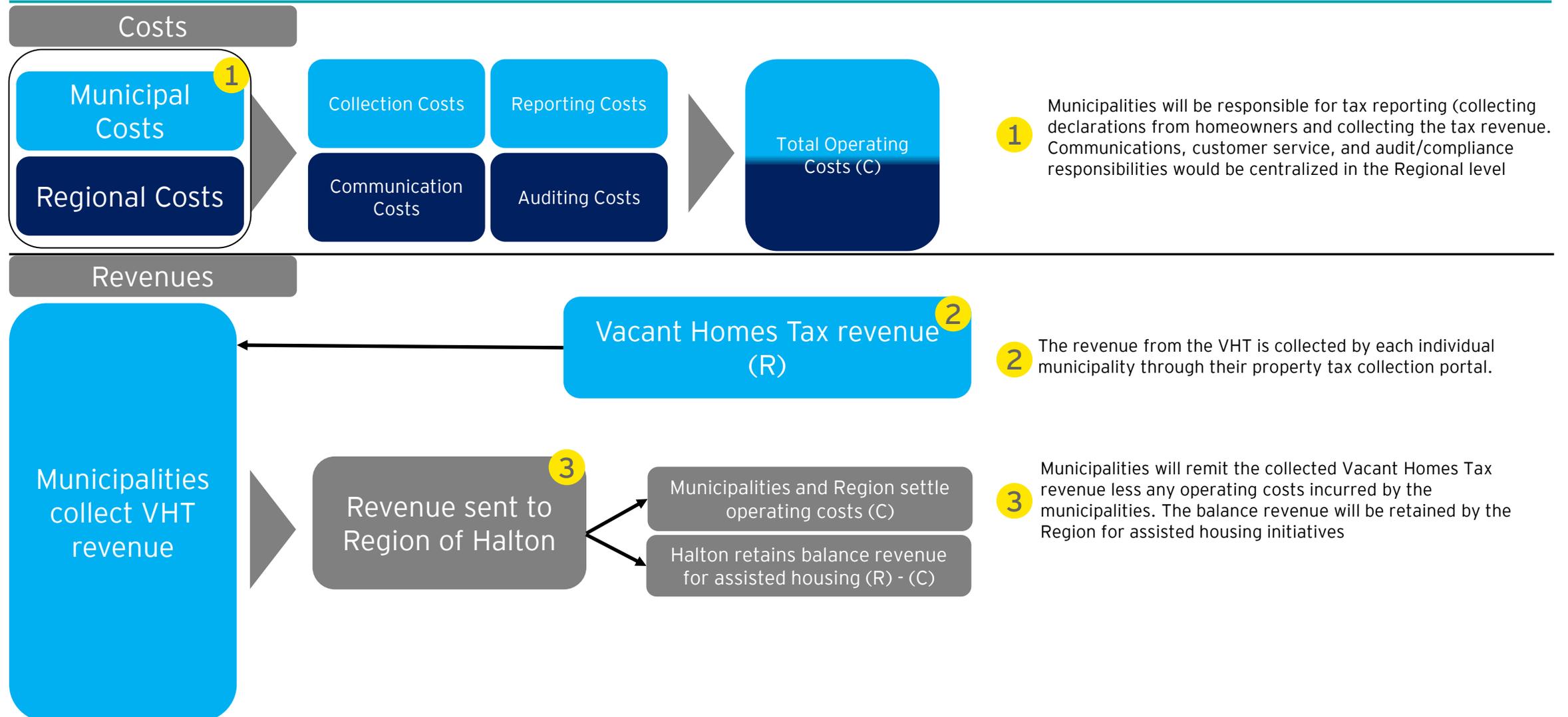
ONGOING OPERATING COSTS

\$1.9M

*Detailed cost calculations are provided in the financial analysis section

Option 2: Hybrid Delivery | Flow of Responsibilities

The hybrid delivery model assigns reporting and revenue collection responsibilities to the municipalities, in order to leverage existing property tax collection systems - while centralizing audit and customer service/communications responsibilities in the Regional level



Option 2: Hybrid Delivery | Summary

The hybrid delivery model seeks to eliminate duplication of effort for audit and customer service, while leveraging existing infrastructure and processes at the municipal level for tax collection

HOW IT WOULD WORK

- ▶ The Local Municipalities would be responsible for managing the reporting forms for self declaration, and collecting the tax from owners of Vacant Homes. The Region would be responsible for overseeing audit and compliance activities, and managing customer service for the residents
- ▶ The municipalities may leverage existing property tax collection systems to assess, impose, and collect a vacant homes tax on properties that have been declared as vacant by the homeowner.
- ▶ If the net revenue is to be allocated to the Region, the municipalities would settle their internal operating costs from the collected revenue, and remit the balance to the Region.
- ▶ While the Region would be responsible for auditing homes, it would coordinate with the municipalities to collect arrears using existing enforcement tools

WHAT WOULD NEED TO CHANGE

PROCESS CHANGES

Design self-declaration forms and implement a reporting process for home-owners

Design reporting mechanism to assess the status of declarations and collections and identify arrears

Implement process changes to leverage municipal enforcement tools for collection of tax arrears

Upskill existing customer service staff to manage queries about the vacant homes tax

Municipal Responsibility

TECHNOLOGY CHANGES

Implement a portal for collecting information on the declaration of occupancy status

Implement upgrades to the existing property tax collection system to include a module for the vacant homes tax

Implement systems to facilitate the audit and compliance process including status tracking

Implement systems to streamline the response process for audited homeowners to submit proof of occupancy or exemptions

Regional Responsibility

WHAT ARE THE RISKS

- ▶ Requires significant integration efforts between existing (and new) systems and processes in the Region and the municipalities to facilitate information sharing on tax payment status, arrears, status of enforcement actions etc. Breakdown in information sharing may lead to lost revenue
- ▶ Potential for duplication of effort if audit and compliance teams in the Region are unable to effectively pursue enforcement actions due to lack of support at the municipal level
- ▶ Creates multiple points of contact for the resident for resolution of queries and grievance redressal

HOW MUCH IT WOULD COST*

ONE TIME COSTS

\$3.3M

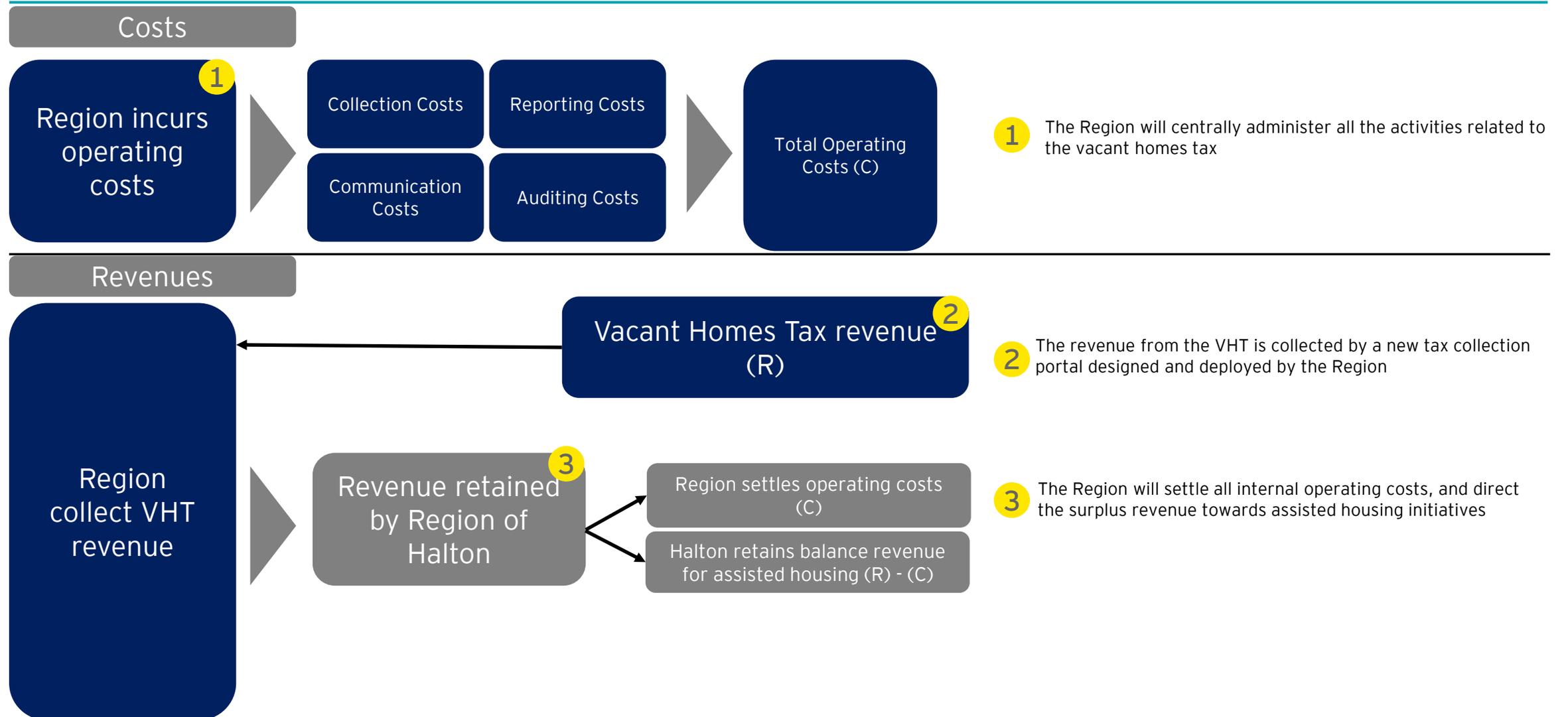
ONGOING OPERATING COSTS

\$1.8M

*Detailed cost calculations are provided in the financial analysis section

Option 3: Regional Delivery | Flow of Responsibilities

The regional delivery model assigns full responsibility of core operations to Halton Region



Option 3: Regional Delivery | Summary

The regional delivery model involves full centralization of all processes - however the Region would still rely on the municipalities to obtain data on property assessment values, and to conduct follow-up on enforcement actions, thus requiring continued collaboration

HOW IT WOULD WORK

- ▶ The Region would be responsible for all the operational activities for the Vacant Homes Tax - This includes administering the reporting forms for self-declaration, collecting taxes from vacant homes, managing the audit processes, and delivering customer service
- ▶ The Region would need to create a separate tax collection system, or enhance the functionality of existing fee collection systems (e.g. utility fee systems) to assess, impose, and collect a vacant homes tax on properties that have been declared as vacant by the homeowner. The Region would also need to create an audit and compliance team which would identify cases of non-compliance and work with the municipalities to initiate enforcement actions
- ▶ If the net revenue is to be allocated to the municipalities, the Region would settle its internal operating costs from the collected revenue, and remit the balance to the municipalities in the same proportion as it was collected (i.e. taxes from vacant homes in Oakville would be remitted to Oakville)

WHAT WOULD NEED TO CHANGE

PROCESS CHANGES

Design self-declaration forms and implement a reporting process for home-owners

Design reporting mechanism to assess the status of declarations and collections and identify arrears

Implement process changes to leverage municipal enforcement tools for collection of tax arrears

Upskill existing customer service staff to manage queries about the vacant homes tax

Municipal Responsibility

TECHNOLOGY CHANGES

Implement a portal for collecting information on the declaration of occupancy status

Implement upgrades to the existing property tax collection system to include a module for the vacant homes tax

Implement systems to facilitate the audit and compliance process including status tracking

Implement systems to streamline the response process for audited homeowners to submit proof of occupancy or exemptions

Regional Responsibility

WHAT ARE THE RISKS

- ▶ Requires extensive legislative changes as the Municipal Act (Part X - Sections 340, 343, and 345) allows only the local municipalities to collect taxes, and not the Region
- ▶ Requires large upfront investments in building a new tax collection system. The system would also need to be integrated with the property tax collection systems at the municipal level in order to conduct enforcement follow-up for non-payment
- ▶ Significant integration efforts between existing (and new) systems and processes in the Region and the municipalities to facilitate information sharing on taxation amount, arrears, status of enforcement actions etc.
- ▶ New systems developed in the Region to collect taxes may be redundant if the Vacant Homes Tax program is wound down, leading to sunk costs

HOW MUCH IT WOULD COST*

As indicated above, this option would require extensive and time-consuming legislative changes, that are beyond the control of the Region, thereby rendering it improbable to implement. Hence, detailed costing has not been done for this option.

Delivery Model Options Compared

The regional delivery model may provide efficiencies through centralization, and lower implementation costs, however it presents a number of unknowns related to the complexity of creating a new tax collection system in the Region

A high level summary of the delivery model options discussed earlier is presented below. Based on the findings, the Region may consider exploring the hybrid delivery option in order to leverage synergies of existing systems and processes (e.g. payment collection systems), while avoiding duplication of effort through centralization of staff wherever possible (e.g. audit and enforcement staff)

	Municipal Delivery	Hybrid Delivery	Regional Delivery
Pros	<ol style="list-style-type: none"> Existing property tax portals may be upgraded to add a new module to collect taxes for Vacant Homes. Existing by-law capabilities may be used for compliance monitoring to decrease implementation and operational costs 	<ol style="list-style-type: none"> The Region can rely on the municipalities to collect the vacant homes tax by upgrading their existing property tax system Synergies may be realized by centralization and standardization of audit teams Centralizing communications in the Region also facilitates consistency of messaging 	<ol style="list-style-type: none"> No duplication of effort is required as all tasks are centralized within one area If the net financial benefit is used towards assisted housing initiatives, Halton can internally settle up costs and disperse funds towards assisted housing projects directly As communication is handled in the Regional level, information given to the public can be standardized
Cons	<ol style="list-style-type: none"> Potential duplication of effort and higher staffing levels as each municipality would need to have separate tax administration and enforcement teams Procedures related to assessing exemptions, addressing grievances etc. may be varied leading to lack of standardization Communication to the public on the vacant homes tax may be inconsistent due to different procedures and standards followed in the contact centres of each municipality 	<ol style="list-style-type: none"> Creating multiple points of contact may lead to confusion among residents regarding steps for grievance redressals, assessing exemptions etc. Significant collaboration would be required between the Region and the municipalities to implement streamlined processes for audits and customer service The Region may have to create a new compliance and enforcement team as those capabilities currently do not exist in the Region 	<ol style="list-style-type: none"> Requires provincial legislative changes to the Municipal Act which could be time-consuming and entail significant lobbying efforts The Region will need to build a new collection system to process taxes from owners of vacant homes. This may lead to significant start-up costs. The Region may have to create a new compliance and enforcement team as those capabilities currently do not exist within the Region
Costs	One time - \$3,901,220 Ongoing - \$1,959,470	One time - \$3,300,445 Ongoing - \$1,814,894	Costs for this option were not assessed as it was deemed to be improbable to implement due to the complexity of legislative changes required, and the low likelihood of provincial support.

Vacant Homes Tax Operations | Summary of Findings

While decisions on delivery models can be finalized based on operational feasibility, it is recommended that net revenue is allocated to the Region for Assisted Housing initiatives as the enabling Provincial Legislation was introduced as part of the Ontario Fair Housing Plan

Key takeaways from the analysis of processes to operate the vacant homes tax are summarized below



Feasibility of methods to identify vacant homes

- Based on the experiences of municipalities that have implemented the Vacant Homes Tax, self declaration may be the most appropriate mechanism for identifying vacant homes in the Region
- Other methods (e.g. utility monitoring) may lead to privacy concerns, have legislative barriers, or not be comprehensive enough to cover all types of homes in the Region



Division of responsibilities for implementation and delivery of the vacant homes tax

- Decisions on delivery models may be made in a manner that enables the Region and Local Municipalities to leverage existing systems and processes and reduce duplication of effort
- Additional processes, and resources may be required for audit and compliance processes, as existing by-law staff may not have the capacity to conduct audits of homes to verify if the occupancy status quoted through self-declaration is correct



Objectives for the revenue raised

- The Region and the Local Municipalities would need to agree-upon, and clearly articulate the objectives for the revenue before developing the vacant homes tax by-law. This is required for public communications so the public know the rationale for the tax, and what the revenue would be utilized for, and for the submission to the Ministry of Finance for the approval of the by-law
- It is recommended that revenue generated from vacant homes is allocated towards assisted housing initiatives so that the Region's policy is consistent the objectives of the enabling legislation from the Province.



FINANCIAL ANALYSIS

"How much revenue can be expected from the Vacant Homes Tax? And at what cost?"

Financial Analysis - Overview

Financial analysis was conducted using a combination of data provided by the Region, observations from case studies of vacant homes tax implementations in Canada, and assumptions validated with the Region's project team

In order to estimate the feasibility of the Vacant Homes Tax in Halton Region, a high-level quantitative analysis was conducted to understand the potential budgetary impact to the Region and the Local Municipalities. The analysis comprised of two components:



- Revenues from the Vacant Homes Tax would come from two sources:
 - Tax Levy - Revenue earned from homeowners who declare/report their homes to be vacant
 - Audit Revenue - Revenue from homeowners who have been found to be non-compliant or fraudulent in their declaration/reporting and are charged a penalty



- These costs incurred for implementing a vacant homes tax falls under two categories:
 - One Time Costs - Upfront costs associated with implementing the tax (e.g. software costs to upgrade tax collection systems)
 - Ongoing Costs - Ongoing costs associated with operating the tax (e.g. salaries of compliance and audit staff)

This section provides details of the data sources, methodology, and assumptions for the financial feasibility analysis conducted to determine the financial impact of implementing the vacant homes tax.

Financial Analysis - Methodology

EY's modelling exercise provides 10-year estimates for revenues, operating costs, implementation costs, and impacts on housing supply and affordability.

Model Overview

Revenue Model

- ▶ Estimating vacancy rates, and eligible number of vacant homes;
- ▶ Estimating direct revenues from the VHT;
- ▶ Estimating penalty revenues; and,
- ▶ Performing sensitivity analysis with respect to key parameters

Cost Model

- ▶ Developing models for two scenarios depending on which entity carries out certain functions
- ▶ Identifying relevant cost line items and estimating the dollar value of those line items

Key Parameters

- ▶ Vacancy Rate
- ▶ Eligible Vacant Homes
- ▶ Tax Rate
- ▶ Annual Behavioral Response Rate (ABRR)*
- ▶ Penalty Revenue
- ▶ Growth Rate of Housing Supply

Revenue Model Details

The revenue model calculates revenues from two separate sources:

VHT Revenue Sources

Tax Levy

Vacancy Rate

Calculated using water consumption for detached homes extrapolated to other home types using assumptions

Eligibility Vacant Units

Calculated using eligibility ratio based on City of Vancouver data which segments eligibility ratios for occupancy types

Assessed Home Values

Assessed home values are based on reassessments occurring every four years, with changes being phased in gradually during the cycle

Penalty Revenues

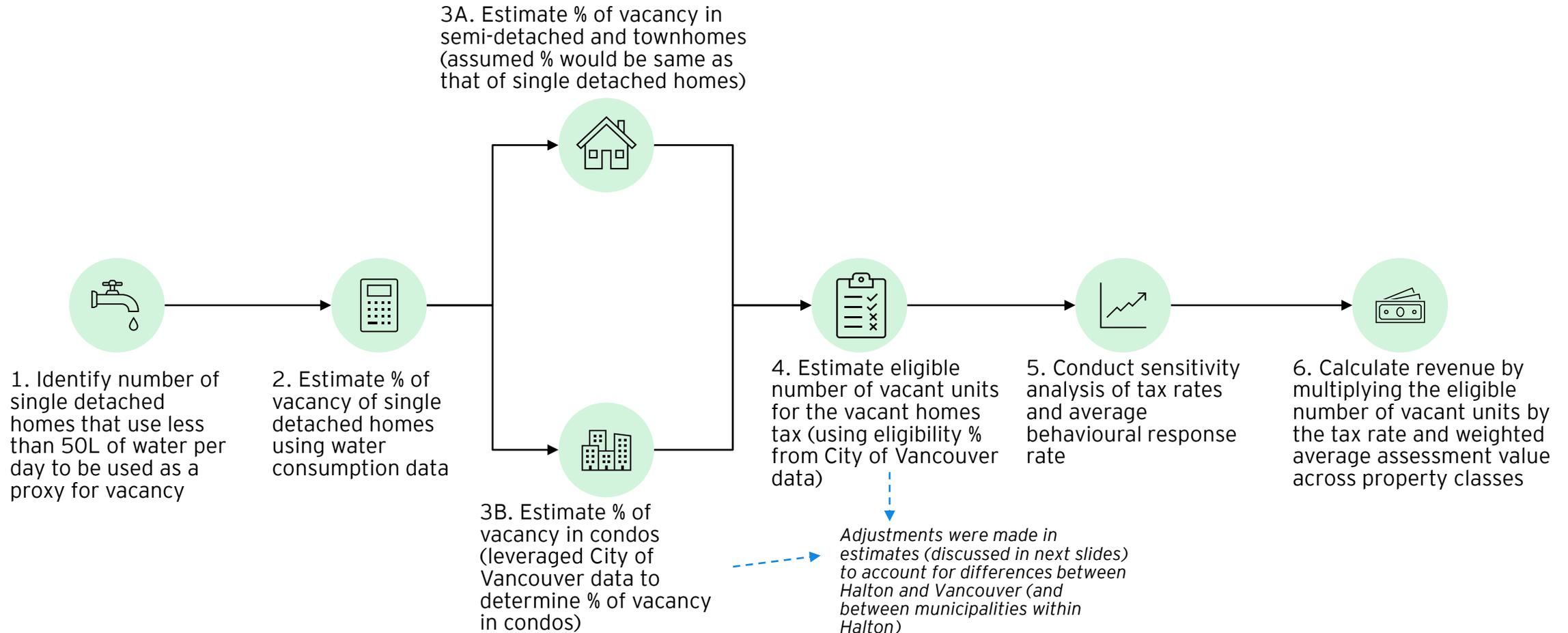
Penalties

Estimate revenues from penalties associated with audit activity to maintain integrity of the tax system

*Percentage of vacant homes that are released to the rental supply as a result of the vacant homes tax

Financial Analysis | Revenue Estimation - Illustrated

The process of estimating revenue from vacant homes - using water consumption data as a proxy for vacancy is illustrated below. To be conservative, a threshold of water consumption of 50L/day was used as an indicator for vacancy rates.



Financial Analysis | Revenue Estimation | Assumptions*

In order to develop financial estimates using limited data, we had to leverage assumptions based on observations from the vacant homes tax implementation in other jurisdictions

Vacancy Rates:

- ▶ Vacancy rates for single detached units were calculated using the Region's data on water consumption levels, applying a threshold of 50L/day of water usage as a determinant for vacancy in a house. Water consumption data is not available for most semi-detached units and townhouses, however, we assume the vacancy rate would be identical to single detached homes, hence the same vacancy rate was applied to these units
- ▶ For condos, the City of Vancouver was used as a proxy to estimate the proportion of total vacancies in condos to detached homes

Note - While Government of Canada estimates the average water consumption per person in a household to be at least 250 L/day, we have applied a very low threshold of 50 L/day for conservatism - This estimate is expected to address differences in water usage in homes based on demographics (e.g. water consumption may be lower in homes with elderly individuals) and other factors (e.g. energy and water conserving/conscious households)

Eligible Vacant Units:

- ▶ Used the City of Vancouver data to determine eligibility ratio of vacant units, since the same exemption/eligibility criteria applied by Vancouver was found to be acceptable for the Regional Municipality of Halton during stakeholder consultations

Penalties:

- ▶ Assumed the ratio of tax levy revenue and penalty revenues is similar to the City of Vancouver's, under the assumption that the jurisdictions may have similar rates of non-compliance and penalties

Growth Rates:

- ▶ Assumed that historical growth rates of housing supply would hold constant into the future

Assessed Values of Housing Units:

- ▶ The assessed value for the purposes of determining a tax base was derived from MPAC Assessment Values as of 2016. A year-over-year growth rate of 1.7% was applied to the assessment values based on inputs from the Region's project team.

Sensitivity Analysis:

- ▶ A sensitivity analysis was performed by varying the tax rate on VHT from 0.5% to 3%, and varying the annual behavior response rate (% of vacant homes placed on the market for sale or rent) from 3.5% to 7%

* Detailed assumptions are provided in Appendix 2

Financial Analysis | Revenue Estimation | Overview of Methodology and sources

Parameter	Description	Estimation Methodology and Sources
Vacancy Rate	The number of homes (condos, detached, semi-detached/townhouses) that are expected to be vacant in the Regional Municipality of Halton	<p>Detached Homes - Water consumption data with a cut off of 50L/day representing vacant homes</p> <p>Semi-Detached/Townhouses - Water consumption data not available for these units - assume a similar vacancy <i>rate</i> as detached homes</p> <p>Condos - City of Vancouver data to determine how many more condos are vacant when compared to detached homes, while adjusting for differences in demographics, housing composition, and speculative activity</p> <p>[Source: Data obtained from Region of Halton and City of Vancouver Annual Report]</p>
Housing Supply	The number of homes by type in the Regional Municipality of Halton	[Source: Region of Halton]
Assessed Value	The estimated value of a property for the purposes of calculating the VHT owed by residents	[Sources for Housing Data: MPAC data provided by Region of Halton]
Eligible Vacant Units	The number of homes which are vacant and can be deemed eligible for collection under a VHT	<p>Use the City of Vancouver data which compiles total number of reported vacant homes and number of vacant homes which are eligible under a VHT to develop an eligibility ratio. It is assumed the eligibility ratio will remain unchanged as the two VHTs are assumed to have similar exemptions and populations identical in the reasons they would leave homes vacant.</p> <p>Eligibility ratios are separately determined for condo and non-condo dwellings.</p> <p>[Source: City of Vancouver Annual Report, 2020, Page 11 of PDF]</p>
Penalty Revenue	The revenue from penalties and fines as a result of audit activity	<p>Calculate ratio of tax levy revenue and penalty revenues from City of Vancouver data and assume similar ratio in Region of Halton under the assumption that the Regions will have similar rates of non-compliance and penalties.</p> <p>[Source: City of Vancouver Annual Report, 2020, Page 6 of PDF]</p>

Financial Analysis | Revenue Estimation | Adjustments for differences across municipalities

Assumptions for vacancy rates, eligibility ratio of vacant homes etc. were determined using statistics from the City of Vancouver. However, due to the significant differences between Vancouver and Halton Region, adjustments had to be made to certain parameters to factor in these differences. EY evaluated differences across five criteria in both jurisdictions for which data could be reliably obtained and supporting rationale could be provided for its inclusion. (Details of adjustments are provided in Appendix A)

Criteria	Rationale
Growth Rate in Market Prices	A higher growth rate in market prices may be positively correlated to increased speculative activity, which could lead to higher vacancy rates
Housing Starts	A greater amount of housing starts proxies for a greater demand for housing units in the municipality, potentially implying greater demand for speculative activity, driving vacancy rates
Housing Supply	Criteria adjusts for demographic related differences, including how urban a municipality is and the composition of housing units (e.g. municipalities with higher share of condos in the total housing supply would have a higher vacancy rate)
Population Density	
Population	

Financial Analysis | Revenue Estimation | Steps

Revenue estimates were developed through a three step process leveraging data submitted by the Region's water and housing teams, and assumptions leveraged from the City of Vancouver (adjusted wherever applicable)

The steps involved in estimating the revenue from vacant homes is discussed below:

Step 1: Estimating Number of Vacant Units based on analysis of water consumption data (low threshold of 50 litres/day) and other assumptions

Jurisdiction	Vacant Homes				
	Detached	Semi Detached	Townhouses	Condos	Total Vacant Homes
Burlington	584	46	69	352	1,051
Halton Hills	206	9	18	15	248
Oakville	1,268	70	369	319	2,026
Milton	773	142	370	92	1,377
Total Vacancy in Halton Region					4,702

Step 2: Estimating Number of Vacant Units that are eligible to pay the vacant homes tax (eligibility ratio is ~42% for condos, ~16% for other units)

Jurisdiction	Eligible Vacant Homes				
	Detached	Semi Detached	Townhouses	Condos	Total Vacant Homes
Burlington	98	8	12	145	265
Halton Hills	35	2	3	6	45
Oakville	213	12	62	134	420
Milton	130	24	62	39	255
Total Vacancy in Halton Region					985

Financial Analysis | Revenue Estimation | Steps (Cont'd)

Step 3: Estimating behavioral response to tax rates (Percentage of homes that are placed on the market for sale or rent if a certain tax rate is applied on vacant homes). The behavioral response rate was estimated using both real-world observations from the City of Vancouver (trends of homes being converted from vacant to non-vacant since the implementation of the tax), and independent literature review.

Scenario	Tax Rate	Behavioral Response Rate (% of vacant homes placed on market)
Scenario 1	0.50%	3.50%
Scenario 2	1.00%	4.00%
Scenario 3	1.25%	4.50%
Scenario 4	1.50%	5.00%
Scenario 5	2.00%	5.50%
Scenario 6	2.25%	6.00%
Scenario 7	2.50%	6.50%
Scenario 8	3.00%	7.00%

Financial Analysis | Revenue Estimation | Preliminary Results

Preliminary results obtained by EY using the approach, assumptions, and parameters discussed earlier are provided below:

Halton Overview

985 Eligible Vacant Units
(Or 0.5% of Total Housing Supply)

180,796 Housing Supply (2016)

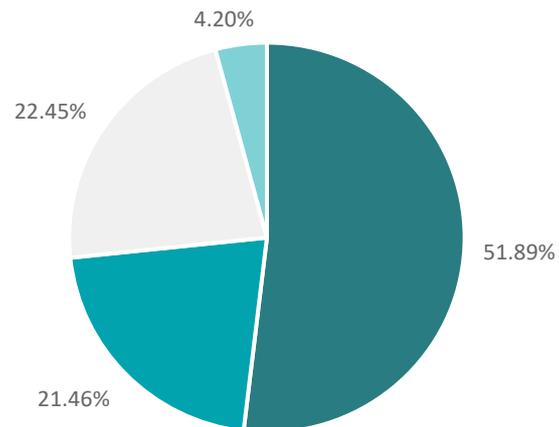
2.19% Historical Growth Rate of Housing Supply

1.7% Projected Y-o-Y Growth in Assessment Value

Key VHT Numbers

Results are for the baseline 1% tax rate and a 4.00% Annual Behavioral Response Rate over a 10 year period

Regional Generation of Gross Revenues (10-year average)



■ Oakville ■ Burlington ■ Milton ■ Halton Hills

VHT Revenue

\$6.1 Million
Average Annual Revenue

\$61 Million
10-year Cumulative Revenue

330
Reduction in Eligible Vacant Homes
(over 10 years)

(over 10 years)

Sensitivity Analysis

Tax Rate	ABRR*	Average Revenue/Year	
		Tax Levy	Penalties
0.50%	3.50%	\$2,986,394	\$157,615
1.00%	4.00%	\$5,839,250	\$308,183
1.25%	4.50%	\$7,136,616	\$376,655
1.50%	5.00%	\$8,374,234	\$441,973
2.00%	5.50%	\$10,919,491	\$576,306
2.25%	6.00%	\$12,014,934	\$634,121
2.50%	6.50%	\$13,058,523	\$689,200
3.00%	7.00%	\$15,329,927	\$809,079

*ABRR - Annual Behavioral Response Rate

Financial Analysis | One-Time Costs | Methodology

One-time implementation/start-up costs would differ based on the delivery model option chosen by the municipalities (municipal delivery or hybrid delivery) due to synergies (or duplication of effort) that may exist across different cost categories

An overview of the implementation costs and the associated assumptions and rationale is provided below.

Category	Description	Calculation Methodology and Assumptions	Estimates	Rationale
Project Team	Team responsible for overseeing the day-to-day activities related to the implementation and delivery of the project	Estimated project team size based on corresponding project team size at City of Vancouver at a cost of \$110K ¹ per team member	<ul style="list-style-type: none"> Municipal Delivery - 6 members Hybrid Delivery - 4 members 	Municipal delivery is expected to require the highest project management support due to upgrades required in four different tax collection systems. Hybrid delivery may require a smaller team due to synergies involved in overseeing the components of implementation that are centralized in the Region
Business Support	Internal or external advisors from domains such as legal, tax, regulatory policy, legislative services, and communications to provide guidance and advice for the delivery of the project	Estimated number of business support personnel required to provide guidance to the project team at a cost of \$165K ² per advisor	<ul style="list-style-type: none"> Municipal Delivery - 3 advisors Hybrid Delivery - 2 advisors 	Similar to the project management team above, the municipal delivery model may require the most business support staff due to policy and legislative changes to be made across four different municipalities
Technical Implementation Costs	Team responsible for designing, developing, implementing, and testing the upgrades to existing tax payment systems in order to collect the vacant homes tax	Used City of Vancouver implementation cost data from 2017 adjusting for differences in costs in the Region and accounting for inflation	Same costs for both delivery models - \$1.09M (expected range of +/- 20% based on complexity on implementation)	Without a detailed assessment of existing systems, and extent of changes required, it is not possible to accurately estimate the costs for upgrading the existing tax systems. Hence, costs incurred for Vancouver were used as a baseline

1 – Based on estimates from [Vancouver](#) – adjusted for inflation and differences in wages in Ontario

2 – Assumes a 50% premium on cost of project team members to account for specialized skill sets

Financial Analysis | One-Time Costs | Methodology (Cont'd)

Category	Description	Calculation Methodology and Assumptions	Estimates	Rationale
Professional Services	Costs for process re-engineering and service design for the operations of the vacant homes tax	Used City of Vancouver implementation cost data from 2017 adjusting for differences in costs in the Region and accounting for inflation	<ul style="list-style-type: none"> Municipal Delivery - \$1.4M Hybrid Delivery - \$1.2M 	Municipal delivery is expected to have the highest costs due to duplication of effort in process and service re-design across four entities. Hybrid delivery is expected to see minor efficiencies as some of the processes to be redesigned would be owned by a central entity
Infrastructure costs	Costs associated with deploying hardware (e.g. computers) and software (e.g. licenses) for the operations of the vacant homes tax	Used City of Vancouver implementation cost data from 2017 adjusting for differences in costs in the Region and accounting for inflation	<ul style="list-style-type: none"> Same costs for both delivery models - \$209K (expected range of +/- 20% based on complexity on implementation) 	Similar to technical support costs discussed earlier, the same cost is applied to both delivery models due to a lack of data of the extent on infrastructure investments

Financial Analysis | One-Time Costs | Result

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 each of the delivery model options is provided below.

Category	Cost*	
	Municipal Delivery	Hybrid Delivery
Project Team	\$0.66M	\$0.44M
Business Support	\$0.49M	\$0.33M
Technical Support	\$1.10M	\$1.10M
Professional Services	\$1.44M	\$1.22M
Infrastructure costs	\$0.21M	\$0.21M
TOTAL	\$3.90M	\$3.30M

- 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 four 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 in the Regional level, thus creating efficiencies for the project management and professional services teams
- Oakville and Burlington are undergoing a replacement of their tax collection systems. If the module for collecting a vacant homes tax is included in the requirements of the proposed tax collection system during the design phase, the municipalities may be able to reduce the costs associated with technical support and professional services.
- Note - In comparison, Vancouver's¹ one-time implementation cost was \$7.4M, Toronto's² estimated implementation cost is \$11.1M, and Ottawa's estimated implementation cost is \$3.5M

1 - Vancouver Staff Report on Amendments to Vacancy Tax By Law, June 2017

2 - Recommended Tax Design to Implement a Vacant Homes Tax in Toronto

3 - Ottawa Vacant Unit Tax Staff Report

Financial Analysis | Ongoing Operating Costs | Methodology

Ongoing costs would differ based on the delivery model option chosen by the municipalities (municipal delivery or hybrid delivery) due to synergies (or duplication of effort) that may exist across different cost categories

Ongoing costs, similar to start up costs, would differ based on the delivery model option chosen by the municipalities (municipal delivery or hybrid delivery) due to synergies (or duplication of effort) that may exist across different processes for operating the vacant homes tax. An overview of the costs and associated assumptions is given below.

Category	Description	Calculation Methodology and Assumptions	Estimates	Rationale
Tax Administration	Staff responsible for overseeing the reporting of vacant homes, and tracking and reviewing the receipt of payments from owners of vacant properties	Scaled up the tax administration staffing level at Vancouver, adjusting for the population difference	<ul style="list-style-type: none"> Municipal/Hybrid Delivery - 6 staff 	Both models would have the same staffing requirements as tax administration is done at the local municipality level
Review and Compliance	Staff responsible for conducting audits, investigating complaints, and conducting follow-up for non-reporting or non-payments	Scaled up the audit staffing level at Vancouver, adjusting for the population difference	<ul style="list-style-type: none"> Municipal Delivery - 6 staff Hybrid Delivery - 5 staff 	Assumes a 15% efficiency gain through centralization of audit and compliance staff in the Regional level in the Hybrid delivery model
Notices and Advertising	Costs associated with public awareness and outreach (e.g. advertising) and information notices to owners of vacant properties	Scaled up the annual communication costs incurred at Vancouver, adjusting for the population difference	<ul style="list-style-type: none"> Municipal Delivery - \$146K Hybrid Delivery - \$124K 	Assumes a 15% efficiency gain through centralization of administrative effort required for issuing notices and advertising through the centralization of communications in the Regional level in the Hybrid delivery model

* EY experience in shared service reviews indicate that centralization of functions lead to a 10%-15% efficiency gain

Financial Analysis | Ongoing Operating Costs | Methodology (Cont'd)

Category	Description	Calculation Methodology and Assumptions	Estimates	Rationale
IT Support and Maintenance	Costs associated with maintaining the technical infrastructure (hardware and software) placed for the operations of the vacant homes tax	Scaled up the costs incurred at Vancouver for IT support and maintenance by adjusting for volume of calls expected at the IT helpdesk by a factor of the size of the operations team	<ul style="list-style-type: none"> Municipal Delivery - \$157K Hybrid Delivery - \$134K 	Assumes a 15% efficiency gain through centralization of administrative effort for IT support in the Regional level
Customer Service	Costs associated with managing information calls and service requests (e.g. through 3-1-1 or other channels) from residents as part of the vacant homes tax	Scaled up the costs incurred at Vancouver for call centre support by adjusting for volume of calls/enquiries expected at 3-1-1/helpdesk by a factor of the size of Halton's population relative to Vancouver	<ul style="list-style-type: none"> Same costs for both delivery models - \$335K 	The same costs would be incurred for both delivery models as the driver of costs is call volume, which is a function of Halton's population, and remains constant irrespective of the delivery model

Financial Analysis | Ongoing Operating Costs | Result

Based on the currently available inputs, the Hybrid Delivery model has the lowest operational costs due to efficiencies that may be realized by centralization of functions

Annual operating costs for each of the delivery model options is provided below. The cost differences between the options are relatively minor as the cost drivers are based on the volume of outputs (e.g. number of tax notices to be processed, number of audits to conduct etc.) which do not vary between options. Differences in costs, if any, are due to administrative efficiencies through centralization of different functions.

Category	Cost*	
	Municipal Delivery	Hybrid Delivery
Tax Administration	\$0.66M	\$0.66M
Review and Compliance	\$0.66M	\$0.56M
Notices and Advertising	\$0.15M	\$0.12M
IT Support and Maintenance	\$0.16M	\$0.13M
Customer Service	\$0.33M	\$0.33M
TOTAL	\$1.96M	\$1.81M

Annual operating costs for both models (\$1.8M - \$1.9M) are lower than the expected annual revenue through a 1% tax rate (\$6.1M) and a 0.5% tax rate (\$3.1M), which indicate that the benefits of a vacant homes tax could exceed the costs of operation

Note - In comparison, Vancouver's¹ ongoing operating costs are \$2.5M, while Toronto's² and Ottawa's³ estimated ongoing operating costs are \$3.1M and \$1.3M respectively

The hybrid delivery model has the lowest annual operating costs due to efficiencies realized in the centralization of staff for various operational processes. Centralization of operations may also help in accelerating the benefits of future digitization/automation of processes (E.g. automated verification of documents for audits) thus resulting in further efficiencies.

1 - Vancouver Empty Homes Tax Annual Report 2020

2 - Recommended Tax Design to Implement a Vacant Homes Tax in Toronto

3 - Ottawa Vacant Unit Tax Staff Report



FEASIBILITY ANALYSIS

"Should the Region consider implementing the Vacant Homes Tax?"

Feasibility Analysis - Overview

This section provides an summary of the findings related to the feasibility of implementing a Vacant Homes Tax within the Region. Feasibility was assessed through a quantitative comparison of projected revenues and estimated costs (discussed in the previous section) and a qualitative evaluation of risks (developed through stakeholder consultations and learnings from Vancouver). These components are summarized below:



Net Financial Impact

Estimation of net revenue and the breakeven point (minimum number of vacant homes required in the region to recoup operating costs)



Sensitivity Of Tax Rates

Assessment of conversion ratio of homes as a result of various tax rates



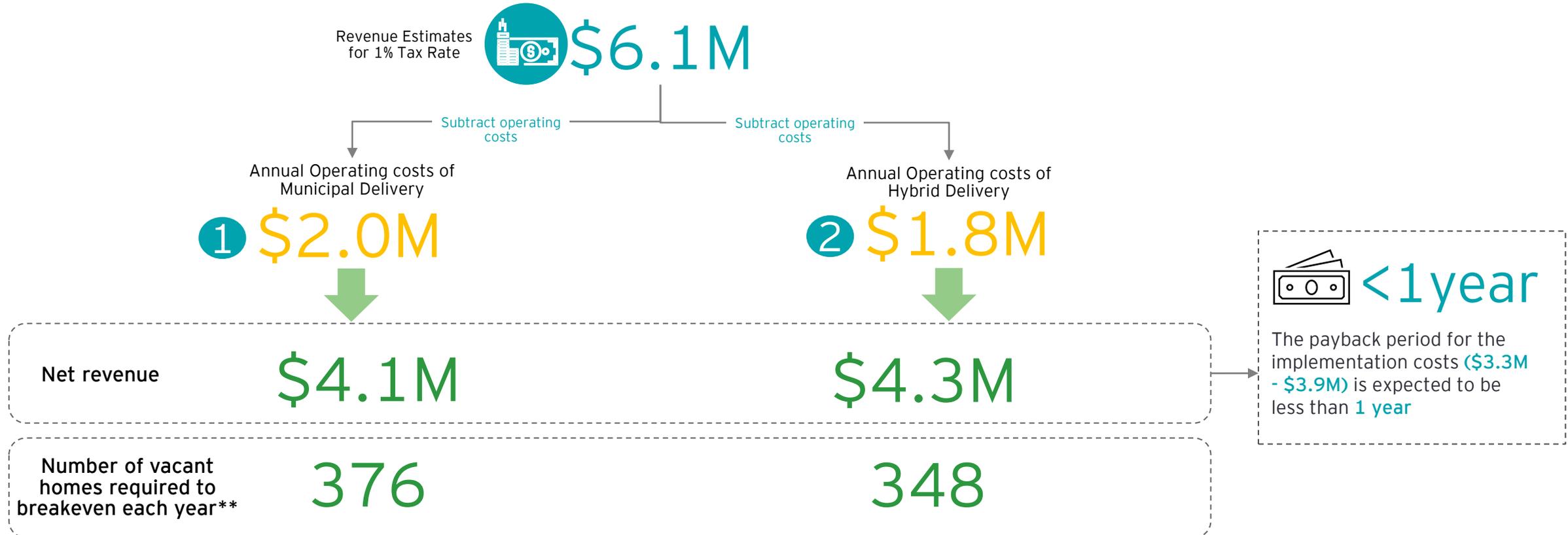
Risks

Key risks thin the Region may encounter while implementing the vacant homes tax - along with mitigation options

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 Halton Region

Findings related to the financial feasibility of implementing a vacant homes tax in the Regional Municipality of Halton is summarized below. This 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.

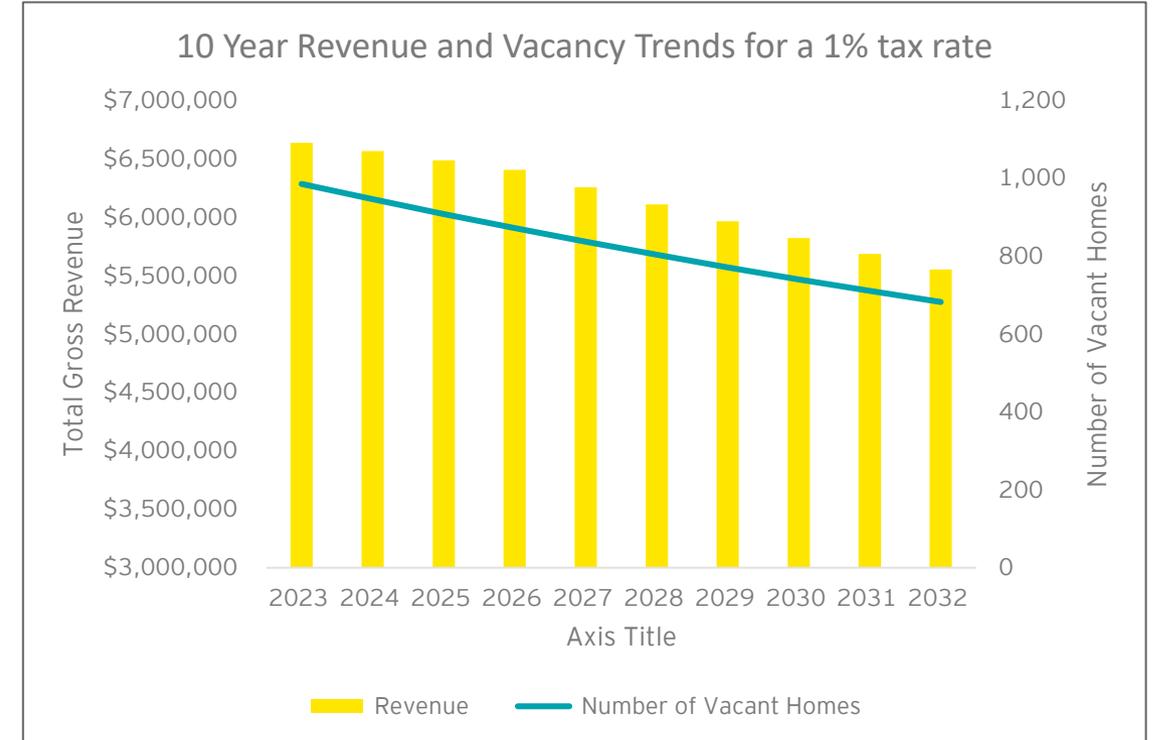
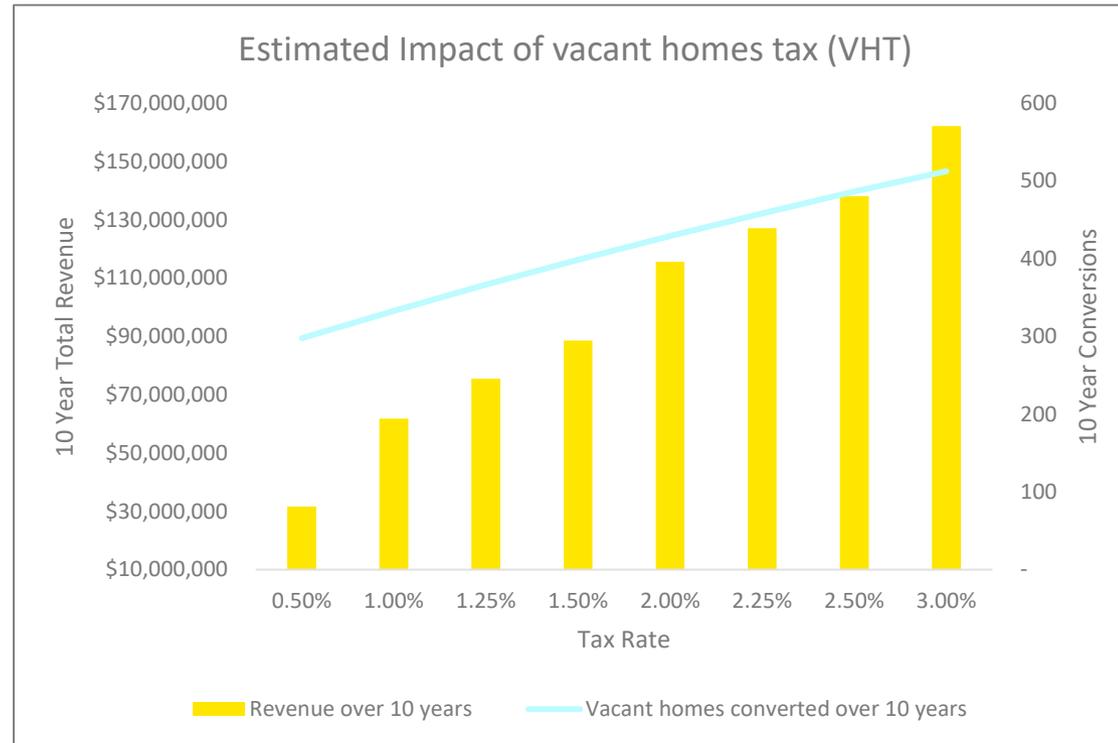
*Breakeven point is determined by the weighted average assessment value of vacant homes in the Region

**As indicated in the revenue estimates, the estimated number of vacant homes is over 900

Feasibility Analysis | Sensitivity of Tax Rates

Tax rates are expected to generate a directly proportionate impact on conversion of vacant homes to rental properties which may ease affordability by improving supply

By modeling various tax rates, and their associated behavioural response rate (% of vacant homes sold or converted to a rental property to avoid paying the tax), we estimated the revenue projections and number of vacant homes converted corresponding to each tax rate over a period of 10 years. Findings are illustrated below:



This indicates that the VHT has positive benefits including improving housing affordability by increasing the supply of homes, and utilizing the surplus revenues to support the Region's Comprehensive Housing Strategy's assisted housing programs

Feasibility Analysis | Risks

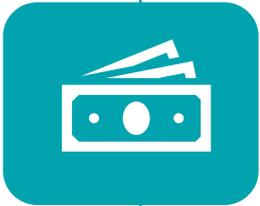
Risks identified below may be mitigated by leveraging learnings from municipalities such as Vancouver, which had implemented this tax, and had to address similar risks as part of their journey

	Lack of revenue	Systems Challenges	Process Challenges	High Non-Compliance Rates	Poor Public Reception
Risk Description	<ul style="list-style-type: none"> Revenue from Vacant Homes are inadequate to cover the implementation and operating costs of the program 	<ul style="list-style-type: none"> Technology challenges with updating vacant homes tax collection and enforcement functionalities on existing systems (e.g. property tax collection systems) 	<ul style="list-style-type: none"> Inability to implement standardized processes related to reporting, collection, and enforcement across the four municipalities thereby leading to inconsistent application of the vacant homes tax 	<ul style="list-style-type: none"> High instances on non-compliance through incorrect declarations of occupancy status or applications for exemptions 	<ul style="list-style-type: none"> Residents of Halton may not welcome the tax for varied reasons (E.g. intrusiveness, privacy concerns, disagreement with the tax as a tool for improving affordability etc.)
Mitigation Approach	<ul style="list-style-type: none"> Region to validate the findings of the feasibility study during public consultations to gauge the extent of prevalence of vacant homes in the Region prior to launching the tax Infrastructure and staffing investments to be phased in stages to assess volume of revenue prior to full-scale implementation 	<ul style="list-style-type: none"> Perform detailed systems planning in advance to identify scope and complexity of upgrades required. Engage with technology implementation teams at Toronto, Peel, and Vancouver to learn about approach and leading practices for systems enhancement 	<ul style="list-style-type: none"> Conduct detailed process mapping exercise through inclusive consultations with impacted stakeholders to identify and address potential challenges and pain points Leverage learnings from other jurisdictions like Vancouver to understand leading practices in process design to facilitate a vacant homes tax 	<ul style="list-style-type: none"> Design and implement a rigorous, risk-based, and data driven audit process that leverages learnings from Vancouver's techniques to minimize non-compliance rates without being intrusive to the public 	<ul style="list-style-type: none"> Conduct extensive public consultations to gauge the level of public support prior to making decisions about the vacant homes tax Design communications to convey benefits of the tax, along with success stories from other jurisdictions to help residents understand the social outcomes
	Legend Low Medium High				

Feasibility Analysis | Key Takeaways

Preliminary estimates based on available data and validated assumptions indicate that it is financially feasible to implement the Vacant Homes Tax in the Region.

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. Additionally revenue estimates are based on 2016 MPAC values and property counts, and are expected to be higher in reality upon completion of the next reassessment
- While upfront investment for implementing the vacant homes tax is >\$3.5M, the Region is expected to recover the investment within the first year of implementing the tax, with a tax rate of 1%



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 four 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%)
 - Declining revenues may indicate high conversion rates of vacant homes (home being put up for rent or sale), thereby requiring the Region to develop an appropriate exit strategy for the vacant homes tax (Note: Based on initial estimates, over 330 vacant homes are expected to be converted to rental properties, or sold, as a result of the tax)



RECOMMENDATIONS AND NEXT STEPS

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 Halton Region. However, prior to making decisions around the implementation of the vacant homes tax, the following steps are to be undertaken in the Region and the Local 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-engineered, 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

EY | Assurance | Tax | Transactions | Advisory

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2021 EYGM Limited.
All Rights Reserved.

1801-2543904

ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax or other professional advice. Please refer to your advisors for specific advice.

ey.com



APPENDIX A - Financial Assumptions

Assumptions | Revenue Estimates

Vacancy Rates

- ▶ Vacancy rates for single detached units were calculated using the Region's data on water consumption levels, applying a threshold of **50L/day** of water usage as a determinant for vacancy in a house.
- ▶ Water consumption data is not available for semi-detached units and townhouses, however, we assume the vacancy rate would be identical to single detached homes, hence the same vacancy rate was applied to these units.
- ▶ For condos, the City of Vancouver data was used as a proxy to estimate the proportion of total vacancies in condos
 - ▶ For the purposes of the modelling, City of Vancouver data was used due to its comprehensiveness
- ▶ As condos are a unique asset class from the perspective of investment (foreign and domestic), and there are differences within each municipality with regards to how many condos exist relative to the total number of housing units (e.g. Halton Hills has very few condos in its housing supply whereas), a number of adjustments were made to scale down the vacancy rate of condos to account for the differences between Vancouver and Halton (and between the municipalities of Halton too). The calculations of these adjustments are displayed in the slide #68

Note: The conservative estimate for water consumption is expected to inherently account for exemptions for primary residences of snowbirds. For e.g. Snowbirds have to remain in Ontario for at least 5 months in a year to maintain OHIP coverage. A daily water consumption of 50L per day amounts to a total of 18,250 litres per annum - which according to StatsCan's estimate of residential water consumption of 225 litres per day equals less than 90 days of water usage. Hence a single family snowbird household would exceed the threshold with less than 3 months of water usage and hence can be assumed to be excluded/exempted from the vacancy analysis.

Eligible Vacant Units

- ▶ Used the City of Vancouver data to determine eligibility ratio of vacant units, since similar exemption/eligibility criteria applied by Vancouver was found to be acceptable for Halton Region during stakeholder consultations
 - ▶ E.g. If City of Vancouver sees 40% of vacant units as non-exempt to the tax, then 40% of total vacant units within each municipality can be assumed to be eligible for a VHT
 - ▶ The calculations were performed based on housing unit type. E.g. an eligibility ratio for condos and non-condos was separately calculated.

Assumptions | Revenue Estimates (Cont'd)

Audit Activity

- ▶ Estimated the ratio of Vancouver's revenue from audit activity as a percentage of total revenue, and assumed Halton would have a similar ratio

Growth Rates

- ▶ Throughout the course of the analysis, growth rates needed to be calculated to estimate current or future values of key parameters
 - ▶ E.g. Housing prices during the forecast period
 - ▶ E.g. Housing supply in 2021 as the last census was conducted in 2016
- ▶ Historical growth rates were calculated for each parameter, and then are assumed to hold constant into the future
 - ▶ E.g. If housing supply grew 25% between 2001 and 2016, an annual growth rate was calculated and applied in the projections

Assessed Values of Housing Units

- ▶ The assessed value for the purposes of determining a tax base was derived from MPAC Current Value Assessments, based on the valuation date of January 1, 2016.
- ▶ Growth in assessment values was estimated to be at 1.7% year over year as per input from the Region's staff

Sensitivity Analysis

- ▶ A sensitivity analysis was performed by varying the tax rate on VHT from 0.5% to 3%, and varying the annual behavior response rate from 3.5% to 7%
 - ▶ The scenarios considered under the sensitivity analysis are developed based on the project team's experience implementing other vacant homes taxes and observations which can be derived from City of Vancouver data

Assumptions | Adjustments for differences across municipalities

- ▶ Below is a summary of the adjustments made to the vacancy rate data obtained from the City of Vancouver to account for the differences between Vancouver and Halton Region (and between the municipalities in Halton Region)
- ▶ Firstly, Vancouver was provided an index score of 100 (as a baseline reference). It was then compared to each of Halton's municipalities for the 5 criteria discussed on slide 7 that are intended to be a proxy for evaluating vacancy of homes
- ▶ The difference between Vancouver and Halton's municipalities were calculated for each of the criteria above - and these differences were used to obtain an index score for each municipality (in comparison with Vancouver's index score of 100). A weightage was assigned to each criteria as follows - Growth rate (30%), housing starts (20%), population density (20%), condo supply (20%), population (10%)
- ▶ The vacancy rate for each municipality was then determined by scaling down Vancouver's vacancy rate by the same factor of the difference between the index scores of each municipality in comparison to Vancouver (E.g. if a municipality's index score is 40, then it's vacancy rate is estimated to be 60% lower than Vancouver)

City of Vancouver					
Vacancy Index and %	Growth Rate in Market Prices (2016-2019 avg.)	Condo Housing Starts a Year (2021)	Population Density (2021)	Population (2021)	Apartments/Condos Supply (2021)
100.00					
3.7%	13.2%	2,099	5493	633,279	98,306
Burlington					
Vacancy Index and %					
41.04	12%	404	1029.5	191,172	21,433
1.52%					
Halton Hills					
Vacancy Index and %					
28.76	11.77%	0	229.5	63,387	1,363
1.07%					
Oakville					
Vacancy Index and %					
50.58	10.50%	1,589	1482.3	205,845	14,855
1.88%					
Milton					
Vacancy Index and %					
33.04	12.41%	0	395.7	143,763	6,060
1.23%					

Estimated vacancy across the municipalities is shown in the cells highlighted in yellow (Note - These are total vacancies, and not eligible vacancies for the vacant homes tax)

Source of data is internal EY research based on StatsCan and housing market analysis

Assumptions | Vancouver Cost Baseline

In order to estimate the costs for the vacant homes tax at Halton, EY leveraged publicly available information on the implementation and operating costs for the tax program in the City of Vancouver, while adjusting for:

- ▶ The two-tier nature of the Regional Municipality of Halton
- ▶ General budgetary differences, including salaries and cost of labour
- ▶ Demographic and economic differences (e.g. population)

The cost categories considered by the Project Team can be divided into implementation and operating costs. Each category is further divided into additional line items. The tables below present these line items as well as the City of Vancouver costs incurred or budgeted for an initial reference point.

City of Vancouver - Implementation costs of EHT

Cost Category	Cost
Project Team	\$800,000
Business Support	\$850,000
Technical Support	\$2,100,000
Professional Services*	\$2,750,000
Hardware and Software	\$400,000
Contingency	\$500,000
Total	\$7,400,000

City of Vancouver - First Year Operating Costs

Cost Category	Cost
Tax Administration Staffing	\$800,000
Review and Compliance Staffing	\$940,000
Notice & Advertising	\$250,000
IT Support and Maintenance	\$270,000
3-1-1- Call Centre and Maintenance	\$385,000
Total	\$2,600,000

Note: Report on Vancouver's costs can be found in [this link](#)

*Vancouver's costs for professional services doubled during the implementation phase due to challenges encountered during implementation. However, for Halton's case, we have scaled down the professional services cost baseline by 50% to align with the original estimate of Vancouver as we assume that challenges encountered by Vancouver during implementation can be pre-empted and avoided by Halton through sharing of leading practices.



APPENDIX B - Jurisdictional Scans

Jurisdictional Findings - Domestic

To help inform decisions around tax policy design, the EY team analyzed the tax structure, exclusions, tax rates, compliance methods, and, if available, results from the implementation of a Vacant Homes Tax within selected domestic and international jurisdictions. In all six jurisdictions analyzed, the policy objective and rationale behind the tax is to increase total number of units on the market and provide municipalities with revenue to tackle homelessness and housing affordability initiatives. A summary of the learnings from this scan can be found below:

	Vancouver	Toronto	Ottawa
Definition of Vacancy	6 months, each stay must be 30 consecutive days in length	Unoccupied for more than 6 months of the year	Unoccupied for more than 184 days of the year
Exclusions / exemptions	<ul style="list-style-type: none"> - Redevelopment or major renovations - Medical care (up to 2 consecutive years) - Rental restrictions or prohibition - Change of 100% of ownership during the year - Court order prohibiting occupancy - Limited use of property (e.g. property used for exclusively parking) - Death of the property owner 	<ul style="list-style-type: none"> - Property under renovation - Owner in medical care - Owner deceased - Property owned by a snowbird (must live in house for a minimum of 4 weeks every year) - Final report and tax bylaw not yet published 	Final report and tax bylaw not yet published
Tax Rate	1% in 2017, 1.25% in 2019, 3% in 2021 of total assessed property value	1% of assessed property value	1% of assessed property value
Declaration / Identification Method	Self-declaration and complaints based	Self-declaration and complaints based	Self-declaration and complaints based
Audit / Compliance Check Method	Random audit	Random audit	Final report and tax bylaw not yet published
Results	25% decrease in vacant units and \$61.3 Million in cumulative revenue as of 2017	Expected outcome to be similar to Vancouver. Estimated revenue to be \$55-65 Million in first year	Expected outcome to be similar to Vancouver. Estimated revenue to be \$6.6 Million in the first year

Jurisdictional Findings - International

	Melbourne	New York	Paris
Definition of Vacancy	Unoccupied for more than 6 months of the year	To be determined if Law is approved	Occupied for less than 3 months of the year
Exclusions / exemptions	<ul style="list-style-type: none"> - Change of ownership during the period - Property was rezoned into a residential property during the year - Property used as a holiday home (property must be occupied for at least 4 weeks of the year) - Property used and occupied for work purpose for at least 140 days of the year - Properties undergoing significant renovation or construction - Properties that form part of an estate of a recently deceased - COVID-19 exemptions to all vacant land/property's are currently in place, indefinitely 	To be determined if Law is approved	<ul style="list-style-type: none"> - Units who's vacancy is of no fault of the owner - Secondary residences of owners - Illegally occupied accommodation (e.g. squatters) - The accommodation is being sold, or process of being sold - Unit is planned for significant renovation (more than 25% of the value of the unit) or demolition - Premises are uninhabitable - Furnished accommodations, such as second homes
Tax Rate	1% of assessed property value	0.5%-4.15%, dependant on home value 10%-13.5% on condos over \$300,000 in value	20% of fair market value of rent in 2015, 60% of fair market value of rent in 2017. Expected to be 250% of fair market rent in the future
Declaration / Identification Method	Self-declaration and complaints based	To be determined if Law is approved	Self-declaration
Audit / Compliance Check Method	Random audit	To be determined if Law is approved	Random audits. City has also shut off water or electricity to test if a unit is vacant
Results	Expected to generate \$90 Million annually to fund affordable housing programs	Expected to generate \$232 to \$650 Million in revenue which will be used to fund affordable housing, improve public transportation and other City infrastructure projects	Generated €21 Million (Approximately \$30 Million CAD) at the 20% rate. At the 60% tax rate, the City is expected to triple total earnings to around €60 Million (Approximately \$90 Million CAD) at the 60% fair market rate

Jurisdictional Analysis - Vancouver

	Vancouver
Policy Objectives	To return empty or under-used properties to the long term rental/for sale market to Vancouverites who live and work within the City
Implementation date	January 1 st 2017
Definition of Vacancy	<ul style="list-style-type: none"> - Unoccupied for more than six months during the calendar year - Periods of occupation must be at least 30 consecutive days in duration
Exclusions / exemptions	<ul style="list-style-type: none"> - Redevelopment or major renovations - Medical care (up to 2 consecutive years) - Rental restrictions or prohibition - Change of 100% of ownership during the year - Court order prohibiting occupancy - Limited use of property (e.g. property used for exclusively parking) - Death of the property owner
Tax Rate	Began at 1% at time of implementation, increased to 1.25% in 2019. In 2021, the rate has increased to 3% of the property's assessed value
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - All property owners are required to declare if their property is vacant or not - If the property owner is caught falsifying the claim, they are subject to a 1.25% tax on the assessed value of the property and a \$250 by-law ticket for the 2020 year - If the property owner does not fill out declarations, they will be subject to the 1% tax regardless of vacancy
Audit / Compliance Check Method	<ul style="list-style-type: none"> - Random checks on properties selected based on internal risk assessment profile
Results	The net revenues of the Vacant homes tax of \$61.3 Million has been allocated to support affordable housing initiatives within the City and the total number of vacant property's has fallen 24% since the taxes implementation in 2017

Source - Vancouver Empty Homes Tax By Law

Jurisdictional Analysis - Toronto

	Toronto
Policy Objectives	The goal of the tax is to change the behaviours of vacant home owners, encouraging them to sell or rent out their homes, therefore increasing total housing supply. It is estimated the City will generate between \$55 to \$66 Million in revenue from this tax which will be used to help increase affordable housing funding.
Implementation date	January 1 st 2022, with first payments being due May 1 st 2023* (*Subject to change)
Definition of Vacancy	<ul style="list-style-type: none"> - Unoccupied for more than six months in the previous calendar year - The final report and tax bylaw will be prepared for council's review by the end of 2021 for final details
Exclusions / exemptions	<ul style="list-style-type: none"> - Property under renovation - Owner in medical care - Owner diseased - Property owned by a snowbird (must live in house for a minimum of 4 weeks every year) - The final report and tax bylaw will be prepared for council's review by the end of 2021 for final detail
Tax Rate	1% of the total assessed value of the home
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - Property owner to self-declare - The final report and tax bylaw will be prepared for council's review by the end of 2021 for final details
Audit / Compliance Check Method	<ul style="list-style-type: none"> - Random checks on properties selected based on internal risk assessment profile
Results	The expected result is similar to the Vancouver outcome, which brought 5,000 condos to the market and reduce vacancy rates by 24% since the taxes implementation in 2017

Jurisdictional Analysis - Ottawa

	Ottawa
Policy Objectives	The main objective of the tax is to increase the total housing stock within the City and encourage owners to rent out or sell their vacant units. It is estimated that the City will generate around \$6.6 Million in revenue in the first year based on the assumption of 1,500 vacant units. The City's vacancy rates rose to 3.9% in 2020 from 1.8% largely due to COVID-19 related factors, such as lower student rentals. (Details can be found in this link)
Implementation date	January 1 st 2022, with first payments being due in 2023
Definition of Vacancy	<ul style="list-style-type: none"> - The units is vacant for more than 184 days (around 6 months) of the year - The final report and tax bylaw will be prepared for council's review by Spring 2022 for final details
Exclusions / exemptions	<ul style="list-style-type: none"> - The final report and tax bylaw will be prepared for council's review by Spring 2022 for final details
Tax Rate	1% of assessed property value
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - All 307,000 homeowners will need to declare if their unit is occupied or not
Audit / Compliance Check Method	<ul style="list-style-type: none"> - The final report and tax bylaw will be prepared for council's review by Spring 2022 for final details
Results	The expected result is similar to the Vancouver outcome, which brought 5,000 condos to the market and reduce vacancy rates by 25%

Jurisdictional Analysis - Melbourne

	Melbourne
Policy Objectives	Originally, the tax targeted land owners who left their lot vacant hoping they can sell the land to a developer for a profit. In 2020, the City approved the extension of this tax to empty residential properties within the greater Melbourne region.
Implementation date	January 1 st 2018
Definition of Vacancy	- Unoccupied for more than six months during the calendar year
Exclusions / exemptions	<ul style="list-style-type: none"> - Change of ownership during the period - Property was rezoned into a residential property during the year - Property used as a holiday home (property must be occupied for at least 4 weeks of the year) - Property used and occupied for work purpose for at least 140 days of the year - Properties undergoing significant renovation or construction - Properties that form part of an estate of a recently deceased - COVID-19 exemptions to all vacant land/property's are currently in place, indefinitely
Tax Rate	1% of assessed property value
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - Self identification by property/land owners by January 15th of the calendar year - The City also has a form that encourages homeowners or residents to "tip-off" City officials if they believe a property owner is not complying with the law - If the property owner is caught, the City will levy a 5% assessed property value if the vacant property owner admits before the investigation, a 20% levy if the owner admits during the investigation or up to 90% of the total value if the owner intentionally disregarded the law and hindered the investigation
Audit / Compliance Check Method	- Random checks on properties selected based on internal risk assessment profile
Results	In 2017, it was estimated that the City had 82,000 homes that were not being used and estimated to generate \$90 Million dollars, however media outlets have reported revenues were as low as \$5.4 Million in the first year, far lower than the intended revenue. While water usage data indicates 4.1% of Melbourne homes were vacant in 2019, the Vacant Residential Land Tax was only levied on 2.6% of homes. Vacancies within the Greater Melbourne area have risen by 13.3% between 2017 and 2019 - before and after the tax.

Jurisdictional Analysis - New York

	New York
Policy Objectives	There were three main objectives of the tax, first to bring down the total number of short-term vacation rental units which represented 2.1% (75,000 units) of total housing within the City. Secondly is to increase availability of affordable house. Finally, the City looked to increase total revenue to help fund its public transit system.
Implementation date	The tax has not been approved and is in the City's Senate Local Government for deliberation as of February 2021
Definition of Vacancy	- To be determined if law is approved
Exclusions / exemptions	- Condos less than the \$300,000 market value - Primary resident and/or immediate family members residing within the property
Tax Rate	0.5% to 4.15% of the assessed value on homes with a 5-year average of more than \$5 million dollars. 10%-13.5% on condos above \$300,000 in market value.
Declaration / Identification Method and potential penalty	- To be determined if law is approved
Audit / Compliance Check Method	- To be determined if law is approved
Results	The City estimates that the tax could bring between \$232 Million to \$650 Million in annual revenues which will be split between affordable housing, funding public transportation and other public projects. A Wall Street Journal analysis suggested the tax could drop the value of properties assessed more than \$25 Million by 46%.

Jurisdictional Analysis - Paris

	Paris
Policy Objectives	The objective of the tax is to help bring the estimated 100,000 vacant units, representing, in some estimates, 8% of Paris' total available units to the market. It was found that 40,000 units were disconnected from the electrical grid, implying that the units were most probably used for speculative purposes.
Implementation date	January 1 st 2015, revised in September 2017
Definition of Vacancy	- Occupied for less than 90 consecutive days of the year (approximately 3 months)
Exclusions / exemptions	<ul style="list-style-type: none"> - Units who's vacancy is of no fault of the owner (unable to find a suitable occupant) - Occupied for more than 90 consecutive days in a year - Secondary residences of owners (these units are subject to an alternative tax called the owner tax) - Illegally occupied accommodation (e.g. squatters) - The accommodation is being sold, or process of being sold - Unit is planned for significant renovation (more than 25% of the value of the unit) or demolition - Premises are uninhabitable - Furnished accommodations, such as second homes
Tax Rate	Originally set at 20% of fair market value of rent, which tripled to 60% in September of 2017. Some media outlets are reporting the local government is considering to increase it to 250% in the future.
Declaration / Identification Method and potential penalty	<ul style="list-style-type: none"> - Self declaration - The City also runs a "rent solidarity" program in which the owner will entrust the vacant unit to a partner agency for 3-6 years. The partner will select a tenant, guarantee the owners will be paid on time and any damages will be paid for by the City. In exchange, the owner will receive 70-80% of the market rent. Currently this program accommodates 902 units housing 2,900 tenants. - Delayed payment of the vacant homes tax will result in a 10% penalty in addition to the tax
Audit / Compliance Check Method	- Random checks on properties selected based on water and utility usage. City may also shut off water or electricity supply to test if unit is vacant
Results	The City's original 20% of fair market value of rent rate had a 0.13% impact on the vacancy rate, which means it was largely ineffective. However, it did bring the City more than €21 Million (Approximately \$30 Million CAD) at the 20% rate. At the 60% tax rate, the City is expected to triple the total earnings to around €60 Million (Approximately \$90 Million CAD)