

MARCH 22, 2006

2006 BUDGET BRIEFING NOTE: TAX DEFICIENCIES

ISSUE:

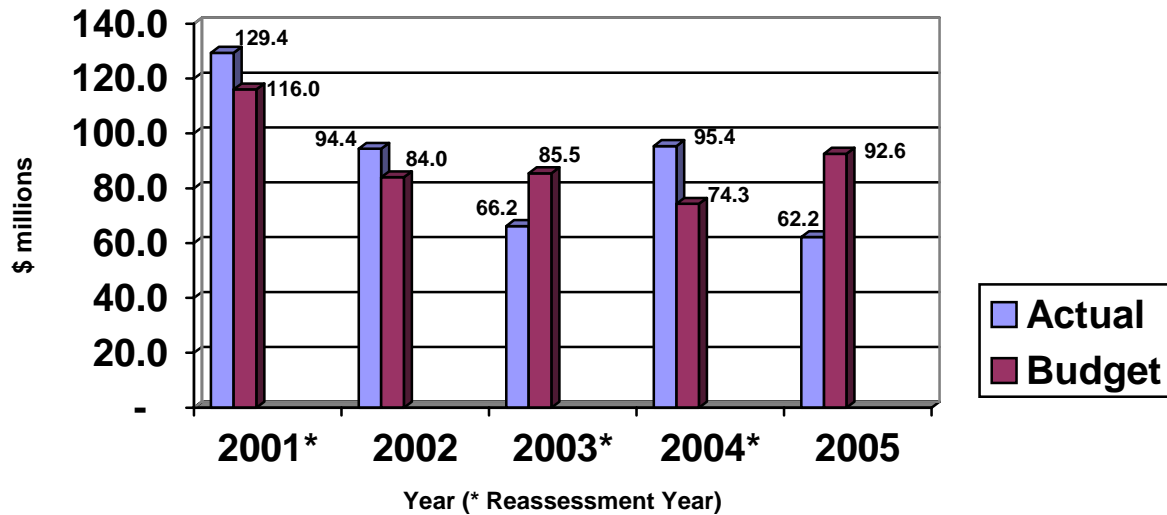
To report on tax deficiencies for 2005 and prior years, and the recommended Budget Estimate for 2006 taxation year.

BACKGROUND:

- Tax deficiencies occur whenever there is an adjustment required to a tax levy. Tax deficiencies include assessment and tax appeals; adjustments to capping and/or phase-in amounts; tax rebates for registered charities, ethno-cultural centres, and veteran clubhouses; the cancellation of taxes for qualifying seniors and tax write-offs.
- In 2005, actual expenditures were lower than anticipated due to fewer property owners filing assessment appeals and the City's increased involvement in the assessment appeal process and in reviewing assessment data returned by the Municipal Property Assessment Corporation (MPAC). In 2005, the Revenue Services Division re-allocated existing staff resources to i) regularly reviewing the assessment information provided by MPAC to ensure that the data is accurate and up-to-date; ii) identifying monitoring and participating in assessment appeals (following approval by Council) that, if successful, could significantly erode the City's property assessment base and/or adversely impact the methodology used by MPAC in the assessment of certain property types; and, iii) initiating assessment appeals or Requests for Reconsideration (with the approval of Council) for properties that staff identify as being significantly under-valued or mis-classified.
- A \$30.4 million favourable budget variance was realized in 2005 [\$92.6 million approved budget compared to year-end actual expenditures of \$62.2 million] due to: i) the City playing a more active role in reviewing property assessments and participating in the appeal process for large properties; and, ii) fewer property owners filing assessment appeals with the ARB and/or requesting a reconsideration of their property's assessment.
- It is recommended that the 2006 Budget for Tax Deficiencies be set at \$80 million. The 2006 Recommended budget (\$80 million) is greater than the 2005 actuals (\$62.2 million) since 2006 is a re-assessment year for all properties in Ontario. As a result, assessment appeals filed with the Assessment Review Board (ARB) and/or request for reconsideration by property owners with MPAC are expected to be greater than the amount realized in 2005. Based on past history, the number of appeals processed and/or pending in a reassessment year has always been significantly higher than in a non-assessment year.

- Chart 1, below, compares the actual tax deficiency expenditures to approved budget levels for the years 2001 to 2005.

Chart 1: Tax Deficiencies Processed from 2001 to 2005



- Appendix A, attached, provides a history of tax deficiency expenditures from 1998 to 2005.
- Appendix B, attached, provides a summary of tax deficiencies incurred from 1998 to 2005.

KEY POINTS

- The City has no control over the number of appeals filed by property owners in any given taxation year. The deadline for appealing 2006 assessment with the Assessment Review Board (ARB) is March 31, 2006 and the deadline for filing a Request for Reconsideration is December 31, 2006. As such, the City cannot accurately predict the level of appeal activity until much later in the current taxation year.
- Once an appeal is heard and disposed of by the ARB or the Municipal Property Assessment Corporation (MPAC), the City is obligated to process the resulting tax adjustment/refund. It is therefore important that we have sufficient budget to cover the associated expenditures.
- Given that 2006 is a re-assessment year, we anticipate a higher number of appeals than 2005. Based on past history, the number of appeals processed and/or pending in a reassessment year has always been higher than the approved budget.

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Attachments: Appendix A – Budget vs Actual Expenditures (1998 to 2004) – Tax Deficiencies
 Appendix B – Summary of Actual Tax Deficiencies Incurred (by Type) from 1998 to 2005

Budget vs Actual Expenditures (1998 to 2004) - Tax Deficiencies

Year	Budget	Actual	Variance	Comments
	(in \$000's)			
2004 (Re-assessment Year)	74,251.4	95,424.6	(21,173.2)	In 2004, assessed values for properties in Ontario were updated to reflect a June 2003 valuation date. Actual expenditures for 2004 exceeded budget by approximately \$21.1 million as a result of: <ul style="list-style-type: none"> I. An increase in the total number of appeal decisions being received from MPAC and the ARB for 2004 and prior years; and, II. an increase in the number of appeals waiting to be heard at the ARB for 2004 and prior years.
2003 (Re-assessment Year)	85,500.0	66,202.6	19,297.4	In 2003, assessed values for properties in Ontario were updated to reflect a June 2001 valuation date. <p>Actual expenditures were below budget by \$19.3 million, due to what appeared to be (at the time) a decrease in the number of assessment appeals for the 2003 and prior taxation years. Based on information received from MPAC in September 2004, it has been verified that the number of appeals listed as outstanding at the end of 2003 (as provided by MPAC at that time) were <u>understated by an estimated \$27.6 million</u>. In other words, if complete information had been provided to the City in 2003, the actual expenditures would have been closer to \$94 million as opposed to the \$66.2 million.</p>
2002	84,000.0	94,367.3	(10,367.3)	Actuals exceeded budget by \$10.4 million, due to the number of appeals and other adjustments, which were received and processed.
2001 (Re-assessment Year)	116,000.0	129,382.2	(13,382.2)	In 2001, assessed values for properties in Ontario were updated to reflect a June 1999 valuation date (for the taxation years 1998 to 2000, assessed values were based on a June 1996 valuation date).
2000	109,586.9	113,830.8	(4,243.9)	In 2000, the tax deficiency budget was adjusted to reflect an anticipated reduction in appeal activity. <p>The actual expenditures for 2000 closely reflect what was forecasted and budgeted. Appeal reductions represent the largest share of the deficiencies.</p>
1999	159,729.2	153,729.2	6,000.0	In 1999, the tax deficiency budget was adjusted to reflect an increased level of appeal activity. <p>The actual expenditures for 1999 closely mirrored what was forecasted and budgeted. Appeal reductions reflect that largest share of tax deficiency expenditures.</p>
1998 (Re-assessment Year)	127,340.0	145,520.1	(18,180.1)	The unfavourable variance was due to an increase in the number of assessment appeals triggered by the introduction of Current Value Assessment (CVA).

APPENDIX B

Summary of Actual Tax Deficiencies by Type from 1998 to 2005

	1998	1999	2000	2001	2002	2003	2004	2005
Appeals – processed during the year (includes assessment appeals and tax appeals)	60.5	68.2	103.8	95.5	73.5	59.1	53.0	61.5
Pending: Appeals & Tax Reductions	85.0	44.3	42.8	70.0	(5.0)	(0.2)	23.3	21.9
Write-Off for Uncollectible taxes– This is primarily Business Occupancy Tax	-	2.1	6.3	3.6	8.9	0.1	-	-
Ethno-Cultural Rebates	-	-	2.1	0.3	0.6	0.7	0.7	0.2
Other Rebates &/or Adjustments (includes rebates for registered charities, veteran clubs) – Note 2	-	3.5	3.8	(1.9)	1.3	1.3	2.9	4.5
Phase-In Adjustments	Note 1	35.6	(45.0)	(38.1)	15.1	5.0	15.4	(26.2)
Tax Cancellation re: Seniors	-	-	-	-	-	0.2	0.1	0.3
TOTAL	145.5	153.7	113.8	129.4	94.4	66.2	95.4	62.2

Note 1: 1998 phase in adjustments of \$3.9 million were recorded in the tax revenue account and not included as part of the tax deficiencies.

Note 2: Charitable rebates for tax year 2005 and future years will be posted the Charitable Rebate account NP2021. To date, only charitable rebates for tax years 2004 and prior have been processed and are included above.

The majority of tax deficiency expenditures are related to assessment and taxation appeals. Given the current taxation legislation, tax reductions stemming from assessment and tax appeals are offset by applicable phase-in adjustments related to capping, claw-back and phase-in provisions of the *Municipal Act*.