

Ref: 2008-25-IA25.3

November 4, 2008

EXECUTIVE COMMITTEE:

City Council on October 29 and 30, 2008, referred the Administrative Inquiry (October 20, 2008) from Councillor Michael Thompson, Ward 37, Scarborough Centre (IA25.3), entitled "Budget Shortfall - Land Transfer Tax", and the Answer (October 29, 2008) from Mayor David Miller (IA25.3a), to the Executive Committee.

for City Clerk

M. Toft/cd

Attachments

INQUIRY OF THE MAYOR

FROM: Councillor Michael Thompson

DATE: October 20th, 2008

SUBJECT: Budget Shortfall Land Transfer Tax

Dear Mayor Miller:

I am writing to inquire about the city's goal of achieving a balanced budget in light of a slowing economy, plunging consumer confidence and impending layoffs. More specifically, I am writing to inquire about the effect that falling home prices and home sales in the city of Toronto will have on this year's budget.

The city embarked upon a Municipal Land Transfer Tax in February 2008, when home sales and prices in Toronto were still rising. The Land Transfer Tax was touted as the lynchpin of a series of revenue generating proposals that would balance the city's books for fiscal year 2008.

According to internal projections, it was claimed that this tax would provide approximately 300 million dollars in added revenue. This presumably would have been based on conditions that now no longer exist.

The average price of a home in the city of Toronto is currently \$375,804, down from \$441,878 in October 2007. The last time average prices were that low was back in January of 2007 (approximately 21 months ago). So in one year we have seen a 15 percentage point drop in the value of home sales in the city. It should be noted that the average price of a home is now below 400,000 dollars, and the Land Transfer Tax provides full rebates on purchases of homes made under the 400,000 dollar level.

The 300 million worth of tax revenue would have required approximately 20 billion worth of real estate activity in the city of Toronto, assuming a 1.5% levy for the average transaction above the rebate level of 400,000 dollars. Unfortunately, if trends continue, the numbers will not add up.

If we begin with the volume of home sales, we see that this is steadily dropping. In the first eight months of the year, a total of 22,043 new home sales were made in the city of Toronto, compared with 30,900 new homes sold at the same time last year. Even if we assume that the numbers for this year will remain constant (which every indication will not be the case), the number of new home sales will fall by 28 percent this year.

It should also be noted that the impact of falling home sales was more muted in areas that failed to impose a Municipal Land Transfer Tax. In the 905 area, for example, the average price of a home was down by only 8 per cent, a full 7 percentage points less than

the City of Toronto's 15 percent drop during the same period.

Mr. Mayor, my questions are:

1) Prior to the introduction of the land transfer tax, were any estimates made concerning its potential negative impact on home sales in the city of Toronto?

2) Were any contingency plans made should the revenues from the Land Transfer Tax not meet projected levels?

3) In light of plunging home sales, what plans are now in place to make up for the lost revenue from the Land Transfer Tax, and keep the city's budget balanced?

4) If the City cannot replace the revenues lost to weaker than anticipated home sales, what expenditures do you plan to cut to ensure that the City's budget is balanced?

Sincerely,

Michael Thompson
Councillor, Scarborough Centre
Ward 37

October 27, 2008

MEMORANDUM

To: Councillor Michael Thompson
From: Mayor David Miller
Re: Budget Shortfall Land Transfer Tax

I have reviewed your inquiry dated October 20, 2008 regarding the Land Transfer Tax.

I believe appropriate answers to all of your questions are contained in the attached briefing note dated October 21, 2008 from Len S. Brittain, Director of the City's Corporate Finance Division.

Mayor David Miller

October 27, 2008

MEMORANDUM

To: Councillor Michael Thompson
From: Mayor David Miller
Re: Budget Shortfall Land Transfer Tax

I have reviewed your inquiry dated October 20, 2008 regarding the Land Transfer Tax.

I believe appropriate answers to all of your questions are contained in the attached briefing note dated October 21, 2008 from Len S. Brittain, Director of the City's Corporate Finance Division.

Mayor David Miller

Len S. Brittain
Director

Corporate Finance Division
City Hall
100 Queen Street West
5th Floor, East Tower
Toronto, Ontario M5H 2N2

Tel: 416 392-5380
Fax: 416 397-4555
lbrittai@toronto.ca
www.toronto.ca

October 21, 2008

Municipal Land Transfer Tax (MLTT)

Third Quarter 2008 Variance Report

Issue:

The MLTT was implemented effective February 1, 2008. This briefing note provides MLTT revenue information to support the Third Quarter Variance Report to be considered by the Budget Committee on November 19, 2008.

Background:

Staff last reported on the MLLT revenues in the second quarter operating variance report, indicating the tax was on budget and on target to hit the total year forecast of \$155 million. Recently, media reports have provided incorrect information with respect to the tax and the impact of recent the financial market downturn. This briefing note and a coincident news release are therefore being provided in advance of the normally scheduled third quarter variance report in order to correct potential misperceptions.

Key Points:

2008 Budget

At its October 2007 meeting, Council adopted a report entitled New Taxation Measures – Report on Design Details and Implementation Authorities which included a table showing the impact of the various rates, exemptions, and rebates, as follows (\$ millions):

	<u>2008 (Feb. – Dec.)</u>	<u>Fully Phased-</u>
<u>in</u>		
Gross Proceeds net of admin. fees & costs	\$290.0	\$300.0
Less: Grandfathering - Residential	(\$40.0)	\$0
- Non-residential	(\$35.0)	\$0
Extended First-time Home Buyers Rebate	(\$40.0)	(\$40.0)
1% rate on purchase value from \$250K to \$400K	(\$17.0)	(\$17.0)
1% rate on purchase value over \$40 M	<u>(\$3.0)</u>	<u>(\$3.0)</u>
Net MLTT Revenues	\$155.0	\$240.0

This schedule was the basis for the approved revenue budget for 2008.

2nd Quarter Variance

The 2008 operating budget for net MLTT revenues is \$155 million. The second quarter variance report indicated that as of June 30th MLTT revenues were on budget at \$54.8 million. This figure was well below the mid-point of the yearly budget for the following reasons:

- The tax did not take effect until February 1.
- Market activity is not evenly distributed throughout the year, typically peaking in the summer months.
- As expected, a large number of transactions in the early part of the year were exempt (grandfathered) in accordance with the City by-law because the related purchase and sale agreements had been executed prior to the end of 2007.

3rd Quarter Variance

As at September 30, 2008 the preliminary net MLTT revenues were \$120 million, slightly above expectations for the period. October results already put the year to date revenues in the \$130 million range, well on the way to achieving the full year \$155 million budget target.

Year End Forecast

The forecast for the year 2008 remains \$155 million, consistent with the budget. Current figures are slightly ahead of expectations, which should permit the City to stay on budget in the event of lower market activity and prices in the remainder of the year.

Prepared by: Sam Samanta, Corporate Finance Division
Circulated to: Mayor & Members of Toronto City Council
Joseph P. Pennachetti, City Manager
Cam Weldon, Acting Deputy City Manager & Chief Financial Officer
For Further Information: Rob Hatton, Manager, Corporate Finance Division (416) 392-9149