

Status of Outstanding Payments in Lieu of Tax Amounts for Federal, Provincial and Municipal Properties

Date: September 11, 2023
To: General Government Committee
From: Controller
Wards: All

SUMMARY

This report provides information on the status of payments in lieu of taxes (PILTs) requested from federal, provincial and municipal properties, and identifies PILT payments from all levels of government that remain outstanding as at August 31, 2023 for the taxation year ending December 31, 2022. The status of outstanding payments in lieu of taxes is reported to Council annually in accordance with a recommendation from the Auditor General in 2015.

PILTs are voluntary payments made to the City of Toronto by the federal, provincial and municipal governments and agencies to compensate the City for municipal services it delivers to their properties. In most cases, government agencies pay the full amount of PILTs that the City requests. There may, however, be outstanding PILT amounts requested from federal, provincial or municipal bodies that the Controller has concluded, in consultation with the City Solicitor, to be uncollectible. In these cases, the City of Toronto Municipal Code Chapter 71 (Financial Control) provides authority to the Controller, in consultation with the City Solicitor, to adjust for accounting purposes any outstanding receivables in respect of PILTs that have been deemed unlikely to be paid.

Through this delegated authority, the Controller has approved and made adjustments to federal, provincial, and municipal PILT receivable accounts totaling \$3,928,395 in August 2023 to reflect that these amounts are not likely to be collected. The amounts approved for adjustments will not have a negative financial impact for the City since these amounts have been included in the City's Non-Program 2023 Operating Budget under the Payments-in-Lieu Provision account.

In 2017, section 324 was added to the City of Toronto Act, 2006 to allow City Council to cancel, reduce and refund payment in lieu of taxes (PILT) under the same circumstances as permitted for taxable properties pursuant to section 323 (1). Council delegated authority to the Government Management Committee, now the General Government Committee to consider tax applications submitted under sections 323 and

325 of the City of Toronto Act, 2006. Staff are now seeking Council's approval to also delegate authority to the General Government Committee to consider applications for cancellation, reduction and refund of payments in lieu of taxes under section 324.

RECOMMENDATIONS

The Controller recommends that:

1. City Council delegate to the General Government Committee the authority to hold meetings at which applicants can make representations to the committee and to make the final decision with respect to payment in lieu of tax applications under section 324 of the City of Toronto Act, 2006 (the "Act"), and amend Chapter 27, Council Procedures accordingly.

FINANCIAL IMPACT

The PILT amounts noted within this report in Table 1 have been fully provided for in the City's Non-Program 2023 Operating Budget under the Payments-in-Lieu Provision account. As such, there will be no impact on the current year's budget.

The Interim Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its meeting held on November 3-4, 2015, in adopting Item GM7.1: Outstanding Payment in Lieu of Tax and Property Tax Amounts for Federal, Provincial and Municipal Properties and Amendment to Chapter 71, Financial Control By-law, City Council approved adjustments to uncollectible PILTs for taxation years 1998-2014 inclusive totalling approximately \$34.1 million. Adjustments were also approved in the amount of \$3.4 million for uncollectible property tax amounts billed to tenants of federally owned properties.

At the same meeting, City Council approved amendments to the City of Toronto Municipal Code Chapter 71, Financial Control to delegate authority to the Controller to adjust for accounting purposes, outstanding payment in lieu of taxes receivables that the Controller, in consultation with the City Solicitor, determines will not be paid, and to report annually to Council on amounts adjusted.

Most recently, at its meeting held on July 19, 20, 21 and 22, 2022, City Council received for information Item GL32.31 - Status of Outstanding Payments in Lieu of Tax Amounts for Federal, Provincial and Municipal Properties, which identified a total outstanding PILT receivable balance of \$7.1 million at that time, representing 0.29 per cent of the total PILT amounts levied over 1998 to the end of 2021.

COMMENTS

Issue Background

The City's PILT requests are calculated using the current value assessment (CVA) and tax classifications returned for PILTable properties on the assessment roll by the Municipal Property Assessment Corporation (MPAC), multiplied by the applicable tax rates for the property. In most cases, PILTs are paid in the amounts requested.

However, in some cases, the amount of PILT paid for a property by the respective government body differs from the PILT amount requested by the City. This may occur when the senior level of government or its agency has used an assessed value that differs from the assessed value returned on the assessment roll by MPAC. In other cases, a PILT may differ from the requested amount where the senior level of government or its agency has applied a tax mitigation measure like capping or rebates, resulting in a lower PILT amount than requested, or where a property has been incorrectly returned by MPAC as being subject to PILTs.

Where it is clear that the senior level of government or its agency has made a PILT in an amount less than the PILT requested by the City, and that no further payment is forthcoming, the City of Toronto Municipal Code Chapter 71, Financial Control, provides authority to the Controller, in consultation with the City Solicitor, to adjust for accounting purposes any outstanding receivables in respect of payments in lieu of taxes that have been determined unlikely to be paid. This authority allows Revenue Services to remove unpaid PILT receivables where, on a case by case basis, the Controller has concluded that the PILT will likely not be paid, and to remove dormant or invalid PILT accounts from the tax billing system.

This report identifies PILT amounts requested from all levels of government that remain outstanding as at December 31, 2022. No adjustments to 2023 PILT receivables (i.e. to identify amounts deemed uncollectible) are proposed at this time, and current outstanding PILT receivable balances will continue to be actively collected from the respective level of government.

Federal Payments in Lieu of Taxes

Section 3 of Ontario's Assessment Act provides that land owned by Canada is subject to assessment but is exempt from property tax. This exemption from tax is consistent with the constitutional prohibition that one level of government cannot tax another level of government.

The federal Payments in Lieu of Taxes Act ("PILT Act") was enacted to compensate municipalities for delivering services to federally owned properties that would be subject to property tax if they were privately owned. Federal crown corporations make PILTs pursuant to the Crown Corporation Payments Regulation ("the Regulation").

Under the PILT Act and the Regulation, the City requests PILTs from federal bodies. PILTs are unlike property taxes in two important ways: PILTs are made voluntarily, and federal bodies have discretion in determining property values and property tax rate for

calculating PILTs. Two Supreme Court of Canada judgements have considered the nature of this discretion and have concluded that its purpose is to preserve the constitutional immunity of federal bodies from tax while at the same time providing a mechanism to fairly compensate municipalities for their services.

Taxable Tenants on Properties owned by the Federal Government

Tenants of federal bodies are taxable pursuant to section 18 of the Assessment Act. Although Revenue Services attempts to collect taxes from federal tenants by way of collection notices and other collection action, including issuance to a bailiff, in some cases it is no longer feasible to pursue collection as the tenants are no longer carrying on business. Normally unpaid taxes result in a tax sale. However, federal bodies are exempt from property tax, and not subject to normal tax sale provisions that would apply to properties not owned by the Crown. Therefore, pursuant to section 319(4)(a) of the City of Toronto Act, 2006, when unpaid taxes are deemed uncollectible, they may be written off without first conducting a tax sale where the property is federally owned.

Under section 3.1 of the PILT Act and section 8.1 of the Regulation, a federal body has the discretion to make a PILT to a municipality for a federal tenant that did not pay their property taxes. In deciding whether to make PILT, the Minister has to conclude that the municipality has made all reasonable efforts to collect the unpaid taxes and that there is no likelihood the municipality will ever be able to collect the amounts owing.

Provincial Payments in Lieu of Taxes

Properties owned by the province are also exempt from property taxes under section 3 of the Assessment Act. The provincial PILT legislation is the Municipal Tax Assistance Act ("MTA Act"). Under section 4 of the MTA Act, the Minister of Municipal Affairs and Housing may make a payment for property owned by the province or by a provincial agency equal to the tax for municipal purposes that would be payable if the property were taxable.

However, if a Crown property or a portion of a property is occupied by taxable tenants, the Minister or a Crown Agency that owns the property may pay to the municipality an amount equal to the tax for municipal and school purposes that would be payable if the property or the portion of the property were taxable. The province may also make a payment to the City under Ontario Regulation 6/99 if the province or an agency is a tenant of a property that is exempt from tax (e.g. a tenant of a City-owned property).

Municipal Payments in Lieu of Taxes

Under section 27 of the Assessment Act, certain municipal bodies are required to make payments equal to taxes for municipal and school purposes to municipalities "if the land and buildings were taxable and classified in the commercial property class". In Toronto, section 27 applies to properties owned by the Toronto Parking Authority, Toronto Hydro, and lands owned by the Toronto Transit Commission (with the exception of certain properties made exempt commencing in 2006).

PILTs are made by the federal and provincial governments voluntarily. For practical purposes, PILTs are requested from federal, provincial and municipal bodies in the way that private property owners are billed for property taxes. Revenue Services generates the City's PILT requests through the City's tax billing system. This is practical because the information used to request PILTs is based on the assessment roll returned by MPAC which is then uploaded into the tax billing system.

In general, the City calculates PILT requests in the same way that taxes are calculated: multiplying the current value assessment (CVA) of the property as returned by MPAC for the tax year by the applicable tax rate for the property type. Under the City's accounting practices, and in accordance with generally accepted accounting principles and audit requirements, a PILT receivable is created in the City's tax billing system for properties that the City requests PILTs from. When PILTs are paid to the City that are less than the requested amount, the short payment results in an outstanding receivable balance in the tax billing system.

Revenue Services staff make every attempt to collect outstanding PILT amounts from the relevant level of government. In early stages, the follow up is correspondence by letter, email or phone calls to the relevant PILT "manager" at the government body. Revenue Services will also have meetings with representatives of various government agencies.

There are also appeal/review processes which the City has used to deal with outstanding PILT receivables. The federal Dispute Advisory Panel is the adjudicative body created by the federal PILT Act that permits municipalities to ask for a review of the value or tax rate that a federal body has used to calculate its PILTs. Following a hearing, the Panel makes a recommendation to the federal body on the issue of value or rate. Significantly, the federal body is not bound by the Panel's recommendation and is not required to adjust the PILT that they paid to the municipality.

The appeal process in the Assessment Act that apply to taxable properties are applicable to provincial and municipal bodies.

Current Status of Payment in Lieu of Tax Amounts

Table 1 below identifies PILTs requested and amounts outstanding as at December 31, 2022, and adjustments to PILT amounts already made or expected to be made in 2023 by each level of government.

Table 1 - Payments in Lieu of Taxes - Requested Amounts and Amounts Outstanding - By Level of Government (2022)

Description	Federal	Provincial	Municipal	Total PILTS
Total PILT Levy Billed 2015 to 2022	174,201,081	349,079,785	280,473,338	803,754,204
Outstanding PILT receivables/ (payables) as at Dec. 31, 2022	11,965,412	4,577,972	-1,215,348	15,328,036
Refunds, Payments and other adjustments made or expected to be made in 2023¹	-4,541,283	-1,502,327	1,329,863	-4,713,747
Revised Municipal Portion of Receivables²	7,366,720	2,949,032	113,076	10,428,828
Revised Education Portion	57,409	126,613	1,439	185,461
Revised Total PILT Outstanding Receivable as at Aug. 31, 2023³	7,424,129	3,075,645	114, 515	10,614,289
Outstanding Receivable as % of levy	4.26%	0.88%	0.04%	1.32%

1. Includes any adjustments processed as at December 31, 2022 and future known transactions to be processed.

2. Includes add-on charges and fees.

3. Includes aggregated numbers that include credits.

Table 1 identifies a total outstanding PILT receivable as at December 31, 2022 as a balance of approximately \$15.3 million. Additional payments, refunds and adjustments expected to be processed in the future on these receivables total -\$4.7 million, resulting in a net outstanding receivable balance of approximately \$10.6 million. The remaining PILT receivable balance represents 1.32% per cent of the PILT amounts levied over the period 2015 to the end of 2022.

The total outstanding receivable of approximately \$10.6 million identified in Table 1 represents an increase of approximately \$3.5 million over a similar report considered by the General Government and Licensing Committee in July 2022 (Item GL32.31 - Status of Outstanding Payments in Lieu of Tax Amounts for Federal, Provincial and Municipal Properties), which identified a total outstanding PILT receivable balance of \$7.1 million at that time. The increase in total PILT receivable is largely attributable to an increase in outstanding federal PILTs, which have increased by \$6.6 million since 2022, largely related to discrepancies between the amounts billed to the amounts paid by the PILT agency.

Adjustment of Uncollectible PILT Receivables

Chapter 71-17.2 of the Financial Control By-law authorizes the Controller, in consultation with the City Solicitor, to adjust for accounting purposes, outstanding amounts of receivables in respect of PILTs that the Controller determines are unlikely to be paid.

In August 2023, through delegated authority, the adjustment of uncollectible federal, provincial, and municipal PILT receivables totaling \$3,928,395 was approved. The breakdown by level of government is as follows: federal (\$3,389,032), provincial

(\$283,576); and municipal (\$255,787). The agencies affected are outlined in Table 2 below along with the reason for the adjustments. Adjustments include 2023 receivable adjustments for the airport properties.

Table 2: Federal, Provincial and Municipal PILT Amounts Adjusted

	Total PILT Amounts Adjusted	Reason for Adjustment
Federal PILTs		
Toronto Port Authority	\$ 369,357	Toronto Port Authority incorrectly assessed as the owner of the properties.
Billy Bishop Airport	\$ 2,569,773	Unpaid PILT amount represents the difference between the PILT calculated based on CVA x tax rate, and the correct PILT payable prescribed in O. Reg. 282/98 on per passenger basis.
Greater Toronto Airport Authority	\$ 90,931	Unpaid PILT amount represents the difference between the PILT calculated based on CVA x tax rate, and the correct PILT payable prescribed in O. Reg. 282/98 on per passenger basis.
Consulate Properties	\$ 12,669	Ownership changes that changed PILT payable.
Parc Downsview	\$ 243,946	Property changed from PILT to taxable.
Federal Tenants	\$ 102,356	Federal tenant delinquent in payment.
Federal Total	\$ 3,389,032	
Provincial PILTs		
Toronto & Region Conservation Authority	\$ 279,689	Property incorrectly assessed by MPAC and should be exempt from taxation.
Ontario Heritage Foundation	\$ 3,887	Collection efforts have been unsuccessful despite best efforts.
Provincial Total	\$ 283,576	
Municipal PILTs		
Toronto Public Library	\$ 3,858	Property no longer being used by the library and should be exempt from taxation.
Toronto Parks	\$ 214,378	Properties have been incorrectly assessed as PILT and should be exempt from taxation.
City of Toronto	\$ 37,551	Properties have been incorrectly assessed as PILT and should be exempt from taxation.
Municipal Total	\$ 255,787	
Total	\$ 3,928,395	

Further Reductions to PILT Receivables Expected in 2023

Table 1 identifies a total outstanding adjusted PILT receivable of approximately \$10.6 million for all 3 levels of government, including \$7.4 million relating to federal properties; a balance of \$3.1 million for provincial properties and \$0.1 million for municipal properties. These totals reflect the amount outstanding as at August 31, 2023, including any payments, refunds or other expected adjustments processed in 2023.

Attachment 1 to this report provides a detailed summary of the current status of unpaid federal, provincial and municipal PILT properties broken down by level of government, with explanations and details surrounding the reasons for the outstanding PILT amounts. As the unpaid balances for PILT properties being reported in Attachment 1 are as of August 31, 2023 only, column H "Revised Total PILT Outstanding Receivable as at 31 August 2023" may be different from the row in table 1 above "Revised Total PILT Outstanding Receivable as at Aug 31,2023" which includes aggregated numbers, inclusive of credits.

The remaining outstanding PILT amounts may be attributable to the following factors:

- Collection efforts are active and continuous, however, have been unsuccessful to date, or a response from the body responsible remains pending;
- Unresolved appeals that may change the assessment value or the tax classification of the property;
- The property may not be subject to federal, provincial or municipal PILTs;
- Differences in the application of capping phase-in or other adjustments;
- Assessment values used to calculate payments differ from those returned by MPAC.

Revenue Services staff will continue to actively review the remaining PILT accounts for collection. Improvements to internal processes stemming from recommendations made by the City's Auditor General in Item AU4.3: Improving Controls Over Property Tax Assessments and Payment in Lieu of Taxes (PILTs) that provide for the early notification of unpaid PILT amounts from federal, provincial and municipal bodies are improving the City's overall collection success rates for PILTs.

These improved processes and amendments to the City's Financial Control By-Law have furthered the City's ability to hold accountable the various federal, provincial and municipal agencies for the payments in lieu of tax amounts made to the City.

Delegation of Council's Authority to cancel, reduce or refund PILTs

Where a PILT property undergoes a change during the taxation year (for example repairs or renovation, title transfer or severance) the City requires a tax application to be filed under Section 324. Section 324 of the City of Toronto Act, 2006 allows City Council to cancel, reduce and refund PILTs. The recommendation in this report is consistent with the already enacted delegation of authority to the General Government Committee to consider tax applications under sections 323 and 325. Delegating the authority to the General Government Committee to consider applications under section 324 will enable PILT processes to be more streamlined and ensure that Council is not overburdened.

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SIGNATURE

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Controller

ATTACHMENTS

Attachment 1: Summary of Outstanding Payments in Lieu of Tax Amounts by Level of Government