

DATE: NOVEMBER 24 2016

TO: MAYOR AND MEMBERS OF COUNCIL

FROM: LAURA MIRABELLA-SIDDALL, CHIEF FINANCIAL OFFICER AND CITY TREASURER
LLOYD NORONHA, DIRECTOR OF FINANCIAL PLANNING AND DEVELOPMENT
FINANCE AND DEPUTY CITY TREASURER
DEAN FERRARO, DIRECTOR OF FINANCIAL SERVICES AND DEPUTY CITY
TREASURER

RE: FINANCE, ADMINISTRATION AND AUDIT COMMITTEE – November 28, 2016
DRAFT 2017 BUDGET AND 2018 PLAN

Recommendation

The Chief Financial Officer and City Treasurer, the Director of Financial Planning and Development Finance and Deputy City Treasurer and the Director of Financial Services and Deputy City Treasurer recommend:

1. That this communication be received.

Purpose

The purpose of this communication is to respond to a deputation received regarding a reconciliation of the 2015 Budgeted tax levy requirement and the information contained on the City's 2015 Financial Information Return filing with the Ministry of Municipal Affairs and Housing (Attachment 1).

Background

At the November 14 meeting of the Finance, Administration and Audit Committee, a deputant presented his attempt to reconcile the 2015 approved budget levy increase to the information that is contained on the 2015 Financial Information Return (FIR). The FIR is a data collection tool used by the Ministry of Municipal Affairs to collect financial and statistical information on Municipalities. The deputant's presentation illustrated a 2015 approved budget levy increase of \$168.2 million and FIR actuals of \$179.6 million, resulting in a difference in revenues of \$11.4 million. The deputant requested staff's assistance to explain the difference and how the 2015 approved budget levy increase reconciles to the 2015 FIR actuals.

Difference between introduced and final approved levy increase

The first step in the reconciliation of the 2015 budget and the 2015 actuals is to ensure the correct budget figure is used as the starting point. Upon review of the 2015 approved budget, it was determined that the approved levy increase was \$167.9 million, differing from the \$168.2 million in the deputation. A detail of this reconciliation is below.

Hospital levy is not for City Operating Purposes

The largest difference between budget operating revenues and total revenues shown on the FIR is \$7.0 million related to the special levy for the Vaughan Hospital Precinct Development. These funds are collected specifically for the municipal capital commitment related to the land acquisition for the hospital. The hospital levy accounts for approximately 95% of the difference between the approved budget and the FIR reported actuals.

Another component are the levies collected for local improvements, which are the costs of capital works being recovered from specific residents benefiting from specific local infrastructure works. These are not included in the calculations to determine the budgeted levy increase, but the revenues are reported in the

FIR. These capital revenues account for approximately 4.5% of the difference between the approved budget and the FIR reported actuals.

During the budget process, estimated acreages and rates are used in calculations to determine levy revenues for utility corridors and railway rights-of-way. When the tax bills are prepared, the actual acreages and rates are known and used in calculating the property taxes owing. This can result in differences between the budgeted levy revenues and the actual revenues received for these components. These differences account for less than 0.3% of the difference between the approved budget and the FIR reported actuals.

2015 Approved Levy Increase was \$167.9 million

At the Special Council meeting to approve the 2015 budget, Communication #2 was presented to remove two Additional Resource Requests (ARRs) from the 2015 budget ([link](#)). The removal of these two ARRs resulted in a decrease in the levy requirement from \$168.2 million to \$167.9 million.

	Deputant's Presentation of 2015 Budget	Approved 2015 Budget
Gross Operating Expenses	259.1	258.7
Less: non-Tax Revenue	-87.7	-87.6
Assessment Growth	-3.2	-3.2
Levy Requirement	168.2	167.9

The Levy Requirement represents that amount of property taxes to be collected to fund the operational expenditures of the City.

The revenues in the 2015 budget can be broken down as follows:

Revenue Component	Approved 2015 Budget
Taxation	
Existing Levy	160.3
Assessment Growth	3.2
2015 Levy increase	4.4
Total Levy	167.9
Payment in Lieu	1.5
Hydro Corridors	1.0
Utility/Railway Right of Way	0.1
Payments in Lieu/Other	2.6
Supplemental Taxation	3.2
Total Taxation Revenues	173.7
Non-tax Revenues	85.0
Total Revenues	258.7

In the City's presentation of the budget, Payment in Lieu, Hydro Corridors and Utility/Railway Right of Way are included as one consolidated figure titled Grant/Payment in Lieu/Other. The grant amount has been included in Non-Tax Revenues in the above table.

A reconciliation of the 2015 Approved levy increase and the 2015 Financial Information Return results in a \$7.3 million difference

The breakdown above will help with the reconciliation of the 2015 budgeted revenues to the revenues reported on the Financial Information Return (FIR). The table below provides this reconciliation:

	2015 Budget	2015 FIR	Difference	Source	Notes
2015 Tax Levy	167,941,230	174,981,028	7,039,798	2015 FIR 22A	1
Payment in Lieu	1,500,000	1,442,479	(57,521)	2015 FIR 10	2
Hydro Corridors Tax	956,000	963,027	7,027	2015 FIR 22D	3
Utility/Railway Right of Way	124,000	125,828	1,828	2015 FIR 22D	4
Supplemental Taxation	3,200,000	3,212,461	12,461	2015 FIR 22D	5
Local Improvements	0	330,745	330,745	2015 FIR 22D	6
Total	173,721,230	181,055,568	7,334,338		

Notes:

1. 2015 Tax Levy

The difference is related to the special levy for the Vaughan Hospital Precinct Development that was approved by Council in 2009 to fund the City's \$80 million contribution towards the Vaughan Hospital Precinct Development. A special tax rate increase of 5.45 per cent was approved in 2009 and phased in over five years ending in 2013. The established annual tax levy funds are necessary to cover the cost of the City's contribution for the Hospital Precinct land, development, and servicing plus anticipated financing costs. These revenues are not included in the calculation of the annual levy requirement for the operations of the City.

2. Payment in Lieu

Payment in Lieu revenues are tax revenues on properties that would normally be exempted from paying property taxes due to use, ownership or land type. Typically, these types of property are owned by the Crown (Federal or Provincial) and/or Crown corporations. The City is permitted to bill the property owners and they are required to pay. Revenues received were \$1.4 million (Schedule 10), including the \$773,682; slightly less than the \$1.5 million budgeted.

The deputation received illustrated that FIR Schedule 22D contained an item called "Adjustment for Properties, PIL" in the amount of \$773,682. This line represents the education portion of the payment from Commercial or Industrial Hydro properties that should be retained by the municipality. In that same line, there is an amount of -\$773,682 for Education Taxes. The net impact of this is \$0.

3. Hydro Corridors

Municipalities receive amounts from Utility Corridor properties based on applying a Rate to the Acreage of the property. At the time the budget is prepared, an estimated rate and acreage is to calculate the anticipated revenues. The actual rates and acreage is received after the budget is approved. The actual rates and acreage are used in the actual tax billings. This may result, as it did in 2015, in a difference in the budgeted revenues and the actual revenues received.

4. Utility/Railway Right of Way

Municipalities receive amounts from Railway Rights-of-way properties based on applying a Rate to the Acreage of the property. At the time the budget is prepared, an estimated rate and acreage is to calculate the anticipated revenues. The actual rates and acreage is received after the budget is approved. The actual rates and acreage are used in the actual tax billings. This may result, as it did in 2015, in a difference in the budgeted revenues and the actual revenues received.

5. Supplemental Taxation

Supplemental taxation is generated from additional assessment forwarded to the City from Municipal Property Assessment Corporation (MPAC) over the course of the year, and is primarily a result of new construction. The City received slightly more revenues than were budgeted by \$12,461.

6. Local Improvements

A local improvement is a project undertaken by a municipality that provides a benefit to properties in the vicinity, such as sidewalks and sewers. Municipalities can use the local improvement process to undertake a capital project and recover all or part of the cost of the project by imposing local improvement charges on properties that benefit from the work.

The City is currently collecting revenues from certain residential properties to recover the cost of completing sewer works that benefited those properties. These revenues are separate from the general tax levy are not included in the calculation of the annual levy requirement for the operations of the City.

It should be noted that reconciliation between a City's annual budget and information presented on the FIR statements or the City's Year End Financial Statements is admittedly not an easy exercise. The Budget is formulated on a "cash flow" basis, while the other statements are presented on an "accrual" basis. This fundamental difference can often cause confusion on reconciliations. In order to provide transparency to citizens the City provides Quarterly "Fiscal Health Reports" that demonstrate actual expenditures and revenues versus the budgeted amount on the same basis so that it is easier to follow and understand. For the 2015 budget, the final fourth quarter report was provided to Council at the Finance, Administration and Audit Committee meeting on April 4, 2016. The City's financial and budget reporting are continuously improving and the City may, in the future, work towards disclosing the budget on an "accrual" or "modified-accrual" basis to aid in the ability to reconcile Financial Statements with approved Budgets.

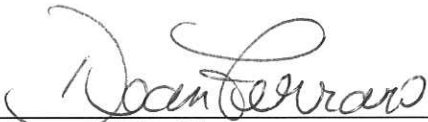
Respectfully submitted,



Laura Mirabella-Siddall, CPA, CA
Chief Financial Officer and City Treasurer



Lloyd Noronha, CPA, CMA
Director, Financial Planning and Development Finance and Deputy City Treasurer



Dean Ferraro, CPA, CA
Director, Financial Services and Deputy City Treasurer

Attachment 1

Reconciliation provided by Deputant at Finance, Administration and Audit Committee on November 14, 2016

<u>2015 Budget Vs Actual</u>	<u>Approved 2015</u>		<u>Difference</u>	<u>Source</u>
	<u>Budget</u>	<u>2015 Actual</u>		
Gross Operating Expenses	\$259,100,000.00	\$259,300,000.00	\$200,000.00	COV
Less: Non-Tax Revenue	-\$87,700,000.00	-\$88,100,000.00	-\$400,000.00	COV
Assessment Growth	-\$3,200,000.00	-\$3,100,000.00	\$100,000.00	COV
Levy Requirement	\$168,200,000.00	\$168,100,000.00	-\$100,000.00	
2015 Tax Rate Increase 2.86%	\$4,700,000			
<u>Tax Levies</u>	<u>Budget</u>	<u>FIR Actuals</u>	<u>Difference</u>	
		<u>(MMAH)</u>		
Levies From Property Taxes	\$168,200,000.00	\$174,981,028.00	\$6,781,028.00	FIR2015 (Tab 22A)
Adjustments for properties, PIL	\$0.00	\$773,682.00	\$773,682.00	FIR2015 (Tab 22D)
Total of all supplementary taxes	\$0.00	\$3,212,461.00	\$3,212,461.00	FIR2015 (Tab 22D)
TOTAL Levied by Tax Rate	\$168,200,000.00	\$178,967,171.00	\$10,767,171.00	FIR2015 (Tab 22D)
Local improvements	\$0.00	\$330,745.00	\$330,745.00	FIR2015 (Tab 22D)
Railway rights-of-way (RTC = W)	\$0.00	\$125,828.00	\$125,828.00	FIR2015 (Tab 22D)
Utility transmission and utility corridors (RTC = U)	\$0.00	\$963,027.00	\$963,027.00	FIR2015 (Tab 22D)
Other	\$0.00	-\$777,326.00	-\$777,326.00	FIR2015 (Tab 22D)
Total Taxes Levied	\$168,200,000.00	\$179,609,445.00	\$11,409,445.00	