

# City of Mississauga Corporate Report



Date: January 11, 2023  To: Chair and Members of Budget Committee	Originator's files:
From: Shari Lichterman, CPA, CMA, Commissioner of Corporate Services and Chief Financial Officer	Meeting date: January 23, 2023

## Subject

**Update: Potential New Revenue Tools**

## Recommendation

That the report titled "Update: Potential New Revenue Tools" dated January 11, 2023 from the Commissioner of Corporate Services and Chief Financial Officer be received for information.

## Executive Summary

- The City retained the services of Ernst & Young (EY) to research potential revenue tools used by various municipalities. The report was presented to General Committee in June 2021 (Appendix 1), at which time staff were requested investigate the impact and potential implementation of six potential revenue tools currently accessible to the City through the Municipal Act.
- The City extended the EY contract to evaluate four of the potential revenue tools (Landfill Levy, Land Value Tax, Tax Increment Financing, and Encroachment Tax). A fifth tool, Vacant Home Tax, was already being studied by the Region and City staff, Incremental Property Tax required no further analysis as it is an instrument currently being used by the City.
- Upon further review, three tools are not 'new revenue tools' for the City. Additional revenue raised from the Landfill Levy, if approved by the Region, would have to be reinvested in waste management programs (a Regional responsibility). The City is already maximizing Encroachment Tax through fees and charges. The Tax Increment Financing tool does not provide additional revenues but rather provides for alternative financing approaches.
- A Land Value Tax could be established with provincial approval, and would be challenging to implement due to difficulties in estimating the property value appreciation from infrastructure investments. There may also be significant resident concerns with this tax.

- A Vacant Home Tax could be established by the Region, with provincial approval. The Region has established a working group comprising of Regional and Local Municipal staff to review the feasibility of a Vacant Home Tax. Regional staff will be reporting back to Regional Council as this work continues.
- Incremental Property Tax is a special levy on property tax. This approach is already used by the City and can be implemented with Council approval.

## Background

On March 15, 2021, the City retained the services of Ernst & Young (EY) to research potential revenue tools used by various municipalities. The mandate for this project was to identify potential new revenue tools available to the City of Mississauga, determine which are viable for the City relative to the policies of current Governments/agencies, estimate the value benefiting the City, and develop a plan to attain and implement any new funding sources.

The EY report was presented to General Committee on June 15, 2021 for information. General Committee reviewed the possible revenue sources identified, and requested staff to review the impact and potential implementation of six potential revenue tools currently accessible to the City through the Municipal Act. The six potential revenue tools are: Vacant Home Tax, Incremental Property Tax, Landfill Levy, Land Value Tax, Tax Increment Financing and Encroachment Tax.

## Comments

The City extended the EY contract to evaluate four of the potential revenue tools (Landfill Levy, Land Value Tax, Tax Increment Financing and Encroachment Tax). EY was not tasked with evaluating the Vacant Home Tax, as this tax was already being studied by the Region, and City staff have been participating in the Region's working group. Incremental Property Tax is an instrument currently used by the City (for example, through special levies like the 2% Infrastructure and Debt Repayment Levy), and no further study was required.

A summary of findings for the six potential revenue tools is given below.

### **Encroachment Tax (EY)**

An encroachment is any device, object, structure, or equipment that is located on, over, along or across the public right of way. The City can charge an annual/recurring fee or tax for encroachments on City-owned property. To gather the required information regarding fixed, non-fixed and temporary items, City staff across the organization were engaged, and the present treatment for various types of encroachment was discussed. It was identified that the City already charges residents and businesses for nearly all fixed and non-fixed encroachments in the City through various By-Laws and Acts. EY did not identify any net-new revenue options using the Encroachment Tax.

**Landfill Levy (EY)**

A Landfill Levy is an additional charge that is added to the tipping fee at landfill sites. The primary objective of the Landfill Levy is to increase the cost of waste disposal at landfills in order to make waste diversion more economically attractive. As waste management services are provided by the Region, a Landfill Levy would require approval from the Region, and the Region would have to implement the levy.

Regional staff have conveyed that any additional revenue raised from a landfill levy would have to be reinvested in waste management programs. The City may work with the Region to explore the levy to improve waste diversion and realize sustainability goals, but a Landfill Levy is unlikely to provide direct financial benefits to the City. EY estimates that the implementation of a Landfill Levy would require 18 months.

**Land Value Tax (EY)**

Land Value Tax is a tax that is levied on property owners intended to capture part, or all, of the increase in market value of a property which can be reasonably attributed to City investments and decisions such as zoning changes, infrastructure improvements, and other municipal enhancements. Land Value Tax is generally captured as a one-time payment post implementation of a specific project, or during sale of the property.

Upon further review, it has been determined that to implement the Land Value Tax, the City would require approval from the Province. Land Value Tax would also be challenging to implement. It is difficult to identify and justify the portion of property value appreciation that can be attributed to, or expected from, infrastructure investments and not general market growth, property improvements and other external factors. This tax would also likely raise significant concerns from resident, so would require significant public engagement. EY estimates that the implementation of Land Value Tax would require 18 months.

**Tax Increment Financing (TIF) (EY)**

TIF is a tool where the City uses the future growth/appreciation in property assessment or property tax revenues, due to increased valuation as a result of infrastructure improvement or development projects in an area, to secure debt financing of the infrastructure investment. TIFs do not provide “additional” funds or revenues, but rather a new form of financing. Upon further review, it was determined that Provincial approval would be required to formally implement TIFs in the City. EY estimates that the implementation of TIF would require 18 months.

**Vacant Home Tax (VHT) (Regional and City staff)**

A Vacant Home Tax is a tax levied on property owners who have vacant residential properties for a given period of time. Implementing a residential VHT would encourage property owners to maintain, occupy or rent their otherwise vacant properties, thus increasing the housing supply. In addition, any tax revenue collected could be used to further combat the housing crisis directing this revenue towards affordable housing policies and programs.

The Municipal Act provides municipalities with the option to introduce a tax on vacant residential units. In order for this Part of the Act to apply to a municipality, the Minister of Finance must first pass a regulation designating the municipality for this Part. In a two-tier municipality, the Regional government would be designated and could then implement VHT. The Region of Peel has established a working group comprised of Regional and Local Municipal staff to review the feasibility of a Vacant Home Tax, including a public policy benefit study. Regional staff will be reporting back to Regional Council as this work progresses.

#### **Incremental Property Tax (City staff)**

This revenue tool is a special levy on property tax that is used to fund a specific purpose, and is presented as a separate line item on the property tax bill. The City has used this tool in the past (for example, through special levies like the 2% Infrastructure and Debt Repayment Levy). This tax could be implemented immediately upon Council approval.

### **Financial Impact**

There are no financial impacts resulting from the Recommendations in this report.

### **Conclusion**

Significant work has been done by City staff and consultants to review potential new revenue tools for the City. Of the tools that the City has authority to implement, the most realistic option is to proceed with the Vacant Home Tax in coordination with the Region of Peel. Any other revenue tool with significant impact would require approval from the Province.

### **Attachments**

Appendix 1: Corporate Report: Potential New Revenue Tool – 0475-2021



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