TORONTO

STAFF REPORT ACTION REQUIRED

2014 Operating Budget Estimates for Supplementary and Omitted Taxation Revenue

Date:	December 10, 2014
To:	City Council
From:	Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2014\Internal Services\rev\cc14026rev (AFS20554)

SUMMARY

This report provides information on supplementary and omitted taxation revenue, and provides an explanation for the negative variance between actual 2014 supplementary and omitted taxation revenue and 2014 approved operating budget. This report responds to a motion from the December 5, 2014 meeting of Executive Committee during its consideration of Item EX1.4: *Operating Variance Report for the Nine-Month Period Ended September 30, 2014.*

RECOMMENDATIONS

The Deputy City Manager & Chief Financial Officer recommends that:

1. City Council receive this report for information.

Financial Impact

This report has no financial implications.

The Deputy City Manager & Chief Financial Officer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting of December 5, 2014 the Executive Committee, during its consideration of Item EX1.4: *Operating Variance Report for the Nine-Month Period Ended September 30, 2014*, moved that the Deputy City Manager and Chief Financial Officer submit a report directly to Council enumerating the reasons for the negative variance on the supplementary taxes. This report is available at:
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX1.4

ISSUE BACKGROUND

Supplementary and omitted taxation revenue is property tax revenue derived from assessment value that is added to the City's taxation rolls during the course of a year following the close of the assessment roll for the current taxation year.

In general, supplementary and omitted assessments are issued by the Municipal Property Assessment Corporation (MPAC) to reflect new or increased assessed value due to new construction, renovations or additions, i.e., new assessment value that has not previously been assessed for taxation on a prior assessment roll. Supplementary or omitted assessments may also reflect a change in the use or tax classification of a property that occurs after the assessment roll is finalized for the taxation year, such as when an exempt property becomes taxable, or when a structure is added to vacant land.

It is important to note that supplementary and omitted assessment may be positive or negative – assessment changes may reflect an increase in property value and property tax revenue (e.g., new building construction), or they may reflect a decrease in assessed value or a changed tax class that results in reduced property tax revenue (e.g., conversion from taxable to exempt).

Omitted assessments are issued where it is discovered that an assessment change has occurred that has not been identified on the assessment roll in any previous year – omitted assessments may be issued for the *current and any part or all of the preceding two years*. Supplementary assessment reflects added or changed assessed value for the *current* taxation year, i.e., new assessed value or a change in assessment that begins for the first time in the current taxation year at some point following the close of the assessment roll. The legislative authority for omitted and supplementary assessments is established under Sections 33 and 34 of the *Assessment Act*, respectively.

Normally, MPAC issues supplementary and omitted assessments three or four times each year over the course of the year, and provides this information to the City of Toronto via supplementary and omitted assessment rolls. Once the City receives the supplementary and omitted rolls from MPAC, supplementary and omitted tax bills are issued to property owners by the City's Revenue Services Division. Supplementary and omitted billings are separate and in addition to regular property tax billings.

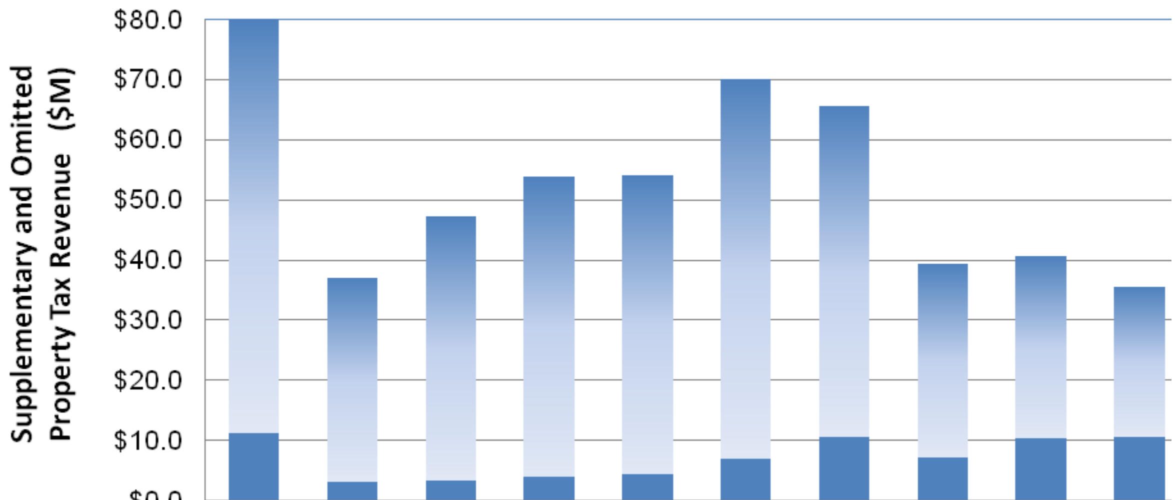
Property tax revenue from supplementary and omitted assessments is an important component of the City's revenues, and represents revenue that is in addition to the regular property tax levy. Assessed value, once identified and added to the assessment rolls, forms part of the City's taxation base for future years.

COMMENTS

Each year, property tax revenue from supplementary and omitted assessments is estimated and identified as a line item within the City's non-program Operating Budget.

As property tax revenue from supplementary and omitted assessments varies from year to year and may be influenced by a variety of factors, the derivation of budgetary estimates is an inexact science. Chart 1 below illustrates actual supplementary and omitted tax revenues over the last 10 years.

Chart 1
Supplementary and Omitted Property Tax Revenue
Actuals, 2005 – 2014



	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Total Supp + Omit Property Tax	$79.7	$37.0	$47.3	$53.8	$54.1	$69.9	$65.6	$39.4	$40.6	$35.6
Omitted Property Tax	$68.4	$33.8	$43.8	$49.7	$49.6	$62.9	$55.0	$32.1	$30.3	$24.9
Supplementary Property Tax	$11.4	$3.2	$3.5	$4.1	$4.5	$7.1	$10.6	$7.3	$10.3	$10.7

Chart 1 above illustrates that typically, omitted taxation revenue identified in a year represents the majority of supplementary and omitted revenues (as it reflects omitted taxation revenue for up to three years: i.e., current year + 2 prior years). This is particularly true of the years from 2009 to 2011, where omitted taxation revenues ranged between $50 and $63 million. These large omitted tax revenues reflect MPAC's initiative to eliminate a large backlog of supplementary and omitted assessment. MPAC added significant additional temporary staff resources over this 3-year period to capture assessment not previously identified, resulting in higher than anticipated supplementary and omitted revenues.

Chart 1 also shows a marked decline in omitted revenue being added in the years from 2012 to 2014, which reflects that MPAC has been more effective at capturing and returning new assessment sooner, (i.e., less taxation revenue is attributable to assessment not captured in prior years), and more effective in identifying in-year assessment changes, as the value of supplementary taxation has increased in each of 2012, 2013 and 2014.

The high omitted property tax revenue identified in Chart 1 for the 2005 taxation year is the result of a conversion (change in tax classification) of a large number of properties owned by the Toronto Community Housing Corporation, which had been previously identified as being subject to a payment-in-lieu of taxes. For 2005, MPAC identified these properties as now taxable at residential rates through the supplementary and omitted process, which resulted in a substantial one-time increase in residential omitted taxation revenue for 2005.

Explaining the 2014 Operating Budget Variance

The 2014 Approved Operating Budget identified supplementary and omitted taxation revenues of $40.0M under Non-Program Revenues. The Operating Variance Report for the Nine-Month Period Ended September 30, 2014 (Item EX1.4) reported that, at the end of Q3, supplementary tax revenue was expected to be $3.0 million or 16.4% higher than Q3 budget estimates, due to the City receiving supplementary rolls earlier than projected. This report also identified that growth was anticipated to level off by year-end, resulting in an unfavourable year-end variance of $8.0 million or 20.0%.

By early December, however, the City had received the fourth of four supplementary and omitted assessment rolls from MPAC, which allowed full year supplementary and omitted revenues to be calculated. As a result, actual supplementary and omitted revenues are anticipated to be $35.6 M for 2014, resulting in a negative variance of $4.4 M or 11.0%. These figures are shown in Table 2.

Table 2
Supplementary and Omitted Taxation Revenue – 2014 Budget Estimates and Actuals

	Budget ($M)	Projected Actuals to Year End ($M)	Variance	
			$M	%
At 3rd Quarter	$40.0	$32.0	-$8.0	-20.0%
At Year End (Actual)	$40.0	$35.6	-$4.4	-11.0%

The breakdown of supplementary and omitted assessments provided to the City, and the timing of the delivery of rolls, is shown in Table 3.

Table 3
Summary of Supplementary and Omitted Assessment Rolls Provided by MPAC
(Taxable Assessment)

	Total Supplementary and Omitted Assessment	% of Total	Total Taxation Revenue
Supp/Omit Roll #1 (Delivered Jun 2, 2014)	3,297,026,772	39.9%	$15,605,603
Supp/Omit Roll #2 (Delivered Aug. 1, 2014)	1,424,520,331	17.2%	$5,723,755
Supp/Omit Roll #3 (Delivered Sep. 26, 2014)	1,240,713,093	15.0%	$4,037,141
Supp/Omit Roll #4 (Delivered Nov. 14, 2014)	2,311,145,870	27.9%	$10,250,517
Total	**8,273,406,066**	**100.0%**	**$35,617,017**

First 3 Supp / Omit Rolls Total: $25.4 M

To explain the variance in supplementary and omitted revenues that would have been reported at the end of the 3rd quarter, Table 3 illustrates that, at the time the Q3 estimates and variances were derived, the City would have been in receipt of the first three Supplementary and Omitted Rolls. The total supplementary and omitted taxation revenues for these three rolls was approximately $25.4 million.

Experience has proven that typically, each successive supplementary and omitted roll is smaller than the preceding roll, as in-year growth is captured over the course of the year. Hence it would be expected that the final supplementary/omitted roll for 2014 would contribute an equal or smaller amount than any of the previous three. Therefore, a conservative projection for the final supplementary and omitted roll would suggest that taxation revenues of between $5 and $6 million might be expected to be realized on the last roll, resulting in a projection to year end of approximately $32 million, which was the figure used for the Q3 variance report.

In actual fact, the fourth and final supplementary and omitted roll for the year contributed $10.3 million, resulting in final full year revenues of approximately $35.6 million, or $4.4 million less than the budgeted amount.

MPAC has confirmed that its supplementary and omitted assessments returned for 2014 are in line or slightly above the total assessment projected for 2014. MPAC has also confirmed that, of the supplementary and omitted assessment returned in 2014, 70% of this assessment was associated with 2014 supplementary or omitted assessment, while only 30% of the assessment was associated with omitted assessment for the 2012 and 2013 taxation years. This statistic illustrates that MPAC has been successful in capturing more current-year changes within the year, underscoring MPAC's commitment towards meeting one of its key performance targets of capturing 90% of new assessment added within one year of occupancy.

This report identifies that predicting supplementary and omitted taxation revenue with any degree of accuracy is difficult, given the many factors that may influence the timing of the realization of these revenues. The City of Toronto has partnered with MPAC to significantly improve the exchange of electronic permit information with MPAC in recent years that has allowed MPAC to directly upload permit information into their system. Part of this exchange includes providing occupancy and completed permit information from the City of Toronto as part of the monthly delivery of permit information. This has allowed MPAC to target their efforts in better identifying permits that are ready for assessment. It is expected that these efforts will allow for earlier sharing of permit information and estimates for supplementary and omitted taxation revenues that will improve the City's ability to forecast these revenues in future.

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