
2004 BUDGET BRIEFING NOTE – Non-Program

Issue/Background:

At its meeting on March 12, 2004, the Budget Advisory Committee approved the 2004 EMT Recommended Budget for Non-Program, subject to the following adjustments:

- (1) the Capital and Corporate Financing costs be reduced by \$7.0 million;
- (2) the Tax Deficiencies/Write-offs be reduced by \$5.0 million;
- (3) the Supplementary Taxation revenue be increased by \$2.0 million;
- (4) Tax Penalties revenue be increased by \$1.0 million;
- (5) the Administrative Support Recoveries from Emergency Medical Services be increased by \$59,000.00; and
- (6) Woodbine Slots revenue be increased by \$1.0 million;

and further requested the Chief Financial Officer & Treasurer to refine such numbers for the final Budget Advisory Committee wrap-up meeting.

Key Point(s):

Of the BAC recommended adjustments listed above, amendments to the Tax Deficiencies/Write-offs, Supplementary Taxation revenue, Tax Penalties Revenue, and the Administrative Support Recoveries from the Emergency Medical Services may require further consideration.

Tax Deficiencies/Write-offs

The BAC recommended a reduction of \$5.0 million to the EMT Recommended Budget for Tax Deficiencies of \$78.5 million, thus reducing the 2004 Budget Estimate to \$73.5 million. The 2004 staff recommended budget of \$78.5 million was based on the following reasons:

- There are many assessment appeals outstanding at the Assessment Review Board (ARB) for large commercial and industrial properties going back multiple taxation years. As at December 31, 2003, there are 5,562 pending assessment appeals for commercial and industrial properties.

Since the impact of a successful assessment appeal is significantly greater on larger properties compared to smaller properties, the owners of these properties tend to devote significantly higher resources in challenging their property's assessment. The tax deficiencies associated with appeal activity are estimated using an average expected assessment reduction of 7%. Given the significant resources dedicated to challenging the assessment of large commercial and industrial properties, the City may lose more than 7% of its assessment base for these properties under appeal. If, for example, the actual assessment reduction for 26 of the larger commercial

properties under appeal (i.e. following the Assessment Review Board's decision on these matter) comes in at an average of 8% (instead of the 7% estimated by staff), it will result in an additional \$10 million in total tax deficiencies just for these 26 properties.

- 2003 was an exceptionally low year for tax deficiencies. Past trends indicate that prior to 2003, the actual tax deficiencies processed exceeded the budgets for all years excluding 1999. Established budgets for 1998 to 2002 ranged from a high of \$159.7 million in 1999 (with actuals of \$153.7 million for that year) to a low of \$84.0 million in 2002 (with actuals of \$93.4 million).
- The move to annual re-assessment is expected to generate tax deficiencies greater than the \$66.2 million realized in 2003, but less than the \$94.4 million experienced in 2002. The EMT recommended 2004 budget of \$78.5 million is less than the midway point between the 2002 and the 2003 tax deficiencies. Given that the City has no control over the processing of successful appeals (i.e. the City must process and/or accrue the liability associated with all successfully appeals), to reduce the 2004 budget estimate below the \$78.5 million recommended by EMT will result in a financial pressure during the 2004 budget / taxation year if tax reductions exceed the budgeted amount.

Supplementary Taxation Revenue

The BAC recommended an increase of \$2.0 million from the EMT Recommended Budget for Supplementary Taxation revenue of \$25.0 million to \$27.0 million. The 2004 staff recommended budget of \$25.0 million was based on the following:

- The Supplementary Tax levy achieved in 2003 of \$29.8 million (excluding conversions of payment-in-lieu assessment to taxable) is the direct result of the Municipal Property Assessment Corporation (MPAC) hiring additional assessment staff, on a temporary basis, to clear up the backlog. Given that the backlog in supplementary / omitted assessments has been cleared, and that the temporary resources hired in 2003 are no longer available, supplementary taxation revenue for 2004 is not expected to reach the same level as in 2003.
- Supplementary Tax revenue (excluding assessment conversions from payment-in-lieu taxes to taxable) achieved prior to 2003 has never exceeded \$23.9 million (in 1999) and were as low as \$14.3 million (in 1998):

Taxation Year	Actual Revenues (excluding assessment conversions from PILs to Taxable)
1998	\$ 14.3 million
1999	\$ 23.9 million
2000	\$ 20.9 million
2001	\$ 21.3 million
2002	\$ 19.8 million
2003	\$ 29.8 million

- Finance staff have contacted MPAC representatives in order to determine the supplementary/omitted revenue the City should expect in 2004. Residential assessments are

expected to provide a significant portion of the overall supplementary revenues and as such the anticipated supplementary / omitted levies are expected to generate approximately \$25.0 million for 2004. As a result, the projected supplementary revenue is contingent on MPAC resources to ensure maximization of these revenues.

Tax Penalty Revenue

The BAC recommended an increase of \$1.0 million from the EMT Recommended Budget of \$28.0 million for Tax Penalty revenue to \$29.0 million based on 2003 actual revenue. The EMT Recommended 2004 Budget of \$28.0 million was based on the following:

- At its meeting held June 24-26, 2003, Council adopted enhanced collection procedures for residential properties commencing with the 2004 taxation year, including the use of bailiff services to collect upon outstanding residential property taxes that are at least 1-1/2 years in arrears. This enhancement is expected to reduce the overall outstanding tax receivables, which in turn will reduce the amount of interest/penalty revenue generated on overdue accounts.

Administrative Support Recoveries from the Emergency Medical Services

The BAC recommended an increase of \$59.0 thousand from the EMT Recommended Budget of \$5.9 million for the Administrative Support Recoveries from the Emergency Medical Services to \$5.959 million. It is recommended that no adjustment be made to the EMT Recommended 2004 Budget of \$5.9 million.

- Since 2001, the corporate charges (Administrative Support) to the Emergency Medical Services have not been supported by Provincial subsidy, and the overall subsidy has not kept pace with increases in expenditures.
- For more details, refer to the Briefing Note, entitled “2004 Budget Briefing Note – Non-Program: Emergency Medical Services – Administrative Support”, prepared by the Emergency Medical Services.

Date: March 19, 2004