



New Taxation Measures

City of Toronto Act

Presentation to Council
July 16, 2007



Outline

1. Background
2. Consultation
3. Economic Competitiveness
4. Fiscal Context
5. Recommendations

1. Background

Background

City of Toronto Act, 2006

- + Discussion with Province 2004 – 2006
- + Proclamation January 1, 2007
- + Provides new powers of taxation

Revenue Tools Report

(March 26, 2007)

- ✦ Staff discussion paper introduced 8 taxation options
- ✦ Hemson Consulting study examined revenue potential, market response, comparable taxes elsewhere, potential fit
- ✦ Three categories of suitability identified

Preliminary Findings

Most Suitable

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

Moderately Suitable

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

Least Suitable

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

Committee Direction

At March 26/07 meeting, Executive Committee directed DCM & CFO to:

- ✚ Consult with the public & stakeholders about potential tax measures
- ✚ Report back to committee in June following consultations, with results and options for consideration of potential implementation of tax measures

2. Consultation

Consultation Process

Consultation process involved three mechanisms:

- ✚ Public consultation events
- ✚ Stakeholder consultation meetings
- ✚ Review of written submissions

Consultation Process (continued)

Public Consultation

- ✚ About 450 community organizations notified by mail about public meetings and other methods of providing input (e.g. e-mail, postal mail).

- ✚ Meetings held in four communities in the City
 - South: Harbourfront (May 7)
 - West: Etobicoke Collegiate Institute (May 15)
 - North: North York Memorial Hall (May 17)
 - East: Scarborough Civic Centre (May 23)

- ✚ A total of approximately 500 attended

Consultation Process (continued)

Stakeholder consultation

- + 53 invitation letters sent to a broad spectrum of business and industry sectors
- + 37 stakeholders participated in meetings with staff
- + Stakeholders also attended public consultation sessions.

Consultation Process (continued)

Written submissions

- ✦ The City's website provided reports and other information for public participation
- ✦ 23 formal written submissions were received from stakeholders by June 1
- ✦ 189 emails and numerous personal letters were received and responded to

Consultation Results

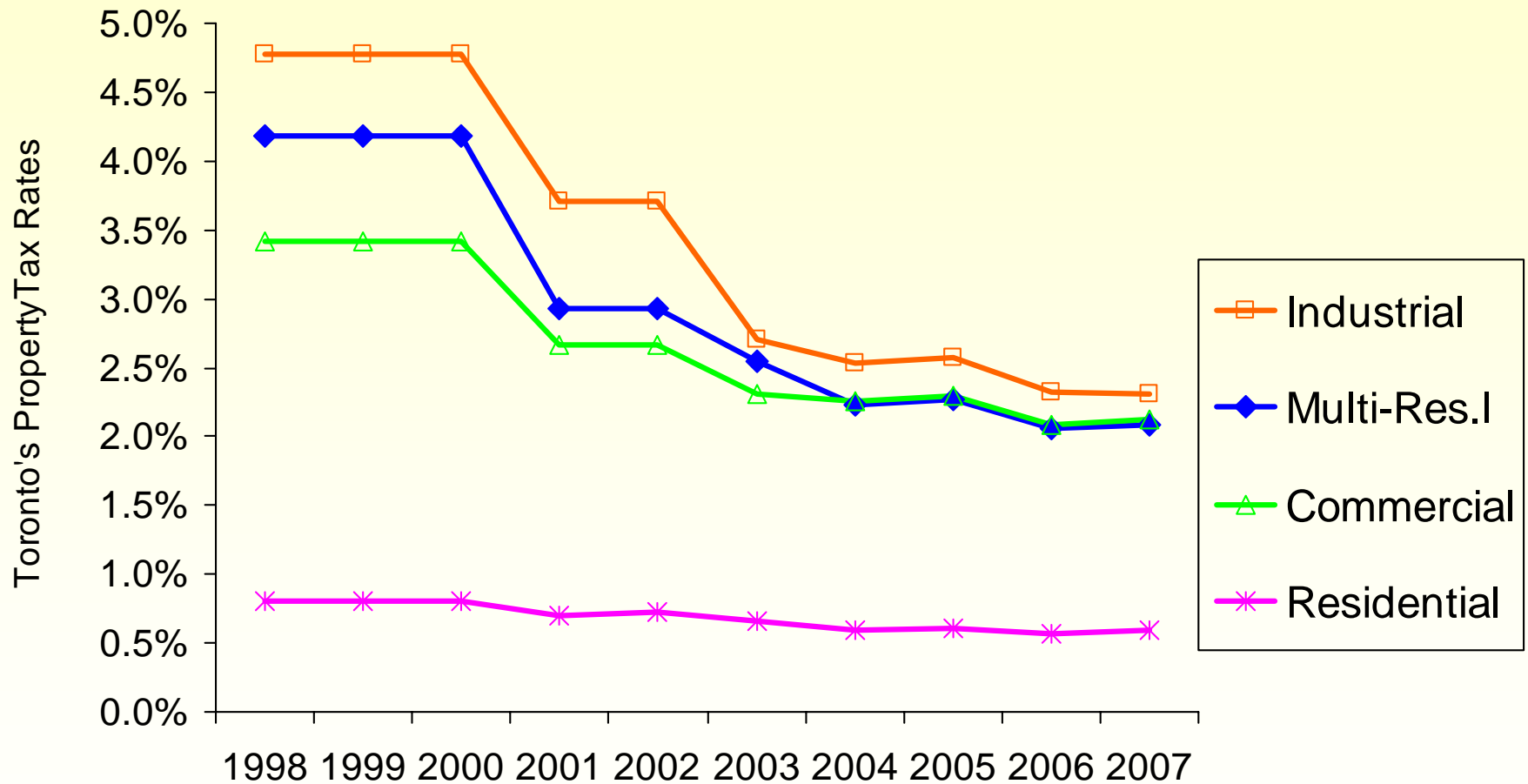
- ✚ Participants in public consultations and e-mail respondents were overwhelmingly against the imposition of new taxes
- ✚ Public comments generally fell into four categories
 - process concerns (e.g. too rushed, lacking political representation)
 - questioning need for new tax revenues (cost control)
 - adverse economic impacts (business losses, personal hardships)
 - questioning what the new tax revenues will be used for
- ✚ Stakeholder consultations provided comments on the potential economic competitiveness consequences of specific taxation options;
- ✚ Written submissions were primarily from stakeholders providing additional detail
- ✚ E-mails were mostly personal views against new taxes

3. Economic Competitiveness

'Its Everybody's Business' Tax Competitiveness Report (2005)

- + 15 year plan
- + Limits non-residential tax increases to 1/3 of residential increases
- + Rebalances non-residential tax ratios to 2.5 times residential
- + Accelerated reduction in tax rates for small business (2007/8)
- + Restores tax fairness and competitiveness in City

Tax Rates Reduced Since 1998



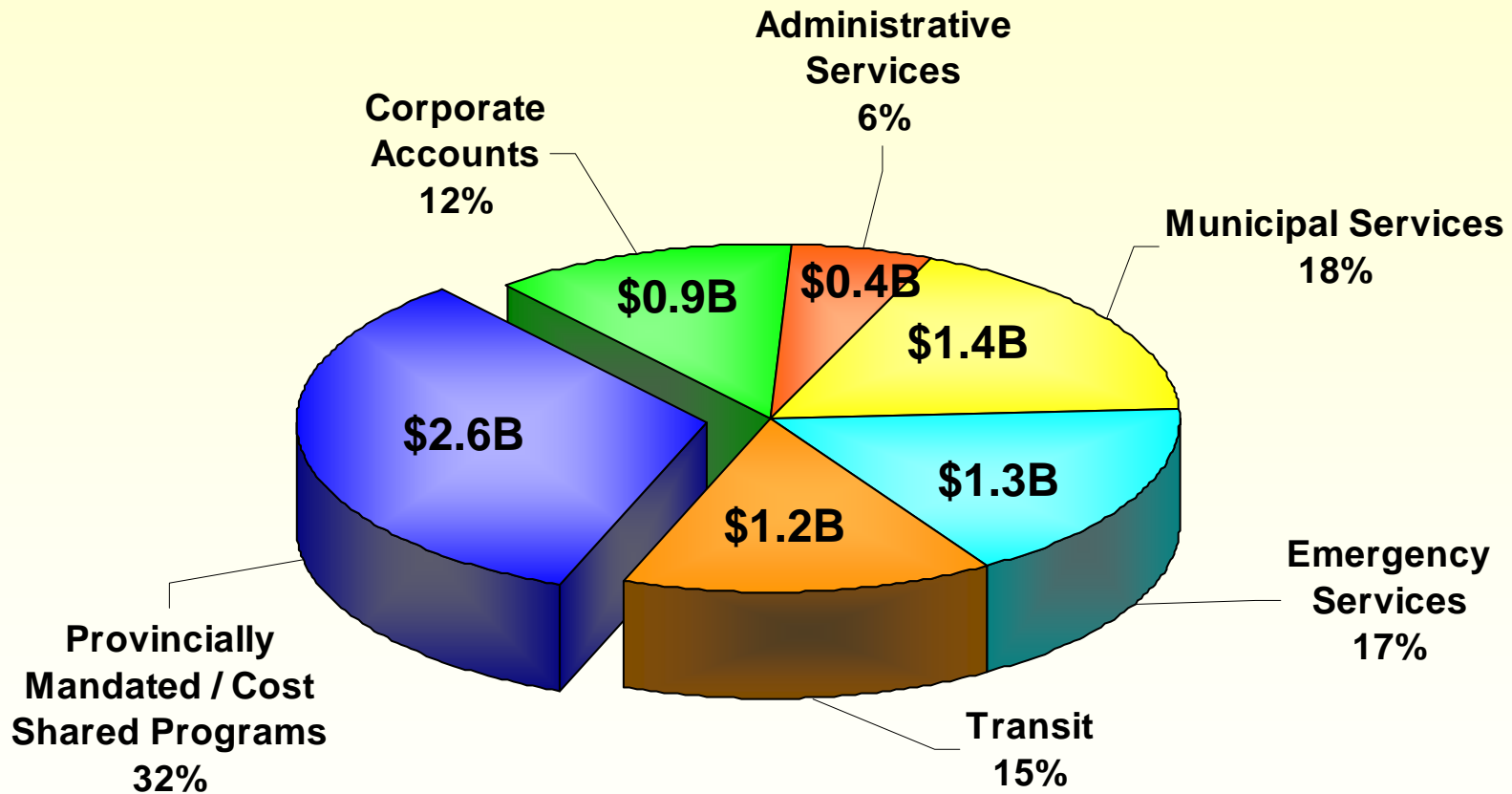
Other Economic Competitiveness & Tax Policies

- ✚ Development Charges exemption provided for commercial/industrial property development
- ✚ Water rate restructured to provide reduced rates (20%) for large volume users
- ✚ Successful Council initiative to obtain reduction to the provincial business education tax (BET)

4. Fiscal Context

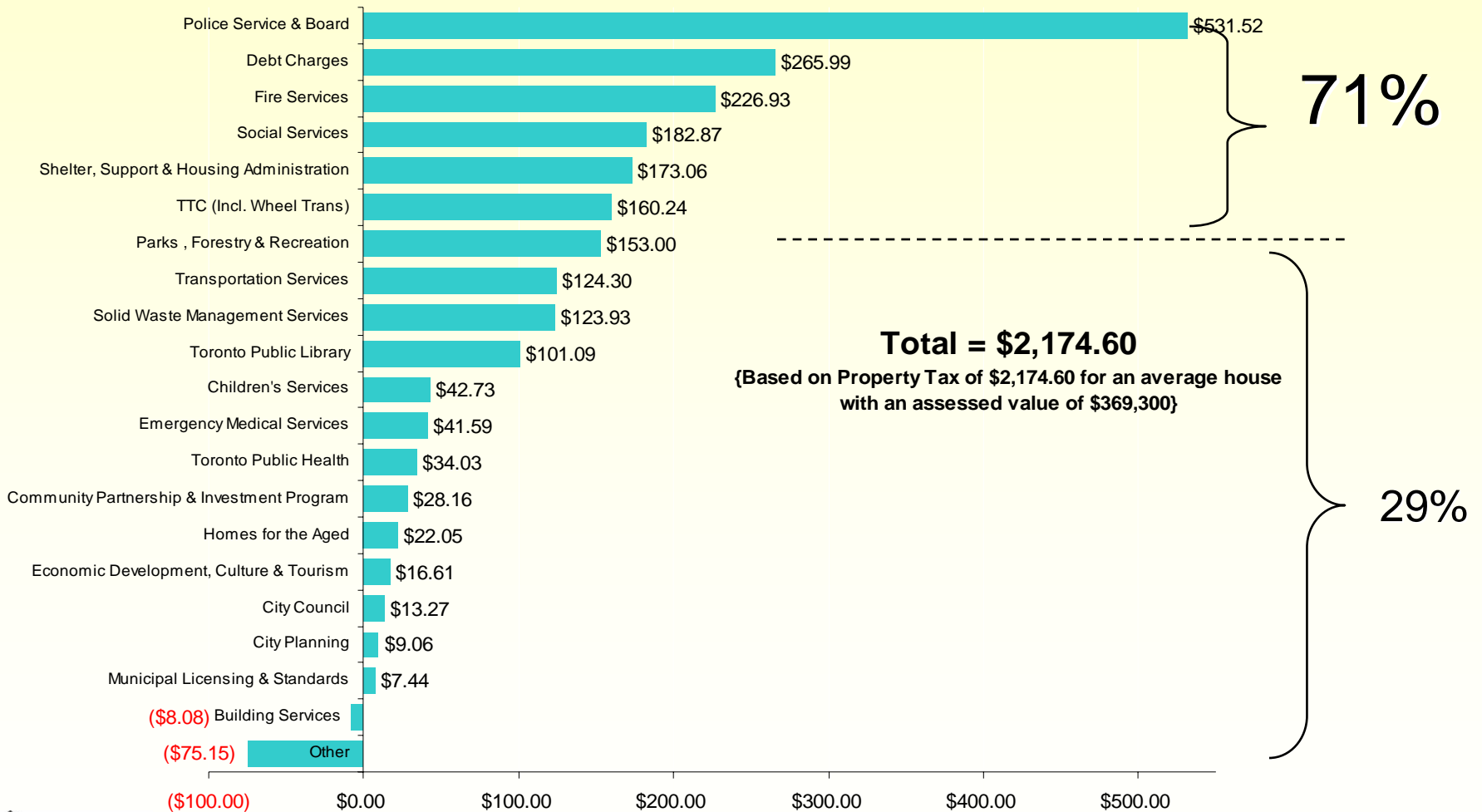
Expenditures: Provincially Mandated Programs are 32% of Budget

2007 Gross Operating Budget \$7.8 billion



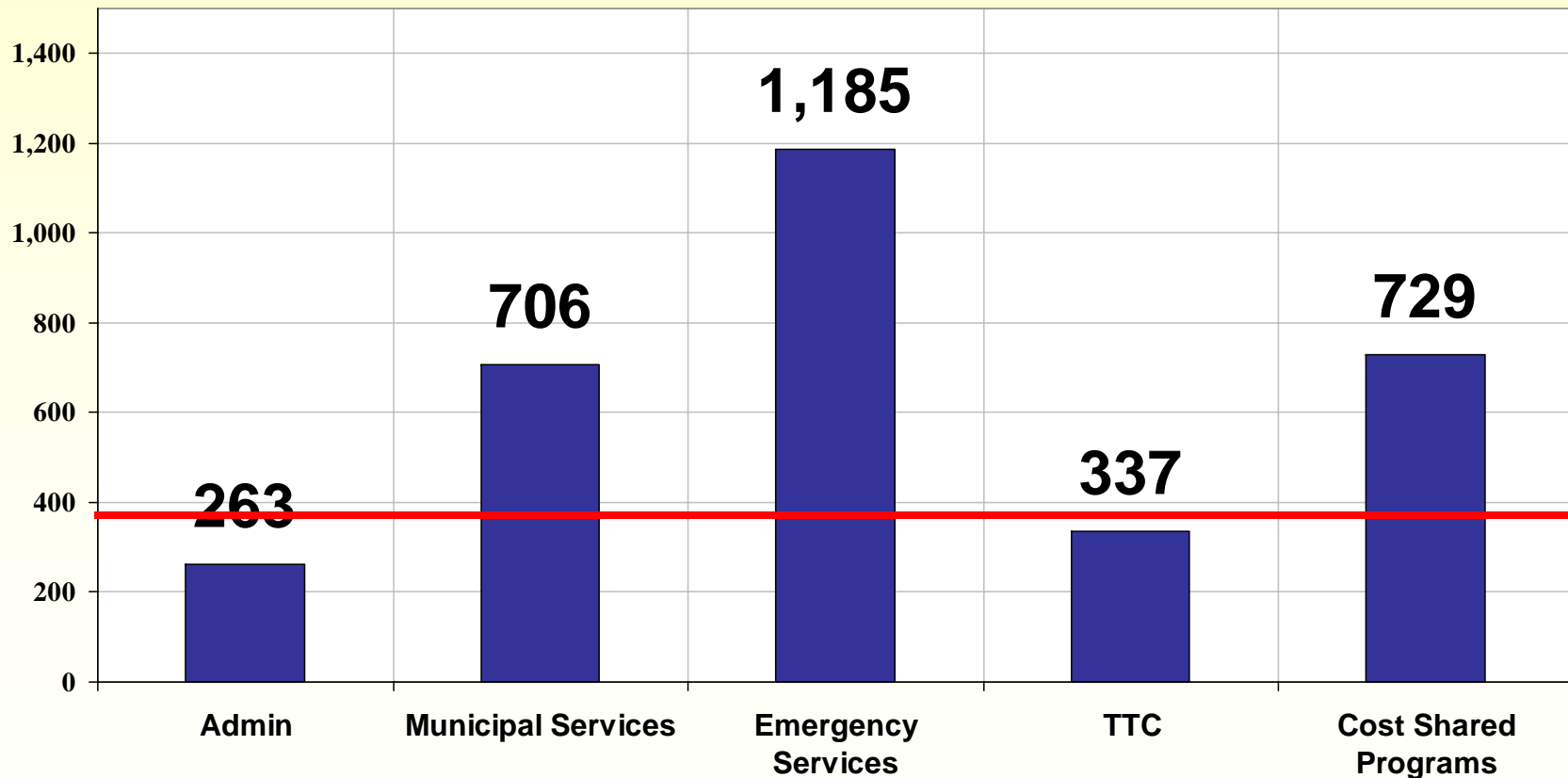
Police, Fire, TTC, Social Programs & Debt Charges Spend 71% of Property Tax

How Your Tax Dollar Will Work For You In 2007



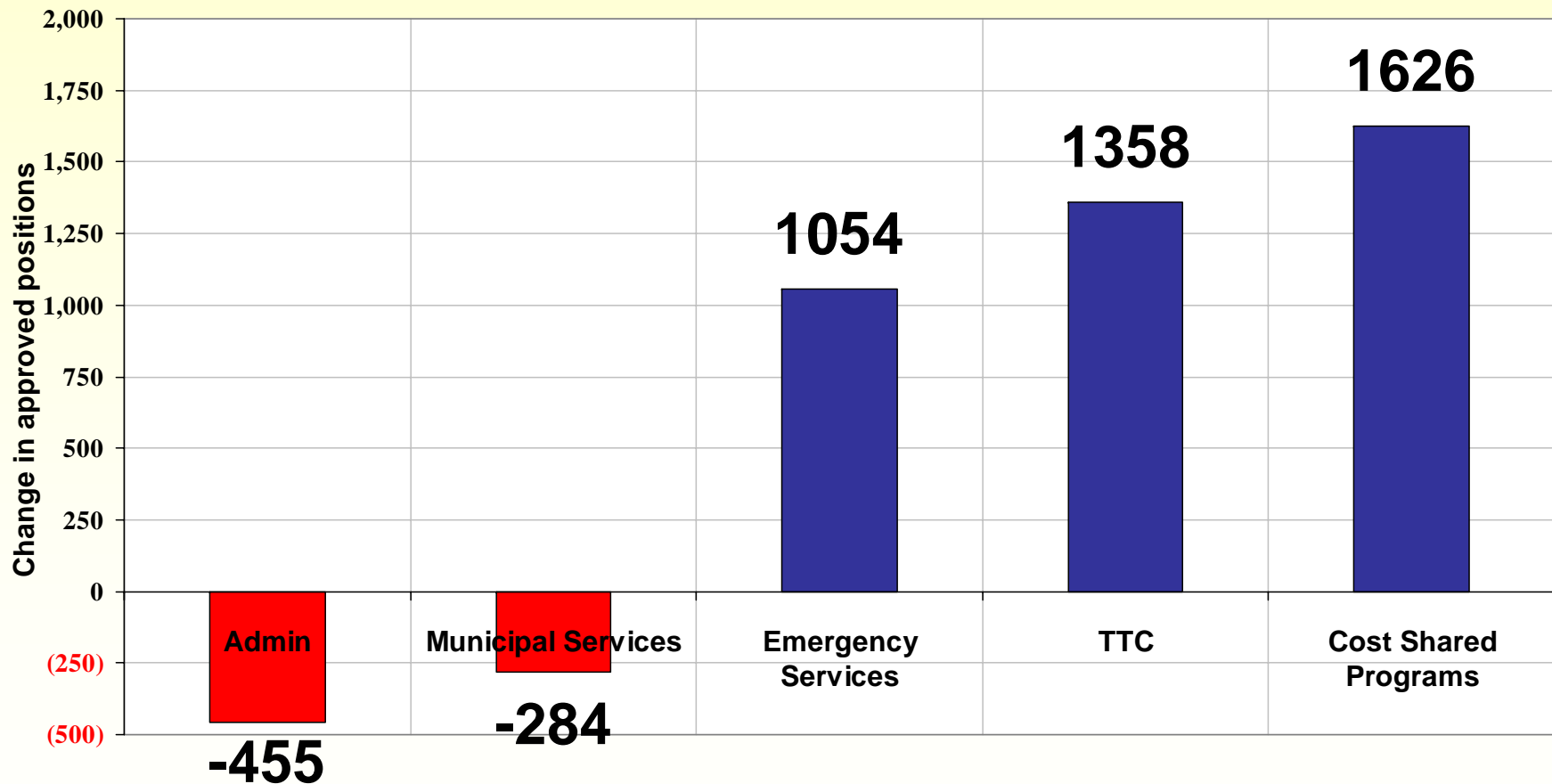
Net Expenditure by Program Type vs. New Taxation Revenue - \$356 Million

\$ Millions



Expenditures: Staffing Growth Highest in Cost Shared Programs

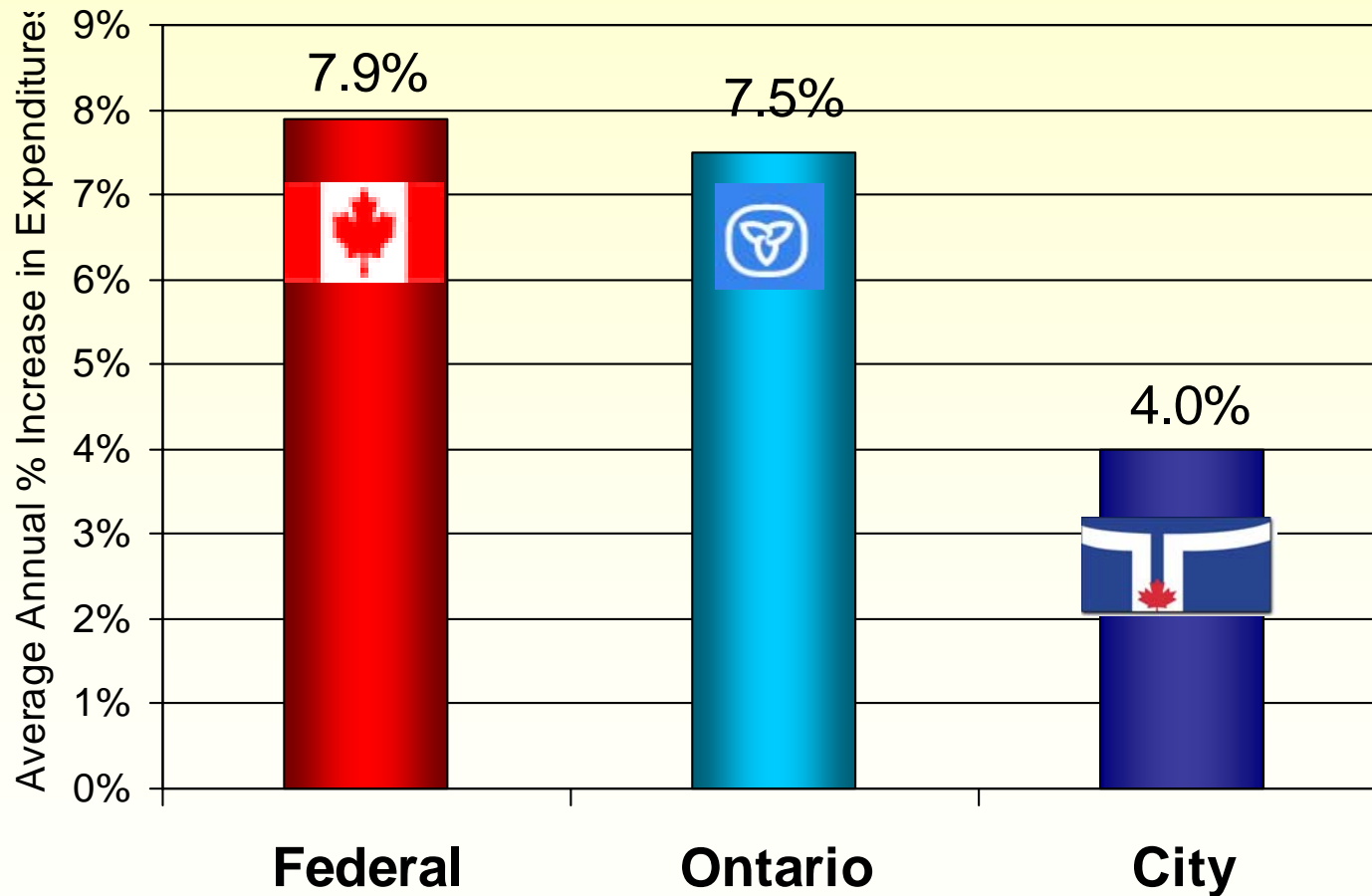
Net Change in Approved Positions by Program Type
1998 through 2006 (Net Increase of 3,299 Positions)



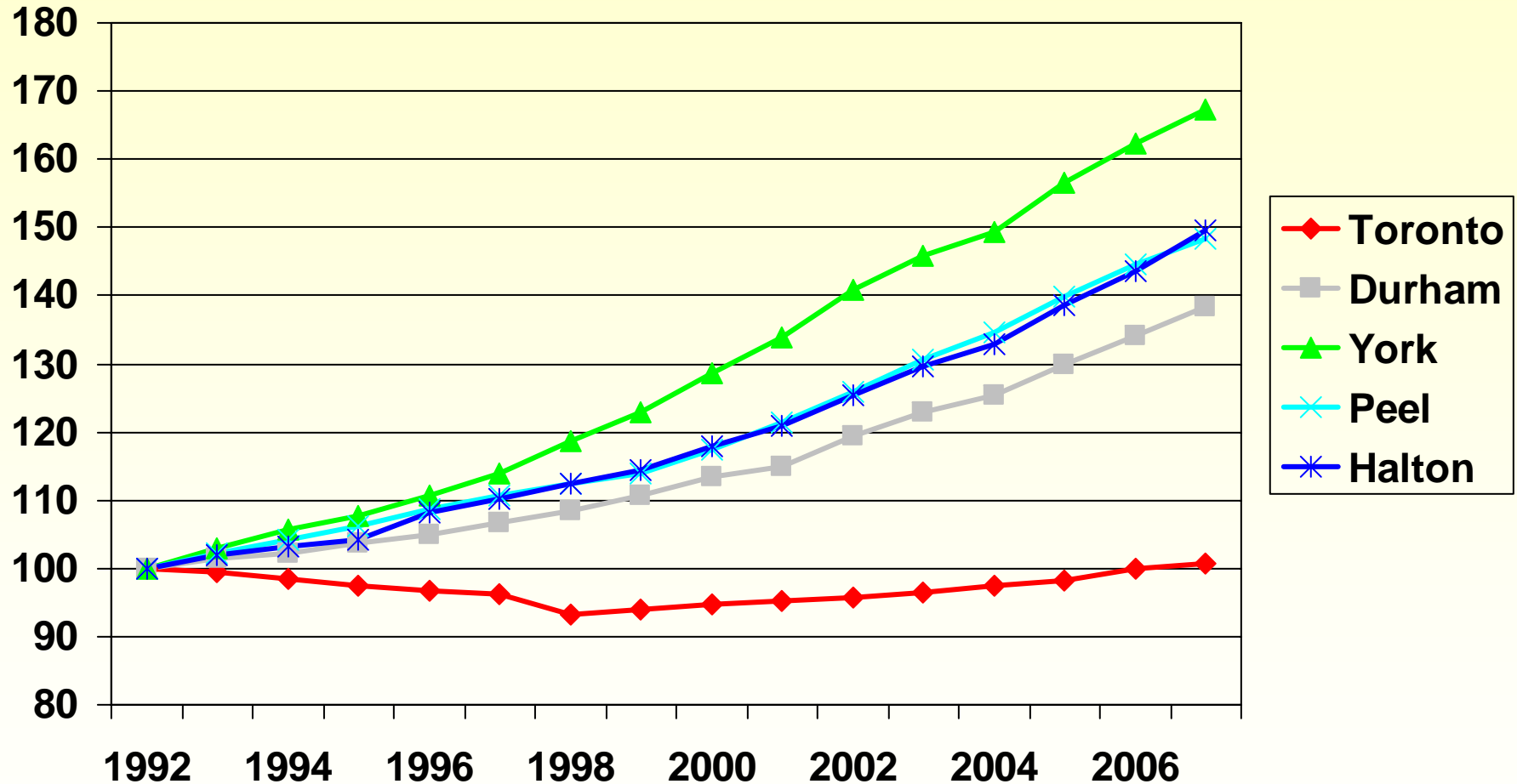
Expenditures

Average Annual Change: Federal / Provincial / City

1998 to 2007



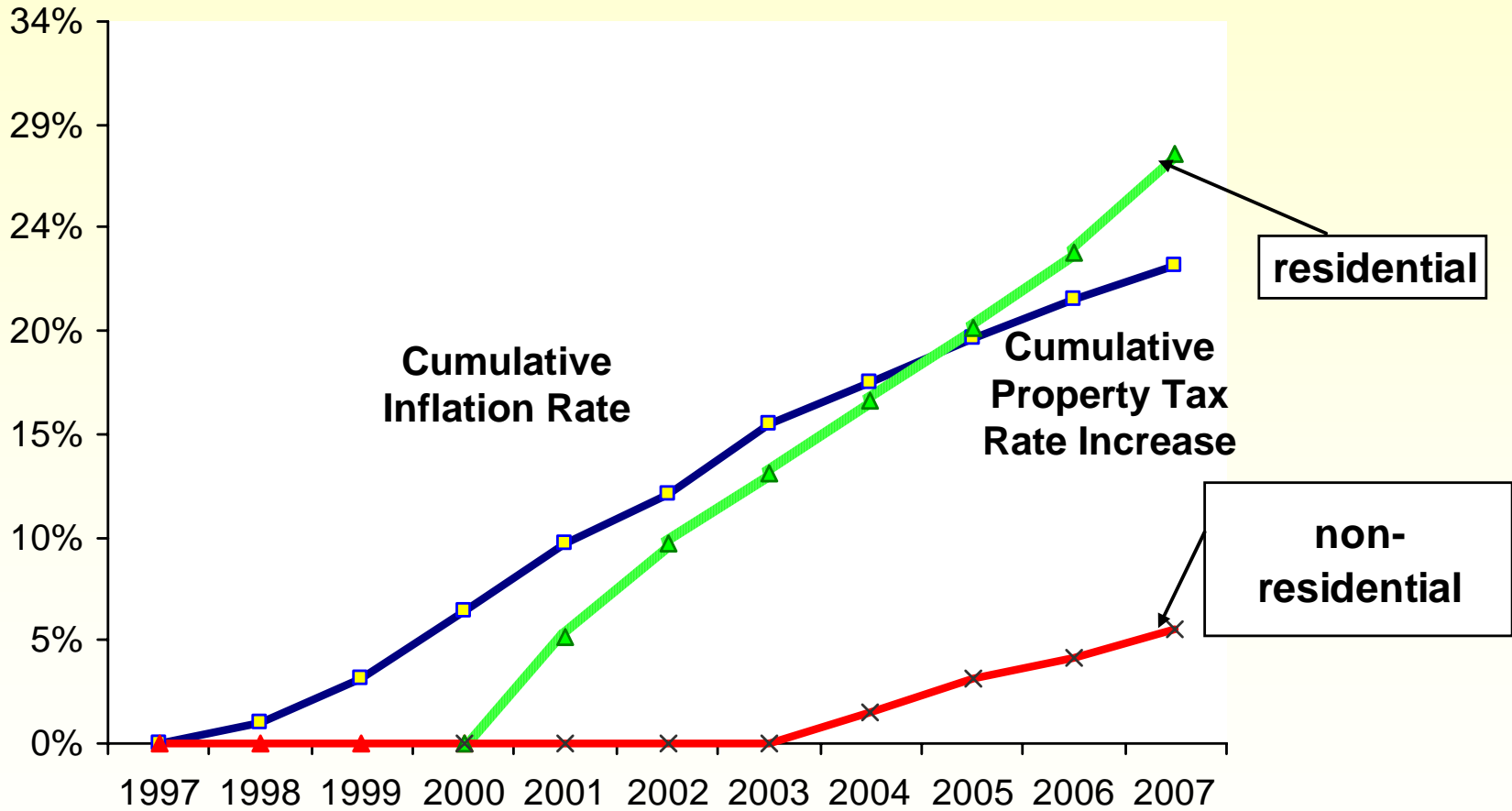
Revenues: Relative Assessment Growth



Sources: MPAC, MMAH's FIR, Revenue Services/City of Toronto, surveys

Revenues: Property Tax Increases vs. Inflation

1997 = base year



Fiscal Imbalance

- ✦ June 2005 Conference Board of Canada Report: \$1.1 billion annual imbalance of expenditure needs over revenues
- ✦ 2008 Fiscal Outlook identifies a \$576 million operating budget pressure

5. Recommendations

Key Considerations

- Effect on the business community, residents
- Fit with public policy objectives
- Administrative complexity, Implementation time
- Diversification of revenue base

Recommendations: Land Transfer Tax

- ✦ Implement Land Transfer Tax effective Jan 1, 2008, mirroring Provincial rates and rules

Property Value	Rate
Up to and including \$55,000, plus	0.5%
Over \$55,000 and up to and including \$250,000, plus	1.0%
Over \$250,000, plus	1.5%
Over \$400,000 for 1 and 2 unit single family residences	Additional 0.5%

Recommendations: Personal Vehicle Ownership Tax

- Implement Personal Vehicle Ownership Tax effective Jan 1, 2008 at the following annual rates:

Personal vehicles	\$60
Motorcycles and mopeds	\$30
Motorized snow vehicles	\$0
Historical vehicles	\$0
Commercial vehicles	\$0

Recommendations: Administration

- ✚ Authorize negotiation of land transfer tax administration agreements with Teranet, and the Province as necessary, and execution of related user license agreements
- ✚ Authorize negotiation of vehicle ownership tax administration collection and enforcement agreements with the Province and other relevant parties
- ✚ Request the Province to work cooperatively with the City to enter into fair and equitable agreements

Recommendations: Future Reports

- ✦ DCM & CFO report back in the fall 2007 on the appropriate exemptions, rebates, collection and administrative procedures, enforcement provisions, administration agreements related to the two new taxes for adoption into a tax by-law
- ✦ DCM & CFO further study of the economic impacts and administrative options for alcohol tax on store sales to non-licensed customers, and report fall 2007
- ✦ In conjunction with sign by-law review process, DCM Richard Butts consider and report back on the potential application of billboard tax and by-law revisions to enhance City beautification and arts/cultural initiatives

Other Tax Options Considerations

- # Road Pricing
 - suitable for GTA-wide application; future City consideration in co-operation with Greater Toronto Transportation Authority
- # Parking Tax
 - suitable for GTA-wide application; future City consideration in cooperation with Greater Toronto Transportation Authority
- # Sales Taxes (tobacco, amusement and alcohol sales at licensed establishments)
 - not recommended due to policy, administrative and economic considerations
- # Provincial Land Transfer Tax
 - through Provincial-municipal fiscal review (PMFSDR), City will seek transfer of responsibility for LTT to the City

Estimated Revenue Potential

Recommended New Taxes	Rate	Estimated Net Annual Revenues (\$millions)
Land Transfer Tax (2008)	0.5% to up to 2% depending on transaction value and type	\$300
Vehicle Ownership Tax (2008)	\$60 per personal vehicle; \$30 per personal motorcycle/moped	\$56
Recommended for further study	Illustrative Rate	
Non-Licensed Liquor Sales (possibly by 2009)	5%	\$44
Billboard tax	various	\$3

Recommendations (July 12, 2007): Use of Proceeds

Adopt Principles:

- ✦ Not to be used for Provincial cost shared legislated programs
- ✦ Should be used to maintain core municipal services
- ✦ Should be used to provide enhanced municipal services through City building initiatives
- ✦ Should be used to bridge the 2008 budget shortfall, depending upon the Province acting on the upload of social services and other fiscal sustainability measures

Recommendations (July 12, 2007): Use of Proceeds

“The proposed City LTT will generate revenue equivalent to 9.3% of current property-tax revenue and so constitute a significant new revenue source. Its effect on the volume and the value of real estate transactions in the City will be negligibly small”.

..... David M. Nowlan

Professor of Economics (Emeritus)

Recommendations (July 12, 2007): Use of Proceeds

Land Transfer Tax:

- ✚ Land transfer tax proceeds be dedicated for the purposes of funding expenditures on core municipal services in Toronto, including transit, roads, parks and recreation, culture and climate change initiatives.

Recommendations (July 12, 2007): Use of Proceeds

Vehicle Ownership Tax:

- ✦ Vehicle ownership tax proceeds be dedicated to transportation initiatives, and to reduce the backlog of roads capital needs by increasing capital-from-current funding (from operating) to meet service demands and minimize debt financing.

Recommendations (July 12, 2007): Use of Proceeds

Reporting:

- ✦ The Deputy City Manager & Chief Financial Officer report annually in conjunction with the City operating budget process on the specific allocations of revenues from each tax for that budget year.

Summary

- ✚ New revenues are needed to support the City's policy objectives and to diversify the City's revenue base.

- ✚ Without new tax revenues the results will be:
 - A property tax increase of up to 18% (residential) and 6% (non-residential)
- and/or -
 - Massive cuts to core municipal services

Fixing the Structural Deficit

City has a plan to address its \$1.1 billion fiscal imbalance

Long-Term, Sustainable Strategies

2008 - 2010

- Continuous improvement and cost control
- Upload Social Services programs
- Provincial Transit operating funding (50%)
- National Transit Strategy (capital)
- Growth revenues – Share of GST, Sales Taxes
- Revenue Tools for Municipal city-building

