TORONTO

STAFF REPORT
ACTION REQUIRED

New Taxation Measures - *City of Toronto Act, 2006*

Date:	June 11, 2007
To:	Executive Committee
From:	Shirley Hoy, City Manager Joseph P. Pennachetti, Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Internal Services\Cf\ec07028cf – et (AFS #4882)

SUMMARY

The purpose of this report is to respond to direction from the Executive Committee with the results of consultations with the public and stakeholders on the potential tax measures identified in the discussion paper presented to the committee on March 26, 2007, and to provide additional information regarding potential implementation of tax measures, estimation of net revenues and economic impacts.

Consultation Results

With very few exceptions public opinion was generally either vehemently opposed, or at a minimum, cautionary to new taxes. Notwithstanding staff presentations related to the City's difficult fiscal situation and the continued burden of funding provincially legislated social service programs from City property taxes, there was general opposition which stemmed from a lack of trust that the new taxes were justified, and concerns that potential economic impacts and hardships would result from the taxes. However, there was also general agreement by the public that the social service programs should be funded by the Province to avoid any new tax increase.

Participants in the four public consultations held at various locations around the city were against the imposition of new taxes. They voiced concerns about:

- The City's actual need for new taxes citing the continuation of discretionary expenditures, lack of program prioritization and service cuts, reluctance to contract out services and perceived waste

- The unintended consequences that could result from new taxes such as personal hardship or damage to business competitiveness
- The lack of specific expenditure plans for each potential new tax
- The lack of formal participation by Councillors and the Mayor in the consultation process

All arguments and comments received to date have been and are repeated in summary form within this report. Specific comments from the public sessions have been compiled on the City website, and stakeholder submissions are enumerated in Appendix A and on file with the City Clerk.

Recommended Tax Measures

Given the projected 2008 budgetary pressure of $575 million, this report recommends the implementation of two new taxes within the City of Toronto – Land Transfer Tax and Personal Vehicle Ownership Tax. The proposed date for implementation is January 2008 or as soon as possible thereafter. Two additional taxes are recommended for further study – billboard tax and a tax on alcohol to non-licensed customers within Toronto.

Staff have attempted to balance the need for additional revenues to maintain basic services with the potential economic and fiscal impact on Toronto taxpayers. The objective is to strike a balance of the tax measures which combine a mix of direct taxation for more specific policy directions.

By implementing the Land Transfer Tax and the Vehicle Ownership Tax, the City estimates net annual revenues of approximately $300 million and $56 million respectively. The rate for the proposed Land Transfer Tax would mirror those established by the Province (ranging from 0.5% on property values up to $55,000 to up to 2% on residential property values in excess of $400,000) and the proposed annual rate for the Vehicle Ownership Tax is $60 per personal vehicle and $30 per motorcycle or moped.

To facilitate the collection of the two taxes, the report recommends authority to negotiate land transfer tax collection and administration agreements with Teranet, and possibly with the Province, and authority to negotiate with the Province and other relevant parties regarding administration of a vehicle ownership tax. Teranet is the firm that administers the Land Transfer Tax on behalf of the Province. The Vehicle Ownership Tax is well-suited for collection with vehicle registration fees charged by the Province.

Staff recommend that the Vehicle Ownership Tax be restricted to personal vehicle ownership only. Similarly, the alcohol tax is discussed for further consideration only in relation to store sales to non-licensed consumers. These commercial exemptions are proposed due to policy and administrative considerations, and are consistent with efforts to encourage commercial and industrial investments in the City. A potential land transfer tax rebate program for new commercial and industrial properties will be addressed by the report in the fall of 2007.

The report's recommendations take into account fiscal and economic analysis, consideration of operational and administrative issues, public policy objectives and public input.

The revenue from these taxes is intended to support increased investment in municipal priorities, including city-building initiatives in areas including transportation (transit and roads), parks and recreation, culture and climate change. However, some portion of the new tax revenues will be required to bridge the fiscal shortfall in 2008, depending on the provincial announcement to upload social service programs back to the Province and off the property tax base. These funds will be applied only to core municipal services and not used to fund provincial services such as social assistance and social housing.

RECOMMENDATIONS

The City Manager and the Deputy City Manager and Chief Financial Officer recommend that:

1. Council adopt a new Land Transfer Tax within the City of Toronto, as detailed further in this report, for implementation in fiscal 2008 or as soon thereafter as practicable at the following rates:

    i. 0.5% for values of consideration on sales up to and including $55,000, plus
    ii. 1.0% for values of consideration on sales exceeding $55,000 up to and including $250,000, plus
    iii. 1.5% for values of consideration on sales exceeding $250,000; and
    iv. if the value of consideration on sales exceeds $400,000 for lands containing 1 and/or 2 single family residences, an additional 0.5% on the value exceeding $400,000

2. the Deputy City Manager & Chief Financial Officer and City Solicitor be authorized to negotiate a land tax administration agreement with Teranet and the Province as necessary, and execute user licence agreements with Teranet and the Province as necessary in order to facilitate an administration agreement;

3. Council adopt a new Personal Vehicle Ownership Tax within the City of Toronto, as detailed further in this report, for implementation in fiscal 2008 or as soon thereafter as practicable at the following rates:

    i. $60 per personal vehicle per year;
    ii. $30 per personal motorcycle or moped per year;
    iii. $0 for personal motorized snow vehicles and historical vehicles;

4. the Deputy City Manager and Chief Financial Officer, in consultation with the City Solicitor, be directed and authorized to negotiate with the Province and other relevant

parties regarding City Personal Vehicle Ownership Tax agreements for administration, collection, and enforcement;

5. the Province of Ontario, in keeping with its commitments under the *City of Toronto Act* to work cooperatively with the City, and in order to provide the most efficient and effective implementation and administration process, be requested to enter into a fair and equitable agreement with the City to collect and administer a City of Toronto Vehicle Ownership Tax, through its motor vehicle registration operations, and any necessary agreements to implement the City's Land Transfer Tax;

6. the Deputy City Manager & Chief Financial Officer report back to the Executive Committee in the Fall 2007 in regard to Recommendations 1 – 5, on the appropriate exemptions, rebates, collection and administrative procedures, enforcement provisions, administration agreement and any other implementation issues including establishment of appropriate reserves for adoption into a tax by-law;

7. the Deputy City Manager & Chief Financial Officer undertake further consultations in respect of alcohol tax on store sales to non-licensed consumers with Toronto based liquor, wine and beer retailers, and government taxing authorities, and report back to the Executive Committee in the fall 2007 on economic impacts and administrative options;

8. in conjunction with the development of a new City sign by-law, DCM Richard Butts be directed to consider and report back to the Executive Committee on the potential application of a billboard or public signage tax, specifically for the purposes of raising revenue to administer the by-law and raise revenues for City beautification, arts or cultural initiatives; and

9. the appropriate officials be authorized and directed to take necessary actions to give effect thereto.

Implementation Points

The *City of Toronto Act* requires that a tax by-law be adopted for any tax under the *City of Toronto Act* taxation provisions that shall include a description of the subject of the tax, the applicable rates, the manner of collection of a new tax and the identification of the agent responsible. The *Act* also sets out persons that are exempted from any tax by-law passed by the City, including the Province, Crown agents, Crown corporations, school boards, post-secondary institutions, hospitals, nursing homes and any other person that the Province prescribes by regulation.

In order to implement a land transfer tax, the City must execute an agreement with Teranet, a public company with a long term contract to administer the land titles registry taxing and reporting systems on behalf of the Government of Ontario. Additional agreements may be required with the Province. Similar agreements will be required with the Province or its agents for the collection and administration of a vehicle ownership tax, and will be brought forward in the fall.

Road pricing and parking tax options may be considered in the future on a GTA wide basis only in the context of the City's participation in the Greater Toronto Transportation Authority (GTTA).

No taxing options other than those described above and in the recommendations are being considered for implementation by the City.

Financial Impact

The following table summarizes the estimated annual net revenues from the identified taxes:

Revenue Tools	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

The following table lists estimates for tax options recommended for further study:

Revenue Tools	Rate	Estimated Net Annual Revenues ($millions)
Non-Licensed Liquor Sales (possibly by 2009)	5%	$44
Billboard tax	various	$3

These revenue estimates are based on information from the previous reports per the links below.

DECISION HISTORY

At its meeting on March 26, 2007, the Executive Committee directed the Deputy City Manager and Chief Financial Officer to:

(a) consult with appropriate stakeholders about the potential tax measures as identified in the discussion paper, dated March 12, 2007; and
(b) report back to the Executive Committee in June following stakeholder consultations, with results and options for consideration of potential implementation of tax measures, estimation of net revenues and economic impacts.

The following links to the City's website allows access to the discussion paper and consultants study that were considered by the Executive Committee:

(http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-2051.pdf)
(http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-2052.pdf)

ISSUE BACKGROUND

In order to make Toronto's vision of a great city a reality, the right financial tools and resources need to be in place to deliver on city-building initiatives. The City must have a strategy in place that deals directly with the challenges it – and all Canadian cities – face, such as increased demand on infrastructure and social services and insufficient revenue tools beyond property taxes.

The City has identified a multi-part strategy to restore fiscal balance, ensure fiscal sustainability, and facilitate the continuation of city-building initiatives. These are:

- Fiscal prudence, continuous improvement, and innovation
- Realignment of responsibilities and fiscal resources among all orders of governments, such as the upload of social service costs from the municipal property tax base in Ontario;
- A share of revenues that grow with the economy for Toronto and cities across Canada, such as the recent FCM endorsed request for the federal government to share the equivalent of one cent of the GST;
- A national transit strategy;
- Exercising, where appropriate, the City of Toronto's taxation powers under the new *City of Toronto Act, 2006* to ensure delivery and appropriate enhancement of key municipal programs and services.

The *City of Toronto Act, 2006* (the "*Act*") came into effect on January 1, 2007 and provides Toronto with the enhanced flexibility needed for a better government structure and the delivery of goods and services. The *Act* does provide the City with limited powers of taxation. These powers, however, were never intended to address the City's structural fiscal issues. The powers exist to help the City achieve its public policy objectives and raise revenues to deliver the municipal programs and services that would distinguish Toronto from other communities.

The *Act* also commits the Government of Ontario to cooperate with the City to explore and exercise the City's powers under the *Act*. Under the *Act*, the City has power to impose, by by-law, a direct tax in the city, subject to prescribed limitations. The City has been examining the appropriate use of these powers to further the City's public policy objectives.

On March 26, 2007 the Executive Committee considered a discussion paper that provided a comparison (relative ranking) of eight potential new taxation measures applied to:

1. Alcohol (stores and licensee sales)
2. Tobacco
3. Amusement (movies, sporting events, live performance)
4. Land Transfer
5. Parking
6. Motor Vehicle Ownership
7. Road Pricing (Road tolls, Congestion).
8. Billboards

As directed by the Executive Committee at its meeting on March 26, 2007, City staff undertook an intensive public and stakeholder consultation process, the results of which are contained in this report.

Policy, Service and Economic Considerations

The tax options should be considered in terms of how they support the City's public policy objectives. Other considerations cited during the consultation meetings include progressive vs. regressive characteristics, revenue growth potential, exportability (impact on non-residents), household impacts, business impacts and administrative issues, etc.

Based on evidence from other jurisdictions, the consultant's (Hemson) report predicted relatively minor allowances for demand reduction and avoidance associated with imposition of most tax options under consideration, suggesting marginal behaviour impact potential. In some cases the changes would be negative, such as an increased incentive to engage in illegal activities to avoid the tax (e.g. tobacco tax), or the loss of legitimate business activity to neighbouring jurisdictions (parking tax, road pricing, amusement tax). Many of these consultant's findings were also reiterated at the public consultation meetings and led to the conclusion that certain tax options should not be considered further.

Some options provide both positive and negative policy implications. For example, a tax might have progressive characteristics and growth potential, but negative business investment implications. In some cases, the negative characteristics of a tax may be partially mitigated through appropriate tax structures and exemptions.

Additionally, linking a new tax revenue to specific kinds of expenditures can enhance the policy fit and fairness of given tax option. For example, vehicle ownership taxes may be used to fund and enhance vehicle related services, directly benefiting those paying the tax. Staff will develop policies to ensure that the funds are directed toward maintaining and enhancing key priority municipal services, and not provincial cost shared programs, which should not be funded from the property tax or any local tax base.

Transparency and Accountability

The public is not necessarily concerned with which order of government their taxes are collected by – having expressed the 'one taxpayer' concept frequently through the consultations. They are concerned with the overall tax burden and value for money considerations. To enhance public accountability for any new taxation measures, it is suggested that the revenues from each approved tax contribute to a related reserve with appropriate purposes, as designated by Council.

Some portion of the new tax revenues may be required to bridge the budget shortfall in 2008, depending on the timing of the results of the Provincial fiscal review process and the upload of social service funding responsibilities. However, these funds will be applied only to core municipal services, and not to fund provincial services such as social assistance and social housing.

Strategies are currently under development for initiatives such as climate change, the Transitcity strategy and transportation strategy. It is expected that contributions to city building programs such as these will benefit from the new revenues generated by these taxes.

COMMENTS

A. Summary of Consultation Results

In keeping with Executive Committee direction, staff initiated an intensive consultation process based on three mechanisms:

i) public consultation events (4) plus support for ward meetings (5)
ii) stakeholder consultation meetings (6)
iii) review of input received through email, written submissions and via telephone

Staff received a great deal of public input through the consultation process conducted by City staff (see Appendix A).

Participants in the public consultations and email respondents were overwhelmingly against the imposition of new taxes under the COTA, and frequently vehemently so. However, at each session there were some supporters who spoke in favour of the judicious use of some of the new taxing options to enhance public services. At the stakeholder consultations, comments were more often directed at the potential negative consequences of specific taxation options. For ease of understanding, general comments have been grouped into a number of areas.

Consultation Process

The process for consultation itself was criticized as being too rushed, and lacking in formal participation by Councillors and the Mayor. A more formal public consultation, such as through a municipal election, was suggested by many, as was a more extended study of economic impacts for each tax measure (and in combination) before a decision to implement, preferably for many not until after the next election.

Does the City need new tax revenues?

Many participants expressed doubt that the City truly needs new taxes to achieve its objectives, citing the continuation of discretionary expenditures, lack of service prioritization and service cuts, reluctance to contract out services, fair wage policies, Council perks, and various other examples of expenditure 'waste'.

Many participants expressed support for the City's efforts to achieve the uploading of provincial service costs, and some showed support for a share of the GST, even taking legal action to enforce its demands, although there was concern that by moving ahead with new taxes now, the City would be letting the other orders of government "off the hook". A small number of participants expressed support for the judicious use of new taxes, such as billboard taxes, citing the need for improved services.

Impact of the taxes on Toronto's citizens and businesses

Most participants were concerned that dire unintended consequences could result from imposition of new taxes in Toronto, such as collateral costs and/or personal hardship (land transfer tax for first time home buyers, for example) or to business competitiveness, particularly for individuals and businesses close to the municipal border or whose disposable income or profit margins are already low (movie theatres, live performances, restaurants).

In addition, there was concern that the distribution of impacts would be much narrower and consequently less fair than property tax (land transfer tax, tobacco tax), in some cases potentially more regressive (tax on movie passes), and not consistent with or ineffective in achieving the City's own policy objectives such as support for the arts, tourism/restaurants, local employment, etc. (road tolls, parking tax, alcohol tax on restaurant and bar sales, amusement taxes).

Some participants suggested that due to the increased cost of the tax measures, economic activity would be reduced in areas such as tourism/ entertainment, home furnishing/ renovations (land transfer taxes), and assessment growth curtailed (e.g. less commercial development due to parking tax, road tolls etc), potentially erasing revenue gains from the new taxes over time.

Finally, many expressed concern that the eight new taxation options were just the beginning and that other taxes would be proposed and implemented over time.

What will the new revenue be used for?

Many participants were concerned that any new revenues would not be managed wisely, and so would not result in noticeable service changes in the long run, especially given the fiscal imbalance faced by the City. Even if the imbalance is corrected, the lack of a specific expenditure plan for each potential tax revenue drew criticism. One exception was the billboard tax option. This tax drew support from some industry spokespeople, assuming it is applied to update and enforce the City's sign by-law, and from arts and culture representatives, as a means to enhance City funding for the arts community.

B. Analysis

Economic and Fiscal Context

Before consideration of the prospect of new taxes and their potential impacts, this section provides a high level summary of the current state of the City's tax competitiveness and strategies for fiscal sustainability. Appendix C also provides an overview of the City's economy over the past 25 years as illustrated by employment characteristics.

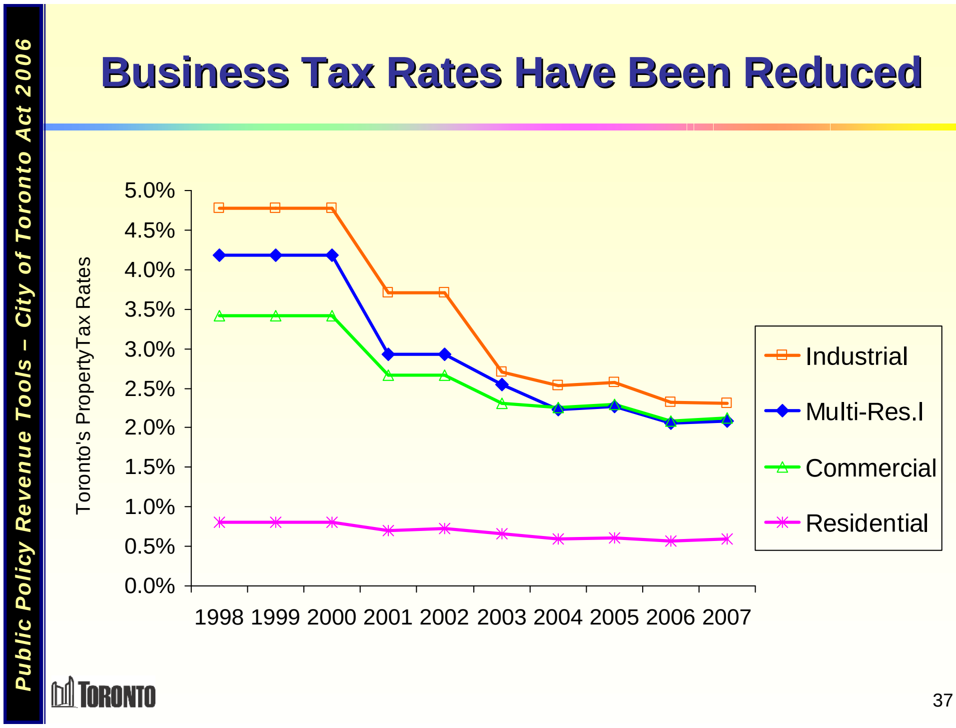
I. Economic Competitiveness and Tax Policy Initiatives:

In October 2005, Council adopted a set of comprehensive incentives and initiatives intended to enhance the city's business competitiveness over the long term. The core property tax fairness principles and the business cost competitiveness initiatives, which were developed through extensive consultation with all stakeholders, are intended to level the playing field with the surrounding municipalities and to help make Toronto's businesses more competitive nationally and internationally.

The recommendations in Enhancing Toronto's Business Climate, taken collectively are intended create the conditions to help maintain and expand the City's property assessment base, with a net positive impact on the City over the long term.

The property tax fairness initiatives, to be phased-in over 10 to 15 years, included reducing the City's business tax ratios and similarly requesting the Province to reduce their education tax rates imposed on Toronto's businesses, an acceleration of the capping and clawback regime, and measures to provide assistance to neighbourhood retail establishments. The economic cost competitiveness initiatives included providing a lower tax rate for new office, hotel and industrial development, tax abatement for vacant portions of new office development during the initial lease up period, and more innovative uses of tax increment financing and grants to protect key employment areas. Further, a Mayor's Economic Competitiveness Advisory Committee, consisting of business, academic, labour and community leaders, and an Interdivisional Economic Growth Team have been established to identify key business development and retention issues and to develop strategies to further the City's economic competitiveness goals.

Since implementation of the plan in 2005, the City has reduced its commercial tax rates by 8%, and its industrial tax rates by 10%. Over the 15-years of the plan, by 2020, the City's tax ratio initiatives should result in Toronto's businesses seeing a reduction in their municipal tax burden by approximately $310 million or 20%. In addition to this, the Province has announced its intention to reduce its business education taxes imposed on Toronto by a further $231 million, or 20% on the education tax side. The slide below shows that the City is already making progress with regard to business tax competitiveness.



There are some indications that these measures and policies are beginning to make a difference. Stronger growth in downtown Toronto office employment in the last three years has created the conditions that have allowed three major new downtown towers to start construction that will see the addition of more than 3 million square feet of Class A office space to the central area.

Further, recognizing the importance of Toronto's manufacturing sector, the City of Toronto is also implementing measures to reduce the cost of water for industrial process water users, and at the same time, implement a fairer water rate structure for all consumers. For some large industries, water is the most significant input cost affecting their competitiveness not only with other competitors, but with sister plants in other jurisdictions competing for production capacity. This initiative will see an initial 20% reduction in the cost of water for eligible process users, to be increased to a 30% reduction to offset the projected water rate increases at least for the next several years.

II. City Fiscal Situation and 2008 Budget Outlook

The City of Toronto has had a significant fiscal imbalance since amalgamation due to the download of social services, social housing and transit funding responsibilities by the Province. These actions have been in addition to existing problems of rising infrastructure replacement costs, and constrained growth in property tax revenues.

The City has responded with fiscal restraint, and has exhibited much lower average annual expenditure growth than either the provincial or federal governments since amalgamation (see Appendix B).

While there have been significant revenue sharing gains in recent years for capital funding through the sharing of provincial (and federal) gas taxes, the underlying fiscal imbalance remains, especially related to the operating budget. This was confirmed in a June 2005 report in which the Conference Board of Canada quantified the City's 2006 combined annual operating and capital shortfall at $1.1 billion.

2008 Outlook

The budget outlook for 2008 is illustrated on the Table below. In total, these initiatives will result in a starting (known) budget pressure of about $576 million in 2008 before any property tax increase ($20 million is raised through a 1% tax increase).

The incremental operating cost of providing the 2007 approved services and service levels including inflation, COLA, and other annualizations is estimated at $189.3 million. In addition, it is estimated that debt service charges will increase by $47.5 million. All together, expenditure increases will contribute $236.8 million to the 2008 budget pressure.

These costs are partially offset by annualization of non-tax (user fee) revenues from 2007, which should generate additional revenues of $43.1 million in 2008, for net program impacts of $193.7 million.

Table 2008 Outlook - Incremental Impacts		
	$Millions	
Expenditures Increases:		
- Cost of Living Allowance/Merit	120.0	
- Inflation	27.0	
- Debt Service Cost	47.5	
- Annualization and Other	42.3	236.8
Non-Tax Revenue Increase		(43.1)
Total Base Budget Impact		**193.7**
Unsustainable Budget Balancing Strategies:		
Provincial Assistance - Transit Operations		100.0
City One-Time Revenues		
- Non Program Reserve Draws	282.0	282.0
Total 2008 Outlook - Incremental Impacts		**575.7**

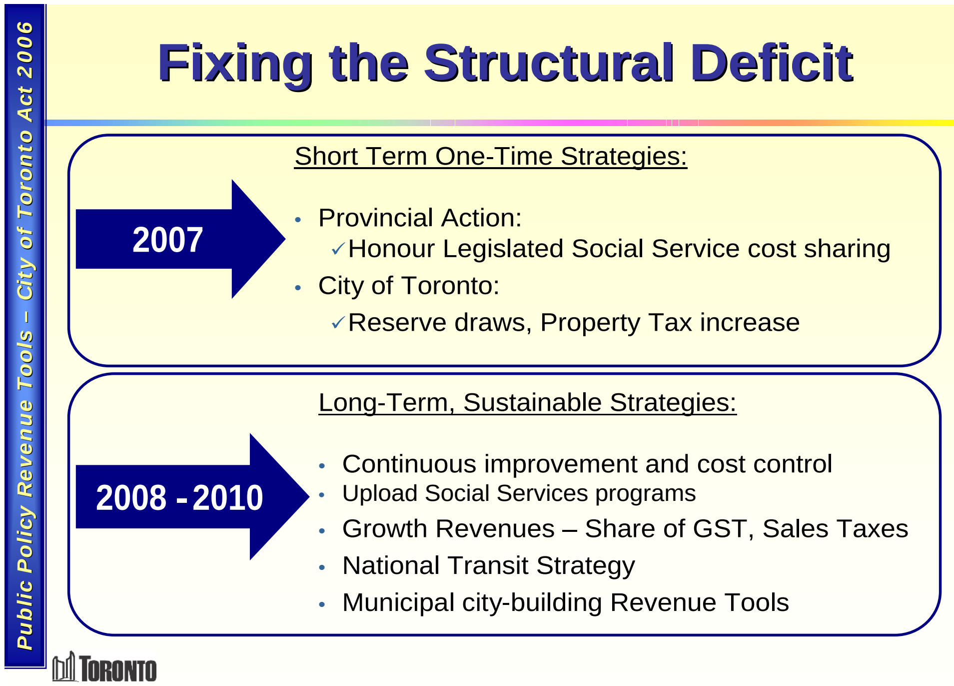
Most of the budget pressure is driven by the use of one-time revenues in 2007. Draws from reserves of $282 million were used to balance the 2007 Operating Budget cannot be replicated and therefore will become an operating budget pressure in 2008. Similarly, in 2006 the Province provided non-recurring operating budget assistance for TTC of $100 million for each of 2006 and 2007.

Council has directed that the 2008 Operating Budget for each program be targeted at a *zero net increase* over 2007. Given a starting budget pressure of $576 million, the City will not be able to balance the 2008 budget through efficiency measures only. To complement the cost controls, service and program reviews, and continuous improvement initiatives that are in place, it is urgent that the City find sustainable revenue solutions. To fix the structural deficit problem which results in significant budget pressures year after year will require the long term strategies outlined below in more detail. However, until the provincial and federal governments commit to the strategies, the City will have no choice but to consider the COTA taxes to help maintain key core municipal services.

III. Fiscal Strategies

The City has been forced into another year of short-term one-time strategies given that the 2007 provincial budget did not include the commencement of the upload of social programs. The long-term financial strategies as outlined by the City in the past two years would have to commence immediately to avoid relying on new COTA tax revenues, which should instead be primarily utilized for city-building initiatives or enhancing City services.

The City, with help from its municipal partners across Ontario and Canada, has developed a multi-part strategy to restore fiscal balance and permit new investment supporting continued economic prosperity in Toronto. This is not a menu of options - in order to achieve fiscal sustainability, the City must see results on all fronts, or achieve other equivalent changes.



The elements of the long term strategy were presented at each stakeholder and public consultation meeting, as follows:

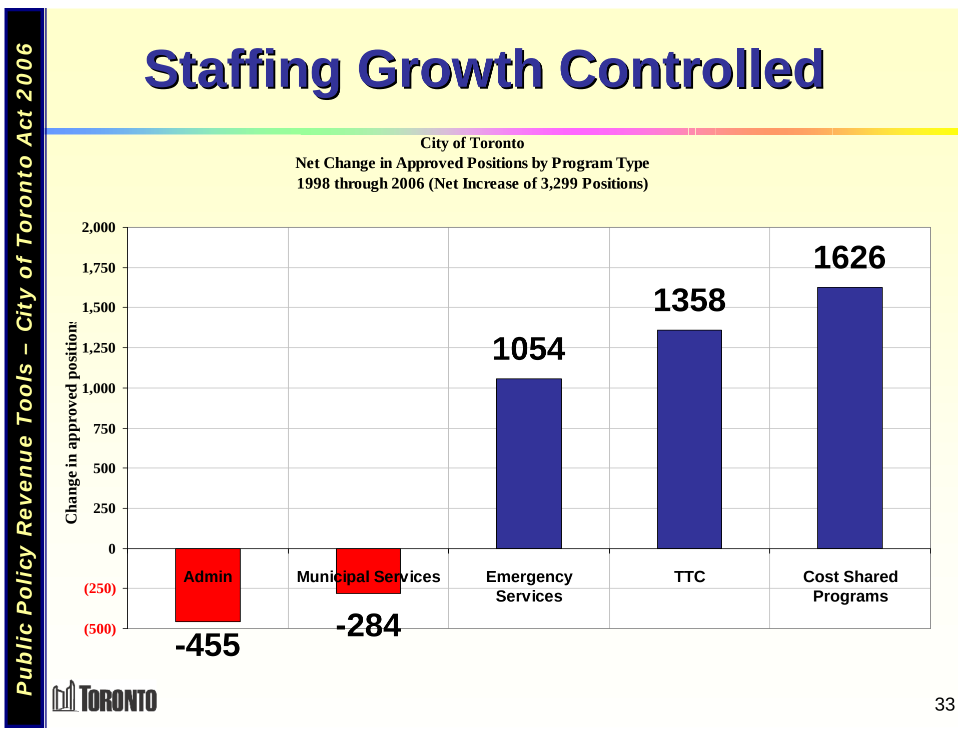
1. Continuous Improvement and Cost Control: It is critical that the City continue to emphasize its efforts toward continuous improvement and innovation. The revenue tools consultations illustrated that any consideration of tax increases are contingent on ensuring that expenditure controls over existing resources are well managed.

   The City has implemented many initiatives to enhance efficiency and effectiveness, including program reviews, institutionalization of auditor general function, the fraud and waste hotline, and capital & operating budget expenditure targets and constraints. The 2007 operating budget, for example, included cost reduction measures of approximately $85 million of the net property tax funded expenditures.

   In addition, City services are subject to the Municipal Performance Measurement Program (MPMP) reporting requirements, and the Ontario Municipal Benchmarking Initiative (OMBI) analysis. The results of these comparative measures have been reported to Council and they demonstrate the City's service levels and cost efficiencies are generally in line with Ontario municipalities. Notwithstanding, the City reviews programs to continuously challenge staff for innovation to provide both cost effective and quality services.

As staffing costs are the largest single part of budgetary expenditure, staffing trends reflect general expenditures. The City has tracked staffing changes since amalgamation which show that significant reductions have occurred in administration and in most municipal service areas – but have been more than offset by substantial increases in staffing requirements in priority areas of police, EMS (ambulance) and transit, and most significantly in the provincially mandated health and social services beyond the control of the City.

The strategies below would help reallocate municipal resources from provincial cost shared social services toward municipal priority services, and provide new revenues to restore and reinvest in the public realm.



2. Upload Social Services programs: Academics, business analysts and economists, organizations such as Federation of Canadian Municipalities (FCM) and Association of Municipalities of Ontario (AMO), Canadian banks, the Toronto Board of Trade, municipal finance experts and government officials including the Premier of Ontario have acknowledged that Ontario's approach to funding social service costs such as income supports and social housing from municipal property taxes is inappropriate. These services comprise over 30% of Toronto's gross operating budget, and the net cost to the City property taxpayers is approximately $600 million, representing 19% of the municipal property tax burden in Toronto.

In August 2006 the Province announced a fiscal and service delivery review to be conducted with its municipal partners to provide advice on what to do about the problem. While in general the upload solution may seem self-evident in Toronto and to many other municipalities, and the process too slow, the review is an indication of progress toward the City's strategy of funding core municipal services, and improving accountability in Ontario. However, the City is requesting that the Province commence the upload of the social services at the beginning of 2008.

3. Share of Growth Revenues: Cities must have access to revenues that grow with the economy in order to offset inflationary cost pressures and the growth in service requirements and expenditures. The Federation of Canadian Municipalities recently adopted a request that the Government of Canada share the equivalent of one cent of the GST revenues with Canada's cities, totalling approximately $5 billion if shared with all municipalities, of which the Toronto share would be approximately $400 million annually. As stated in the report:

> "Cities require access to revenues that grow with the economy because they need to make important investments that fuel economic growth. Infrastructure, quality-of-place features, and environmental and social services not only attract investment, but also skilled workers.
>
> Although cities are where Canada's wealth is generated, municipal governments reap few of the rewards as they struggle to keep up with changing demographics, infrastructure demands and social and environmental challenges. The majority of the wealth generated flows to provincial and federal governments……..Cities need to retain a share of the revenues that grow with the economy so that the wealth generated in cities continues to increase [by providing] greater opportunity to be more economically competitive and to sustain and enhance the public infrastructure and services that are necessary to attract limited investment dollars."

Over-reliance on property tax as a funding source has many drawbacks for municipalities, as enumerated in the Big City Mayors' Caucus report to the FCM, including a weak relationship to ability to pay; unresponsiveness to economic growth; drag on business competitiveness; suburban flight if adjacent jurisdictions have lower rates; and public resistance to increasing tax rates to pay for existing municipal services and infrastructure. Again, per the FCM report:

> "Other jurisdictions, particularly in the United States and Europe, have recognized the limitations of relying primarily on the property tax to finance municipalities and have provided municipal governments with revenue sharing opportunities and new financing tools. Canadian cities are seeking

similar opportunities to diversify their revenue bases beyond the property tax."

4. National Transit Strategy: In June 2006, FCM's Big City Mayors' Caucus (BCMC) released a report entitled *Our Cities, Our Future*, which included a proposal to establish a national transit strategy to help fund enhanced and sustainable investment in municipal transit. This was followed up with a report in March 2007 titled "National Transit Strategy", further detailing the proposal, with elements including funding, land use planning, incentives, innovation, and accountability mechanisms.

   A return to predictable funding for transit at the equivalent of pre–1996 levels has long been the goal of the City. Recent federal government commitments such as extending gas tax sharing, contributions to the York subway extension and enhancing other transit funds are important, but cities like Toronto need a permanent arrangement that can also help build for the future. Now, more than ever, improved public transit is recognized as critical for the entire nation, in terms of global competitiveness through the efficient movement of people and goods in urban economies, improvement to the environment, and quality of life for residents. As stated in the March BCMC report:

   > "Finding the necessary funds is a major issue facing municipalities. CUTA (Canadian Urban Transit Association) estimates that the new investments required just to stay afloat, to say nothing of meeting unmet and future demands, are almost as large as the entire sum currently invested in all transit capital projects.
   >
   > Canada remains the only OECD (Organization for Economic Cooperation and Development) country without a long-term, predictable federal transit-investment policy, even though moving people efficiently in urban areas requires a partnership among all orders of government. As transit's share of urban travel continues to grow, federal and provincial governments must provide long-term reliable funding, so that transit systems have the financial certainty they need to meet the needs of Canadians now and in the future."

5. Municipal City-Building Taxation Measures: The final plank in the fiscal strategy is the judicious use of new taxation measures provided under the City of Toronto *Act*. It is hoped that new revenues, uniquely available in Ontario to the City of Toronto, can be applied in ways that enhance municipal services and investment in the public realm, creating value for businesses and improving quality of life for residents. However, while the fiscal imbalance persists, a portion of any proceeds from new tax measures may be required to bridge the gap until a sustainable fiscal framework is implemented.

C. Analysis of Tax Options

The new revenue tools represent an opportunity for the City to achieve some diversification in its tax base, and some growth potential characteristics at the same time. Additionally, the City needs to consider alternatives to property taxes, which for residents are already increasing at about the rate of inflation plus an amount to improve the economic competitiveness of the tax rates applying to the City's non-residential property classes.

However, the public expects tax levels to be related to service levels. Therefore, there should be some tolerance for new taxes in Toronto only if there are services or other perceived benefits associated with living or locating a business within the City. This is another reason why new taxes should not be used to fund Provincial social service programs, which are not perceived as a property related municipal service.

This section describes each taxing option in the context of the comments that were received through the consultations, and in terms of the City's policy objectives and principles. The first section considers those taxes that are recommended, either for implementation or further study. The second section discusses those that are not being recommended.

I. Recommended Taxation options

Land Transfer:

Definition: In Ontario, land transfer tax is applied upon registration of land title change on the value of the real property sale /purchase transaction, on a tiered rate basis ranging from 0.5% to up to 2% on residential property values in excess of $400,000. This report proposed that the City's rates match the current provincial rates, as follows:

Proposed City Land Transfer Tax Rates

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%

Policy: Land transfer taxes are applied in many jurisdictions throughout Canada and the world, at rates that vary up to about 5%. Land transfer taxes are paid by the buyer, but may in part be absorbed by the seller (through a lesser selling price), depending on market conditions and alternatives. To the extent that the tax would be passed on to the buyer, in the residential situation it could be financed through a mortgage, or funded by reducing the down payment (potentially increasing mortgage insurance costs) or reducing cash available for other spending. In the commercial setting it would be seen as another property related tax, increasing the cost of business in Toronto relative to neighbouring jurisdictions.

Land transfer tax in Ontario is currently structured on a progressive tiered rate structure, making it more progressive in its application to residential properties than property tax, which has a flat rate structure. Furthermore, it is collected at the time of a sale/purchase transaction, which by definition is undertaken willingly by the parties involved, unlike property tax which may increase and is assessed regardless of current income and ability to pay. Finally, as a property value based tax, land transfer tax is arguably the more appropriate domain of municipalities, as it is in Canadian provinces such as Quebec and Nova Scotia, rather than of the provincial government.

These features make the land transfer tax option an appropriate revenue tool addition to the City's tax base. Accordingly, at the Provincial Municipal Fiscal and Service Delivery Review discussions, staff will be tabling the reallocation of existing land transfer tax to municipalities as one option to restore municipal fiscal balance.

The incidence of land transfer tax is fairly narrow, typically affecting 3 – 5% of owners in any year, giving rise to concerns about the fairness of implementing the tax. However, in the long run the tax base is much broader, affecting all owners upon taxable disposition of their property.

Given that the land transfer tax may be an impediment to new entrants to the housing market to the extent that the tax impacts on the buyers, the Province of Ontario provides a rebate for first time buyers of new homes. The DCM & CFO will report back on similar provisions for the City's tax in the fall.

New City Land Transfer Tax
Estimated Tax Payable

Property Value	Residential Property	New Home, 1st time Buyer (after rebate)	Non-Residential
227,500	2,000	-	2,000
250,000	2,225	225	2,225
400,000	4,475	2,475	4,475
600,000	8,475	6,475	7,475
1,000,000	16,475	14,475	13,475
2,500,000	46,475	44,475	35,975

Additionally, because of the potential to negatively impact on the improving investment climate for commercial development in the city, a rebate program for new commercial or industrial property transactions should be considered, and could potentially be tied to appropriate sustainable building objectives of the City. These issues will be addressed in the report from the Deputy City Manager and Chief Financial Officer in the Fall.

Land transfer tax revenues would be used for municipal service priorities, and help provide the resources to move ahead on city-building initiatives such as transit and transportation plans, climate change, etc., so that the impact of the new tax revenues will be visible to the taxpayers of the City.

Administration: Land Transfer Tax is administered by a public company called Teranet, under long term contract on behalf of the Ministry of Government Services, on a fee per transaction basis using the Province's electronic land registration system. The government receives tax revenue on a daily basis resulting from land title registration transactions processed through the system by the legal agents of buyers and sellers of property. A small percentage of transactions are processed over the counter at one of three locations in the GTA. Revenues from these transactions are processed monthly.

Options: This tax remains the most viable for implementation by the City, as well as being property related. Teranet has indicated that should the City desire to retain its services for land transfer tax collection, then, as long as the City's requirements can be accommodated by the current Teranet desktop application without significant reprogramming, a tax could be implemented in about three months from the time it is approved. Minor differences from the current Provincial tax regime, such as different tax rates, could be easily accommodated. Significant alterations, such as new or different exemption rules could be much more difficult.

Proposed Action: If the recommendations are adopted by Council, this tax would be implemented on January 1, 2008, or as soon a possible thereafter, at the rates indicated above, and the Deputy City Manager and Chief Financial Officer would report back in the fall to recommend the remaining tax design and administration components for inclusion in the appropriate tax by-law.

Vehicle Ownership:

Definition: A tax on vehicle ownership would be a new municipal tax in Ontario, levied on resident owners of licensed motor vehicles. Currently a vehicle registration fee is administered by the Province, at the rate of $74.50 per year per personal or commercial vehicle, with lower fees for motorcycles ($42) and other specialty vehicles. This report recommends the following City of Toronto vehicle ownership tax rates:

Proposed City Vehicle Ownership Tax Rates

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

Policy: A motor vehicle ownership fee could raise revenue to improve services and road conditions for motorists, including funding enhancements to transit alternatives that could improve traffic flow. Such a tax, at rates of similar magnitude as the current Provincial fee as cited in the Hemson study, are deemed unlikely to have much impact on ownership levels, as they represent a minor cost compared to vehicle operation.

A vehicle ownership tax would have a broad incidence, as there are approximately one million registered vehicles in Toronto, potentially affecting over three quarters of the adult population. Additionally, vehicle ownership is predictably most prevalent in the wealthier segments of the population, suggesting the tax would be reasonably progressive in nature.

Vehicle ownership and operation is a costly activity. For many people, having their own personal vehicle makes it possible to participate in the workforce. On balance, however, the proposed $60 per year vehicle ownership tax is equivalent to an avoided three percent residential property tax increase, offsetting much of the impact. The rates for motorcycles and mopeds are recommended at half the basic rate, recognizing the associated fuel efficiency and seasonal use.

If approved, the application of this tax would be restricted to personal vehicle ownership and will not be applied to commercial vehicles. Many commercial entities could easily circumvent the tax by registering vehicles to addresses outside Toronto. Those remaining businesses without addresses outside Toronto would unfairly bear the burden. Furthermore, some businesses with significant vehicle fleet sizes, such as rental companies, could bear a disproportionate burden, even though their operations are supportive of reduced personal car ownership. Finally, a commercial exemption would be consistent with recent property tax and water rate policy efforts to encourage commercial and industrial investment and tax competitiveness.

Administration: A vehicle ownership tax is well suited for collection with vehicle registration fees for a number of reasons. Collection and compliance would be greatly simplified. Presumably, registration issuance could be made conditional upon payment of the tax, just as it is for outstanding parking fines.

In preliminary discussions, provincial staff have indicated concerns with this approach, citing potential legislative restrictions on the use of vehicle registration data under the Highway Traffic Act, and system modification costs (likely province wide). These concerns have yet to be fully explored and documented, but it is submitted that a formal request from Council is required to realize a more effective joint billing and administrative system for Toronto taxpayers

Although it may be technically possible for the City to create its own administration system to collect the tax (if the Province agrees to share vehicle registration data for this purpose), billings and compliance (audit and enforcement) would potentially be much more complicated and expensive. If the Province does not support the City's request to administer the tax through their operations, the implementation of an ownership tax may require further consideration.

Options: This report does not recommend graduated tax rates based on motor cylinders. Provincial staff have tentatively confirmed that vehicle identification numbers can be used to determine characteristics such as number of motor cylinders, which in the past have been used to graduate fees. However, this option for a tax has limitations, as the differential would have to be significant to have any effect on vehicle purchases (relative to the price of gasoline, for example), and number of cylinders is much less related to policy concerns like CO_2 production and congestion, for example, than gasoline purchased, which is already subject to special excise taxes.

Proposed Action: If the recommendations are adopted by Council, a vehicle registration tax would be imposed on personal vehicle ownership within the City commencing January 1, 2008 or as soon as practical thereafter, at a rate of $60 per personal vehicle, and $30 for motorcycles and mopeds. The Province would be requested to agree to administer the tax on behalf of the City, and enter into discussions with respect to developing an appropriate agreement.

II. Tax Options that are Recommended for Further Study

Alcohol Tax on sales to non-licensed customers (LCBO, beer and wine retail sales):

Definition: An alcohol sales tax can be applied in two ways: on store sales to non-licensed customers (at LCBO stores or Beer Stores or wine retailers), and on sales to customers at licensed restaurants, nightclubs and entertainment venues. This section deals with the former option. The Statistics Canada 2005 Household Survey indicates that approximately 64% of Torontonians' alcohol expenditures are made at stores.

Policy: A tax on alcohol would be consistent with the Toronto Drug Strategy, adopted by Council in December 2005. The strategy identifies limiting availability through price mechanisms as one means of managing consumption and reducing the harms of alcohol.

Alcohol is often referred to as a luxury item. As such, it may be a preferable revenue source for the City at the margin compared to a similar property tax increase. A 5% alcohol tax would raise approximately the same as a 2.2% property tax increase.

However, as a consequence of alcohols' luxury status, it has been subject to considerable taxation. The Province of Ontario charges a 12% tax for store sales instead of regular 8% retail sales tax. Federal government charges excise tax at wholesale level and a 6% GST at retail level. Consequently alcohol products are already highly taxed, a key indicator for potential avoidance behaviour – such as unlicensed production and smuggling.

During the consultations, the likelihood of cross-border (municipal) shopping to avoid the tax on store sales was identified as concern, particularly in neighbourhoods near the municipal boundary. Concerns were expressed that the tax may have unfavourable impact regarding LCBO or other stores deciding to locate future new stores outside Toronto.

For reasons such as these it is suggested that any imposition of an alcohol tax be modest, so as to remain below the threshold of most consumers for avoidance activities. The rate should also be sufficient to keep administrative costs low compared to potential revenues. A 5% increase would appear to balance these objectives.

Administration: The tax on store sales to non-licensed customers involves a limited number of organizations and sales locations. Discussions with Canada Revenue Agency (CRA) business development officials about the possibility of contracting out the administration of such a tax have not been conclusive about whether the City should collect the tax itself or contract out. The CRA's systems are designed for larger transaction volumes, and their compliance and audit functions are not necessary for the issues that would arise when dealing almost exclusively with Brewer's Retail, LCBO and a few wine retailers.

Preliminary comments from the LCBO, one of the key vendors that would be required to collect and remit on the City's behalf, suggest that implementation could take more time than originally estimated. Formal rulings on the potential application of GST and possibly PST on a City tax may be required as a first step, since they could affect the systems required to display the impact of the new tax at the cash register, and/or the shelf price on product sold in Toronto, which has always been inclusive of GST and PST. The same issues would affect other vendors as well.

Options: Should the City decide to administer such a tax itself, it may be appropriate to retain the CRA in an advisory capacity.

Proposed Actions: If the recommendations are adopted by Council, the Deputy City Manager and Chief Financial Officer would be directed to further review and report back on the potential tax on alcohol store sales to non-licensed customers, including economic impact and administrative options.

Billboard Tax:

Definition: Billboards in Ontario are not taxed directly. Billboards may contribute to the value of a property on which they are situated and, if so are indirectly taxed through the property tax process. A direct tax (such as a flat tax based on type and square footage) on billboards would be a new tax in Ontario, although similar taxes are levied in the City of Winnipeg, for example.

Policy: A billboard tax could be consistent with the objectives of the City's Clean and Beautiful initiative and/or support for the arts in Toronto, depending how the proceeds are applied and would provide for cost recovery within the program administering signage in the City. The concept of a billboard tax was supported during the consultation process both by potential beneficiaries of new revenue allocations, and by industry representatives.

The City's Municipal Licensing and Standards Division is currently preparing for the development of a new City sign by-law and intends to report in September. A new by-law would harmonize and update rules and procedures, and provide current definitions and an inventory of existing signage. These steps are considered necessary before an appropriate tax regime could be determined. Therefore, a billboard or public signage tax should be considered in conjunction with the development of the sign by-law.

Administration: The City currently manages outdoor advertising through initial approval and enforcement. A billboard tax would require establishing a new collection and enforcement system, building on current responsibilities.

Options: The preliminary study by Hemson consulting estimated that revenues in the order of $2 – $3 million would be feasible, depending on the rates and results of detailed inventory of signage.

Proposed Actions: If the recommendations are adopted by Council, Deputy City Manager Richard Butts would be directed to consider and report back to the Executive Committee on the potential application of a billboard or public signage tax in conjunction with the development of a new City sign by-law. Specific consideration would be given to raising revenue to administer the by-law and support City beautification, arts and cultural activities.

III. Tax Options that are Not Recommended

Alcohol Tax on sales at licensed establishments:

Definition: Licensed outlets (e.g. bars, restaurants, nightclubs, and entertainment venues) resell alcohol. Only the purchase by the consumer at a licensed establishment could be subject to a City of Toronto tax.

Policy: A tax on alcohol sales at licensed establishments would be consistent with the Toronto Drug Strategy, adopted by Council in December 2005. The strategy identifies limiting availability through price mechanisms as one means of managing consumption and reducing the harms of alcohol.

Alcohol sales at licensed locations have a direct multiplier effect on associated business and overall entertainment content for visitors and local residents. The general policy of promoting the City as an entertainment place would likely suffer with this tax.

During the consultation process, business stakeholders expressed concerns about alcohol tax on resale at licensed locations. They warned about potential loss of business, adverse economic impact and loss of tourism if taxes were imposed on alcohol sale at licensed locations. They also indicated that business margins were already very low in some sectors, which have only recently recovered from 911 and SARS impacts, and are affected by the rising value of the Canadian dollar.

Administration: The administration, collection and enforcement of alcohol sales tax at licensed outlets are far more complex and expensive than the same for store sales due to the number of independent licensed establishments and the nature of the business.

Options: Options for collection and enforcement could be private collection companies or in-house administration.

Proposed Actions: This tax has not been recommended due to policy, administrative and economic considerations.

Sales tax on Tobacco:

Definition: A sales tax on tobacco would be applied at the point of purchase of tobacco products by the consumer. Cigarette sales represent an overwhelming majority (94-98%) of the tobacco market.

Policy: Increasing the price of tobacco products is considered to be a deterrent to youthful smokers, consistent with the City's Public Health program objectives. Purchases by more mature customers are less affected by price.

Cigarettes are heavily taxed in Ontario. It is estimated that, as a result, the sale of illegal cigarettes may represent as much as 23% of the Ontario market. A new tax imposed by the City would increase the incentive for illegal sales. It would be extremely difficult, for example, to prevent black market re-sale of cigarettes purchased outside Toronto.

Most tobacco products are sold through small retail business where tobacco sales represent a major portion of their total revenues. The administration cost and time burden of a new tax is likely to be onerous on low margin, small retailers.

As outlined above, the risk of encouraging growth in underground trading of tobacco products, difficulty in ensuring fair tax collection, high potential for cross border shopping and relatively high administrative burden for small retailers have led to the conclusion not to recommend this option.

Administration: The complexity of administration, collection and enforcement of a tobacco sales tax at numerous small retail outlets are a significant consideration for the taxing of tobacco products. In discussions with City staff, the Canada Revenue Agency indicated that administering such a tax was not consistent with their business model.

Options: n/a

Proposed Actions: This tax has not been recommended due to the numerous issues with illegal sales, impact on the retail community, and administrative burden.

Sales Tax on Amusement activities:

Definition: For the purposes of a sales tax under the *City of Toronto Act*, amusement includes movies, live sporting events and live performing arts.

Policy: A tax on amusement is inconsistent with the City's support for arts and culture, and Toronto's economic development aspirations for the tourism sector. The increase in the value of the Canadian dollar has put additional strain on this sector. If the tax is further narrowed to apply only to those elements not receiving government support, the tax is too isolated and limited to be fair and worthwhile.

During the consultation process, stakeholders pointed out that certain sectors of the entertainment business are already in distress, with declining demand and prices on resale at licensed locations. They warned about potential loss of business, adverse economic impact and loss of tourism if taxes were imposed on alcohol sale at licensed locations.

Administration: The administration, collection and enforcement of amusement tax would be complex and costly.

Options: n/a

Proposed Actions: This tax has not been recommended due to the numerous conflicts with City policy, and administrative complexity.

Parking Tax:

Definition: A parking tax would be applied as a tax on the land used for commercial parking activities, in proportion to the area or potentially the number of spaces. A tax on parking transactions could be considered a sales tax and if so not within the permitted options under the *City of Toronto Act*. No consideration was given to taxing parking for residential purposes.

Policy: A parking tax is considered a potential way to change commuter and resident behaviour, shifting modal split away from cars, to decrease traffic congestion, induce greater transit utilization, and improve air quality. It would support the minimization in the amount of parking provided in conjunction with a development (provided that it still satisfies the minimum requirements of the Zoning By-law), consistent with the City's Official Plan policies to discourage commuting by auto.

The down side of a parking tax is that it resembles in some ways a commercial property tax, increasing the cost of doing business wherever it applies. This is contrary to the City’s policy efforts to improve non-residential tax competitiveness, and to encourage employment growth within the city. Furthermore, it would create cost differentials at the boundary of the tax area – whether just the downtown locations within the city, or city wide – increasing costs for existing development within the tax zone, and providing an incentive to develop just outside the tax area.

Consequently, this type of tax may be more suitable for application across the GTA. The newly formed Greater Toronto Transportation Authority is currently beginning an assessment of its policy objectives, expenditure plans and revenue requirements, and so it is recommended that this option only be considered only in the context of the City's participation in the Greater Toronto Transportation Authority (GTTA), as part of a GTA wide strategy.

Administration: A parking tax could be complicated to administer. Depending on the design of the tax, it might be subject to challenges that it is an indirect tax (not permitted). Strategies would be required to deal with designation of parking in mixed use facilities as either commercial or residential. A reliable source of parking area data would be required from Municipal Property Assessment Corporation, and the veracity of the data could be subject to appeal. The approach to exemptions would begin with residential uses and government operations, but business groups could be expected to mount arguments for special treatment (low margin operations, those near the municipal boundaries, those serving cultural and entertainment sectors). Finally, a new billing and compliance system would be required, with associated staffing costs.

Options: No additional options were explored.

Proposed Actions: This tax option would only be considered by the City in the future as part of a GTA wide strategy.

Road Pricing:

Definition: Road pricing includes the concepts of electronic and gate controlled highway tolls, cordon based daily congestion fees, and transponder based pay-by distance systems. Depending on the application of the proceeds and other features, road pricing could be introduced as a fee or a tax.

Policy: Similar to a parking tax, but potentially much more aggressive, road pricing is a potential way to change commuter and resident driving patterns, shift the modal split away from cars, decrease traffic congestion, improve air quality, and induce greater transit use.

A significant policy issue for road pricing is that the largest single destination for commuter traffic into the city (downtown Toronto) does not represent the majority of traffic by volume, or even the majority of the congestion problem in the GTA. Therefore, a pricing system applying only to city highways servicing the downtown (the

City lacks jurisdiction on Provincial highways) would be ineffective and discriminatory.

Even more broadly based road pricing still penalizes economic activity relying on automobile traffic within the taxed area, unless convenient transit alternatives are added, to the benefit of those outside the tax zone. Until attractive transit alternatives are developed, road pricing would be contrary to the City's policy efforts to improve non-residential tax competitiveness, and to encourage employment growth within the City. Furthermore, it would create cost differentials at the boundary of the tax area – whether just the downtown locations within the City, or City wide – increasing costs for existing development within the tax zone, and providing an incentive to develop just outside the tax area.

Administration: Road pricing would require significant planning and capital investment in tracking systems, and in improvements to transit alternatives. These system adjustments require considerable time and money.

Options: Road pricing remains a potential option if applied across the GTA economic region, and the proceeds applied to pay for expansion of transit alternatives.

Proposed Actions: Like parking tax, road pricing is more suitable for application across the GTA. The newly formed Greater Toronto Transportation Authority is currently beginning an assessment of its policy objectives, expenditure plans and revenue requirements, and so this option would only be considered by the City in the future as part of a GTA wide strategy.

Conclusions

The City undertook an intensive consultation process to solicit public and stakeholder feedback on the new revenue tools identified in a March 26, 2007 report to Executive Committee. As a result of those consultations and further research, some options have not been recommended.

It is recommended that the City implement a land transfer tax, with rates and exemptions mirroring those of the current Provincial tax. The authority to negotiate an agreement with Teranet and if necessary, the Province, is requested. The Deputy City Manager and Chief Financial Officer would report back in the fall to introduce the tax by-law and report back on tax design and administration issues.

It is also recommended that the City proceed with a vehicle ownership tax, although further cooperation from the Province regarding implementation and administration appears necessary and is therefore requested. The Deputy City Manager and Chief Financial Officer should report back on the results of this request and recommend further actions at that time.

Billboard tax and liquor tax on sales to non-licensed customer have been recommended for further consideration, to provide time to improve the information available about these taxes to permit a final determination.

The recommended new taxes for implementation have been reviewed and analyzed based on the City's fiscal position vs. the fiscal and economic implications to Toronto residents and businesses, i.e. Toronto taxpayers. It is submitted that the staff recommendations provide a difficult balancing of providing sufficient revenues to maintain core municipal services with as little impact as possible to Toronto's taxpayers.

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SIGNATURES

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ATTACHMENTS

Appendix A - Consultation Summary and Analysis;
Appendix B - Toronto Economy 1982 - 2007
Appendix C - City Fiscal Situation

Appendix A

Consultation Summary and Analysis

Consultations

To satisfy Executive Committee direction, staff initiated an intensive consultation process based on three mechanisms:

i) stakeholder consultation meetings (6)
ii) public consultation events (4) plus presentations at Ward meetings (5)
iii) review of input received through email, written submissions and via telephone

i) Stakeholders Consultations

The stakeholder consultations were hosted by the DCM/CFO on four scheduled mornings in City Hall. Participation was solicited by invitation, using previous consultation lists, vetted by staff teams representing all program clusters, and augmented on request whenever additional inquiries were received to ensure all stakeholders could provide input to the consultation.

In all, 53 invitation letters were sent out to stakeholders representing a broad spectrum of business and industry sectors, such as advertising, general business (including umbrella organizations representing class/group of businesses), entertainment sector, sports sector, hospitality sector, real estate sector, tourism sector and general interests. Thirty-seven of the 53 stakeholder representatives actually participated in consultations held over four days (May 3, 4, 10 and 11, 2007) at City Hall. In addition, City staff participated in two separate meetings with the Toronto Board of Trade. Finally stakeholders and their members were welcomed to, and did, participate in the public consultation sessions.

ii) Public Consultation

The public consultation meetings were conducted via four evening sessions from 7:00 to 9:00 p.m., in four communities in the City as follows:

- May 7, 2007 South - Harbourfront Centre
- May 15 West - Etobicoke Collegiate Institute
- May 17 North - North York Memorial Hall
- May 23 East - Scarborough Civic Centre

To ensure opportunity to participate, advertisements were placed in the Toronto Star and several local papers leading up to the events, as follows:

- Toronto Star – May 2, 2007
- Metroland (9 papers: Etobicoke Guardian, North York Mirror, etc.,) – May 4, 2007

- L’Express – May 8, 2007
- Sing Tao – May 9, 2007
- Shahrvand – May 10, 2007
- Corriere Canadese – May 10, 2007
- Korean CC Daily – May 20, 2007
- Sol Portugal – May 11, 2007

Approximately 450 community organizations on file with the City Clerks office (associations representing ratepayers, homeowners, tenants, residents, condominium owners, housing cooperatives, neighbourhoods, business improvement areas, merchants, business, trucking, health centres and historical societies) also were mailed or emailed information flyers listing the public consultations events and other methods of providing input.

Each of the meetings was conducted along a similar format, modified from the planned approach as requested by the participants, including an open question and answer session, as follows:

- registration (pre-registered and walk-ins) and sign up for follow up information
- forum opening by lead facilitator
- presentation by the DCM /CFO and Director of Corporate Finance
- audience commentary and questions (introduced in response to participants at the first session)
- table discussions on two questions (facilitator leading at each table):
    1. What is your opinion about any of these potential new taxes? Why so? (amended after first session to facilitate expression of views not supporting new taxes)
    2. What type of expenditures should new revenues be used for
        - Enhanced existing services?
        - City-building type initiatives?
        - To help solve the fiscal imbalance?
- second audience commentary and question period
- closing remarks and reminders to submit comments

An average of approximately 115 participants attended each consultation session. Roundtable comments were tallied, categorized and will be posted on the City’s website in the second week of June 2007.

iii) Submissions

- an e-mail address (revenuetools@toronto.ca) and a mailing address were set up and advertised
    - 189 e-mail comments were received from general public by June 1. Comments are summarized in Appendix ‘A’.
- the City’s website (www.toronto.ca/finance/revenue_tools.htm) provided reports and background information about the revenue tools.

- Letters and studies were received from more than 20 individuals and organizations. A list of stakeholders who made submissions is provided in Appendix 'A'.

Comments at Discussion Tables:

Two questions were placed before the participants at the discussion tables:

Question #1: What is your opinion about any of these potential new taxes? Why so?

Question #2: What type of expenditures should new revenues be used for:

- Enhanced existing services?
- City –building programs (e.g. transportation, transit, parks & recreation, culture and climate change)?
- Help solve the fiscal imbalance (e.g. reduce borrowing)?

Re: Question #1

- 54% of the comments/opinions provided (with varying number of comments per participant) focussed on the eight revenue tools under discussion, whereas 46% of the comments were expenditure control and restraint related.

- Of the total number of comments/opinions provided on revenue tools, the following distribution was observed. An overwhelming majority of participants were opposed to new taxes The following distribution refers to opinion expressed against individual taxation measures:

Against Land Transfer Tax	20%
Against Entertainment Tax	20%
Against Cigarette Tax	13%
Supported Billboard Tax	12%
Against Alcohol Tax	10%
Against Parking Tax	10%
Against Vehicle Registration Tax	9%
Against Congestion/Road Tolls	6%
	100%

- Examples of comments on expenditure control included the following :
  - City expenditures should be better controlled/managed
  - Greater savings should be the focus; no perks
  - Contract out more for greater cost-efficiency, where possible.
  - Upload social services to the Province
  - Introduce zone-fairs for TTC; privatize TTC
  - Better enforcement of City by-laws to ensure improved collection of outstanding amount of money it is owed

- Zero-base budgeting should be introduced

Re. Question #2

Of the total number of comments/opinions, the following distribution was observed

- 38% suggested that the new revenues be directed to City building initiatives;
- 36% suggested that the new revenues be directed to solving fiscal imbalance;
- 23% suggested to direct it to enhance existing services; and
- 3% suggested that the new revenues should not be spent in any of these areas (e.g. use to reduce existing taxes).

<u>E-mail Comments:</u>

Percentage of total respondents shown below will not add up to 100 since each respondent provided multiple opinions. These percentages may be used for relative ranking purposes only.

1.	Against any tax	38%
2.	Eliminate wasteful expenditure/ perks to Councillors/staff	33%
3.	Against Tobacco Tax	30%
4.	Against Alcohol Tax	19%
5.	Against Land Transfer Tax	17%
6.	Against Entertainment Tax	10%
7.	Against Parking Tax	5%
8.	Against Vehicle Registration Tax	5%
9.	Against Congestion/Road Tolls	3%

<u>List of Stakeholders who made submissions (on file at the Clerk's Office)</u>

1. Canadian Federation of Independent Business
2. Canadian Restaurant and Foodservices Association
3. Liquor Control Board of Ontario
4. Toronto Arts Council
5. Toronto Parking Authority
6. Imago Restaurants Inc.
7. Arawak Environmental Enterprises Ltd.
8. National Association of Industrial and Office Properties -Greater Toronto Chapter
9. Toronto Office Coalition
10. Wendy's Restaurants of Canada Inc.
11. St. Lawrence Market Neighbourhood Business Improvement Area
12. Toronto Real Estate Board
13. Imperial Tobacco Canada
14. Motion Picture Theatre Association of Ontario

15. CAA South Central Ontario
16. Imperial Parking Canada Corporation (Impark)
17. Canada’s National Brewers
18. Toronto Board of Trade
19. Beautiful City Billboard Fee (Coalition)
20. United Food and Commercial Workers Canada
21. Consumers Council of Canada
22. Mac’s Convenience Stores
23. Fred’s Not Here Restaurant

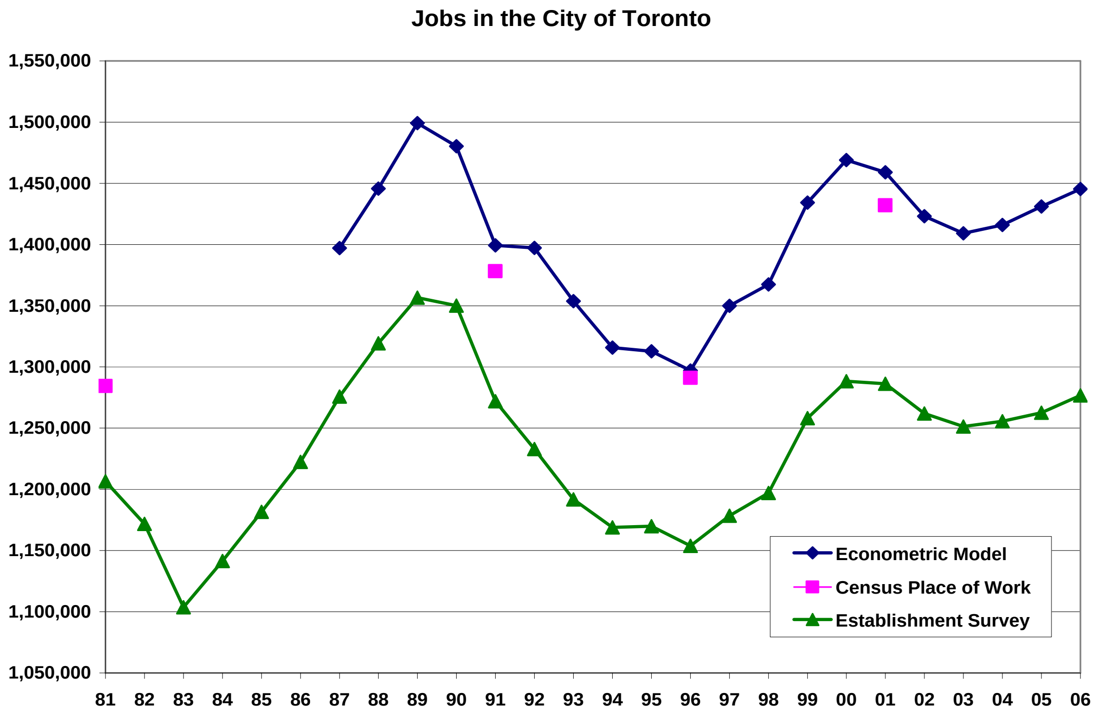
<u>Other Stakeholders who participated in consultations</u>

1. Real Property Association of Canada (REALpac)
2. Canada Revenue Agency
3. The Toronto Industry Network
4. Greater Toronto Home Builders Association/ Urban Development Institute
5. Toronto ARTSCAPE
6. Toronto Association of Business Improvement Areas
7. Abcon Media
8. The Beer Store
9. Toronto Financial Services Alliance
10. Association of Canadian Advertisers
11. Tennis Canada
12. Retail Council of Canada
13. Spirits Canada
14. Greater Toronto Hotel Association
15. Ontario Restaurant, Hotel, Motel Association
16. CBS Outdoor
17. Canadian Council of Grocery Distributors
18. Cineplex Entertainment
19. Canadian Tax Payers Federation
20. Greater Toronto Marketing Alliance
21. Toronto Alliance of the Performing Arts
22. Canadian Stage Company
23. Downtown Yonge Business Improvement Area

Appendix B

The Toronto Economy

One of the key indicators of the strength of economic strength is employment and employment growth. The chart below shows how total employment has changed in the City of Toronto over the last 25 years. The top line is from the City's Econometric Model and is the most comprehensive indication of total employment in the City. The City's annual establishment survey (bottom line) provides more industry detail and a longer time series, but it does not include people who work at home and those with no usual place of work.



1983-1989: Between 1983 and 1989 the City of Toronto added over 250,000 jobs. Roughly half of the increase was in office jobs, led by financial and business services; however, all major sectors including manufacturing experienced increases. In the late 1980's the downtown Toronto office sector was building and absorbing the equivalent of one Scotia Plaza every year.

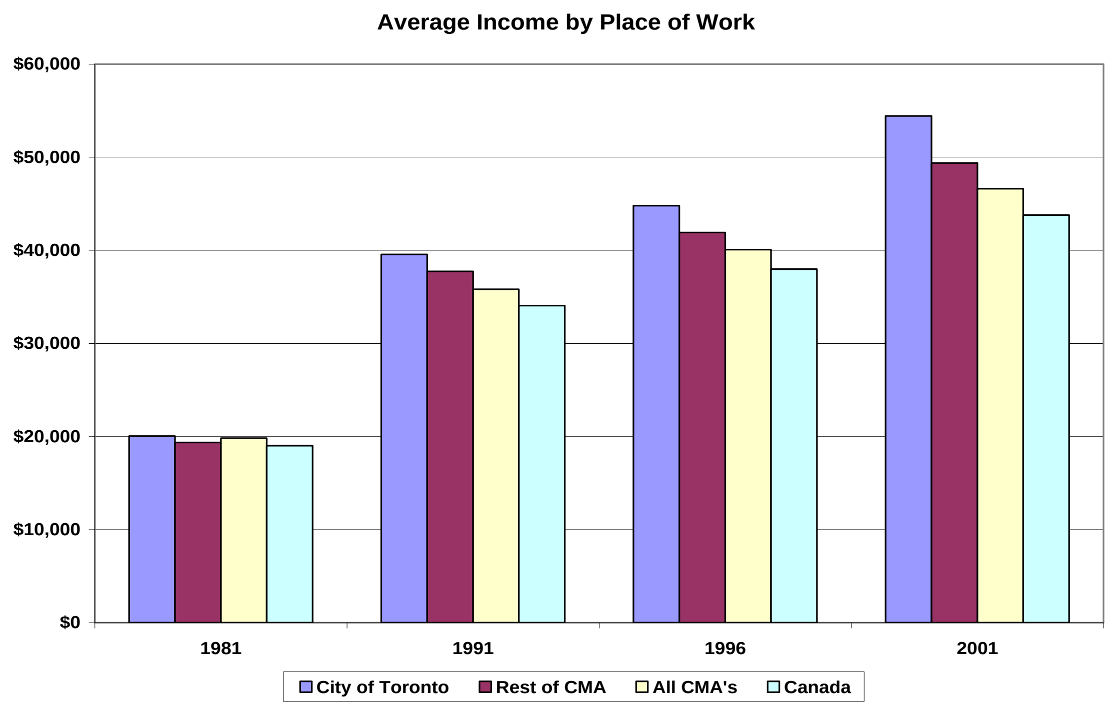
1989-1996: Total employment in the City of Toronto peaked in 1989 at 1.5 million persons. Over the next seven years, the City's economy shed 200,000 jobs. Most of the job losses were in goods production (-50,000 in construction and -85,000 in manufacturing), but financial services (-26,000) and retail (-30,000) also experienced significant declines during this period. The reasons for this decline included the impact of economic restructuring associated with free trade and a cyclical recession, both of which had a disproportionately negative impact on the City of Toronto.

1996-2000: In the next four years the City's economy staged a strong recovery, creating 172,000 net new jobs, across a broad range of industries. Interestingly during this period total employment in manufacturing actually expanded faster than all employment, as vacant industrial buildings in the City quickly filled back up. Wholesale and retail trade as well as information and culture also posted strong gains during this period.

2000-2003: The City's economy experienced a mini recession in this period. 60,000 jobs were lost (roughly 4% of the total). Job loses in this period were concentrated in manufacturing, construction, transportation and warehousing as well as business services.

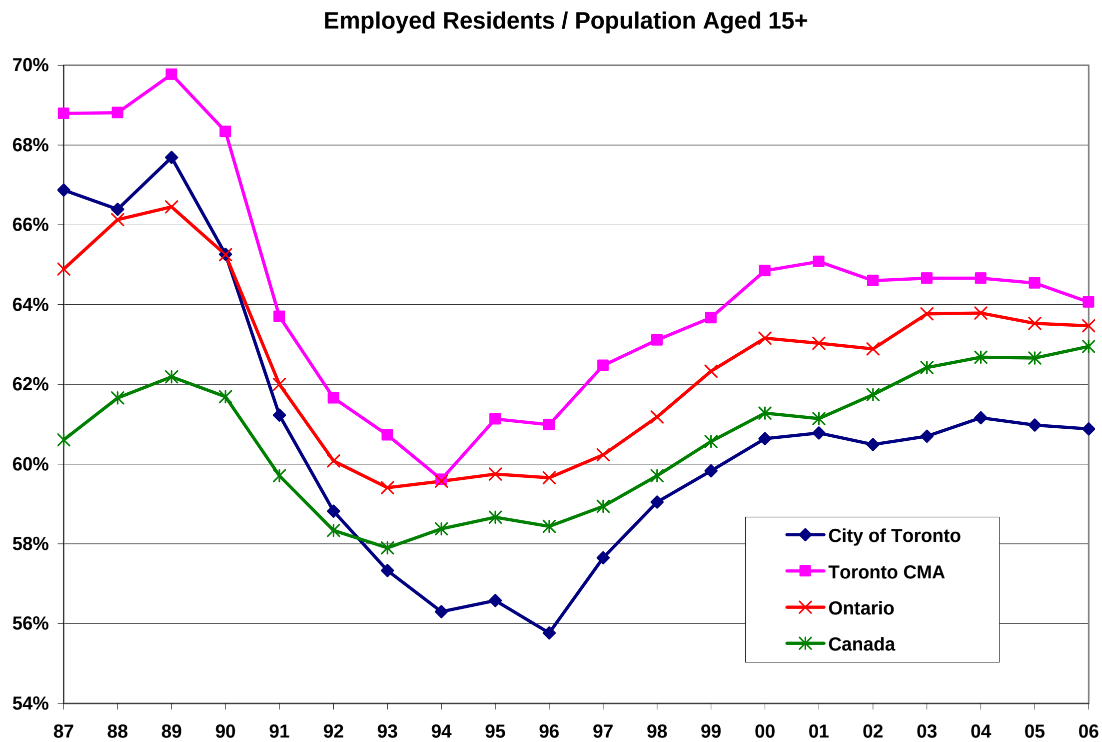
2003-2006: Over the last 3 years the city's economy has bounced back with a services-based recovery. Total jobs in the city are up by 36,000 in last three years and services are up by twice as much. As elsewhere in Ontario, manufacturers in the city have continued to be challenged by the appreciation of the Canadian dollar, and manufacturing employment has continued to decline, shedding an additional 35,000 jobs in this period.

Total employment in the City now stands at slightly less than it was in 2000 and over 50,000 less than at the previous peak in 1989. However, as the next chart demonstrates, the nature of jobs in the City has changed.



In 1981 people working in the City of Toronto were paid on average the same as in other urban areas. Today they are paid substantially more and the difference between the City and the rest of Canada seems to be growing. At the same time, it is clear that employment in the City is not growing as quickly as in the surrounding areas, and that the City must now compete for office jobs with locations that were not even considered office locations 25 years ago.

The City of Toronto is still a net importer of labour from the rest of the province. There are currently about 116,000 more people commuting into the City than commuting out of the city to work each day; however, this is lower than in the early 1990’s when the net inflow of people commuting into the City of Toronto every day to work was over 200,000. Between 1991 and 2001, the percentage of employed residents that commute out of the City of Toronto to work increased in every ward in the city.



The chart above compares the percentage of City residents that are working with all residents of the Toronto CMA, Ontario and Canada. In the late 1980’s a higher percentage of City of Toronto residents were employed than all Ontario residents and all Canadians. The early 1990’s recession affected City residents more than other Canadians and its impact was felt longer in the City of Toronto than elsewhere. The recovery in the late 1990’s was also stronger, but over the last five years employment rates for City of Toronto residents have leveled off at substantially lower rates than for other Ontario and Canadian residents, and particularly other Toronto CMA residents.

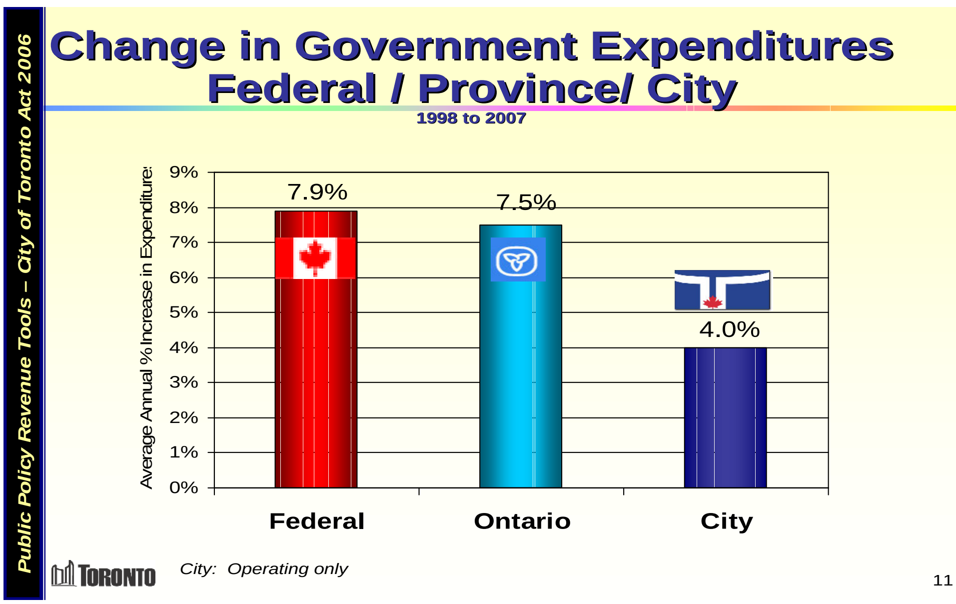
Over the last 25 years, the City has experienced substantial employment fluctuations, and is currently on a positive growth trend. While total employment in the City has not expanded as quickly as in the surrounding regions, average employment incomes in the city have been rising significantly as the nature of employment is changing. This change is seen most clearly in the downtown core, where many of the routine clerical tasks once performed in the bank towers have been replaced by higher order functions. Other fluctuations in employment seem to be largely driven by cyclical forces, such as business cycles and currency fluctuations. Employment to population ratios for City residents have improved over the last ten years, but have not recovered to the levels in the late 1980's.

Appendix C

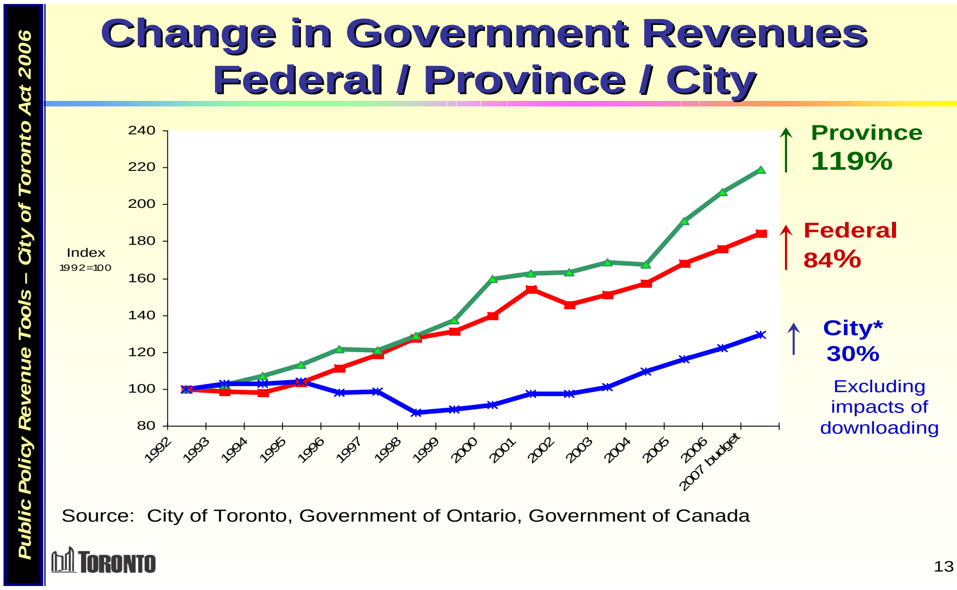
City Fiscal Situation

The City's fiscal situation has deteriorated since the late 1990's with policies of the provincial government that reduced municipal transfers and downloaded new social service and transit funding responsibilities.

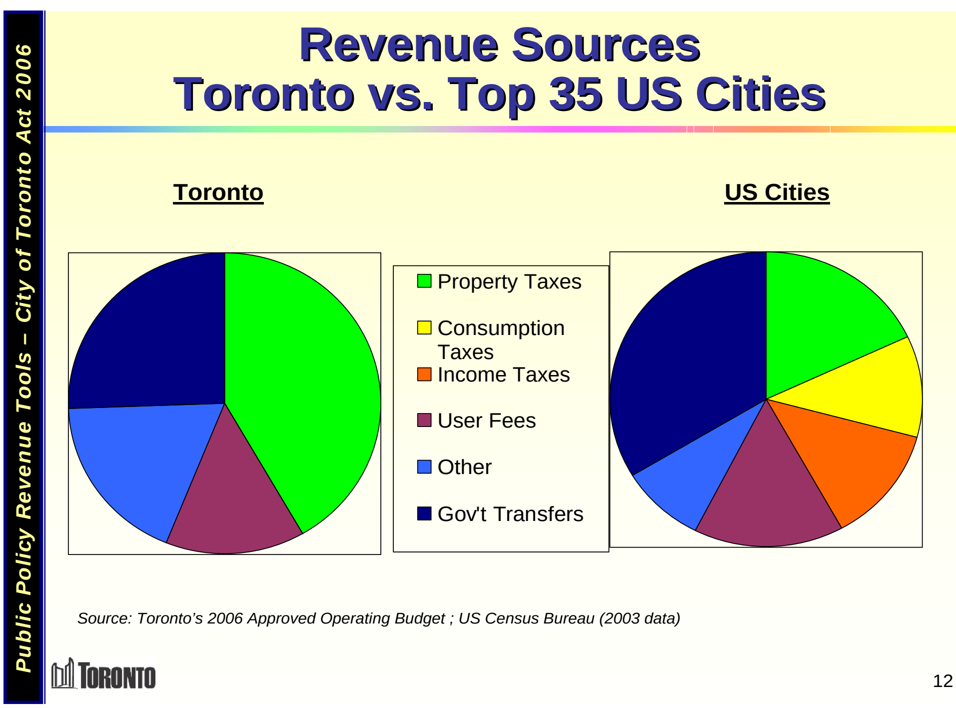
The City has responded with fiscal restraint, and has exhibited much lower average annual expenditure growth than either the provincial or federal governments since amalgamation. The graph below, one of several used during the consultation process, illustrates this difference.



Even while their expenditures have increased, significant revenue growth related to economic expansion has helped the other orders of government reduce their deficits, while the City's revenues, based largely on property taxes, have been relatively stagnant. Between 1992 and 2007 (projected), provincial total revenues increased by 119%, federal by 84%, disposable per capita income in CMA Toronto by 44%, whereas the City of Toronto's total revenues increased by only 30%. The graph below illustrates the relative revenue growth of Toronto vs. the Province of Ontario and the Government of Canada over the past 15 years.



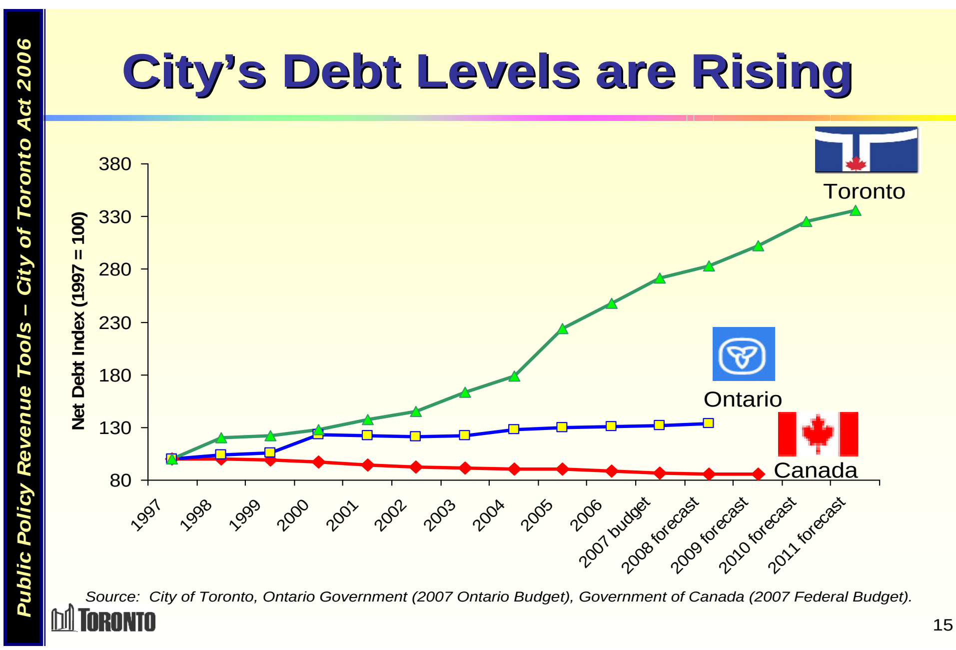
The City's revenue sources are limited, primarily to property taxes (42%) which combined with reduced proceeds from businesses (per tax policy) the City's revenues can not offset annual inflationary expenditure increases of $150 - $200 million. However, the City's revenue could offset much of annual inflation if the City had some of the tax tools available to provincial and federal governments, such as sales taxes. Municipal governments in many US and European cities do share in these revenues that grow with the economy. US cities, with whom Toronto often competes to attract investment, typically have only 18% revenues from property taxes and about 24% from sales or consumption taxes and income taxes, as illustrated in the graph below:



There have been significant revenue gains in recent years, including the sharing or provincial (and federal) gas taxes for transit capital funding, but the underlying fiscal imbalance remains. In a June 2005 report, the Conference Board of Canada quantified the City's 2006 combined annual operating and capital shortfall at $1.1 billion.

One result of this imbalance has been the rapid growth in City debt levels. The graph below again reflects the relative fiscal health of the Ontario and Canadian governments, each with relatively flat or declining absolute debt levels that have declined significantly in inflation adjusted terms and relative to GDP (their tax base), while the City's debt levels are increasing from $2.1 in net debt billion at the end of 2006 to a projected $3.3 billion in 2011.

The City issues debt only to finance capital projects, such as investments in hard infrastructure like roads, bridges and transit. The increase in debt levels is mainly related to higher expenditures for normal infrastructure aging and replacement requirements, and insufficient long-term funding alternatives.



Toronto's mutli-facetted approach to fixing the imbalance is based on the premise that the businesses and citizens in Toronto pay more than $9 billion a year more in taxes than the amount that flows back from the provincial and federal governments through services and transfer (based on a 2002 Toronto Board of Trade estimate), and that in order to maintain this economic contribution, more of the wealth generated in Toronto needs to be reinvested in the City. The following graphic illustrates this point: