TORONTO

Finance Department
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BRIEFING NOTE:
Payments-in-Lieu of Taxes (PILs):
Response To Questions Raised at Budget Launch

Issue:

At the Budget Launch meeting of the combined Policy and Finance Committee and Budget Advisory Committee, Finance staff were asked to provide the following information:

i. The breakdown of the reduction in PILs by Federal and Provincial agencies (2003 Approved Budget vs 2004 EMT Recommended Budget);

ii. What the impact on the City's revenues would be if the Federal and Provincial Governments paid taxes instead of PILs.

Background:

- Under the provisions of the *Assessment Act*, all property in Ontario is liable for assessment with certain exemptions from taxation. Section 3 of the Act outlines the various types of properties that are exempt from taxation. Various statutes, however, provide for payments-in-lieu of taxes (PILs) to be made by the federal and provincial governments and some municipal agencies.

- Most PILs, with the exception of the Heads and Beds levy, are calculated in a similar manner as property taxes by multiplying the property's assessment by the appropriate tax rate.

- Federal Properties*:*

  Payments-in-lieu of taxes on properties owned by the Federal Government and its Crown corporations are calculated using the full commercial tax rate (i.e. city and education), except for consulate properties, where properties-in-lieu are calculated using the full residential tax rate. For federal properties assessed and taxed in the commercial and industrial class, the school board portion of property taxes is retained by the municipality.

- Provincial Properties:

  For most properties owned and occupied by the Provincial government, the payment-in-lieu is calculated using the tax rate for municipal purposes only at the appropriate rate based on the type of property. The rationale for this is that the Province funds education through other means, and therefore should not also fund education through PILs.

- Municipal Properties*:*

  While the majority of municipal owned properties are exempt from taxation, properties owned by some municipal agencies are liable for PILs such as Toronto Hydro, the Parking Authority of Toronto, the Toronto Transit Commission and Solid Waste and Water/Wastewater facilities. The City retains the school portion of taxes for all commercial and industrial properties owned by the municipality and its agencies.

Key Point(s):

2004 EMT Recommended Budget vs 2003 Approved Budget

- It is recommended that the 2004 PIL Budget be set at $85.0 million, based on the 2004 Returned Assessment Roll and the 2004 preliminary/estimated tax rates:

Chart 2: 2004 Recommended Budget

	(in $ 000's)
Assessment-based PIL Levy (based on estimated tax rates for 2004)	92,021.7
Heads & Beds (based on 2003 Capacity figures)	11,273.4
Gross Revenues	103,295.1
Less uncollectables/appeals, etc.	(18,295.1)
2004 Recommended Budget	85,000.0

- Overall, the 2004 PIL revenues are decreasing by approximately $28.2 million, as compared to the 2003 Approved Budget, as a result of the following:

  i. $16.6 million reduction in projected revenues to account for anticipated appeal reductions and other adjustments, including a required provision of uncollectable receivables;

  ii. $5.0 million reduction due to the impact of re-assessment, including an estimated decrease in the education tax rate for commercial properties for 2004;

  iii. $4.9 million reduction due to an overall assessment loss. Primarily, the assessed values for the CBC and Port Authority properties, as return of the assessment roll for 2004 taxation, have been lowered since they were overstated by MPAC on the returned assessment rolls for prior taxation years;

  iv. $2.4 million reduction due to the conversion of various properties from exempt and/or taxable to PILS and vice versa, as well as changes in property classification; and

  v. $0.8 million estimated increase on the heads and beds levy based on 2003 capacity figures.

Impact on the City's revenues if the Federal and Provincial Governments paid taxes instead of PILs

- Appendix A, attached, estimates the impact on converting PIL properties to taxable.

- If the Federal and Provincial levels of government were to pay taxes instead of PILs on the properties they own and occupy, the City's revenues would *decrease* by approximately *$14.8 million*, given that on most Federal PIL properties and some Provincial properties, the City retains the education portion of taxes.

- If all agencies, including municipal agencies, were to pay taxes instead of PIL, the City's revenues would *decrease* by approximately *$34.3 million.*

Dated: March 11, 2004