



Public Policy Revenue Tools – City of Toronto Act, 2006

**Presentation to the
Executive Committee
March 26, 2007**



Outline

1. Background on the *City of Toronto Act, 2006* (COTA)
2. Preliminary Findings of Study
3. Next Steps

City of Toronto Act, 2006

“Toronto is the engine of economic growth in Ontario and much of Canada. Its continued economic prosperity and quality of life has to be a priority for all of us. It’s a miracle it has delivered prosperity for so long and to so many despite living in a legislative and fiscal straightjacket that would baffle Houdini”

...Ontario Premier Hon. Dalton McGuinty

City of Toronto Act, 2006

- # Discussion with Province 2004 – 2006
- # Royal Assent (June 12, 2006)
- # Proclamation as law January 1, 2007
- # Provides new powers of taxation

Background on COTA

- ✚ Potential new revenues will be:
 - used to create/enforce City's public policy objectives
 - linked to City-building initiatives, such as transportation, parks and recreation, culture and climate change.

- ✚ The Discussion Paper:
 - facilitates discussions among stakeholders and Councillors
 - makes no recommendations
 - will most likely not provide revenues for the 2007 budget.

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Background on COTA

- ✦ Provides new revenue tools but not the solution to structural funding shortfall of more than \$1.1 billion
- ✦ Toronto requires:
 - the Province to pay for provincial programs (e.g. social services, social housing)
 - a permanent sustainable funding that grows with the economy (e.g. one cent of the GST)
 - a National Transit Strategy per Big City Mayors' Caucus call for permanent \$2 billion per year

Balancing Services and Funding



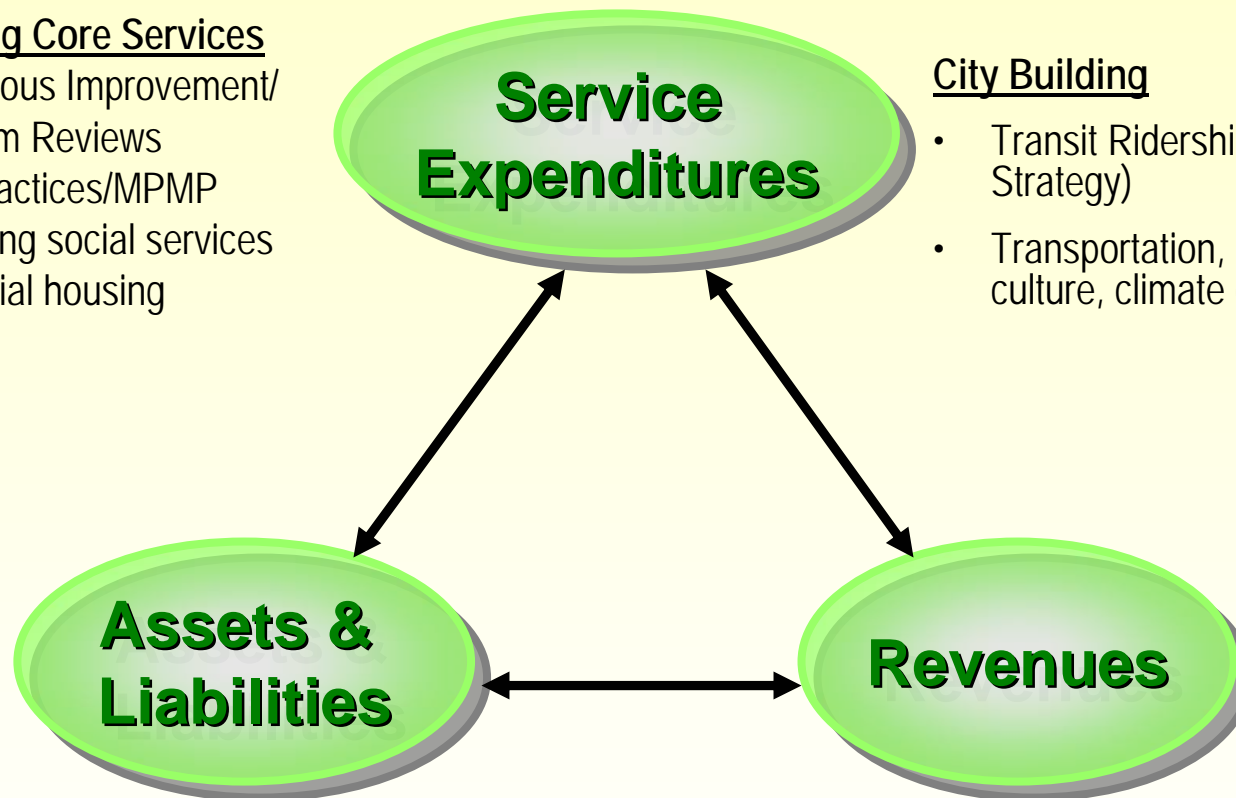
Balancing Services & Funding

Maintaining Core Services

- Continuous Improvement/ Program Reviews
- Best Practices/MPMP
- Uploading social services and social housing

City Building

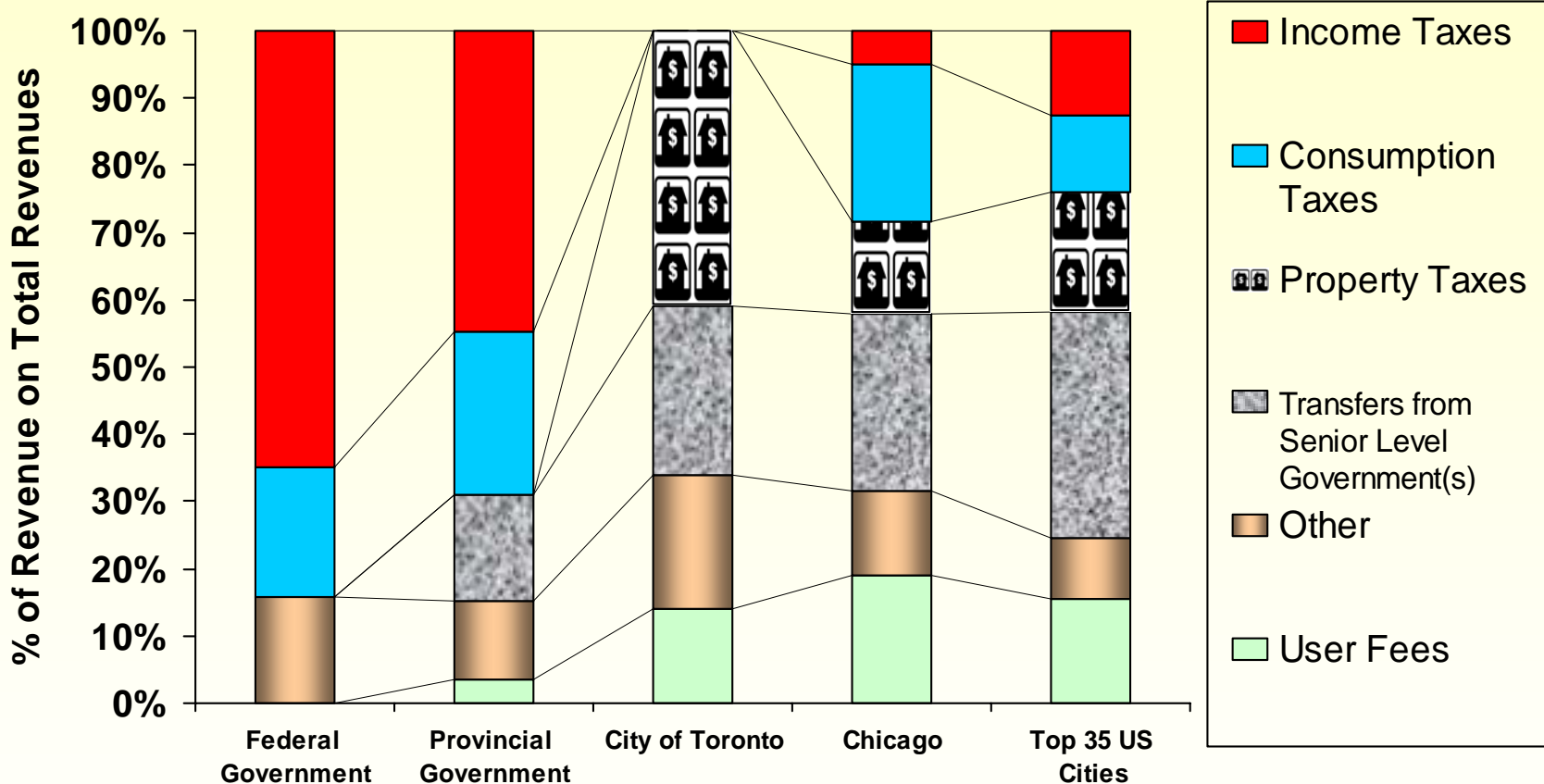
- Transit Ridership Growth (Transit Strategy)
- Transportation, parks & recreation, culture, climate change



- Maintaining City's infrastructure to support services
- Minimize Debt
- Optimize reserves for the future

- Permanent, Sustainable Revenues that grow with the economy: e.g. 1 ¢ of GST
- Funding from National Transit Strategy
- City of Toronto Act revenues

Comparison of Revenue Structures of the Three Orders of Government & U.S. Cities



Source: 2006 Federal Budget, 2006 Ontario Budget, Toronto's 2006 Approved Operating Budget, US Census Bureau (2003 data) "Other" may include investment income, income from subsidiaries, sale proceeds from properties, etc.

Revenue Generating Powers under the COTA

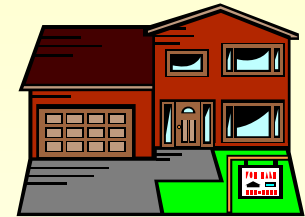
New Powers

- ✚ Property tax powers – unchanged
- ✚ Fees and Charges – relatively unchanged
- ✚ Direct Taxation – new

Revenue Generating Restrictions under the COTA

Toronto Not Permitted to Implement:

- # Income Tax
- # Sales Tax (except liquor, tobacco and entertainment)
- # Tax on lodging such as hotel/motel/hostel/apartment house/boarding house
- # Gas Tax and Energy Tax, including electricity
- # Wealth Tax
- # Poll Tax
- # Resource extraction
- # Tax on machinery and equipment used in research and development, or in manufacturing and processing



Preliminary Findings



Potential New Revenue Tools (Direct Taxes) Studied, under the COTA

1. Vehicle Registration Tax
2. Land Transfer Tax
3. Alcohol Tax
4. Tobacco Tax
5. Billboards Tax
6. Parking Tax
7. Entertainment Tax
8. Road Tax (Congestion and Road tolls/tax)

Consultant's Findings

- ✦ Revenue tools were assessed based on the following six factors:
 - Average annual household impact
 - Visibility of the tax
 - Administrative complexity
 - Effect on the business community
 - Vendors who would be affected
 - Frequency of tax payments
- ✦ New Revenues were compared against the option of raising property taxes

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Consultant's Findings

Least Difficult Options

- Vehicle registration tax
- Land transfer tax
- Alcohol tax on store sales

Moderately Difficult Options

- Alcohol tax on licensee sales
- Cigarette tax
- Amusement taxes on movies & live sporting events
- Parking tax
- Billboard tax

Most Difficult Options

- Amusement tax on live entertainment
- Road Pricing (Road tolls/tax and Congestion tax)

Other Staff Considerations

- ✚ The eight revenue tools were further assessed by staff based on:
 - Fit with Public Policy Objectives
 - Progressive vs. Regressive, i.e. are taxes higher or lower at higher income levels
 - Revenue potential and Revenue growth potential
 - Exportability, i.e. degree to which taxes are paid by those outside the City
 - Implementation time

Preliminary Findings

Least Difficult Options

| Tax Option & Example Rate | Revenue (mid range) Estimate (Millions) | Administrative Complexity | Policy Fit |
|---|---|---|--|
| Vehicle Registration @ \$40/vehicle/year | \$43 | Complexity: Low Implementation: 1.5 years from Council decision; Requires Provincial/licensing agent cooperation; Province-wide system adjustment required; | Air quality; Pro-transit; Punitive to occasional drivers; Linked to road costs. |
| Land Transfer @ 0.5% of sale price | \$103 | Complexity: Low (three locations, one entity, simple compliance); Implementation: 1.5 years from Council decision. Requires Provincial/land registry offices cooperation; | Diversifies assessment based indirect (on sale vs. annual). |
| Alcohol @ 5% of pre-GST/RST price (Stores: LCBO, Agency Stores, Beer Stores, Wine Stores, Breweries, Wineries) | \$44 | Complexity: Low; Implementation: 2 years from Council decision. Requires Provincial/LCBO/Beer Stores etc. cooperation; | Health benefit; Linked to E.M.S., police and social costs. |

Preliminary Findings

Moderately Difficult Options

| Tax Option & Example Rate | Revenue (mid range) Estimate (Millions) | Administrative Complexity | Policy Fit |
|---|---|--|---|
| Alcohol @ 5% of pre-GST/RST price (Licensee Sales: Bars, Night Clubs, Restaurants, etc.) | \$24 | Complexity: High; Implementation: 3 years Federal/ Provincial cooperation would ease complexity. | Health benefit, linked to EMS, police and social costs |
| Tobacco (Cigarette) @ 5% of pre-GST price | \$25 | Complexity: High; Implementation: 3 years Fed-Prov cooperation helpful; many small vendors, costly compliance. | Health benefit but may promote illegal activities. |
| Amusement (Movies) @ 5% of pre-GST price | \$4 | Complexity: High; Implementation: 2 - 3 years Fed- Prov cooperation helpful. | May suppress sector activity; not linked to City costs. |
| Amusement (Live Sporting) @ 5% of pre-GST price | \$7 | Complexity: High; Implementation: 2 – 3 years Fed-Prov cooperation helpful. | May suppress sector activity; linked to transit, police, social costs. |
| Parking (Central downtown) @ \$100/stall/year | \$7 | Complexity: Low; Implementation: 1.5 years MPAC cooperation required | Air quality; pro transit; downtown business costs increase; may promote sprawl. |
| Billboards @ varied rates by size and type of billboard | \$2 | Complexity: Low; Implementation: 2 years About 4,200 billboards in Toronto | Clean & Beautiful benefit; direct land use regulation may be more effective. |

Preliminary Findings

Most Difficult Options

| Tax Option | Revenue (mid range) Estimate (Millions) | Administrative Complexity | Policy Fit |
|--|---|--|--|
| <p>Amusement (Live Entertainment)</p> <p>@ 5% of pre-GST price</p> | \$6 | <p>Complexity: High; can ease with Implementation: 3 years</p> <p>Complexity can ease with Federal/Provincial cooperation; A large majority of high-ticket priced events of CMA occur in Toronto; Compliance costly.</p> | <p>May suppress sector activity;</p> <p>Potentially linked to transit, police and social costs.</p> |
| <p>Road Pricing (Congestion <u>or</u> Road toll/tax)</p> <p>Extensive capital & operating investments required. Costs likely @20-50% of revenues. Net revenues estimated @ \$50-100M for road toll/tax; \$60-\$150M for cordon tax.</p> | \$75 | <p>Complexity: High; Implementation: 3 years</p> <p>Significant capital and operating investments.</p> <p>Extensive enforcement systems.</p> | <p>Supports:</p> <ul style="list-style-type: none"> - air quality - pro-transit policy objectives <p>May promote sprawl.</p> <p>Linked to road, transit, health costs.</p> |

Examples of Legal Considerations

- How Courts will treat the taxes
- Provincial regulatory limitations
- Rate structures, phase-in options, exemptions
- Audit and inspection procedures
- Penalties for failing to comply with the by-laws
- Dispute resolution mechanisms
- Enforcement measures for overdue taxes (e.g. interest charges)
- Other matters Council considers appropriate

Examples of Administrative Considerations

- Negotiations/procurement re. collection, compliance, advisory services
- Compliance services: public education & instruction, remittance forms, e-filing, call support
- Collections, prosecutions and appeals
- Monitoring trends, developments and achievement of City's policy objectives

Next Steps

- ✦ Staff Recommendation: undertake consultations with residents, stakeholders and businesses;
 - ✦ Further review short list of potential tax measures, as directed
 - ✦ Detailed policy reviews
 - ✦ Report recommending final tax measures to Executive Committee and Council
 - ✦ Implementation process
- ✦ Spring 2007
 - ✦ Summer 2007
 - ✦ 2008

Summary

- ✦ This is a Discussion Paper and makes no specific recommendations
- ✦ Revenues will not address the City's structural funding shortfall of \$1.1 billion annually
- ✦ Revenues generated should be directed by public policy and linked to City building initiatives such as transportation, parks and recreation, culture and climate change
- ✦ Revenues are most likely not available in 2007
- ✦ No new revenue tools would be implemented before public consultation and Council consideration

