EX20.2

STAFF REPORT
ACTION REQUIRED

The City of Toronto's Immediate and Longer-term Revenue Strategy Direction

Date:	November 17, 2016
To:	Executive Committee
From:	City Manager Deputy City Manager & Chief Financial Officer
Wards:	All
Reference Number:	P:\2016\Internal Services\Cf\Ec16025Cf (TFS #23952)

SUMMARY

The City is assessing its overall approach to both revenue and expenses within the context of updating its long-term financial direction. The City's finances are often complex and seemingly abstract, but they are fundamental to achieving Council's collective vision for a growing, diverse and dynamic community, with unique challenges such as traffic congestion, higher incidence of poverty, and disproportionate social housing burdens from those faced by surrounding municipalities.

This report provides a framework for the application of existing and new revenues, principles for the selection of potential revenues, a discussion on social and economic impacts, and implementation considerations.

The City funds its activities from a variety of sources that can be categorized as property-related taxes, specialty taxes, and service fees. The City's broad taxation authorities are set out in the *City of Toronto Act, 2006* (COTA), and limited by a list of prohibited tax fields such as income, sales, and wealth. The remaining options tend to be rather narrow in application, and correspondingly limited in terms of revenue capacity. The City explored its tax options both within and outside its authority during the June 28, 2016 meeting of Executive Committee (EX16.3).

All taxes are generally viewed negatively by the public and directly affected parties. The challenge is to choose those options that produce the least harm, with particular sensitivity to those who are directly impacted.

This report provides the results of further analysis regarding those options that appeared to have the most potential to address both immediate revenue requirements of the City's 2017 budget and 2018 budget outlook and the City's long term capital requirements. The potential for a car rental tax is also discussed, as directed by Executive Committee.

The analysis includes consideration of the potential short and long term social and economic impacts of each option on the businesses and residents of Toronto, implementation and administration challenges, and the status of the legislative and regulatory restrictions and limitations.

When these factors are considered, the City is left with a limited set of practical options for significantly expanding its revenue base in 2017. These significant measures include property tax, land transfer tax, and reinstatement of the vehicle tax. A parking levy is not recommended due to its poor scoring on key criteria. More modest tax revenue options with longer implementation lead times, which require provincial legislative or regulatory changes, include introducing a new alcohol tax and/or hotel tax.

A somewhat broader set of options including expressway tolling and a parking sales tax may exist for future consideration, but these will similarly depend on provincial legislative and regulatory reforms. Expressway tolling can be an effective user pay option to generate funds to pay for highway rehabilitation costs and potentially other related mobility projects. Moderate tolls are affordable relative to other existing travel options, and can be an effective traffic management tool.

Various other taxation options exist and continue to be options for future consideration, including some that were discussed in the June 2016 KPMG study, such as a tobacco tax and/or an amusement tax.

The choice of application of tax proceeds is an important component of gaining public trust. Some taxes may be best suited for addressing unfunded capital requirements, while others may be more appropriate for dealing with ongoing operating expenditures. These attributes are discussed in the report.

This report has been prepared by Corporate Finance in consultation with staff from City Manager's Office, Economic Development and Culture, Social Development, Finance and Administration, Revenue Services Division, City Planning, City Legal, Financial Planning, Municipal Licensing and Standards and Transportation Services.

RECOMMENDATIONS

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

1. Council refer the following revenue options to the Budget Committee for consideration as part of the 2017 budget process:

a. Introducing a dedicated property tax levy for capital;
b. Allowing the commercial property tax rates to rise at the maximum allowed 50% of the residential property tax rate increase;
c. Harmonizing the Municipal Land Transfer Tax (MLTT) rates with the Ontario Land Transfer Tax (LTT) rates, including the new graduated rate;
d. Harmonizing the MLTT first-time homebuyer (FTHB) rebates with the Ontario LTT FTHB rebates, including the new Canadian citizenship and permanent residency test;
e. Changing the MLTT FTHB rebate eligibility criteria to include a maximum value of consideration; and
f. Introducing an above inflationary increase to the Third Party Sign Tax.

2. Council consider the re-introduction of the personal vehicle tax of up to $120 annually per four-wheeled vehicle, direct the Deputy City Manager & Chief Financial Officer to report back to Executive Committee in January 2017 on tax design and implementation authorities, and forward this matter to Budget Committee for consideration as part of the 2017 budget process.

3. Council endorse changes and request the Province to move ahead with
    a. Legislative and/or regulatory reforms to enable in 2017:
        i. Hotel and short-term accommodation rental tax;
        ii. Clear authority to require the collection of taxes by intermediaries, such as for alcohol, tobacco, hotel and short-term rental accommodation taxes;
        iii. The imposition and collection of alcohol tax at LCBO stores; and
        iv. Tolling of roads under the jurisdictional ownership of the City.

    b. Legislative reforms and/or agreements for application in future budgets (2018 and beyond):
        i. Graduated residential property tax rates;
        ii. Parking sales tax;
        iii. Municipal income tax; and
        iv. Sharing of the Harmonized Sales Tax (HST) with municipalities.

4. Council direct the City Manager, Deputy City Manager & Chief Financial Officer, and General Manager of Economic Development and Culture to consult impacted businesses on the revenue options identified in recommendations 2 and 3, as part of the Long-Term Financial Plan consultation process.

5. Council request the Province to continue to support regional tourism in Toronto by maintaining or enhancing the annual funding, at the current funding level of $9.9 million, provided to Tourism Toronto as a Regional Tourism Organization.

Implementation Considerations

Amendments to property tax revenues can typically be implemented on an full-year basis if approved as part of the City's 2017 budget. Amendments to other existing taxes, such as the Municipal Land Transfer Tax, can usually be implemented promptly after adoption (but not retroactively). New tax options such as a hotel tax, or parking levies require a longer implementation process including legislative change (hotel tax), and formalizing tax design, by-law, and collection matters/issues. Consequently, these taxes would require 2017 expenditures and have only part year or no positive impact on 2017 revenues, depending on the nature of the tax.

Financial Impact

The revenue potential of the options referred to the Budget Committee for consideration in 2017 are shown below. The estimates are preliminary, based on stated rate assumptions and a March 1 or later implementation date. The final figures and assumptions would need to be further considered and subject to recommendation by Budget Committee.

Operating Budget

Revenue Option	Assumed Rate	Estimated 2017 Incremental Revenue	Estimated Incremental Revenue Annualized	Assumed Implementation Timing
Allow commercial property tax rates to increase by 50% of the residential increase	1% commercial property tax rate increase for every 2% residential rate increase	$3.8M	$3.8M	Upon budget approval
MLTT rate harmonization[1]	See below[2]	$77M	$85M	March 1, 2017
MLTT FTHB rebate harmonization[1]	Increased from $3,725 to $4,000, or from $3,725 to $4,475	From -$5M to -$9M	From -$5M to -$10M	
MLTT FTHB eligibility criteria (Price/VOC Limit)[1]	Maximum VOC of $700,000, above which FTHB would not be eligible for a rebate	$9M	$10M	
Personal vehicle tax re-introduction	$120 per vehicle annually	$75M	$100M	April 1, 2017
Above-inflationary increases to the Third Party Sign Tax rates	25% increase	$2M	$2.5M	Upon approval

Capital Budget

Revenue Option	Assumed Rate	Revenue Stream (Annual)	Supportable Debt	Time to Implement
Dedicated capital levy (property tax)[3]	5%	$126M	$1,800M	Phase-in over 5 years
Expressway tolling[4]	Under $2.00/trip	Up to $166M in 2016$	Up to $4,976 M	3 to 7 years depending on phasing

(1) Preliminary estimates based on 2015 actual data
(2) MLTT revenue estimates based on the following changes in order to harmonize with the Provincial LTT rates that are effective January 1, 2017:

- For one or two single-family residences, increasing MLTT rates for value of consideration (VOC) above $2 million, from 2% to 2.5%;
- For all other types of properties, increasing MLTT rates for VOC between $250,000 and $400,000 from 1% to 1.5%; and
- For all other types of properties, increasing MLTT rates for VOC between $400,000 and $40 million from 1.5% to 2.0%, and for VOC over $40 million from 1.0% to 2.0%.

(3) A 1% residential property tax rate increase raises approximately $25.2 million annually, assuming commercial and industrial tax rates increase at one-third of the residential increase. Supportable debt assumes 20-year debt at 3.5% interest.
(4) Supportable debt assumes 30-year debt at 4% interest.

Should Council decide to implement expressway tolling, a toll which recovers the cost of the Gardiner project (about $1.40 per trip) would free up $2.6 billion in total funding (including $1.85 billion in debt) currently contained in the City's approved 10-year capital plan. A toll of up to $2.00 per trip would generate just under $5 billion expressed in today's dollars over 30 years.

Economic and Social Impacts

Executive Committee directed the City Manager to consider the economic and social impact in any further analysis of revenue options. Staff retained KPMG to continue the work it began as an update of the original KPMG study of revenue tools under the *City of Toronto Act* in 2007. Further work was focussed on options that had the highest score in terms of the criteria outlined in the June 2016 report and those that appeared to have the most potential for implementation and revenue impact in 2017.

The supplemental KPMG study examined the macro-level economic and social impacts of potential revenue options, as well as potential adjustments to the City's current property tax and MLTT structure. Interactive "heat" maps of the locations of establishments potentially impacted were developed using property coding for non-residential properties (for potential parking lots), liquor, beer and wine stores, hotels and the Municipal Land Transfer Tax. The KPMG report titled "Additional Economic Assessment of Revenue Options" is attached as Appendix A.

Potential revenue measures will be tabled at a series of public consultations that started in November 2016 and will continue into 2017. In addition, staff have been contacted by representatives of commercial and retail business owners, car rental and car sharing organizations, motion picture screening companies, and others who raised concerns and considerations related to some of the potential taxes and how they may impact the various stakeholders. A full list of submissions received and meetings with staff is provided in Appendix B.

DECISION HISTORY

On May 3, 2013 City Council adopted the staff report EX31.3 titled "Metrolinx Transportation Growth Funding - Dedicated Revenues" with amendments. City Council indicated to Metrolinx that it did not support the use of the following Greater Toronto and Hamilton Area (GTHA) revenues to fund Metrolinx transportation growth strategies: congestion levy, employer payroll tax, land transfer tax, land value capture, personal income tax, property tax, transit fare increase, utility bill levy, fuel tax, parking levy, expressway tolls or other road pricing, and high occupancy toll lanes.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.EX31.3

In the last 18 months, several reports have been considered dealing with revenue strategies.

On September 21, 2015, the Executive Committee considered the staff report EX8.14 titled "Tolling Options for the Gardiner Expressway and Don Valley Parkway" and referred the item to the General Manager, Transportation Services with the request to undertake a more detailed study and consultation with relevant stakeholders on tolling and pricing of the Gardiner Expressway and Don Valley Parkway, including but not limited to, more detailed cost and revenue projections, impacts on other elements of the transportation network, and impacts on economic competitiveness.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX8.14

On June 7, 2016, Council considered the staff report EX15.1 titled "The City's Long-term Financial Direction" and directed staff to, among other things, report on a multi-year revenue strategy that:

a) "examines ways the City can optimize revenue generation from existing and new sources;
b) identifies implementation costs, timing and the sustainability of revenue options;
c) establishes principles to guide the selection of potential revenues; and
d) establishes a framework for the further application of both existing and new revenues."

http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX15.1

On June 28, 2016, the Executive Committee considered the staff report EX16.3 titled "Updated Assessment of Revenue Options under the City of Toronto Act, 2006" and referred the item, including two motions, to the City Manager for consideration as part of the forthcoming report on the Long-Term Financial Direction in fall 2016.

Motion 1:
"That the City Manager include an assessment of the economic impact of potential new taxes being considered as part of any further analysis of revenue options, and that this assessment be conducted in consultation with the General Manager, Economic Development and Culture."

Motion 2:
"That City Council request the City Manager and the Deputy City Manager and Chief Financial Officer to include in the forthcoming report on the City of Toronto's Long-Term Financial Direction, in the fall of 2016, the revenue opportunities for a surcharge on car rentals in the City of Toronto."
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.3

On July 12, 2016, Council considered the staff report EX16.37 titled "2017 Budget Process - Budget Directions and Schedule" which identified an estimated 2017 net base operating budget pressure of $516 million, based on current service costs.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.37

On September 8, 2016, the Planning and Growth Management Committee considered the staff report PG14.5 titled "Additional Funding for the Arts: Third Party Sign Tax Revenue" and requested the Chief Building Official and Executive Director, Toronto Building in consultation with the Deputy City Manager and Chief Financial Officer to conduct a review of the Third Party Sign Tax since its implementation in 2010; including considering the number of signs by class, revenues by sign class and where the revenue is being allocated, industry trends and comparisons to other jurisdictions, and to report back to the April 5, 2017 Planning and Growth Management Committee meeting with an overview of the review's findings.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.PG14.5

On October 26, 2016, the Executive Committee considered the staff report EX18.2 titled "Developing an Approach to Regulating Short-Term Rentals", and directed the Executive Director, Municipal Licensing and Standards and the Chief Planner and Executive Director, City Planning to report no later than the end of the second quarter of 2017 with proposed regulations for short-term rentals.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX18.12

ISSUE BACKGROUND

The Long-Term Financial Direction report considered by Council in June 2016, among other things, outlined a series of principles and directions to guide the development of new strategies to manage expenses and expand revenues. In July 2016, Council considered the 2017 Budget Direction report in which staff advised of a $516 million net base budget gap for 2017. As the City undertakes the budget process over the coming months, it will be important to ensure consistency between decisions taken in the short-term and the City's long-term priorities.

There are a number of separate initiatives being pursued as part of the Long-Term Financial Plan (LTFP), including expenditure control measures, capital funding strategies, and asset optimization strategies. The latter is the subject of a report on this agenda.

An important part of the LTFP involves optimizing and allocating current and future revenue sources.

In June 2016, staff reported on a list of currently authorized and currently unauthorized revenue options identified and described in a study done for the City by KPMG. The June 2016 KPMG key findings are summarized in Appendix C.

At the time, staff were not directed to do further research on any particular options in the study, but were asked to include a car rental tax and social and economic impact analysis in any further work.

In July 2016, Council considered the 2017 Budget Process – Budget Directions and Schedule report in which staff advised of a $516 million net base budget gap for 2017, and approved an across-the-board budget reduction target of 2.6% net below the 2016 Approved Net Operating Budget for all City programs and agencies.

In October 2016, the Executive Committee considered a report on short-term accommodation rentals, and directed staff to report back to Executive Committee with a proposal on regulating short-term accommodation rentals.

During this time, the Mayor has written to the Province specifically seeking authority to permit the introduction of a hotel tax and create flexibility in the administration of commercial and industrial property tax vacancy rebates. These letters are attached as Appendix D, along with a response from the Minister of Municipal Affairs. Staff have held exploratory meetings with Provincial officials regarding these and other options, but the Province has indicated it will not take a formal position in the absence of City-led public consultations and a direct request from Council. In November 2016, the Provincial Government, through its Fall Economic Outlook and Fiscal Review, introduced changes to the commercial and industrial property tax vacancy rebates to be enacted through Ministry of Finance regulations, which would be initiated through Council by-law. City staff will report to Council on vacancy rebates in early 2017. This report identifies a set of new revenue authorities for Council's endorsement.

Further to Executive Committee direction, preparatory work for this report has focussed on practical solutions using existing taxes and policies for 2017 and identifying appropriate requests for new authorities for the future, as per the recommendations. In addition, updates are provided regarding cost, timing and implementation, and the revenue option scorecard has been introduced to evaluate revenue options using principles articulated in the June 2016 report. Finally, staff identify the appropriate strategy for application of proceeds from the various revenue options, such as directing the revenues to ongoing City operations or to long-term capital investments.

In order to do this work, staff engaged KPMG through a contract amendment primarily to support the economic impact analysis in consultation with the General Manager of Economic Development and Culture.

The options that were subject to further analysis were the following:

- Permitted amendments to property tax, comprising:
    - Increasing residential tax rates beyond inflation
    - Increasing non-residential rates at the maximum permitted one-half of residential increase, rather than the City's current policy of one-third of the residential increase
    - Suspending or scaling back the use of tax relief policies such as non-residential property tax ratio reductions, the Imagination, Manufacturing Innovation and Technology (IMIT) property tax incentive program (which is subject of a separate study), and the solid waste rebate program

- Permitted amendments to the Municipal Land Transfer Tax, comprising:
    - Harmonizing rates with (marginally increasing them to match) Provincial Land Transfer Tax rates, including a new graduated rate
    - Harmonizing the first time home buyer's (FTHB) rebate with (increasing it to match) the Provincial FTHB rebate
    - Changing the eligibility criteria for the FTHB rebate to Canadian citizens and permanent residents (similar to the new Provincial test), and introducing a maximum value of consideration limit

- Permitted specialty taxes (Part X of the *City of Toronto Act*), comprising:
    - Personal vehicle tax
    - Amendments to the Third Party Sign Tax
    - Tolling (requires regulation)
    - Alcohol tax (requires regulation support)
    - Parking levy

- Prohibited amendments to property tax, comprising:
    - Increasing non-residential (Industrial commercial and institutional) tax rates independent of residential rates
    - Introducing new graduated residential tax rates for 'luxury' homes
    - Car rental tax (as flat vehicle tax)

- Prohibited specialty taxes (Part X of the *City of Toronto Act*), comprising:
    - Hotel tax
    - Parking sales tax
    - Municipal sales tax

- Municipal income tax
- Additional "sin" taxes (e.g. cannabis)

Provincial Legislative Changes needed to the City of Toronto Act

The *City of Toronto Act* has been under a statutory five-year review since the beginning of 2015. The City tabled a number of Council endorsed administrative amendments to the Act in the fall of 2015. These kinds of changes are expected to be introduced in the Provincial Legislature this fall. Bill 68: Modernizing Ontario's Municipal Legislation Act, 2016, received first reading on November 16, 2016.

Significant new revenue authorities are not part of the expected package of changes. The province has indicated that changes of that type can only be entertained if endorsed by Council after appropriate public input through a formal consultation process. It is expected that current Long-Term Financial Direction consultation process can satisfy that requirement, and if Council adopts the recommendations of this report, discussions with Provincial officials may begin in earnest.

COMMENTS

The June 2016 report on the City's Long-term Financial Direction explored the underlying conditions of City finances by reviewing expenses and revenue patterns in recent budgets, as well as high-level longer-term future expense pressures and revenue performance. In addition, it set out a series of principles and directions to guide the direction of new strategies to manage expense and expand revenue.

Three Main Categories of City Revenues

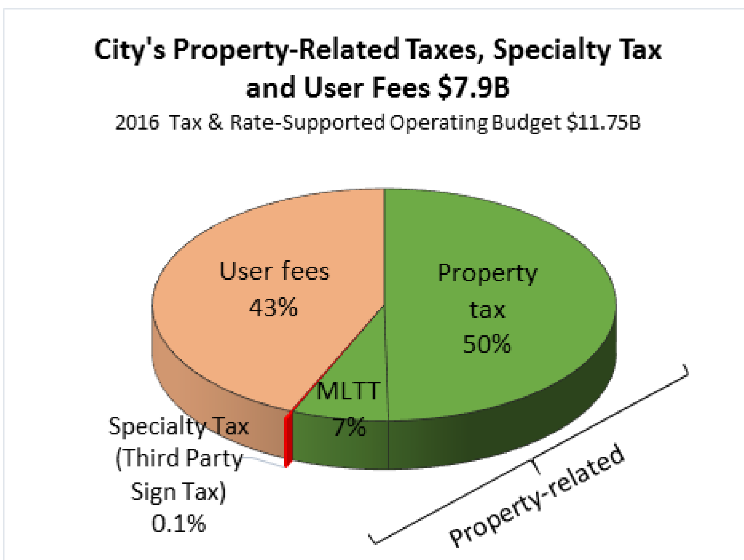
The City's primary revenues can be grouped into three categories – property-related taxes, specialty taxes, and fees. It is useful to make these distinctions. Property related taxes are the main source of municipal revenue for delivering local services. The tax jurisdiction to a large degree corresponds to the service area, or benefiting area. The tax revenue is generally very stable, as is appropriate for a government that may not run operating deficits, and is primarily focussed on maintaining services and local infrastructure. Since 2008, Toronto has supplemented property tax with the Municipal Land Transfer Tax, another property-related tax, but applied to a much narrower base and subject to market fluctuations.

The Municipal Land Transfer Tax has been a positive factor for City budgets, growing with the real estate market. From 2010 to 2016, its growth has outpaced property tax growth, averaging a 20% annual increase vs only 1% for property taxes. Over that period it has also generated more revenue growth in absolute terms – $351 million versus $237 million for property tax. However, as it has grown in budgetary importance, it has introduced a significant amount of revenue risk, which is a new phenomenon for the City.

The City's next most important own-source revenue is its fees. Fees are different than taxes in that they are charged to the direct beneficiaries of the service, and are limited to cost recovery for that service. Fees for service have been implemented where consumption is measureable, where feedback is important in terms of tempering demand, and where ability to pay considerations are manageable. These conditions are always changing, particularly with technological advances. Water and solid waste utility charges and transit fares raise the bulk of City's fee revenue, but other important fees exist for building permits, parks and recreation services, and even paramedic services, plus a variety of fines. This report does not deal with changes to fees, except in regard to expressway tolling, a new and significant potential new revenue source.

Specialty taxes are a relatively small revenue source but one, the Third Party Sign Tax, has generated significant interest since the City gained general taxing authority in 2007 under the new *City of Toronto Act*. The City's authority is subject to a list of prohibited broad categories. The remaining options are typically directed toward a very narrow base of taxable activity. The economic distortions tend to be more significant, and consequently the revenue potential is usually small.

The chart below shows the relative contributions from property (and land transfer) taxes, fees and specialty taxes to the City's 2016 tax and tate supported operating budgets.



Tax Policy Considerations

Municipal revenues from taxes are mainly used to fund a broad range of public benefits and services, from roadways to child care. As is the nature of taxation, the distribution of benefits has little relation to the distribution of tax burden. Taxation redistributes the wealth of society to pay for public goods and services, including those that might not be as efficiently provided if left to a fee-for-service model.

Toronto, like all municipalities in Canada, relies on property tax for the majority of its tax revenue. Property taxes are well established and accepted by the public. They are broadly borne by all property owners in the community. Even though property taxation revenues do not significantly expand or contract with the economy, they provide stable revenues in return for consistent municipal services, at a low administrative cost, and based on a sophisticated assessment mechanism. They are shared in a fair and objective manner in proportion to property value as a proxy for wealth and capacity to pay. Tax avoidance is negligible and collection is secured against the property.

These are the hallmarks of a good tax system for the City against which all taxing alternatives should be considered.

Factors for Evaluating Revenue Options

A variety of revenue options have been identified to address both short-term and long-term operating and capital requirements. Some revenue options involve new taxation measures, such as hotel tax or expressway tolling, and require provincial legislative change. Others call for varying degrees of change to existing tax systems, such as refining the Municipal Land Transfer Tax and property tax rebates.

Any suggestion for modifying tax rules, whether major or minor, raises the question of how to best analyze and compare options. A basis to evaluate appropriate tax policies is needed to effectively analyze proposals to change tax rules and tax systems in order to best ensure an effective tax system based on good tax policy.

For the purpose of this staff report and further work, staff have identified six factors to assess the various revenue options, which are discussed below. These factors were previously discussed in the June 2016 report on Revenue Options: http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX16.2.

The following factors are used to determine and justify the focus of additional analysis on selected revenue options that are discussed in further in this report.

1. Incidence/Fairness:
    - The tax incidence (or tax burden) matches the distribution of benefits of local public service, e.g. non-residents.
    - The tax is borne by taxpayers who have the ability to pay.
    - The burden on the vulnerable can be mitigated.
    - The tax is visible, transparent and accountable.

2. Efficiency:
    - Ancillary costs (one-time implementation and ongoing administration costs) are low relative to revenues.
    - Limited municipal investments are required.
    - There will be no impact on current municipal revenues or assessment growth.
    - The tax is easy to administer locally.

3. Policy Fit:
    - The tax is aligned with City policies, e.g. public health, climate change mitigation and adaptation, economic development (enhancing business climate) and land use.

4. Minimizing Negative Economic Impacts (Minimizing Economic Distortion):
    - There will be minimal economic impacts or distortions on affected businesses and related employment.
    - There will be minimal competition between local governments, or local government and other orders of government.
    - Businesses are not incented to relocate outside of the Toronto, which would result in loss of assessment and related employment in the city.
    - The tax has the capacity to recover costs from non-resident service beneficiaries.

5. Revenue Quality:
    - Revenue is high relative to collection costs, stable and predictable
    - Stability – The tax will not negatively impact consumer behaviour in ways that would lead to revenue deterioration over time
    - Low Risk/Variability – The tax has relatively low variability, which makes it suitable for funding ongoing municipal budgets

6. Legislative Authority:
    - The tax is authorized under current Provincial legislation or regulation. No legislative or regulative amendment is required from the Province. In certain cases, a regulatory amendment may be required.

Not all principles can always be achieved to the same degree for all proposed tax changes. The City must carefully balance these considerations in achieving an optimal tax regime.

Consistency with Previous Council Direction

In addition to technical considerations, any tax decision must take into consideration political acceptability. For example, the public has previously supported political representatives who commit to limits on property tax increases. The Council record, such as the disposition of the Metrolinx Investment Strategy report in 2013, is also indicative of receptivitity to tax options.

Evaluation Results

City staff conducted an evaluation of the revenue options presented in the June 2016 report based on the above criteria and the results are shown below. The evaluation results are somewhat subjective. In the scorecard, a high score is represented by the green colour, medium score: yellow and low score: red.

Legend	High	Medium	Low
	(green)	(yellow)	(red)

Revenue Options	Assumed rates	Scores					
		Incidence / Fairness	Efficiency	Policy Fit	Minimizing Negative Economic Impacts	Revenue Quality	Legislative Authority
Taxes on Real Property							
Municipal Land Transfer Tax	Match provincial rules (rates & FTHB rebate)	Medium	High	Medium	Low	High	High
Parking Levy	$6.75/m^2 to $20.25/m^2/year	Low	Low	Low	Low	Medium	High
Property Tax		High	High	High	High	High	High
Specialty Taxes							
Permitted under Current Legislative Authority (COTA)							
Motor Vehicle Registration Tax	$120/year	Medium	High	High	Medium	High	High
Alcoholic Beverage Tax	1%– 10%	Medium	High	Medium	High	Medium	Medium
Entertainment & Amusement Tax	1% - 10%	Low	Medium	Medium	Medium	Low	Medium
Tobacco Tax	1%– 10%	Low	Medium	High	Low	Low	Medium
Requiring Major Provincial Policy Change							
Development Levy	2% – 10%	Low	Medium	Low	Low	Low	Low
Hotel Tax	2% – 14%	Medium	Medium	Medium	Medium	Low	Low
Parking Sales Tax	5 %– 20%	Medium	Medium	Medium	Medium	Medium	Low
Municipal Business Income Tax	0.5% – 2%	Medium	Medium	Low	Low	High	Low
Municipal Personal Income Tax	1%	High	Medium	Medium	Medium	High	Low
Municipal Sales Tax	0.5% – 2%	High	Medium	Medium	Medium	High	Low
Car Rental Tax	TBD	Low	Medium	Low	Low	Low	Low
Uber Registration Fee	TBD	Low	Medium	Medium	Medium	Low	Low
Carbon Tax	TBD	Medium	Medium	High	Low	Low	Low
Fees							
Expressway Tolls	TBD	Medium	Low	High	Medium	High	Medium

Selected Options for Further Analysis

For the purposes of this report, the focus is on options that score best in terms of the revenue option scorecard and that could contribute to balancing the City's 2017 budget – primarily those options for which the City already has the authority to act – and those options for which it makes sense to seek legislative change to allow for future use.

In addition, for ease of comparison, tax options are organized by those that tax real property and those that could be considered specialty taxes, such as taxes on luxuries (alcohol) or taxes on road usage (tolls). New and optimized fees, such as those for water, transit, and solid waste, are dealt with through the City's annual budget process.

Based on the above considerations, staff have reviewed the revenue options based on the least worst options, which are identified in the table below. Revenue options with lower scores, such as entertainment and amusement tax, tobacco tax, municipal income tax, municipal sales tax, car rental tax, and carbon tax, were not included for additional analysis at this time.

Selected Revenue Options for Further Consideration:

Revenue Options	Authorized	Requiring Major Provincial Policy Change
A. Taxes on Real Property	1. Property Tax 2. Municipal Land Transfer Tax (match Provincial policies) 3. Parking Levy	None
B. Specialty Taxes	1. Alcoholic Beverage Tax[1] 2. Personal Vehicle Tax 3. Third Party Sign Tax[2]	4. Parking Sales Tax 5. Hotel Tax 6. Municipal Income Tax 7. Municipal Sales Tax
C. User Fees	1. Road Pricing / Expressway Tolls[3]	None

(1) Requires Provincial regulatory changes to enable collection
(2) Third Party Sign Tax will be the subject of a future report by the Chief Building Official and Executive Director, Toronto Building in consultation with the Deputy City Manager & Chief Financial Officer, to be tabled at the April 5, 2017 Planning and Growth Management Committee meeting
(3) Requires Provincial regulatory changes

In the ensuing sections, each of the above revenue options is discussed, highlighting economic and social impacts, as well as implementation considerations.

Public Consultations

A public consultation process on the City's Long-Term Financial Plan started in November 2016 and will continue into 2017. Through the consultation process, the City is seeking input on some challenging questions about how it can manage expenses, raise revenue, optimize City assets and manage finances in order to best achieve the City's strategic priorities and objectives. The findings from the public consultation process will inform staff and Council in developing the City's Long-Term Financial Plan, and help give Toronto the financial roadmap it needs to achieve its aspirations and goals.

Principles for Application of Proceeds

An important factor for public acceptance of any new tax is the public understanding of use of the proceeds by the taxing authority. However, it is not always a simple task to demonstrate the benefit of a tax, especially if the new revenue is used to avoid potential property tax increases.

Staff consider many factors when recommending the application of new revenues. In terms of the sutiability of specific revenues for capital versus operating budgets, the magnitude and stability of the revenue, whether the tax is new, and linkages to specific programs are considered. As illustrated below, some revenue options, such as a dedicated property tax levy, a portion of the Municipal Land Transfer Tax (to mitigate risk), expressway tolls and parking sales tax, are considered appropriate for funding capital costs.

<table>
<tr><th>Operating</th><th>Capital</th></tr>
<tr><td colspan="2">A. Taxes on Real Property</td></tr>
<tr><td>• Property Tax</td><td>• Dedicated Capital Levy (Property Tax)</td></tr>
<tr><td colspan="2">• Municipal Land Transfer Tax</td></tr>
<tr><td>• Parking Levy</td><td></td></tr>
<tr><td colspan="2">B. Specialty Taxes</td></tr>
<tr><td>• Alcoholic Beverage Tax</td><td>• Parking Sales Tax</td></tr>
<tr><td>• Personal Vehicle Tax</td><td></td></tr>
<tr><td>• Third Party Sign Tax</td><td></td></tr>
<tr><td>• Hotel Tax</td><td></td></tr>
<tr><td colspan="2">• Municipal Income Tax
• Municipal Sales Tax</td></tr>
<tr><td colspan="2">C. User Fees</td></tr>
<tr><td colspan="2">• Expressway Tolls</td></tr>
</table>

Furthermore, Council ought to consider whether tax revenues are used to fund general city operations, which would give greater flexibility, or alternatively whether to earmark revenues to specific City services that are related to the taxed activity. For example, the personal vehicle tax could help offset the cost of transit or transportation operations, and income tax revenues could be allocated to social housing or other income redistribution programs.

Foregone Revenues

A comprehensive approach to expanding the City's revenue base includes consideration of new and enhanced revenue measures, plus improving and optimizing existing taxes by reviewing foregone revenues under the existing regimes.

Each year the City provides financial relief to tax and rate payers to assist with certain vulnerable populations or to provide incentives to businesses or industries to promote economic growth, based on a number of policy decisions. Total forgone revenue is estimated to be $364 million annually, of which approximately $119 million is provided in the form of property tax concessions.

Appendix E lists the City policy decisions involving foregone revenues and provides a breakdown of the estimate annual impact by funding source. City staff will undertake a review of this matter and report back to Council as part of final report on the City's the Long-Term Financial Plan in 2017.

Individual Option Analysis

The following section discusses individual revenue options related to the three broad revenue categories:

A. Taxes on Real Property
  - Property tax, Municipal Land Transfer Tax, and parking levy

B. Specialty Taxes
  - Alcohol tax, personal vehicle tax, Third Party Sign Tax, hotel tax, car rental tax

C. User Fees
  - Expressway tolling

A. Taxes on Real Property

1. Property tax

As discussed previously, property taxes are the benchmark for comparison against other taxation options. They are the foundation of municipal finance and raised approximately $3.9 billion in revenues to fund City operations in 2016, representing about 32% of total City revenues.

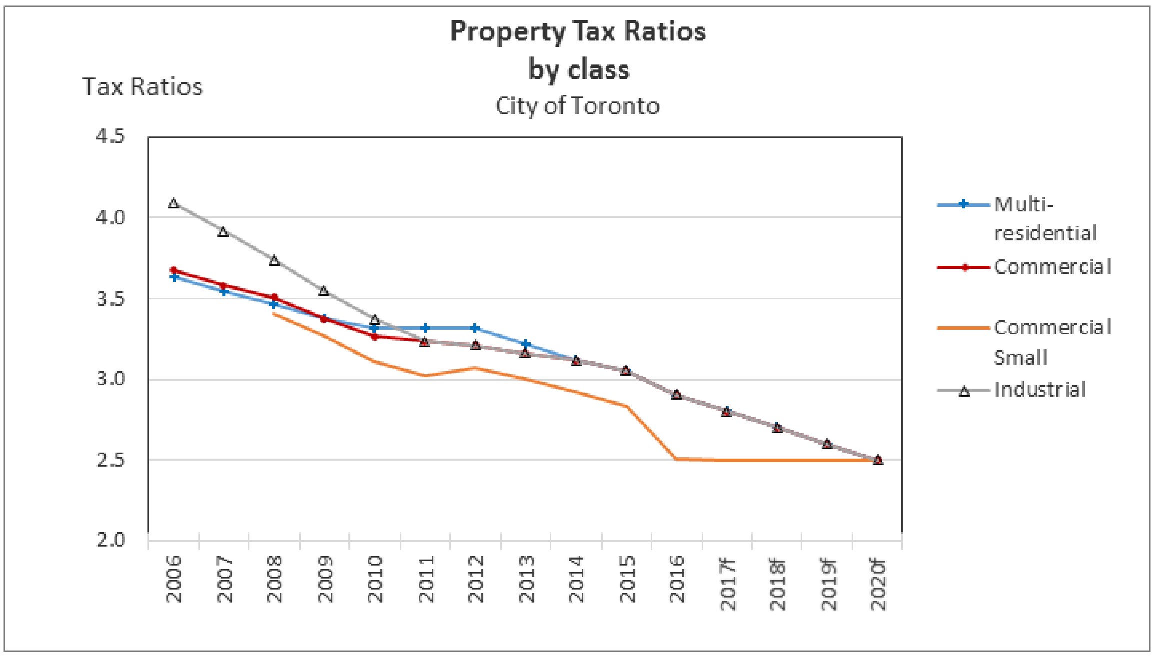
Commerical, Industrial and Multi Residential Taxes

The City has recognized that its commercial, industrial and multi-residential tax class rates have been too high relative to residential rates, and also relative to taxes in neighbouring jurisdictions. This is the basis for both the City's competitiveness strategy to accelerate tax ratios reduction to 2.5 times by 2020, and to provide tax incentives for certain new commercial projects (e.g. Imagination, Manufacturing, Innovation and Technology business tax incentive program).

High commercial, industrial and multi-residential tax ratios across the province are also the basis for the provincial tax ratio rules that set "ranges of fairness" or targets for these tax ratios and restrict increases to high ratio classes to 50% of residential rate increases. The Province also recently announced its intention to freeze multi-residential rates in 2016 as part of a slate of changes to improve housing affordability in Ontario, but further reducing the value of a 1% City residential tax increase to $25.2 million (from $26.8 million).

The City has succeeded in reducing tax ratios for those property classes to three times the residential rate, and is on track to reach a ratio of 2.5 times by 2020. The combination of lower tax increases, and predicable tax cost, has likely been one of the contributors to low commercial vacancy rates and a resurgence in commercial development in Toronto.

The following figure shows the City's property tax ratios by class:



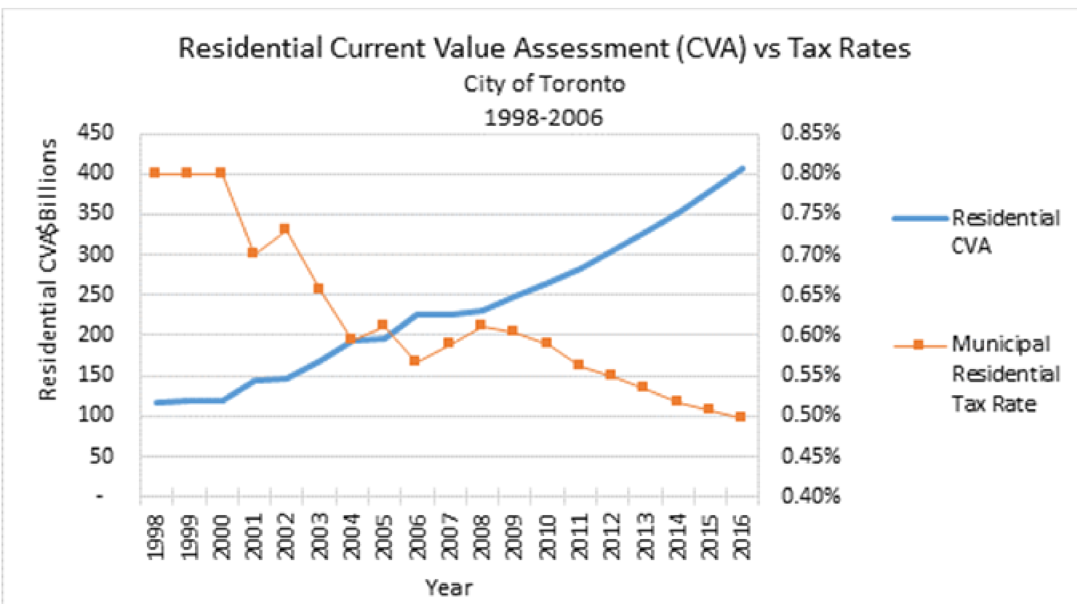
For the 2017 Budget, this report recommends that Budget Committee consider a short-term suspension of the City's tax ratio acceleration policies, allowing the commercial tax rates to rise at the maximum allowed 50% of the residential increase instead of the current policy of 1/3. This measure would raise an additional $3.8 million in 2017 assuming residential rates rise by 2%.

KPMG noted that increases to the City's commercial property tax rates could reduce the competitiveness of investing in Toronto commercial real estate, and may also discourage businesses from locating within the city because of the cost of office space. However, the impact of a one time lift of the City's ambitious 1:3 ratio of commercial increases to residential increases is too small to have other than symbolic impact. In addition, staff had planned to exclude multi-residential rates from this proposal.

In its Fall Economic Outlook and Fiscal Review, the Province announced that it would require municipalities to freeze multi-residential tax rates in 2017. The net effect on the City is a reduction in the value of a 1% residential tax increase from $26.8 million to $25.2 million (reduction of $1.6 million).

Residential Property Tax rates

The City's residential class tax rates are the lowest in Ontario. It is argued that this situation is, in part, a reflection of the high price of real estate in Toronto, and that low tax rates are therefore appropriate to generate comparable or fair levels of taxation. It is obvious that tax rates need to be much higher in jurisdictions where property values are much lower, and that is generally the case. And as prices have risen in Toronto, municipal residential tax rates have fallen from approximately 0.80% of assessed value in 1998 to less than 0.50% in 2016. As a result, while homeowners have become wealthier since amalgamation, the City is taxing them for a diminishing share of that wealth.



Toronto is taxing its residents significantly more than is evident from a property tax comparison. The Municipal Land Transfer Tax is also a tax on property, and at current levels is equivalent to a property tax increase well over 20%, from less than 5% when it was introduced.

Nevertheless, the at-or-below inflation property tax increase strategy is keeping the City from accessing an important revenue option and is moving the City further from the norm among other Ontario municipalities. The strategy could have implications for the City's efforts to obtain co-operation from other orders of government, which consider municipal fiscal capacity versus their own finances when dealing with requests for assistance.

A dedicated capital levy can take advantage of the City's lower than average tax rates. Modest tax increases of 0.5% each year for five years would increase the revenue base by about $63 million enough to service 20-year debt on a capital expenditure of almost $1.0 billion at current interest rates. This report recommends that the budget committee consider an appropriate level of dedicated property tax for capital purposes.

Graduated residential property tax rates are not permitted under current legislation. However, graduated taxes could facilitate greater access to its residential property tax base and move toward the GTHA average tax burden as a percentage of income while protecting lower income households. Graduated rates offer the advantage that households with very high assessments are generally not as constrained in terms of ability to pay as others.

KPMG found no evidence of the use of graduated tax rates elsewhere in North America, but staff at the Province have indicated a willingness to consider municipal requests for that authority.

Any new revenue from the residential class, whether from a general levy increase or graduated taxes, should be coupled with appropriate enhancements to tax mitigation measures for low-income households. The City currently spends approximately $27 million on tax mitigation for residents, and this measure could be increased with a portion of the proceeds from future tax increases to deal with any related new demand for financial assistance. The ability to administer effective mitigation programs for those most vulnerable is another important characteristic of property taxes.

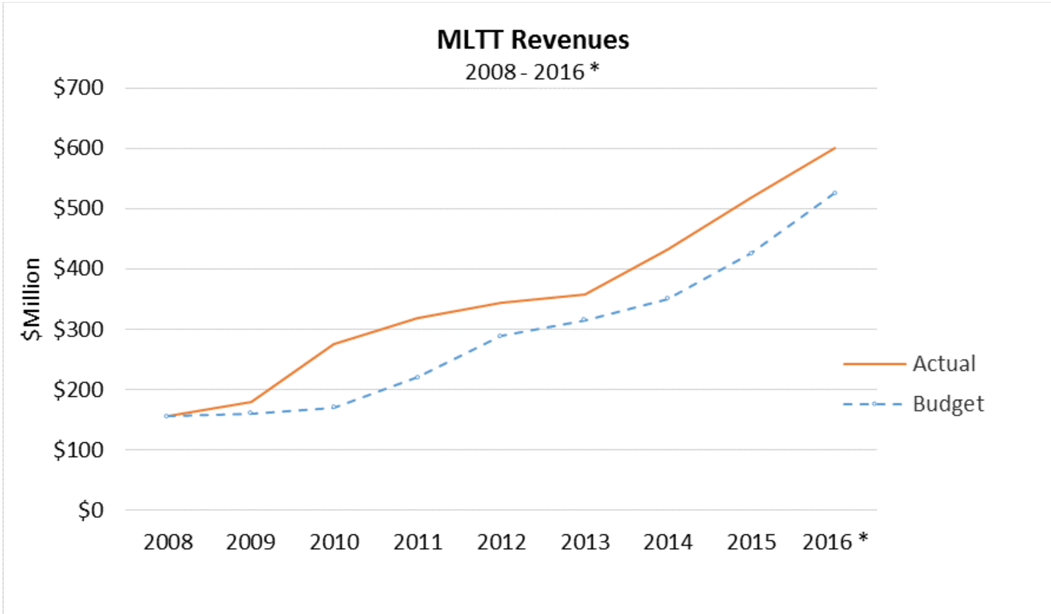
It is recommended that Council:

- Consider a dedicated capital levy as part of the 2017 budget process.
- Consider allowing the commercial property tax rates to increase at the maximum allowed 50% of the residential rate increase as part of the 2017 budget process.
- Request the Province to move ahead with legislative reforms to enable graduated residential property tax rates.

2. Municipal Land Transfer Tax

The City's "other" property related tax is Municipal Land Transfer Tax (MLTT). Since its introduction in 2008, MLTT has increased at an annual rate of about 18%. Based on the net revenue of about $600 million over the most recent 12-month period, it would take a residential property tax increase of more than 20% to replace it in 2017. The growth of MLTT has made the City's revenue base more susceptible to real estate market conditions, and MLTT continues to be a critical part of the City's budget strategy, with or without administrative or policy changes.

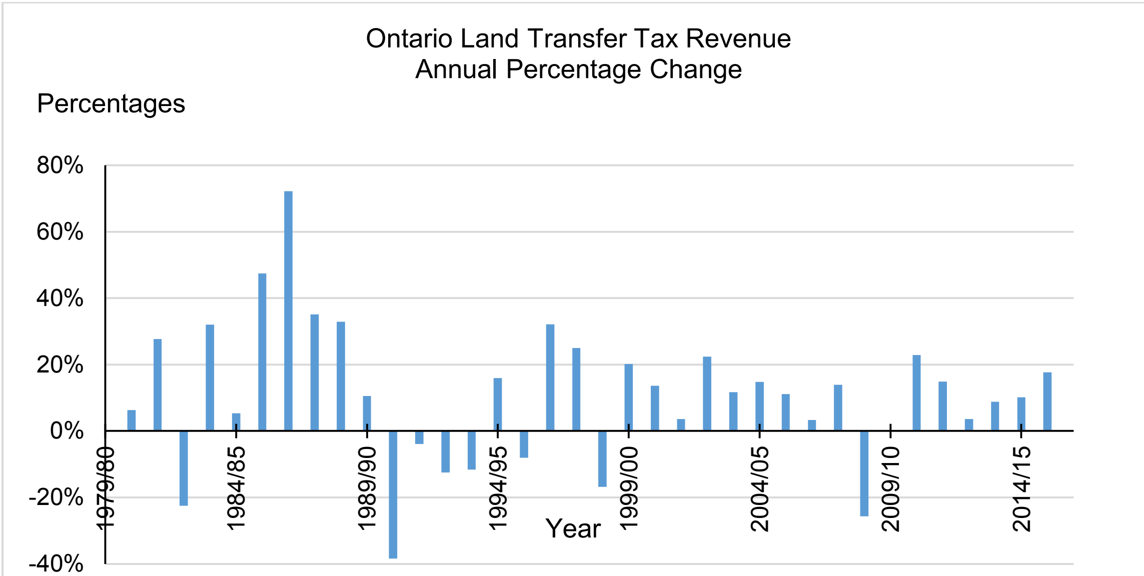
The graph below depicts the MLTT revenue from 2008 to 2016:



* 2016: 12-month total from Nov 2015 to Oct 2016

MLTT applies to the purchase/ownership transfer of all classes of real property in Toronto. Since only about 5% of residential properties change hands each year, it is a much narrower tax base than property tax. The tax cost per transaction is higher than property tax on residential transaction – about 1% on a low-priced home to approaching 2% on a high-priced home, compared to 0.5% annual municipal property tax levy. The situation is different for commercial property transactions, where the maximum MLTT is 1.5% of transaction price, decreasing to 1% above $40 million, roughly equivalent to one year of property tax at about 1.5% of assessed value. However, in either case, MLTT is applied on a voluntary transaction for which the buyer's financial capacity is confirmed, and typically adds to the amount of the mortgage so that the cost is amortized over a long term and at the margin acts much like a property tax surcharge.

For the City, the MLTT has been a tax "that grows with the economy", providing growing revenue without having to adjust the tax rates. However, real estate markets do not behave consistently or predictably. In the past, corrections (declining volumes and prices) have reduced Provincial Land Transfer Tax (LTT) revenues by over 38% in a single year (1990/91), and a total of 54% over a four-year period, from a high of $701 million in 1989/90 to $321 million in 1993/94. LTT revenue did not recover to the previous high until 13 years later (2002/03). The chart below shows the annual changes (in percentages) in the Provincial Land Transfer Tax for the entire province over a period of 36 years from 1980 to 2015. The annual swings ranged from +72% to -38%.



In order to address this risk, in the past the City has budgeted conservatively for MLTT. More recently, the City has budgeted more aggressively, but set aside a portion of tax proceeds for capital purposes, so that in the event of a real estate market downturn, a direct operating budget shortfall is mitigated. The capital allocation was 10% of budgeted revenue in 2015 and just under 8% in 2016. Based on the growing importance of MLTT in the City's revenue budget and the history of land transfer tax revenues in Ontario, staff suggest that an appropriate target for the capital allocation is 20% of budgeted MLTT revenue.

The City has allocated most of its MLTT revenue (which reached $3 billion in aggregate as of September of 2016) to operating budgets and is currently not adequately prepared for a significant downturn in the real estate market. Furthermore, unlike the provincial and federal governments, the City cannot run a deficit and must balance its operating budget on an annual basis.

Latest Federal and Provincial Measures

The Toronto market has been outperforming historical norms for some time. It has been singled out (together with Vancouver) by the Bank of Canada, Canada Mortgage and Housing Corporation and the Federal Finance Department, for the risk to the Canadian economy posed by a potential bubble in elevated house prices in Toronto and Vancouver and the affordability challenges associated with rapidly rising prices. Consequently the Federal Government has taken a series of measures (the most recent effective October 17, 2016 and further measures are pending) to stabilize mortgage debt levels and mortgage insurance risk.

On November 14, 2016 via its Fall Economic Outlook and Fiscal Review, the Province of Ontario announced reforms to address housing affordability in Ontario, including a doubling of its Land Transfer Tax (LTT) First Time Home Buyer Rebate such that no LTT would be payable by qualifying buyers on the first $368,000 of the cost of the first home, up from $227,500. The provincial changes also include increases to LTT rates for non-single family residential transactions and single family residential transactions over $2 million. In addition, it will introduce a Canadian Citizen or permanent resident eligibility test for its enriched FTHB rebate. These provincial reforms are scheduled to take effect January 1, 2017.

The following table compares Toronto's MLTT rates with the proposed new Ontario LTT rates:

New Ontario LTT rates, as of January 1, 2017

= new

	Residential *			All other properties		
Value of Consideration	**City of Toronto**	**Province of Ontario**	**Total**	**City of Toronto**	**Province of Ontario**	**Total**
$0-$55,000.00	0.50%	0.50%	**1.00%**	0.50%	0.50%	**1.00%**
$55,000.01 - $250,000.00	1.00%	1.00%	**2.00%**	1.00%	1.00%	**2.00%**
$250,000.01 - $400,000.00	1.00%	1.50%	**2.50%**	1.00%	1.50%	**2.50%**
>$400,000.00		2.00%	**4.00%**	1.50%		**3.50%**
>$2 million	2.00%	**2.50%**	**4.50%**		**2.00%**	
>$40 million				1.00%		**3.00%**

* Residential = properties with not more than 2 single-family residences

	City of Toronto		Province of Ontario	
FTHB Rebate (max)	$3,725	corresponding to VOC $400,000	**$4,000**	**corresponding to VOC $368,000**

Earlier in the year, the Government of British Columbia (BC) intervened to cool the BC housing market and increase affordability by: introducing a new graduated land transfer tax rate premium of 1% (up from 2% to 3%) on prices (value of consideration or VOC) above $2 million; a 15% foreign buyer tax on VOC over $2 million; a new full land transfer tax exemption on newly built homes priced up to $750,000 for all buyers; and introduced legislative changes to enable the City of Vancouver to implement a tax on vacant residential property.

Finally, after a long period of stability, mortgage rates have recently increased, perhaps in response to increased international uncertainty tied to events such as the election in the United States.

In an environment where government interventions are deemed to be warranted, and international markets are unpredictable, the City should be cautious about its increasing reliance on MLTT in the operating budget. Nevertheless, the market for real estate in

Toronto continues to be strong (as at 2016Q3), and presents some potential and likely limited opportunities for further increases to revenues that could be considered for 2017.

Proposed MLTT Changes for City

It has been eight years since the MLTT was introduced in Toronto and the design feature differences from the Provincial tax that were appropriate at the time may no longer be justified. These include the rate differentials with provincial LTT in the $250,000 - $400,000 value range, and the over $40 million range for non-residential transactions.

First Time Home Buyer Rebate

The City's First Time Home Buyer (FTHB) Rebate was initially significantly higher than the provincial rebate, but the recent Provincial announcement will result in a slightly higher maximum provincial rebate at $4,000 compared to the City's $3,725 maximum, an increase of $275.

Research on first time home buyer rebates suggests that both buyers and sellers are likely to share the benefit from the tax rebate, as it supports demand for housing, and accordingly could put upward pressure on prices. The proposed $275 increase in the City rebate to match the proposed provincial maximum of $4,000 is so small that it is unlikely to contribute to market stimulus, but does offset part of the cost of the rate increase for first time home buyers. As an additional policy alternative, Council could consider to raise the City's FTHB Rebate from $3,725 to $4,475, which when combined with harmonized rates to match the Province, would effectively leave the City's maximum FTHB Rebate capped at a house price of $400,000.

FTHB Rebate Eligibility Criteria

Residency test: Currently a FTHB is eligible to receive a rebate if he/she is over 18 years of age, occupies the home as his/her principal residence no later than nine months after the date of the conveyance or disposition, and declares that he/she has never owned a home anywhere in the world. The prior home ownership is self-declared, and presents a challenge to City staff with respect to enforcing the eligibility criteria.

Consistent with recent Provincial changes, a way to tighten up the eligibility criteria is to introduce a residency test at the time of conveyance, such that Canadian citizens and permanent residents are eligible for the FTHB rebate, and Non-Permanent Residents (NPR) of Canada will not be eligible. In this way, "foreign buyers" who purchase properties in Toronto will not be eligible for a FTHB Rebate based on grounds on Canadian residency. Staff propose that this change be adopted by the City.

FTHB Maximum Price Eligibility Limit: The British Columbia land transfer tax now includes a maximum eligible price above which the FTHB rebate would not apply. To qualify for the rebate, one of the requirements is that the property has a fair market value of $475,000 or less if registered on or after February 19, 2014 and is 0.5 hectares or smaller; or $500,000 if larger than 0.5 hectares.

The FTHB Rebate is intended to provide an incentive to first-time home buyers to encourage home ownership by lowering their upfront costs. Currently Toronto does not have a price limit for the FTHB rebate eligibility. The City should consider introducing a measure similar to BC's rule. The table below shows the percentage of first-time home buyer transactions that would be affected at various price thresholds, and the revenue impact, based on 2015 data.

Proposed price limit for FTHB rebate eligibility	Estimated incremental annual impact based on 2015 data ($M)	% of first-time home buyers affected if price cap implemented
$1,000,000	3	4%
$700,000	10	13%
$600,000	17	21%

Purchasers of properties valued above the limit would pay an additional $4,000 MLTT, assuming rebate harmonization is adopted. The new eligibility limit would restrict the FTHB rebate benefit to those truly requiring support to enter the market, as opposed to those who are competing with established homeowners in higher price brackets. This change is not part of the provincial reforms, but is considered an appropriate and necessary measure for the Toronto market.

New Graduated Tax Tiers for Homes over $2 Million

The provincial reforms also include a new graduated tax tier (2.5%) for residential transactions with value of consideration (VOC) over $2 million. Toronto and Ontario already have graduated MLTT rate systems. A new marginally higher tax rate on homes above $2 million, as announced by the Province, would raise an estimated $8 million annually in Toronto (based on 2015 actual data).

The average residential transaction in Toronto would not be affected by this change. A transaction at $3 million would pay an additional $5,000 in tax for the portion above $2 million. In 2015, there were just under 100 MLTT transactions that involved residential properties valued at over $2 million.

A graduated tax on MLTT is consistent with a progressive tax policy, taxing those who can most afford it. A new tax tier over $2 million would add a relatively minor cost to these transactions, and is unlikely to have an impact on the market. By comparison, BC's 15% foreign buyer tax on VOC over $2 million has drastically reduced transaction volumes (by between 20% and 40% during the subsequent three months compared to the previous year).

Staff believe that the proposed Provincial 2.5% tax tier for residential transactions over $2 million is a reasonable and appropriate measure for the City to adopt for its MLTT rate structure, and to include in the package of harmonization reforms recommended in this report.

Non-Residential Rate Increase

All properties not consisting of one or two residential units fall into this category. It includes a very broad range of transaction values, from community storefronts costing less than most housing to commercial office buildings worth over $1 billion.

Until now, City MLTT rates have been 0.5% lower than the Provincial LTT rates in this group for VOCs between $400,000 and $40 million, and a full 1% lower for VOCs over $40 million. The provincial Fall Economic Outlook and Fiscal Review reforms include harmonizing this rate with the residential rate at 2% for VOC over $400,000 (except for residential rates above $2 million which will be higher at 2.5% as described above). This change follows years of work related to improving the complex rules that address distinctions between corporate restructurings and property sales.

Staff have concluded that the City should follow the lead of the Province in regard to this tax rate. Transactions prices are negotiated and can take transaction costs such as MLTT into account. Even at a marginal rate of 2%, the rate is only slightly above the annual commercial property tax rate of about 1.5%. And this property tax rate has been and continues to be protected by the City's competitiveness strategy and the provincial tax ratio rules, under which the commercial sector has rebounded in Toronto.

Overall impacts from the harmonization of MLTT with the provincial rates are likely to be minimal given that these changes represent only minor adjustments to the existing MLTT rates. A new graduated tax will have minimal social impact since it affects only a small percentage of home buyers who can be expected to have the ability to pay a higher MLTT. For non-residential property owners, to the extent that the additional costs from the new graduated tax rates will be passed along by property owners to its tenants and businesses occupying the space, these changes will have some marginal impact on the attractiveness of the City to prospective businesses looking to establish locations in the city. This is especially true for small businesses that are more price-sensitive to higher rents or lease arrangements due to the new higher tax rate.

Impact on Individual Buyers

The table below summarizes the impact on individual buyers at various property values (VOC). If the buyer is an eligible first time home buyer (FTHB), and if the City harmonizes its MLTT rate and FTHB rebate structure with the Province's 2017 new structure, the net incremental impacts on the FTHB are as shown in the last column.

	Impact on residential home buyers if City harmonizes rates & rebate with Province "+" means buyer pays more; "-" means buyer pays less						
	MLTT			FTHB Rebate if City Harmonizes with Province (max $4,000 for VOC $368,000)			
Property Value of Consideration	City	Province	Difference	City	City new scenario = Province	Difference	Net incremental impact on eligible FTHB
$100K	$725	$725	$0	$725	$725	$0	$0
$200K	$1,725	$1,725	$0	$1,725	$1,725	$0	$0
$250K	$2,225	$2,225	$0	$2,225	$2,225	$0	$0
$300K	$2,725	$2,975	+$250	$2,725	$2,975	-$250	$0
$368K	$3,408	$4,000	+$592	$3,408	$4,000	-$592	$0
$400K	$3,725	$4,475	+$750	$3,725	$4,000	-$275	+$475
$500K	$5,725	$6,475	+$750	$3,725	$4,000	-$275	+$475
$600K	$7,725	$8,475	+$750	$3,725	$4,000	-$275	+$475
$700K	$9,725	$10,475	+$750	$3,725	$4,000	-$275	+$475
$800K	$11,725	$12,475	+$750	$3,725	$4,000	-$275	+$475
$1M	$15,725	$16,475	+$750	$3,725	$4,000	-$275	+$475
$2M	$35,725	$36,475	+$750	$3,725	$4,000	-$275	+$475
$3M	$55,725	$61,475	+$5,750	$3,725	$4,000	-$275	+$5,475

Alternatively, if the City caps FTHB Rebate at the VOC of $400,000 same as the current structure, the corresponding maximum rebate would be $4,475 (due to increased tax rates for the tier from $250,000 to $400,000). The table below summarizes the net impact on an eligible FTHB in this scenario.

	MLTT			FTHB Rebate if City caps the rebate at VOC of $400,000 (max of $4,475)			
Property Value of Consideration	City	Province	Difference	City	City new scenario	Difference	Net incremental impact on eligible FTHB
$100K	$725	$725	$0	$725	$725	$0	$0
$200K	$1,725	$1,725	$0	$1,725	$1,725	$0	$0
$250K	$2,225	$2,225	$0	$2,225	$2,225	$0	$0
$300K	$2,725	$2,975	+$250	$2,725	$2,975	-$250	$0
$368.3K	$3,408	$4,000	+$592	$3,408	$4,000	-$592	$0
$400K	$3,725	$4,475	+$750	$3,725	$4,475	-$750	$0
$500K	$5,725	$6,475	+$750	$3,725	$4,475	-$750	$0
$600K	$7,725	$8,475	+$750	$3,725	$4,475	-$750	$0
$700K	$9,725	$10,475	+$750	$3,725	$4,475	-$750	$0
$800K	$11,725	$12,475	+$750	$3,725	$4,475	-$750	$0
$1M	$15,725	$16,475	+$750	$3,725	$4,475	-$750	$0
$2M	$35,725	$36,475	+$750	$3,725	$4,475	-$750	$0
$3M	$55,725	$61,475	+$5,750	$3,725	$4,475	-$750	+$5,000

Impacts on the City's Revenues

Rate harmonization: If the City harmonizes its MLTT rates with the Province's 2017 new rates, the following rate tiers would be affected:

- VOC $250,000 - $400,000 for all property classes: rate to increase from 1.0% to 1.5%
- VOC greater than $2 million for residential properties (with no more than 2 single-family residences): rate to increase from 2.0% to 2.5%
- VOC greater than $400,000 for all other properties:
  - rate for VOC $400,000 to $40 million to increase from 1.5% to 2.0%
  - rate for VOC greater than $40 million to increase from 1.0% to 2.0%

The preliminary estimated incremental revenue impact under this scenario would be $85 million per year based on 2015 data.

FTHB Rebate harmonization

Currently the City's maximum FTHB rebate is $3,725 which is the tax on a home valued at $400,000. If the City were to increase its maximum rebate to $4,000 consistent with the Province (corresponding to a $368,000 home), this move would cost the City an estimated $5 million annually.
Alternatively, if the City were to provide relief to all eligible FTHB for properties valued up to $400,000, the maximum FTHB rebate would increase to $4,475. This move would cost the City an estimated $10 million annually.

The following table summarises the estimated revenue potential of the measures as discussed above, showing the full annual impacts and the 2017 impact if approved by Council as part of the 2017 budget expected in February 2017 and assuming March 1, 2017 implementation.

Revenue Option	**Assumed Rate**	**Preliminary Estimated Incremental Revenue ($Million)**	
		2017 *	**Annualized**
MLTT Rate Harmonization	See above	77	85
MLTT Rebate Harmonization	Increased from $3,725 to $4,000 (VOC 368,000)	-5	-5
	Increased from $3,725 to $4,475 (VOC $400,000)	-9	-10
MLTT FTHB Rebate Eligibility Criteria (Price/VOC Limit)	VOC $1,000,000	3	3
	VOC $700,000	9	10
	VOC $600,000	15	17

(* assumes March 1 implementation date, based on 2015 data)

The Province has also introduced a "residency test" effective January 1, 2017 where the eligibility of first-time homebuyers would be restricted to Canadian citizens and permanent residents. The financial impact on the City, if it adopts the same measure, is unknown, as the residency of a Toronto homebuyer is not currently required at the time of conveyance, and there is no existing data to allow any analyses.

Implementation Issues

The City has the authority under the *City of Toronto Act*, *2006* (COTA) to levy a MLTT and set tax rates, including new tax tiers for a graduated tax rate system and setting eligibility criteria for the FTHB rebate. If Council wishes to pursue these new measures, City staff will need to update the collection contract with Teranet Inc., but it is expected it could be implemented relatively quickly, such as in about three months.

The effect of harmonizing the City's rates with the provincial rates and rebates would increase non-residential tax rates to be in line with most residential rates, and also result in a marginally higher tax cost for all residential transactions, likely to have little impact on the market but consistent with a cooling rather than stimulative strategy. Furthermore, a harmonization of rates and rebates will reduce confusion about the two previously different taxes.

Next Steps

In order to implement the changes relative to harmonization considered above, the City will need to engage the Province (Ministry of Finance and Ministry of Municipal Affairs) and Teranet (the collection agency) with respect to approvals and system update. It is expected that this could be done in a relatively short time after adoption, assumed to be March 1, 2017.

This report refers these largely harmonization related options to the Budget Committee for consideration as part of the City's 2017 budget process.

For the longer term, staff will monitor MLTT rates and thresholds, and discuss with the Province a Greater Toronto and Hamilton Area strategy relative to Toronto and Vancouver housing affordability issues and that new revenues from MLTT be applied to the City's ongoing operating purposes.

3. Parking levy

A parking levy is a fixed charge levied on paid and unpaid non-residential, off-street parking areas. A parking levy would be permitted under the *City of Toronto Act, 2006* (COTA) so long as it is not a sales tax and is not an indirect tax.

A parking levy is different from a parking sales tax. The latter would be a sales tax calculated as a percentage mark-up applied to all fees for paid parking. It is transaction-based and the harmonized sales tax (13%) would apply to the same transaction. It is currently prohibited under the COTA.

Staff directed KPMG to look further into the impact of a potential parking levy. A parking levy, an annual charge based on commercial land area devoted to parking, has been tried in Vancouver and is currently operating in Montreal. It can have much further reach, and potential revenue, than a parking sales tax on parking transactions (which is not currently permitted under the COTA), which are concentrated in the City centre.

However, when the experience in other jurisdictions is considered it quickly becomes apparent that extra taxation of suburban parking areas has limited revenue potential before serious economic distortions occur. The parking levy in downtown Vancouver was abandoned after only two years due to the burden of appeals and complaints. In Montreal, the levy is geographically tiered and focussed on a relatively small downtown portion of the city, yielding a relatively small revenue increment of just over $20 million. In fact, the Montreal levy was introduced at least in part to stimulate higher order development on surface lots near the downtown, rather than just to generate additional revenue.

The KPMG report refers to the economic distortions from a parking levy as inequitable consequences, leading to changes in shopping and travel patterns and ultimately undermining the current use of commercial property, particularly small businesses in the inner suburbs. In order to reduce these distortions, a parking levy in Toronto would have to be very modest, or incorporate tiered rates, discounted significantly as distance from the core and land values decrease.

No matter how minimal, a parking levy is a form of increased property-related taxation. A tax that raises $100 million would be equivalent to a 6.7% property tax increase if levied only on all commercial and industrial properties. However, a parking levy places the new cost burden on only certain types of businesses – notably retail and industrial – not businesses the City would otherwise single out for higher taxes. And the allocation of the tax increase is very uneven.

According to a study produced for the Retail Council by Altus Group and verified by KPMG, for a parking levy similar to $1.5 a day per parking space (or $13.5 per m^2 per year), the incidence for some properties can be more than a 100% property tax increase. Where these properties have tenants, the incidence can vary even more among the tenants if some are protected by lease terms and the burden is placed on the remainder.

The opposite is true for properties that have no parking and for businesses that operate without storefronts – such as online shopping and banking. These types of businesses would benefit (pay no parking levy) relative to those with parking and real property assessment, i.e. those that currently pay taxes to the City.

Industry groups and staff have also pointed out that a parking levy would be additional burden on the commercial and industrial sector, which may be faced with a Stormwater Charge on impervious areas as currently proposed and under development by the City.

Implementation and Ongoing Costs

It is not possible to determine the tax burden distribution without an inventory of parking areas across the City, and such an inventory does not currently exist. According to KPMG, it required months of staff time for the City of Montreal to visit properties and develop an assessed inventory in the downtown only, ultimately raising approximately $23 million a year. A broader application in Toronto would involve 23,000 properties over a much greater area, and undoubtedly a number of assessment complexities such as determining whether parking area is attributable to commercial versus residential use, parking versus transport or goods delivery, and permanent parking vs. other uses (such as garden centres). The City could benefit from the work done in Montreal, especially with regard to the by-law and tax rules, but because of the requirement to establish an inventory it is assumed that the revenue potential in the first year (e.g. 2017) is negligible and a parking levy should only be considered, if at all, as a 2018 option.

The KPMG report says that the most time consuming and costly component of this revenue option is the development of a comprehensive parking inventory. The City's Revenue Services Division has considered the activities required to administer a parking levy and estimates that the total one-time costs for program development and compilation of a billing inventory would be between $8 and $13 million.

The June 2016 KPMG study estimates annual ongoing program administration costs based on a rule of thumb of about $10 million a year.

On the other hand, a parking sales tax that would be applied on the sales of paid parking on non-residential properties and payable by the car user would be more straight-forward. A discussion of a parking sales tax is included under B. Specialty Taxes, discussed further in this report.

Timing Considerations:

The development of the inventory, whether using external contractors or in-house resources, and the development of program criteria, modifications to billing systems, and testing and implementation, may be expected to take from 12 to 18 months, including notification of the program to commercial and industrial property owners. This estimate is in line with the implementation timelines experienced in smaller-scale applications in Vancouver and Montreal.

Should a shorter timeframe be required for implementation, such as to enable the parking levy to be billed in the fall of 2017 (likely not before November 2017), it can be expected that the inventory development costs would increase as a shorter timeframe for creation of the billing inventory would necessitate larger workforce to complete the required inspections and data compilation within the available time period.

In addition, the development, tendering, approval and implementation of an RFP contract for an external service provider to prepare the billing inventory could take from four to six months, and it may take up to four months to hire, accommodate and train staff once final approval is received from Council (including budget approvals). Corporate Information and Techology has identified a timeframe of four to six months to develop, implement and test changes to the billing system.

The implementation of a parking levy would require a clear and enforceable by-law setting out how parking areas are to be defined, and how the levy is to be applied and administered. The by-law would also need to compel the owner of the property to provide any necessary information for the purposes of compiling the inventory/assessing the levy, with necessary fines or other measures for non-compliance.

Revenue Estimate:

The June 2016 KPMG Revenue Options Study estimated that a potential parking levy applied to off-street non-residential parking in Toronto would generate $171 million to $535 million if an annual rate of $6.75 to $20.25 per square metre of parking area (similar to approximately $0.50 to $1.50 per space per day) is applied before exemptions and depending on the levy design.

The design of the parking levy, and the associated revenue derived from the levy, requires a number of policy decisions to be made prior to implementation, including:

- exemptions from the levy (based on use or property type), e.g. properties owned by the City and/or its local boards. All provincial property, such as hospitals,

schools, universities, etc. are exempt pursuant to Part X of the COTA. The City has no discretion on those properties.
- minimum area thresholds above which the levy applies
- geographic variations in rates (downtown versus suburban)
- applicable rates, and
- levy applicable to paid versus unpaid parking spaces.

A parking levy must also consider overall taxation impacts to property owners, i.e., magnitude of parking levy in relation to current property taxes paid. Consideration may need to be given to providing mitigation measures or relief programs for properties facing excessive increases.

Assuming the lowest annual levy rate of $6.75 per square metre of parking area (similar to approximately 50 cents per space per day) is applied to all non-residential properties across the City, and exemptions are granted to the first 10 spaces, and the MUSH sector (i.e. municipalities, universities, school boards and hospitals), except for the Toronto Parking Authority (which would be charged), the potential revenue would be reduced from $171 million to approximately $120 million annually. If the City further restricts the geographic area to the downtown area, the revenue potential could be significantly reduced to under $50 million annually. Alternatively, should an annual levy rate of $6.75 per square metre (similar to approximately 50 cents per space per day) be imposed on paid parking only on a city-wide basis, with MUSH sector exemptions, apart from the Toronto Parking Authority, gross revenues are estimated at $28 million annually.

If Council were to adopt a parking levy for 2017 as part of the budget process, the revenue impact in 2017 is estimated to be $0 to negative $5 million net, after offsetting upfront implementation and administrative costs of approximately $8 to $13 million.

Due to highly variable and in some cases severe impact to the commercial and industrial property class, staff have not recommended the consideration of this tax option.

B. Specialty Taxes:

1. Alcohol tax

An alcohol tax in the form of a sales tax at stores and licensees is permitted under the *City of Toronto Act, 2006* (COTA).

For sales at stores such as LCBO, The Beer Store, small breweries, distilleries and wine retailers, and certain grocery stores, an alcohol tax of 1% to 10% could raise an estimated $15 million to $126 million annually[1]. Alcohol sales at licensees, such as restaurants and bars, have not been included in further consideration for revenue purpose due to the

[1] KPMG report titled "City of Toronto Revenue Options Study" June 2016

complexity in implementing and administering the tax at a large number of small establishments.

It is expected that there will be some consumer avoidance, and that some consumers may choose to purchase alcohol outside of Toronto limits. There may be some degree of tax avoidance through underground sales or online sales, which are difficult to track. As well, some retailers in Toronto may be incentivised to relocate outside the city with the expectation of generating more sales. That could adversely impact employment in Toronto, as well as the City's competitiveness with the surrounding areas. Furthermore, initial discussions with the province suggest an alcohol tax may raise concerns with respect to the LCBO's uniform pricing policy.

On the other hand, a tax on alcohol aligns with public health policies and brings positive social impacts.

Collection issues: COTA does not provide clear authority for the City to require third parties such as stores, breweries, etc. to collect taxes on the City's behalf. To make such a tax workable, express legislative or regulatory authority is required to compel third parties to collect the taxes on the City's behalf and remit them to the City. In addition, changes are required to allow the LCBO to collect a City tax in contravention of the provincial uniform pricing rules with respect to liquor sales.

2. Personal Vehicle Tax Reinstatement

The City implemented a personal vehicle tax (PVT) from September 1, 2009 to December 31, 2010 under the authority of Part X of the COTA. The PVT is visible and largely affordable by many (amounting to less than 1% of the annual cost of owning a car). The revenue stream is relatively stable. The City could reinstate the PVT and dedicate the proceeds to transit and transportation, which could potentially improve public acceptance of the tax.

Based on the June KPMG report, it is estimated that a $120 annual tax of this kind would yield an annual revenue of $100 million for the City[2]. If Council approves the reinstatement of the tax as part of the 2017 budget process, it is estimated that the 2017 revenue impact could be about $75 million, assuming an April 1, 2017 implementation date.

Vehicle tax has broad incidence in Toronto. There are approximately one million registered vehicles in the City. Given the high cost of owning and operating a motor vehicle, the tax would not have much effect on ownership patterns, and is likely to have little to no expected economic impact.

However, since car dependency increases outside the downtown, and with age, there would be demographic and geographic variations in the incidence of the tax.

[2] ibid

In addition to public consultation, the City requires to renew a collection agreement with the Ministry of Transportation to collect the tax on the City's behalf and remit it to the City on a regular basis.

The costs for implementation and on-going administration, such as additional staff complement and the associated computer systems, would be relatively low given the City's experience in 2008.

3. Third Party Sign Tax

A Third Party Sign Tax (TPST) has been implemented in the City under the authority of the COTA since April 6, 2010. This tax applies to the owners of all third party signs in the city with a sign face area greater than one square metre. There are five Sign Classes and every sign structure has been assigned into each class. The five Sign Classes are based on: Sign Structure Type, Aggregate Copy Area on the structure, and Display Technology. A flat tax is applied in each of the five Sign Classes, and the tax rate is indexed annually to the rate of inflation.

The TPST currently generates approximately $10.8 million annually. At the September 8, 2016 meeting of the Planning and Growth Management Committee, the committee considered the report "Additional Funding for the Arts: Third Party Sign Tax Revenue" and commented that due to the changes in the inventory over the last few years, it is time to review the tax relative to its objectives and answer whether it could generate additional revenue and continue to be a fair tax. The Committee directed City staff to conduct a review of the TPST that is to include considering the number of signs by class, revenues by sign class and where the revenue is being allocated, industry trends, and comparisons to other jurisdictions, and to report back to the April 5, 2017 Planning and Growth Management Committee meeting with an overview of the review's findings.

An above-inflationary increase to the tax would be required to generate additional revenue above and beyond the current level and provide additional funding to the arts. For example, a 25% increase to the existing rates could generate approximately $2.5 million in additional annual revenue. If Council were to approve this kind of increase as part of the 2017 budget process, the 2017 revenue is estimated at $2 million for part-year implementation.

The TPST base is extremely narrow. The potential for economic impacts and disruption of the bill board industry is high. For example, for an investor who has recently erected a new billboard under the existing tax rules, or a sign owner who has recently made improvements, or entered into a long term rental agreement, a 25% increase could be a significiant hardship. It is incumbent on the City to use its taxing powers judiciously and in a manner that minimizes hardships.

Given that the review of the TPST has revenue and budget implications, it is recommended that Council refer the TPST to the Budget Committee for consideration as part of the 2017 budget process.

4. Parking Sales Tax

A parking sales tax could take the form of a fixed percentage applied to the cost of commercial paid parking. The tax would be collected by the individual vendors and remitted to the City. A parking sales tax of 5% to 20% could generate an estimated $30 to $120 million[3].

A parking sales tax would be expected to affect Toronto residents as well as residents outside of the city who work in or visit the city. Commuters who drive to work and park at commercial lots, especially in the downtown area, would be most impacted. While it is expected that there may be certain avoidance through cash or in-kind payments, it would have minimal impact on Toronto's businesses and its competitiveness. Unlike a a parking levy, a parking sales tax is expected to be less distortive, and would involve lower administrative costs.

Furthermore, the tax aligns with the City's policies as it encourages the use of public transit in place of car use.

Despite the limited number of parking locations, implementation of a parking sales tax may be difficult due to the cash nature of some parking operations, raising the cost of collection and enforcement.

A parking sales tax is currently not permitted under COTA, and would also require the authority to compel vendors to collect and remit the tax.

5. Hotel Tax

A hotel tax is a tax on the rental of a room for the purpose of short-term overnight accommodation, typically applied as a percentage of the cost of a room night sold, or as a fixed charge per room per night.

The *City of Toronto Act* currently prohibits any tax on lodging, which includes hotel taxes.

Hotel taxes have been discussed as an option in Toronto for many years. At one time Toronto was a major funding partner of Tourism Toronto, an organization that promotes Toronto as a tourism and convention destination. Hotel taxes were considered by the City as a potential replacement funding source. However, in 2010, the Greater Toronto Hotel Association undertook to levy a voluntary destination marketing fee (DMP) to replace declining City contributions and enhance overall funding of Tourism Toronto. Now the

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3 KPMG report titled "City of Toronto Revenue Options Study" June 2016

DMP, plus provincial funding as part of a province wide program, generate over $30 million annually for Tourism Toronto, plus approximately $700,000 contributed to the City's Economic Development and Culture Division. In 2006, the *City of Toronto Act* expressly prohibited a hotel tax.

In its report released in June 2016, KPMG estimated that a 4% City hotel tax could raise approximately $40 million annually[4], approximately 2% to replace up to $20 million the existing voluntary Destination Marketing Program contribution to Tourism Toronto, and 2% or $20 million in net new annual revenue to the City, assuming the Province continues its $10 million annual grant to the Regional Tourism Organization (Tourism Toronto). If not, a 5% tax would be required to replace the lost provincial funding to the Regional Tourism Organization, transferring an additional 1% burden from the tax base to the hotel sector. If successfully applied to the short-term rental market, total revenue potential for a tax on hotels and short-term rentals is estimated at about $22 million a year.

Market Impact

KPMG's assessment of market impact was based on a review of hotel taxes in other jurisdictions and consideration of the geographic incidence of the tax in Toronto. KPMG mapped the location of hotels in Toronto (Appendix A), illustrating that Toronto hotels are concentrated in the downtown core (i.e., Bay Street Corridor, Church-Yonge Corridor, and Waterfront Communities) and around Toronto Pearson International Airport (i.e., West Humber-Clairville). The competitive forces vary by location.

KMPG also considered the combined hotel and sales tax rates in various other North American cities. Combined with the harmonized sales tax rate of 13%, a 4% hotel tax totals 17%, putting Toronto among the most taxed jurisdictions, compared with Halifax (17%), Vancouver (16%), New York City (14.75% + $3.5/day), and San Francisco (14%).

While initially a new hotel tax might be borne by lodgers ("the buyers"), in the longer term the tax would be partially offset by compensating price adjustments by the hotels ("the sellers") in order to stem loss of market share to substitutes. KPMG reports that over time this reduces the attractiveness on investment in new hotels or upgrades to existing hotels, which pay property taxes at the commercial rate.

Commercial hotels represent approximately $2.2 billion in assessment in Toronto, and are estimated to pay approximately $32 million in municipal property taxes. Some portion of a new tax will ultimately be borne by the hotels, and it could be significant relative to the property taxes currently paid by these properties. This is why the choice of tax rate is important: a 2% net increase in the tax/fee burden on hotel stays is the maximum that the City should consider.

[4] KPMG report titled "City of Toronto Revenue Options Study" June 2016

Hotels in Toronto face a number of market alternatives when competing for visitor overnight stays. First, visitors may simply decide not to come to Toronto if it is perceived as too costly vs. the benefits and attractions here. When they do decide to come to the area, visitors may decide to stay in suburban areas and travel to attractions. Pearson Airport is in Mississauga and many hotel options exist in the area. If visitors prefer to stay closer to downtown, they now have a rapidly growing number of online short-term rental options. These substitutes for hotels are a factor preventing the hotels from passing on new taxes to their customers.

Short-Term Rentals

The short-term rental market was recently the subject of a report to Executive Committee (EX 18.2) titled "Developing an Approach to Regulating Short-Term Rentals." Executive Committee directed staff to report back by the end of the second quarter of 2017 with proposed regulations for short-term rentals.

The short-term rental market is based on renting space in private homes through internet websites such as AirBnb. These short-term rental units compete with hotels for provision of lodging accommodations. Short-term rental suites have some competitive advantages that are difficult to overcome, such as lower property taxes (at the residential rate), kitchen access, and no HST requirement when annual sales do not exceed a prescribed threshold.

If the City is going to impose a tax on hotels, it ought to first make arrangements to implement a comparable tax on short-term rental accommodations in order to avoid distorting the existing competitive tension between the two forms of lodging.

However, it would be impractical to collect a tax directly on the individual residential units, as they are scattered throughout the City, currently at 10,000 locations and growing (versus a total of approximately 100 hotels). The units may only be provided intermittently, so each location or owner may be associated with relatively low dollar values. Collection and compliance costs would be prohibitive. Therefore, as part of the work on regulating short-term rentals websites/hosts, the City should seek arrangements to collect the tax through the short-term rental internet providers, rather than from individual units. That has been done successfully in some jurisdictions, such as San Francisco.

With respect to revenues, a 4% to 5% tax on lodging applied to short-term rentals could generate approximately $2 to $3 million annually, based on recent statistics on industry activity.

Industry Feedback

City staff met with the Greater Toronto Hotel Association and Tourism Toronto on November 15, 2016 to discuss how a hotel tax might work, how it could affect the tourism and convention business, and how it would apply to the emerging short term rental industry. The hotel industry expressed serious concerns about the impacts of a Toronto hotel tax on the industry.

Some of the additional points made by the association include:

- Toronto hotels compete with international cities as a tourist and convention destination and price perceptions are a factor.
- Toronto ranked second lowest against 15 other competitive cities in terms of profitability (measured by net operating income) in 2015.
- Toronto hotel room stock has not grown over the last 15 years while the 905 stock has grown by more than 70% over the same period.
- New hotels and related room capacity in downtown Toronto since 2010 have been offset by closures and conversions (e.g. Sutton Place).
- The hotel and tourism business is a major employer, especially for Toronto's youth and newer residents.
- A City tax could jeopardize the continuation of both the $10 million Regional Tourism Organization grant from the Province, and the viability of the voluntary DMP in the region (including Mississauga and Brampton), requiring either a higher tax rate, reduced Tourism Toronto funding, or reduced City revenue to compensate.

Implementation Issues

Assuming the Province were to amend the COTA to permit and facilitate a tax on lodging in the City, and arrangements were to be concluded with major internet sites offering short-term rentals to collect a comparable tax, the City would need to develop the appropriate tax design and collection agreements necessary to administer the tax. That would include systems for tracking and collecting taxes, auditing, enforcement, penalties and appeals, and include them in a new taxation by-law for Council approval. If a by-law were adopted in the fall of 2017 the City could begin assessing the tax in the fourth quarter of 2017. In its June report, KPMG estimated that the cost of administering such a tax once up and running would be nominal. Accordingly, if successful in following these timelines the City could accrue revenues of about $5.5 million in 2017, minus external advisory and system development costs.

6. Car Rental Tax

In June 2016 Executive Committee directed staff to study the revenue opportunities of a car rental surcharge/tax. A potential car rental tax can be a charge levied on the cost of renting a vehicle. The charge can either be introduced as a daily fixed fee or as an additional sales tax. The tax or fee would be paid by the individual who rents the vehicle and collected by the rental car company on behalf of the City.

The greatest revenue segment for auto rental companies in Toronto is composed of local residents who do not own their own vehicle, local residents who need a short-term replacement vehicle, or local businesses that choose not to own their own fleet. As a result, a large portion of the tax may be borne by middle and lower income Toronto residents who may have less ability to purchase their own vehicle and only rent when necessary. As well, a car rental tax would go against the City's encouragement of car rental/sharing to reduce CO_2 emissions.

In addition, the car rental tax would only be applicable to vehicle rentals from establishments located within the city limits. The use of application-based rideshare companies such as Zipcar and Autoshare present new challenges to implementation. For example, it may be difficult to identify consumers with addresses outside Toronto boundaries but who order a rideshare service based in Toronto.

Many people view an auto rental tax as a tax on visitors; however, given that a large component of tourists and business travelers visiting Toronto will rent automobiles through companies located at Pearson Airport outside of the city, those visitors will not be affected by a Toronto auto rental tax. As a result, the percentage of local residents versus tourists being taxed will be even further diminished, leading to relatively low revenue potential.

Furthermore, as a car rental tax would be imposed on the purchase of a service, it is likely prohibited by COTA as an unauthorized sales tax.

Based on the above reasons, a car rental tax receives relatively low scores in the scorecard and has not been included for further consideration.

7. Municipal Income Tax and Sharing of Harmonized Sales Tax with Municipalities

The KPMG Revenue Options report identified a municipal income tax (on personal or business income) and a municipal sales tax as potential options with substantial revenue potentials. For example, a 1% municipal personal income tax could generate an estimated $926 million for the City annually. As well, a 2% City sales tax is estimated to be able to generate $515 million annually.

Despite the attractiveness of the revenue potential, both taxes would have considerable economic and social impacts. The introduction of a City of Toronto income tax would create financial burdens and disadvantage residents or commuters working in the City (if personal income is taxed), or for businesses (if their business income is taxed).

A sales tax has the potential to broadly distribute the impact across different consumer groups, as it would tax residents and non-residents of Toronto. Nevertheless, a uniform sales tax would disproportionately impact low-income individuals and households. While income tax is a progressive tax, sales tax is relatively more regressive.

There may be a concern that such taxes would lead to the departure of residents or businesses from Toronto and negatively impact the City's competitiveness. Location decisions are driven by many factors. The impact of a new city income tax, whether personal or business, would have to be weighed against other factors such as quality of life, proximity to schools, entertainment and cultural venues, employment opportunities, transportation efficiency, property tax, and office rent.

The introduction of income tax and sales tax at the municipal level would pose certain implementation and ongoing administrative challenges. Both taxes are currently collected and administered by the Canada Revenue Agency (CRA), and then the provincial portion is remitted to the Provinces according to a formula. It would be more efficient for the City to reach agreement with the CRA to have it administer the system in the City's behalf. The challenge arises from the fact that the HST is a value-added tax. Businesses are able to claim input tax credits for their own purchases of goods and services and remit the net amount to CRA. KPMG indicated that it would be very challenging to add a municipal component to the existing HST due to the difficulty in allocating tax credits to the appropriate level of government within a combined pool, particularly relative to Toronto's small geographical area.

Last but not least, since the City does not have legislative authority to levy either tax under COTA, Provincial approval of amendments to COTA would be needed.

Framework for Further Application

Due to the administrative challenges involved in the collection of the sales tax if implemented as an added municipal component, it would appear that a better way is for the Province to increase the Provincial portion of the HST, such as from 8% to 9%, and share the additional proceeds with Ontario municipalities. Hence it is recommended that Council request that the Province move ahead with legislative reforms, or establish a funding agreement to transfer revenues to the City, similar to the Gas Tax, to effect an income tax for the City of Toronto, and as well as to share the harmonized sales tax (HST) with municipalities.

Assuming such approvals were granted along with CRA administration, KPMG estimated that the implementation time is 24 months for each one of the taxes. The costs of implementing these taxes are likely to be high, including setting up systems and procedures, and promoting public awareness. City staff will need to engage the Province and CRA to sign a collection agreement.

C. User Fees

1. Expressway Tolling

In September 2015, Executive Committee directed Transportation Services to undertake a detailed study on options for tolling and pricing of the Gardiner Expressway and Don Valley Parkway. The purpose of this study was to determine how tolling could be used as a cost recovery strategy for the rehabilitation and maintenance costs of the Gardiner Expressway and Don Valley Parkway as well as road pricing options where tolls could be set at a level which also generated a surplus. Such funds could be directed to other infrastructure and city building initiatives.

Work undertaken involves consultation with relevant stakeholders, detailed cost and revenue projections for a range of cost recovery and road pricing options, impacts on other elements of the transportation network, and impacts on economic competitiveness. This work is still underway and a more detailed report to Executive Committee is planned for 2017.

Options for road pricing in Toronto include:

- cordon charges where a fee is applied to a vehicle that enters and/or exits a pre-determined area; and
- tolls that are charged for the use of a specific roadway either on a per kilometre or per trip basis.

A Cordon Charge is not considered reasonable at this time as it would be complex and costly to implement in Toronto as a result of the number of area entry points in the road network that would require cameras and associated infrastructure as well as the timescale required for delivery.

Expressway tolls would likely be more effective in generating significant revenue that could help address the Long Term Financial Plan funding gap – particularly for unfunded capital projects in transit and transportation.

The tolling options work undertaken to date assumes that tolls would be collected electronically using a transponder and cameras (e.g. ETR 407) and would require installation of gantries. A windshield or license plate sticker system could be used as is in place with the Province of Ontario's new High Occupancy Toll (HOT) lanes on the Queen Elizabeth Way, however this would require extensive enforcement to ensure high compliance, along with correspondingly high operating costs. The methods used to collect tolls are currently evolving and other technologies may be available in the future (e.g. GPS or smart phone enabled systems) which could potentially reduce both the upfront and ongoing costs of implementation.

Based on the tolling study's preliminary findings, and depending on the configuration chosen, implementing an electronic tolling system would require approximately \$100-150 million (2016 dollars) in capital costs to purchase and install gantries along the expressway mainline and/or on-ramps / off-ramps. Ongoing operating costs of an electronic tolling system are estimated at \$50 to \$70 million (2016 dollars) annually which would include contracted services for billing, customer service and administration as well as expressway incident management.

It is acknowledged that expressway tolls could be considered fees under law since they charge for the use of a public asset. If so, revenue generation would be limited to cost recovery for related works. Depending on how related works are defined, or how the required authorities are prescribed by the Province, there could be statutory constraints on the revenue generation potential of a highway tolling system.

Preliminary results, illustrated in the following table, indicate that in order to recover the rehabilitation and maintenance costs of the Gardiner Expressway and Don Valley Parkway, along with tolling system development and operating costs, a toll of approximately $1.40 per trip or $0.14 per kilometre for a minimum of thirty (30) years would be required.

"Break-even" Scenario

Toll Rate Light Vehicle (2016$)	Gross Revenues over 30 years (NPV, 2016$M)	Capital, Maintenance and Operating Costs for Gardiner, DVP over 30 years (NPV 2016$M)	Tolling Only* Costs over 30 years (NPV, 2016$)	Net Revenues over 30 years (NPV, 2016$M)	Average Annual Net Revenue (NPV 2016$M)
$1.40/trip	$5,478	$3,651	$1,593	$234	$8

Revenues based on preliminary traffic modelling and subject to change
* Assumes capital and replacement cost of $338M, back office operating, maintenance and incident management cost of $1,255M over the 30 year period. All costs discounted to 2016$.

Should Council decide to implement expressway tolling, a toll which recovers the cost of the Gardiner project (about $1.40 per trip) would free up $2.6 billion in total funding (including $1.85 billion in debt) currently contained in the City's approved 10-year capital plan. A toll of up to $2.00 per trip would generate just under $5 billion expressed in today's dollars over 30 years (see below).

The following table demonstrates that a relatively modest toll of under $2.00 per trip or $0.20 per kilometre is expected to generate approximately $160 million (2016 dollars) per year in net revenue for the City, after system implementation and operating costs. A rate that would be comparable to public transit fares and ETR 407 rates (approximately $3.90 per trip or $0.39 per kilometre) is expected to generate approximately $270 million (2016 dollars) per year in net revenue. A higher rate of approximately $5.20 per trip or $0.52 per kilometre is expected to generate approximately $330 million (2016 dollars) in net revenue.

Additional Revenue Generation Scenarios

Toll Rate Light Vehicle (2016$)	Gross Revenues over 30 years (NPV, 2016$M)	Tolling Only* Costs over 30 years (NPV, 2016$)	Net Revenues over 30 years (NPV, 2016$M)	Average Annual Net Revenue (NPV 2016$M)
$2.00/trip	$6,569	$1,593	$4,976	$166
$3.90/trip	$9,764	$1,593	$8,171	$272
$5.20/trip	$11,675	$1,593	$10,082	$336

Revenues based on preliminary traffic modelling and subject to change

* Assumes capital and replacement cost of $338M, back office operating, maintenance and incident management cost of $1,255M over the 30 year period. All costs discounted to 2016$.

Revenues are expected to be very stable, as expressway use is closely correlated to capacity and use is projected to remain stable with employment and population forecasts. Significantly higher toll rates appear feasible, but as rates increase other issues arise, such as traffic diversion onto the surrounding road network resulting in congestion and local traffic infiltration. The tolling options study includes an assessment of benefits and impacts to the transportation network as well as broader economic, social, and environmental impacts. The approach to toll demand modelling and forecasting for this study was based upon the City's strategic travel demand forecasting model that was used for the City's current Transit Network Plan. Within this model, Smart Track, GO Transit Regional Express Rail and the Downtown Relief Line are all assumed to be implemented by or before 2041.

Impact Assessment

Preliminary modeling suggests that tolling could result in travel time savings of 2-8 minutes in the morning peak period on the Gardiner Expressway and Don Valley Parkway, depending on the toll level applied. Tolling could result in more travellers shifting to public transit. Total trip diversion for the expressways is anticipated to range between 13% and 29%, depending on the toll level applied. Some of this traffic would divert to transit but the majority would divert onto the surrounding road network. This would result in increased travel time and vehicle volumes on local roads as well as increased potential for local traffic infiltration.

Tolls have the characteristic of applying to non-residents – who currently make up about 40% of trips on the City's expressways. It can be argued that non-residents benefit from City services – especially roads and transit – to which they do not contribute directly. By tolling non-residents the City is effectively increasing its tax base. The impacts of a toll discount for Toronto residents is being considered by the tolling options study.
It will be important to understand how tolls might impact the economy generally such as tourism and commerce, and specifically related to the transportation sector (i.e. vehicles for hire and goods movement). From a social impact perspective, a review of income

levels of commuters is being conducted. Environmental impacts are being assessed through the potential of tolling options to result in greenhouse gas emission reductions. An evaluation of the impacts of tolling is currently underway and a more fulsome assessment of the benefits and impacts will be included in a report to Executive Committee in 2017.

Industry Feedback

City staff have consulted with industry representatives through two stakeholder workshops held on October 28, 2016. The workshops provided an opportunity to discuss how expressway tolling might work and what benefits and impacts could be expected. Some of the key messages heard at these workshops include:

- Revenue from tolling should be directed to transportation and transit infrastructure;
- More work is needed to understand and mitigate impacts of tolling on business and commercial vehicles;
- More assessment is needed to understand impacts of tolling through diversion to adjacent roads; and
- Concern that discount programs (i.e. a resident discount) could negate the potential benefits of tolling.

Implementation Issues

The two biggest challenges to tolling the Gardiner and Don Valley Parkway are cost, and timing. Tolling systems have a relatively high operating cost – most systems today have overhead /operating costs above 30% of total revenues. The cost ratio decreases as the toll rates, and total revenues, increase. It is anticipated that over time these costs could be reduced as tolling technology evolves to become more automated. Nevertheless, the high overhead cost compares poorly with the marginal cost of increasing existing taxes.

For the purposes of the tolling options study, analysis assumed that tolling could start in 2024, following major rehabilitation of the Gardiner Expressway. However, expressway tolling may be able to be implemented in stages, as early as 2019 / 2020. Tolls could serve to assist with traffic management during construction. Further review of implementation strategies would be required to assess coordination with the schedule of Gardiner Expressway rehabilitation.

Next Steps

Further analysis with regard to costs and revenue opportunities and evaluation of impacts is required as part of the completion of the tolling options work currently underway and a detailed report to Executive Committee is planned for 2017. Further consideration of implementation strategies with regard to coordination with Gardiner Expressway rehabilitation, timing and associated revenue forecasts is also required.

Implementation of expressway tolling would require a regulation be made under the COTA to permit it and may require the completion of an Environmental Assessment. It is recommended that Council request that the Province introduce regulatory changes to enable tolling of roads under the jurisdictional ownership of the City.

City staff have engaged Provincial staff in preliminary discussions about their new High Occupancy Toll (HOT) lanes on the Queen Elizabeth Way. Tolling on City expressways should take into consideration the results of these pilots, and the introduction of a system of expressway tolls should be coordinated where possible.

CONCLUSION

Since Executive Committee considered EX16.3 on June 28, 2016 and referred it back to the City Manager for consideration as part of the Long-term Financial Direction update, staff have attempted to improve the understanding of various taxation options, especially those that are expected to be most feasible to play a role in the 2017 and 2018 budgets. In addition to retaining KPMG to assist with an economic and social impact assessment, staff met with interest stakeholders, provincial officials, and internally with key impacted divisions.

The suite of options identified in this report are based on a set of principles about good tax policy, tempered by practical, and other considerations. They present a mix of actions that can be taken immediately, and those that will take longer to obtain the consent of the Province of Ontario. They also represent a mix of revenue options to address the City's operating needs and those that are more suitable for capital purposes.

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ATTACHMENTS

Appendix A: KPMG Report "Additional Economic Assessment of Revenue Options"

Appendix B: List of business stakeholders that provided input on various revenue options

Appendix C: Summary of June 2016 KPMG Study Key Findings

Appendix D: Letters from the Mayor to the Province requesting legislative/regulatory changes, and the response from the Minister of Municipal Affairs

Appendix E: City Policy Descriptions Involving Foregone Revenues

Appendix A: KPMG Report: "Additional Economic Assessment of Revenue Options

Appendix B: List of Business Stakeholders that Provided Input on Various Revenue Options

Stakeholder Organization	Date	Format	Topic
Real Estate Industry Coalition	12-Apr-16	Meeting	Parking levy
	29-Aug-16	Meeting	
	07-Nov-16	Meeting	
Ontario Association of Cemetery and Funeral Professionals (OACFP)	18-Aug-16	Meeting	Parking levy
	26-Oct-16	Letter	
Zipcar	28-Sep-16	Meeting	Car rental tax, Parking levy
Ontario Convenience Stores Association (OCSA)	25-Oct-16	Letter	Parking levy
Cineplex Entertainment and Movie Theatre Association of Canada (MTAC)	08-Nov-16	Meeting	Amusement tax, Parking levy
Greater Toronto Hotel Association & Tourism Toronto	15-Nov-16	Meeting	Hotel tax
Tolling Options stakeholders (22 in total)	28-Oct-16	Meeting	Tolling Options

Appendix C: Summary of June 2016 KPMG Study Key Findings

Revenue Option	Range of Net Annual Revenue Potential ($ millions)	Estimated Time to Implementation **	Equivalent % Increase in Residential Tax ***
Permitted Under COTA			
Motor Vehicle Registration Tax *($20 to $100)*	18 – 94	6 months	0.7% - 3.5%
Alcoholic Beverage Tax **** *(1 – 10% rate)*	21 – 151	12 months	0.8% - 5.7%
Entertainment and Amusement Tax **** *(1 – 10% rate)*	4 – 35	12 months	0.1% - 1.3%
Tobacco Tax **** *(1 – 10% rate)*	5 – 46	12 months	0.2% - 1.7%
Parking Levy *($0.50 to $1.50 per space / day)*	171 – 535	18 months	6.5% - 20.3%
Road Pricing (Cordon Pricing) * *($5 to $20 per day)*	89 – 377	36 months	3.4% - 14.3%
Not Permitted under COTA			
Development Levy *(2 – 10% rate)*	17 – 87	12 months	0.7% - 3.3%
Hotel Tax *(2 – 14% rate)*	21 – 126	12 months	0.8% - 4.8%
Parking Sales Tax *(5 – 20% rate)*	30- 121	12 months	1.1% - 4.6%
Business Income Tax *(0.5 – 2%)*	145 – 580	24 months	5.5% - 22.0%
Personal Income Tax *(1%)*	580 – 926	24 months	7.9% - 35.1%
Sales Tax *(0.5 – 2% rate)*	125 – 515	24 months	4.7% - 19.5%

* Provincial approval is required by regulation

** Implementation time: from the time City staff receive approval and direction to proceed to the time of revenue realization, as some options may require legislative changes or cooperation from other orders of government such as the Canada Revenue Agency

*** Non-residential tax rate would correspondingly increase by one-third of the residential rate increase in each case

**** Requires supporting Provincial regulation to compel collection by vendors

Appendix D: Letters from the Mayor to the Province Requesting Legislative/Regulatory Changes, and the Response from the Minister of Municipal Affairs

Appendix E: City Policy Descriptions Involving Foregone Revenues

1. Property Tax Assistance for Low-Income Seniors and Disabled Persons

   a. Tax Deferral for Low Income Seniors and Disabled Persons
   b. Interest free deferral of any tax increase for seniors aged 50 years or older or disabled persons whose household income is $50,000 or less and have owned the property for at least one year. In 2015, the City processed tax deferrals for 320 applicants.
   c. Tax Cancellation for Low Income Seniors and Disabled Persons
   d. The cancellation of any tax increase for seniors aged 65 or older, or disabled person living with a household income of $40,600 or less, who have occupied their home for at least one year, and the home's assessed value is less than $715,000. In 2015, the City processed tax cancellations to 4,900 applicants.

2. New Multi-Residential Property Tax Relief

   To provide an incentive for the development of purpose built rental properties, Council has adopted a policy to tax new purpose-built residential rental buildings (seven units or more) at the Residential rate (0.52%) rather than the Multi-Residential Rate (1.6%) for a period of 35 years following construction. In 2016, 121 new multi-residential properties were taxed at the residential rate.

3. One-third of Residential Tax Rate Increase on Non-residential Properties vs one-half of Residential Tax Rate Increase

   Council adopted a strategy ("Enhancing Toronto's Business Climate") to reduce business tax rates to 2.5 times the residential rate by 2020. While Provincial regulation requires commercial, industrial and multi-residential tax rate increases to be restricted to no more than one-half of any residential tax rate increase, the City has been applying a non-residential tax rate increase of one-third of the residential tax rate increase in order to accelerate the reduction of non-residential tax ratios.

4. Small Business Class Tax Relief

   To help reduce property taxes for small businesses, Council adopted the Residual Commercial Class, to which a lower tax rate has been applied to the first $1 million of assessed value. The lower tax rate was based on an accelerated reduction in tax ratio to 2.5 times the residential rate by 2015. In 2016, the Commercial General Rate was 1.45% while the Residual Commercial Band 1 Rate was 1.25%.

5. IMIT Tax Increment Equivalent Grants (incl. Brownfield Remediation Grants)

   In order to provide an incentive for new employment development, Council adopted a policy to grant-back municipal taxes to eligible development, equivalent to 60% of the municipal tax increment paid over a 10-year period. Since the inception of the program to March 2016, 28 IMIT agreements have been signed, and six more are pending, providing a potential committed grant-back to these developments of $475 million.

6. Municipal Capital Facilities Tax Relief

   City Council can declare privately-owned facilities tenanted by not-for-profit organizations that provide eligible services and public use as a Municipal Capital Facility. Currently, 74 Capital Municipal Facilities were tracked including TIFF, church foundations, and Casa Loma, among others.

7. Heritage Property Tax Rebate

   A designated heritage building for which there is a heritage easement agreement is eligible for a 40% tax rebate on taxes paid, capped at 50% of eligible maintenance/conservation work for commercial and industrial properties designated under either Part IV or V of the Ontario Heritage Act.

8. Ethno-Cultural Rebates

   Eligible ethno-cultural centres may receive a 100% rebate on property taxes. The organization must be a registered charity, own and occupy the subject property for the purposes of an ethno-cultural centre, and demonstrate a going concern for promoting culture within the multi-cultural context of Canadian society and facilitating communication and understanding of culture, education, arts and trade.

9. Veteran's Clubhouse Rebates

   Eligible clubhouses and legion halls may receive a 100% rebate on property taxes payable on facilities for veterans, including memorial homes.

10. Industrial Block 2 Water Rate Discount

    Eligible industrial consumers of water over 6,000 cubic metres a year receive a 30% reduced water rate ("Block 2 rate"). In 2015, 141 industrial properties received the lower Block 2 rate.

11. Water rebate (30%) for Low-Income Seniors and Disabled Persons

    Council approved a water rebate program for low-income seniors and low-income persons with disabilities who meet the eligibility criteria as prescribed in the Municipal Code, Chapter 849. This rebate is set at the difference between the Block 1 and Block 2 rates, which represents a 30% reduction in their billing. The rebate is only applicable if the household annual consumption is less than 400 cubic meters per year, to provide assistance to those most in need. In 2015, the City processed 4,840 low-income water rebate applications for a total rebate amount of $740,000.

12. Basement Flooding Protection Subsidy Program

    Since the basement flooding proection subsidy program was expanded city-wide in 2006, more than 16,500 applications have been approved, with over $2,730,000 in total subsidy payments issued to property owners by Toronto Water as of the end of September 2015.

13. Waste Diversion Rate Waiver Program for Charitable Organizations

    Waste Diversion Rate Waiver Program exists for non-residential customers who are registered as charitable organizations. Charities need to demonstrate a commitment to waste diversion strategies to be eligible for a 100% waiver on the solid waste rate based on a waste audit compliance inspection. Lost revenue is based on 2013 and 2014 data.

14. TTC Fares

    Based on discount to adult single rider and Metropasses ($3.25 single fare; $129.75 metropass); students (13-19) and seniors (65+) pay $2.00 on single fare and $102.75 on metropasses; post-secondary student pay $102.75 for Metropasses; Children 12 and under ride at no charge.

15. Open Door Affordable Housing Program

    The City's affordable rental housing incentives include one-time fee exemptions from development charges (DC), planning application fees, building permit fees and parkland dedication fees, as well as multi-year exemption from property taxes. City also makes capital contributions from DC Reserve Fund for Affordable Housing and Capital Revolving Fund, but these are not considered foregone revenues as these revenues are only collected for Affordable Housing Purposes. Projects may also qualify for federal and provincial funding through the Investment in Affordable Housing (IAH) Program. Annual Foregone revenue estimates are based on 2016 Proposed Developments.

16. Below Market Rent Grant Equivalent

    The City has a Below-Market Rent (BMR) policy that allows some non-profit community groups providing key services to Toronto residents to lease City space in a way that is cost-neutral to the City. In return, these community agencies provide important programs to Toronto residents at a lower cost than the City could provide. In 2012, it was reported that there were 93 non-profit organizations providing community and cultural services in BMR spaces.

17. First Time Homeowners Rebate for Municipal Land Transfer Tax

The City offers a rebate at the time of payment for buyers who identify themselves as first-time home buyers (FTHB) - having never previously owned a home at any location. The maximum City rebate is $3,725 (corresponding to the MLTT on a $400,000 home).

18. Development Charges Exemption for Commercial and Industrial Development

To encourage new employment development, Council adopted a policy to exempt commercial and industrial development from development charges. Foregone revenue estimates based on information provided by the City's development charges consultants and 2013 development charges study non-residential gross floor area forecasts, updated with February 2016 development charges rates.

The chart below provides an annual estimate for the City's foregone revenues with a breakdown by funding source: