

To: Warden McKenzie and Members of Council  
Date: Thursday, May 03, 2018  
Prepared By: Corey Bridges, Manager of Finance/Treasurer  
Subject: Vacancy Rebate Program – (CS/FIN – 2018)

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## **Recommended Actions:**

THAT Perth County Council receives the “Vacancy Rebate Program – CS/FIN - 2018” report; and

THAT County Council directs staff to take the necessary steps as stipulated by the Ministry of Finance to fulfill the notice and advisory requirements that the County is proposing to eliminate the Vacancy Rebate Program.

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## **Background Information:**

Prior to the 1990's, the Province provided assessment values for two rates: residential and commercial. In addition, businesses paid a separate levy called the Business Occupancy Tax or BOT. This was assessed to the tenant that occupied the taxable property. The property owner was not responsible for paying the BOT or the collection of the BOT from his/her tenant.

This changed when Current Value Assessment (CVA) came into effect, which is based on the real value of the property and the value the owner could obtain from selling his/her property. This changed the direction of how these properties were taxed. It shifted the responsibility to the municipality in each jurisdiction (County or Region) to develop their own tax policy, and has provided municipalities the authority to make such determination as what portion of the municipal tax burden should be on what type of property. Therefore, the property tax that was BOT would be rolled into the regular property tax payable on commercial and industrial property. This shifted taxes from the business owner to the property owner, creating the model of the “Vacancy Rebates”. This was to allow commercial/industrial properties with vacancies to apply to municipalities for a reduction in their property taxes until such a time that the property became occupied. This was similar to the BOT being paid if there was no active business being occupied.

Since the Province has introduced this authority, a number of municipalities have already moved toward ending this program. The 2018 Ontario Budget announced that the education property tax portion of the vacancy programs will be aligned with the changes made by municipalities, ensuring greater consistency across the province. Therefore, the Province will phase out the education property tax portion of these

programs. To avoid undue administrative burden for municipalities that have already made changes to the programs, the Province will continue to mirror these municipal changes, with respect to the education property tax portion of the vacancy programs. This initiative will begin in 2019 to ensure that businesses have time to plan for these program changes.

### **Comments:**

In consultation with, and with consensus of, the Perth County Treasurers, the proposal is that the Vacancy Rebate Program be eliminated. The Vacancy Rebate Program has been in place for over 20 years and the 2016 Ontario Budget announced that municipalities had flexibility to modify the vacancy rebate and reduction programs. With this change, municipalities are encouraged to engage their local business community when considering the changes.

Through group discussions, it was felt the Vacancy Rebate Program local issues are as follows:

- The funding for this rebate comes largely from the residential/farm tax base as the rebate program comes from the tax portion of the budget.
- The elimination of the vacancy rebate program would be an incentive for property owners to more actively pursue productive use of vacant commercial and industrial.
- Vacancy rebates allow for property owner to acquire land for long term speculation rather than immediate productive use.

### **Why Eliminate this Rebate Program Now?**

Original MPAC practice for commercial/industrial property assessment values were based on the property being fully occupied. Therefore, the Vacancy Rebate Program was introduced for rebating and reducing the taxes payable when the property was not fully occupied. However, over the past two decades, this valuation practice has changed. Property owners have been actively managing the assessment on their properties. By filing appeals, multiple property owners across the province were able to argue successfully that assuming properties would be 100% occupied all of the time was wrong. It was argued that it is normal for any business to have vacancies and that the value of the properties should reflect this fact. Due to these successful appeals, MPAC gradually changed its valuation customs and have factored in that a portion of the property that would on average be vacant. The impact of these changes was reflected with a decrease in property taxes for property owners. Therefore, there should be no need to apply for Vacancy Rebates.

With these changes in “base amount” of taxation on commercial/industrial properties, the Province still required municipalities to provide the Vacancy Rebate Program. However, with changes in assessment in addition to the Vacancy Rebate Program, properties would see significant tax savings, which was not the intent of the Province.

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This discrepancy was brought to the attention of the Province in 2015 and prompted a review of the Vacancy Rebate Program.

Two working groups were formed to conduct a review of the Vacancy Rebate Program. One group was comprised of representatives from commercial and industrial property owners. The other group was municipal representatives. Each group relayed the issues, concerns and recommendations they had with regard to the Vacancy Rebate Program.

The Ministry of Finance accepted the contention that circumstances have change, that “base” assessment values now factor in the regular average vacancy of the properties, and that adjusting this factor to account for changing business circumstances is now understood as being a reasonable basis for adjustment, meaning that the purpose and function of the Vacancy Rebate Program has been largely replaced by these changes in valuation practice. It then presented these conclusions to a joint meeting of the two working groups in 2016.

The Ministry of Finance position was accepted by both municipal and industry representatives, meaning that there was no significant opposition from either working group to Municipalities being given the ability to end the practice of providing Vacancy Rebates. In part, this was because in order to ensure that any such change did not happen without the knowledge of the local business community, the Province stipulated that the local Municipality with responsibility for Tax Policy in the jurisdiction considering a change must first notify the local business community of its intentions to change its policies.

However, once this notification has occurred, the Municipality would then be able to request that the Minister of Finance have the Ontario Government pass a Regulation enacting the local Municipality’s decision. The first of these Regulations was issued in the spring of 2017.

### **Implementation Plans for the County of Perth**

After careful review of the program by the County Treasurers, it was concluded that the County of Perth move toward the elimination of the Vacancy Rebate Program as the program no longer serves the purpose for which it was created. This would be in conjunction with the Provincial changes relating to the phase out of the education property tax portion. This change would come into effect January 1, 2019. This allows property owners to exercise the right of Appeal to MPAC and the Assessment Review Board should they believe the “vacancy adjustment” applied to the value of their properties for 2018 should be adjusted.

Next steps to fulfill the notice and advisory requirements stipulated by the Ministry of Finance would be as follows:

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1. Holding an Information Meeting for Commercial/Industrial Properties in late May to early 2018 in the Municipality of North Perth.
2. Placing an advertisement in local newspapers with details regarding the information meeting and online survey.
3. Posting details of this proposal on the County's and member municipalities' website and social media platforms.
4. Provide citizens an online survey regarding questions about the change to the vacancy rebate program.
5. Circulating this notice to the area municipalities with a request that it be placed as correspondence on the Agenda for a meeting of their councils.

Information from the public consultation would then be brought back to County Council at its June 21, 2018 meeting, and if Council approves the elimination of the Vacancy Rebate Program, notice would be submitted to the Ministry of Finance by the July 1, 2018 deadline. Should the Ministry approve the request for the elimination, it would become effective January 1, 2019.

We wish to acknowledge that some of the information in this report was obtained from the County of Lambton's report relating to Vacancy Rebate written by John Innes, General Manager, Finance, Facilities and Court Services County Treasurer, CFO and Deputy Treasurer.

### **Financial Implications:**

North Perth – 25 applications cost \$10,026

West Perth – 3 application cost \$26,652

Perth East – 3 applications cost \$479

Perth South – 1 application cost \$472

Total County implication of the program change is \$37,629 based on 2017. Eliminating the program would benefit mostly the Residential and Farmland Classes within the respected municipalities.

### **Connection to Strategic Plan:**

This report supports the County's Strategic Plan in ensuring residents are being served by an efficient, cohesive, accessible and comprehensive service delivery model.

### **Reviewed by:**

#### **Recommended by the Department**

Lori Wolfe, Director of Corporate Services/County Clerk, April 27, 2018

#### **Recommended by the CAO**

Renato Pullia, Chief Administrative Officer, April 27, 2018

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