EX20.2
Appendix A

Additional Economic Assessment of Revenue Options

City of Toronto

KPMG LLP

November 2016

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Contents

KPMG

Executive Summary

In June 2016, KPMG LLP ("KPMG") presented the findings of its "Revenue Options Study" to the City of Toronto's (the "City") Executive Committee. The Revenue Options Study provided an overview of eleven different revenue options that were identified by the City for consideration – including revenue options that are currently permitted under the City of Toronto Act ("COTA") and revenue options that would require amendments to COTA.

For each of the eleven revenue options reviewed by KPMG, we developed "revenue profiles" that described key characteristics of the tools, including a summary of the revenue option structure, assumed approach for implementation, a qualitative and quantitative assessment, and an overview of how the revenue option has been implemented in other jurisdictions. The Revenue Options Study also included high-level overviews, including a jurisdictional review, of a potential Uber registration fee, carbon tax and municipal land transfer tax.

During the Executive Committee meeting in June, three motions were passed that are relevant to this assignment. The first requested that any further analysis of revenue options include an assessment of the economic impact of that option, in consultation with the General Manager of Economic Development and Culture. The second motion directed that staff report back on the revenue opportunities associated with a surcharge on car rentals in the City. The third motion referred the Revenue Options Study to the City Manager for consideration as part of the forthcoming report on the City's Long-Term Financial Direction in fall 2016. It is understood that the City Manager will be presenting the Long-Term Financial Direction to the Executive Committee at its meeting scheduled for December 1, 2016.

Subsequent to the Executive Committee meeting in June, City staff selected a number of options for further study and economic analysis. These included four revenue options from the Revenue Options Study (alcohol tax, parking levy, parking sales tax and hotel tax), along with potential adjustments to the existing property tax regime (including graduated residential property tax rates, increased commercial and industrial rates, and a number of variations on the existing Municipal Land Transfer Tax ("MLTT") such as harmonization of the rate structure with that of the provincial Land Transfer Tax). Given KPMG's familiarity with the identified revenue options and the relatively short timeframe to develop the additional economic impact assessments for each of these options, the City engaged KPMG to perform the additional economic impact analysis of these selected revenue options.

For each revenue option, we developed impact assessments that identified the current locations of establishments affected or impacted by the implementation of these options. We developed 'heat maps' for each revenue option that help to demonstrate the areas of the city (by Ward and Neighbourhood) with the largest concentration of impacted stakeholders or establishments. We also discuss the potential economic and social distortions that could result from the implementation of the selected revenue options. The outputs from this report are expected to aid the City in future policy decisions regarding the selected revenue options by identifying certain areas or stakeholders within the city that may be more impacted than others by the implementation of the revenue option.

A summary of the results from the analysis are presented in the table below, with a particular focus on the following:

- *Key Impacted Stakeholders* – who is most likely to end up paying the new costs associated with the option and who will likely collect the tax.
- *Impact on Key Stakeholders* – the potential impact of the option on the stakeholders that are most likely to pay the new tax.
- *Broader Economic Impacts* – the potential impact of the option on business and economic activities across communities within the city, including impact on the ability to attract business, visitors, and new residents.
- *Social Impacts* – consideration of whether implementing the revenue option assists with the achievement of social goals and outcomes.

For the purpose of presenting the summary analyses in the table below, we have grouped the revenue options into two distinct categories:

1) Specialty taxes – these are sales taxes that target specific activities such as alcohol purchases, hotel accommodations and paid parking.
2) Taxes on real property – these include changes to the existing property tax structure and Municipal Land Transfer Tax system, along with the implementation of a parking levy.

Additional analysis and support of these revenue option summaries can be found in the respective sections of this report.

Revenue Option	Key Impacted Stakeholders	Impact on Key Stakeholders	Broader Economic Impacts	Social Impacts
Specialty Taxes				
Alcohol Tax	Alcohol retailers in Toronto (LCBO, Beer Store and grocers) and the individuals purchasing alcohol from those retailers.	May lead to shifting alcohol purchases outside of Toronto (extent dependent on level of taxation). Potential for reduced alcohol sales at retailers near the city border; could lead to relocation of some LCBO / Beer Stores outside of Toronto.	To the extent that alcohol retailers relocate outside of the city, this may impact employment in the city. In some areas of the city, these retailers are "anchor tenants" for strip malls; their relocation could adversely impact surrounding businesses and property values. Overall, it is unlikely to materially impact the City's ability to attract new business, visitors or residents.	An alcohol tax can act as a means for reducing alcohol consumption and abuse, to the extent that the tax rate is substantial enough to reduce demand. The potential for this social impact increases as the alcohol tax rate increases (although economic impacts would also increase).
Hotel Tax	Hotels and private short-term rentals located in Toronto, as well as individuals staying in short-term overnight commercial accommodations (both residents and non-residents).	Decreases competitiveness of hotels in the city relative to those in neighbouring jurisdictions (particularly near the airport where Toronto hotels are directly competing with hotels nearby).	Likely to have a small adverse impact on the city's overall economic activities, to the extent that a hotel tax would make the city a less attractive destination for tourism (particularly leisure tourism, which tends to be more price-sensitive than business travel). Implementing the tax on short-term private rentals (e.g., Airbnb) in addition to hotels would level the playing field for hotels operating in areas where there is a high concentration of short-term rental locations, such as Toronto's downtown core.	A hotel tax is not expected to have a material impact on social outcomes or behaviour.

Revenue Option	Key Impacted Stakeholders	Impact on Key Stakeholders	Broader Economic Impacts	Social Impacts
Parking Sales Tax	Parking operators and users of paid commercial parking in the city.	Charges can likely be passed along by paid parking operators to consumers without experiencing significant demand reduction; these individuals have already made the decision to use paid parking and are unlikely to be deterred by a marginal cost increase.	Most of the tax burden would fall on major commercial districts where paid parking is generally already in place. From a retail perspective the scheme of a parking levy may reduce the competitive position of downtown businesses to elsewhere. Overall, it is unlikely that a parking sales tax would have a material impact on the City's ability to attract new business, visitors or residents.	Most consumers are unlikely to change their car use behaviour due to a marginal increase in parking cost. To the extent that the tax reduces the number of vehicles on the road (thereby reducing congestion), it may encourage some drivers to walk, cycle, take public transit or car pool.
Taxes on Real Property				
Graduated Property Tax	Owners and lessees of high-value residential properties.	The City's current residential property tax rates are among the lowest in the GTA, suggesting additional taxes can be levied without hampering competitiveness of City relative to nearby jurisdictions. A graduated rate may dampen the demand for, and hence prices (and potentially new building activity) of, high-value residential properties in the city, but the impact is expected to be minimal.	Overall, it is unlikely to have a material impact on economic and business activities given that the tax is borne by residents instead of businesses. Could theoretically have a small second-order impact on businesses by making Toronto a less desirable location for high-income employees, thereby making it harder to attract talent to the City. Overall, it may have some impact on the decision to live in Toronto but it is not likely to be material.	Likely no social impact, since burden is borne by higher-income residents who have a greater ability to pay.

Revenue Option	Key Impacted Stakeholders	Impact on Key Stakeholders	Broader Economic Impacts	Social Impacts
Adjustments to MLTT	Prospective homebuyers (incl. first-time homebuyers and non-permanent residents) and buyers of non-residential property.	While these potential changes would increase the transaction costs associated with purchasing a home in Toronto, it is likely to have a minimal impact on the demand for housing in Toronto given that these are only minor adjustments to the existing MLTT rates. The impact would likely be greater if the MLTT was being introduced as a new revenue option.	Minimal impact on economic and business activities is expected. The additional costs associated with the adjustments to the MLTT are a low percentage of the overall transaction costs and hence it is unlikely to have a significant impact on the demand for Toronto housing; however, it may influence the timing of transactions with buyers attempting to make purchases prior to implementation of the changes.	The adjustments will increase the transaction costs for most property purchases. Changes related to non-permanent resident transactions will likely create an additional barrier to home ownership for these individuals; however, the harmonization of the FTHB rebate with the new Provincial rebate may help first-time buyers to purchase a residence in the city.
Parking Levy	Owners of commercial, industrial and retail properties in the city that provide parking. Likely to be passed on to customers through increased parking fees (where paid parking exists), or to tenants, where unpaid parking exists, through other means (e.g., increased rent costs).	Potential to decrease the competitiveness of Toronto businesses, particularly those with unpaid parking or who are located near the municipal border. Small businesses may struggle to pay the increased costs because they have fewer financial resources and could be more easily impacted by competitive pressures.	Likely to dampen economic growth in the commercial and industrial sectors and may impact the decision of some businesses to locate in Toronto; largest impact will be on small businesses with unpaid spaces located near the municipal border who may choose to relocate entirely. Could be perceived unfavourably by businesses because it is essentially double taxation on property for commercial and industrial owners.	Potential for a slight reduction in the number of vehicles on the road if availability of unpaid parking falls (through conversion of unpaid parking to paid parking), thereby reducing congestion and encouraging some drivers to walk, cycle, take public transit or car pool.

1 Introduction

During a February 2016 deliberation on the 2016 operating and capital budgets of the City of Toronto (the "City"), City Council directed City Staff to commission an external consultant to perform an update to a March 2007 report delivered by Hemson Consulting Ltd., entitled "Assessment of Potential New Tax Measures under the City of Toronto Act, 2006" (the "Hemson Report"). The Hemson Report undertook a review of various options for generating revenues under the *City of Toronto Act*, 2006 ("COTA") enacted by the Government of Ontario (the "Province").

In response to Council's direction, City Staff retained KPMG LLP ("KPMG") in April 2016 to provide an updated assessment of the revenue options permitted under COTA and to review other revenue options that the City does not currently have legislative authority to implement. KPMG delivered a report to the City in June 2016 (the "Revenue Options Study") that provided an overview of eleven different revenue options that were identified by the City for consideration.

The revenue options reviewed in the Revenue Options Study that are currently permitted under COTA were:

- Alcoholic beverage tax;
- Entertainment and amusement tax;
- Motor vehicle ownership registration tax;
- Parking levy;
- Road pricing (specifically downtown cordon charges); and
- Tobacco tax.

The revenue options reviewed in the Revenue Options Study that are not currently permitted under COTA were:

- Development levy;
- Hotel tax;
- Parking sales tax;
- Municipal income tax (including business income and personal income); and
- Municipal sales tax.

For each of the eleven revenue options listed above, KPMG developed "revenue profiles" that described some key characteristics, including a summary of the revenue option structure, assumed approach for implementation, a qualitative and quantitative assessment, and an overview of how the revenue option has been implemented in other jurisdictions.

The Revenue Options Study also included high-level overviews, including a jurisdictional review, of a potential Uber registration fee, carbon tax and municipal land transfer tax.

On June 28, 2016, KPMG presented the findings of the Revenue Options Study to the City's Executive Committee. At that meeting, three motions were passed that are relevant to this assignment. The first requested that any further analysis of revenue options include an assessment of the economic impact of that option, in consultation with the General Manager of Economic Development and Culture. The second motion directed that staff report back on the revenue opportunities associated with a surcharge on car rentals in the City. The third motion referred the revenue options study to the City Manager for consideration as part of the forthcoming report on the City's Long-Term Financial Direction in fall 2016. It is understood that the City Manager will be presenting the Long-Term Financial Direction to the Executive Committee at its meeting scheduled for December 1, 2016.

Subsequent to the Executive Committee meeting in June, City staff identified four revenue options from the Revenue Options Study (alcohol tax, parking levy, parking sales tax and hotel tax), along with potential adjustments to the existing property tax regime (including, graduated residential property tax rates, increased commercial and industrial rates and several variations to the existing Municipal Land Transfer Tax ("MLTT") regime such as harmonization with the provincial Land Transfer Tax rate structure) for further economic analysis. Given KPMG's familiarity with the identified revenue options and the relatively short timeframe to develop the additional economic impact assessments for each of these options, the City engaged KPMG to perform additional economic impact analysis; the results of which are presented herein.

1.1 Economic Assessment of the Revenue Options

This report provides a discussion of macro-level economic impacts for the selected revenue options, as well as potential adjustments to the City's current property tax structure. The approach used in our economic assessment of each selected revenue option includes, identifying the locations of the establishments affected or impacted by the implementation of these options and discussing the potential economic and social distortions that could result from their implementation. A similar exercise was undertaken for the City's existing MLTT structure.

It is expected that these outputs will aid the City in making future policy decisions regarding these selected revenue options by identifying certain areas or stakeholders within the city that may be more impacted by the implementation of the revenue option. Further, additional discussion has been provided relating to the potential economic impacts associated with adjusting the existing residential property tax regime to a tiered system and the potential implications of increasing the current commercial and industrial property tax rates.

This report focuses on the potential impacts and associated stakeholders (by type and location) for each of the selected revenue options and provides some implementation considerations for the City based on the findings of the assessment. The report does not comment on how the revenue options should be implemented or how the funds generated by the revenue options should be used. These aspects are beyond the scope of this study.

This report has been structured to include the following:

- 'Heat maps' that identify the locations of the establishments or properties that would likely be impacted by the implementation of the four selected revenue options and modifications to the existing MLTT rate structure. The methodology and approach used to develop the heat maps is described further in Section 2.0.
- Detailed qualitative assessments of the potential economic and social impacts of implementing the four selected revenue options. This includes an overview of how the revenue option may be structured, identification of the areas of the city most impacted by the implementation of the revenue option and discussion of the impacted stakeholders, including key considerations for the implementation of the tools (e.g., who will actually pay the fee, rate structures, etc.). The discussion of the parking levy includes two detailed case studies of the parking levy implementation in the City of Vancouver (by TransLink) and the City of Montréal.
- A discussion of a graduated (or tiered) property tax structure, including an overview of jurisdictions where this has been implemented and commentary on how this option could be implemented within the context of the City's existing property tax structure. This includes a discussion of the potential social and economic impacts of modifying the residential property tax regime.
- An analysis of how potential increases to the commercial and industrial property tax rates would compare to the estimated revenues from the implementation of a parking levy and the associated impacts on these markets and stakeholders within the City of Toronto.
- A detailed qualitative assessment (similar to the assessments for the selected revenue options) of the potential impacts associated with harmonizing the MLTT with the provincial structure. This assessment includes a discussion of the impacted stakeholders, an identification of the properties that were sold in 2015 and an analysis of how these changes would impact the overall MLTT revenues generated by the City.
- A table summarizing the key outputs from the assessment including identifying the key impacted stakeholders for each revenue option and providing a summary of the assessment related to the City's ability to attract businesses and individuals, as well as the potential economic, business and social impacts of implementing the revenue option.

- An overview of an auto rental tax that provides background information on the revenue option, including how it could be structured for implementation and how it has been used in other jurisdictions. The content of this revenue option overview follows a similar structure to the Carbon Tax and Uber Registration Fee from the Revenue Options Study.

As part of the qualitative assessment of the revenue options identified above, KPMG has worked with City Staff, including the City's General Manager of Economic Development and Culture (and his staff), to identify economic and social considerations for each of the revenue options. It is expected that these narratives will assist in advancing the discussion of these revenue options at the City Council level and provide macro-level information that is easily understood (e.g., areas impacted and impact on stakeholders). This report notes some of the key considerations for implementing the selected revenue options, but does not identify or comment on how the City should implement any of the revenue options.

2 Mapping the Revenue Options

2.1 Objective

The City would like to understand the location of the various businesses and properties that could be impacted by the implementation of the selected revenue options. The location of these impacted stakeholders varies by revenue option and our team worked with City Staff to identify the best available data sources on stakeholder location for each option. Data was gathered from multiple sources to determine the coordinates of locations within the city where the revenue options could be implemented, and to identify the corresponding Wards (as defined by the City) and Neighbourhoods (as defined by the City) where these property addresses are located. Demographic and socioeconomic indicators for the Wards and Neighbourhoods were also identified to provide important context when analyzing the areas impacted by the implementation of the revenue options; these indicators have been included in the heat mapping exercise.

The 'heat maps' are a method of visually comparing the density difference of a single variable within a predetermined boundary. Boundaries for this analysis have been sourced from the City of Toronto Open Data website for Ward and Neighbourhood profiles. The variables being used to evaluate 'heat' differ by revenue option, and are detailed in Section 2.3. In addition to this report, a set of interactive maps have also been provided to the City. These interactive maps allow users to scroll over a particular Ward or Neighbourhood in the city and view the variables associated with each revenue option, along with select socioeconomic indicators associated with the area.

2.2 Methodology and Assumptions

Through engagement with the City of Toronto Social Development, Finance and Administration Division and other publicly available information, relevant locations for inclusion in the analysis were identified and finalized. The following locations have been included in the analysis:

Revenue Option	Locations Plotted in Heat Maps
Alcohol Tax	Beer Store retail outlets in Toronto, LCBO retail outlets in Toronto, grocery store locations approved for the sale of alcohol in Toronto.
Hotel Tax	Hotels located in Toronto.
Parking Levy	Industrial and commercial property addresses with non-exempt taxation status in Toronto, based on the amount

	of impervious surface area at the property location as a percentage of total area.
Parking Sales Tax	Property addresses where paid commercial parking currently exists within Toronto.
Municipal Land Transfer Tax	Property addresses from all residential and non-residential property transactions in 2015 within Toronto.

2.2.1 Methodology

Geospatial analysis tools were used to create "spatial objects" or a series of latitude and longitude coordinates for each location gathered from relevant data sources. Locations were then mapped against City of Toronto boundaries by Ward and by Neighbourhood, assigning spatial objects within each polygon to the corresponding boundary categorization. Data was then aggregated to give a complete view of the number of locations within the defined boundaries that met the project team's requirements.

Demographic and firmographic (descriptive attributes of firms, i.e., employees, North American Industry Classification System Canada 2012 ("NAICS") code, etc.) data were sourced from the City of Toronto's Open Data program, Environics analytics, and 2015 StatsCanada Business Summary Estimates.

Demographic or socioeconomic indicators that were sourced from the City of Toronto Open Data website were directly mapped between the ward number and neighbourhood number associated with the boundary in question for 2011 and 2014 data indicators. A similar approach was used for the Environics data; however the data had to be adjusted to align with the boundaries for the City's Wards and Neighbourhoods. This is described in more detail in Appendix A.

2.2.2 Key Assumptions and Data Sources

Several assumptions underpin the heat mapping analysis, both in terms of identifying coordinates that are relevant to the selected revenue options, and in overlaying additional demographic and firmographic data for the impacted Wards and Neighbourhoods. It is assumed that the data used in the analysis is up to date, and reflective of current state, insofar as all of the locations identified are currently being used for the purpose in which they have been identified (e.g., industrial and commercial property addresses are accurate) and are currently in operation (as in the case of alcohol retailers or hotels). Further, it has also been assumed that the assignment of latitude and longitude coordinates from postal code address points are an accurate reflection of an address' true coordinates in the city.

Non-exempt industrial, commercial and institutional ("ICI") properties in the city have been identified and mapped as part of the analysis. Latitude and longitude coordinates have been assigned to each address based on the addresses provided. Of the more than 24,000 non-exempt ICI properties identified, 23,521 locations were successfully assigned latitude and longitudes within the desired level of accuracy, while 651 locations lacked sufficient data volume or quality in order to conduct the analysis and have been removed from the dataset.

Key data has been sourced from the following:

LCBO, Beer Store, and Grocery Locations

1) Beer Store, LCBO, and grocery locations (where alcohol is sold) have been identified through independent online research. All locations that fell within the city limits were successfully mapped and included in the heat mapping analysis. This included 82 LCBO locations, 66 Beer Store locations, and 10 grocers.

Hotel Addresses

2) A total of 138 hotel locations were identified through the City of Toronto's One Address Repository. Following discussions with City Staff, it was determined that each of the locations identified through the One Address Repository should be independently validated to ensure that hotel operations continue to be performed at these addresses. A validation process was conducted and a total of 98 hotel locations were validated within the city limits and have been included in the heat mapping analysis.

Parking Addresses

3) A complete set of ICI property addresses has been provided by the City. All ICI locations that are not classified as "Realty Tax Class: Exempt" have been included in the analysis, with the exception of 651 properties for which inaccurate addresses or insufficient details were included in the data set. A total of 23,521 non-exempt ICI locations were successfully mapped within the city limits. In most cases, the information included data related to the impervious area found on the site and the gross area definitions. Impervious area is the total area (in hectares) that is either covered by a facility or paved on the property. Essentially, it represents the area of the property that would be covered by roofs, paved roadways or paved parking when viewed from an aerial photograph (this information does not distinguish between properties that could have vertical parking structures, such as underground parking levels or tiered parking structures). This data has been used as a proxy to represent the approximate parking area at these addresses and to plot the parking levy heat maps.

4) Using the same set of ICI property addresses provided by the City, all properties that were categorized as Realty Tax Class G (parking lot rate) and Realty Tax Qualifier T (taxable at the full rate) have been included in the analysis. This data represents stand-alone parking structures (excluding parking areas that are in mixed-use properties) and has been used as a proxy to plot the parking sales tax heat maps.

Municipal Land Transfer Tax

5) The City provided a complete list of automated residential and non-residential property transactions in the city for the period from January 2010 to September 2016. The data was sourced from Teraview, the computer system used for the administration of the land transfer tax. The data provided did not include "on-site" or manual transactions (these types of transactions constitute 1.3% of total transactions). The information included the address of the property that was registered/sold, the value of consideration for the property, the associated MLTT revenues and for residential properties, whether the purchase qualified under the First-Time Homebuyer program. A number of heat maps have been developed using this data for the purposes of discussing the adjustments to the MLTT in Section 9.

City of Toronto Demographic Data

6) There are 44 Wards in the City of Toronto. Ward level demographic data has been sourced in two forms – first, from the City of Toronto Open Data website which provides 2011 demographic data for wards from custom StatsCanada tabulations; and second, from Environics' Q1 2015 demographic variables, which are aggregated from postal code level data and summed within ward boundaries. Due to data suppression at the postal code level and boundary incompatibility, demographic data for 2015 should be considered estimates only.

7) There are 140 Neighbourhoods in the City of Toronto. Neighbourhood data has been sourced in two forms. First, from the City of Toronto Wellbeing's website which provides 2011 and 2014 demographic and socioeconomic indicators from multiple StatsCanada surveys. Variables are mapped to neighbourhoods based on unique neighbourhood keys. Second, Environics Q1 2015 demographic variables have been aggregated from dissemination area ("DA") demographics and rolled up to the census tract level. Census tracts are nested within the City's Neighbourhood boundaries, which is further nested in Neighbourhoods, ensuring the data modelling is as accurate as possible.

StatsCanada Business Register Data (Q1 2015)

8) Data at the DA level for businesses within Ward and Neighbourhood boundaries has been aggregated based on the size of businesses and NAICS code. Organizations with more than 500 employees are defined as "large" in this dataset. Only retail trade establishments have been considered, and KPMG has used this as an indicator of the prevalence of local business to a region. Total large retailers is divided by the total number of retail establishments within boundaries to provide an economic indicator based on the percentage of large retail trade in the area.

Ward, Neighbourhood, and Neighbourhood Improvement Area Definitions

9) Boundary files provide polygon coordinates for the Wards and Neighbourhoods being used in the analysis. These have been provided by the City of Toronto through the Open Data website.

10) The 2020 Strong Neighbourhoods Strategy has identified 31 Neighbourhoods as Neighborhood Improvement Areas. Socioeconomic data for these Neighborhoods have been identified on the City's Open Data portal.

2.3 Mapping Outputs

A discrete heat map has been developed for each of the alcohol tax, hotel tax, parking levy and parking sales tax revenue options, along with the MLTT. For each revenue option, the heat maps can be viewed at either the Ward level or Neighbourhood level. When reviewing the heat maps, the areas that are more heavily shaded represent the areas with the highest density of relevant locations. For example, when reviewing the alcohol tax heat maps, the areas that are the darkest shade of blue have the most alcohol retail locations; the lightest shades of blue have the least alcohol retailers.

2.3.1 Alcohol Tax

The alcohol tax heat map identifies the number of retailers selling alcohol within each of the Wards and Neighbourhoods. As indicated previously, the retailers considered in the analysis include the LCBO, The Beer Store and 10 grocers within the City that have licenses to sell alcohol as of 2016. Addresses for alcohol retailers have been collected and mapped by latitude and longitude. These spatial locations were then categorized by the Ward and Neighbourhood they fall within. The total number of locations within a given boundary have been aggregated and provided for analysis. Darker regions denote those with relatively higher numbers of locations, while lighter regions denote those with less than average (including regions with 0 locations).

Exhibit 2.1 – Alcohol Retailers Heat Map by Ward

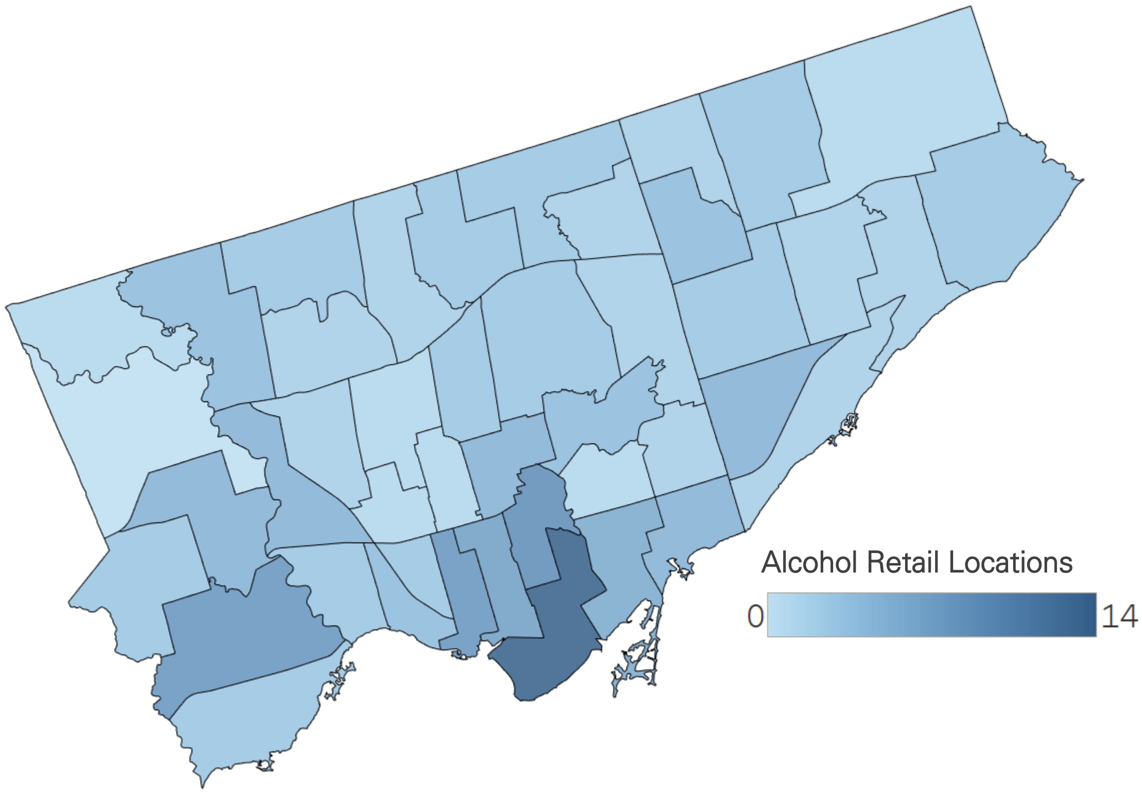
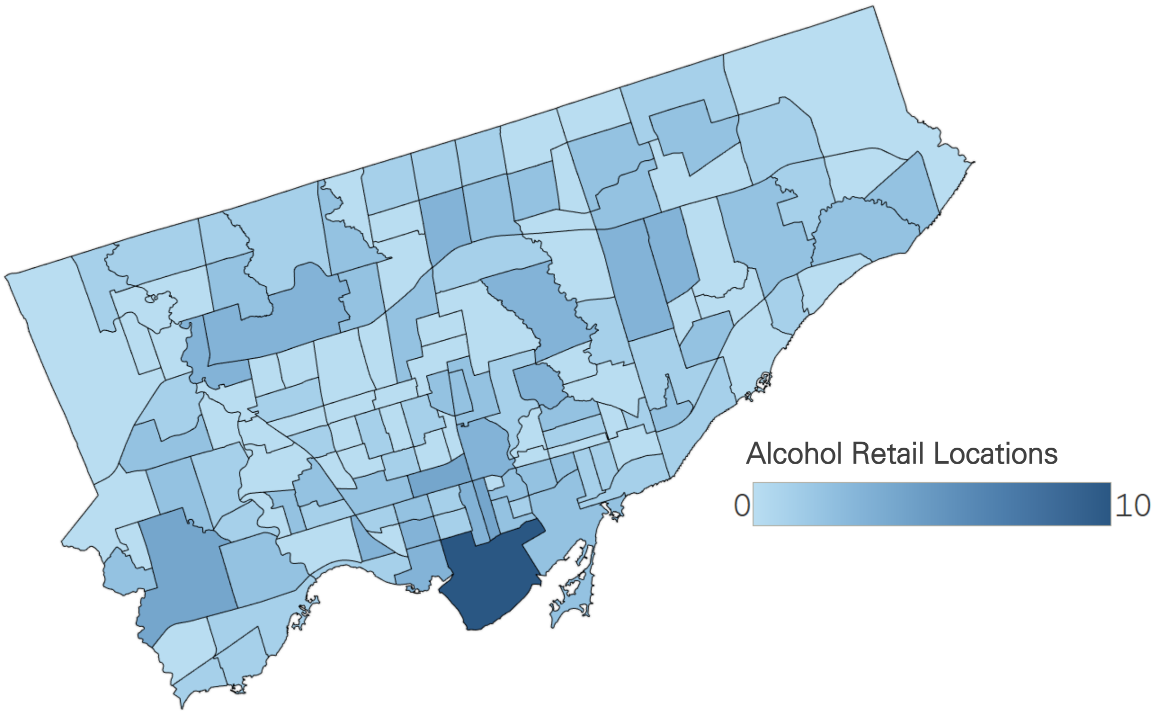


Exhibit 2.2 – Alcohol Retailers Heat Map by Neighbourhood



2.3.2 Hotel Tax

The hotel tax heat map identifies the existing hotels within each of the Wards and Neighbourhoods based on the validation of hotel addresses within the City's One Address Repository.

Exhibit 2.3 – Toronto Hotel Heat Map by Ward

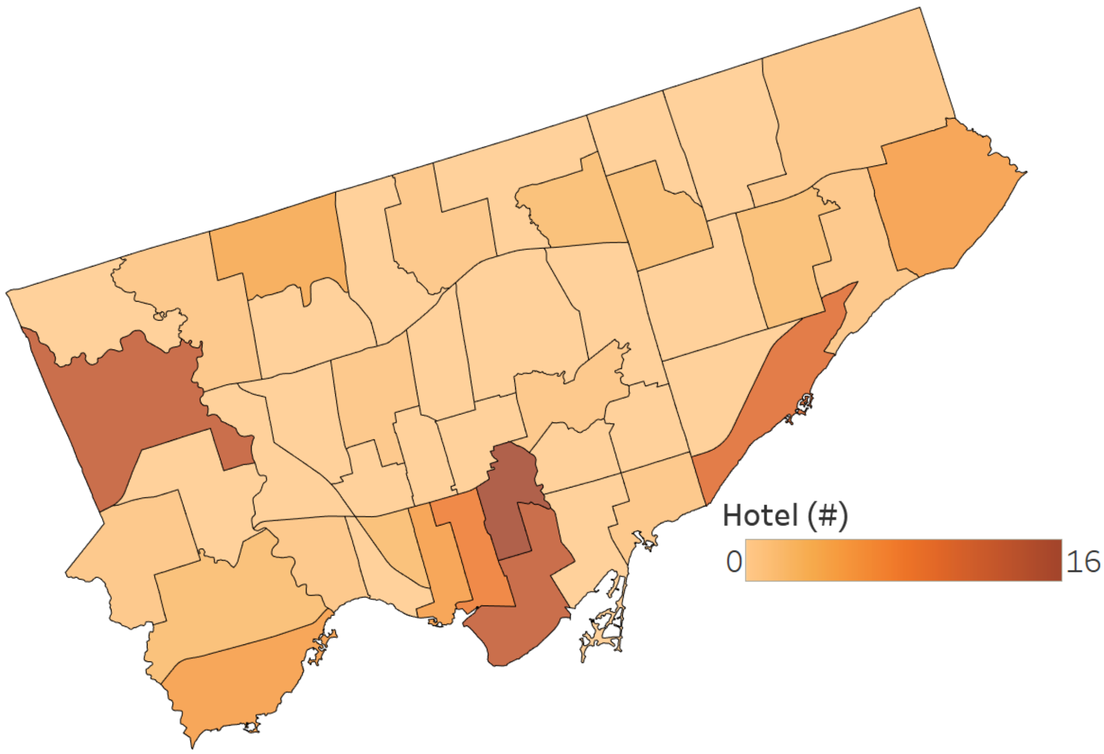
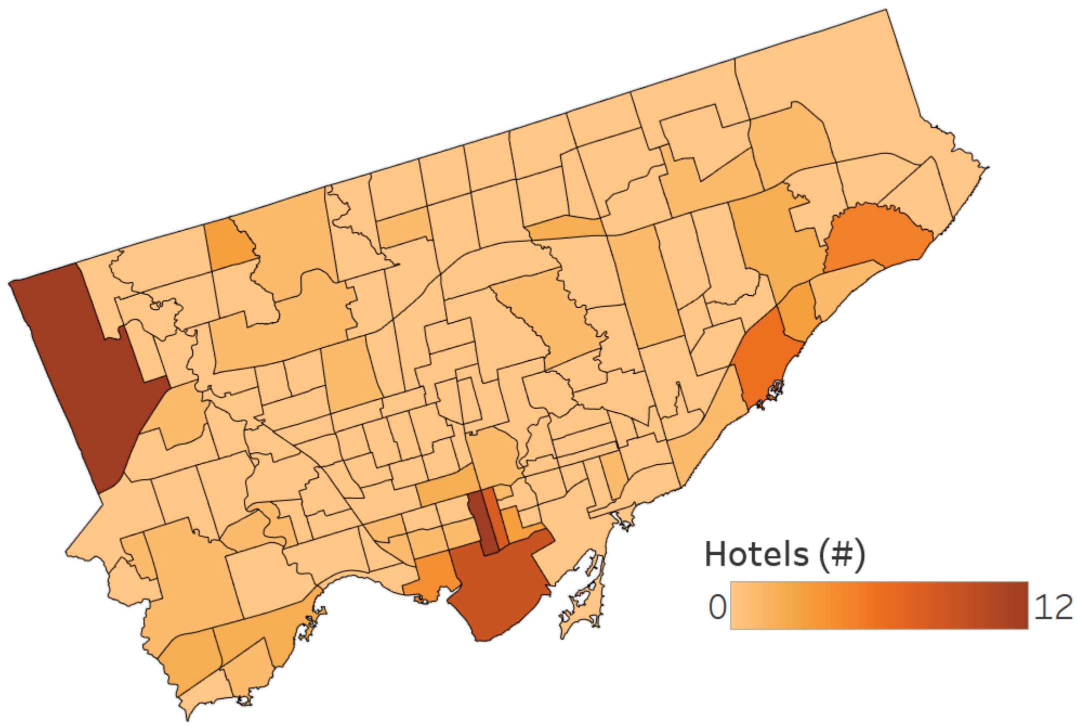


Exhibit 2.4 – Toronto Hotel Heat Map by Neighbourhood



2.3.3 Parking Levy

The parking levy heat map has been developed based on the percentage of total gross area within a Ward or Neighbourhood that has been identified as impervious area, as estimated from aerial photographs of ICI properties that are not exempt from paying property taxes. This means that the higher the percentage of impervious area within a Ward or Neighbourhood, the darker the shading in the heat map. Since the City does not have an accurate inventory of parking area at ICI locations in the City, the proportion of impervious area has been used as a proxy to identify the Wards or Neighbourhoods that may be more impacted by the implementation of a parking levy.

Exhibit 2.5 – Parking Levy Heat Map by Ward

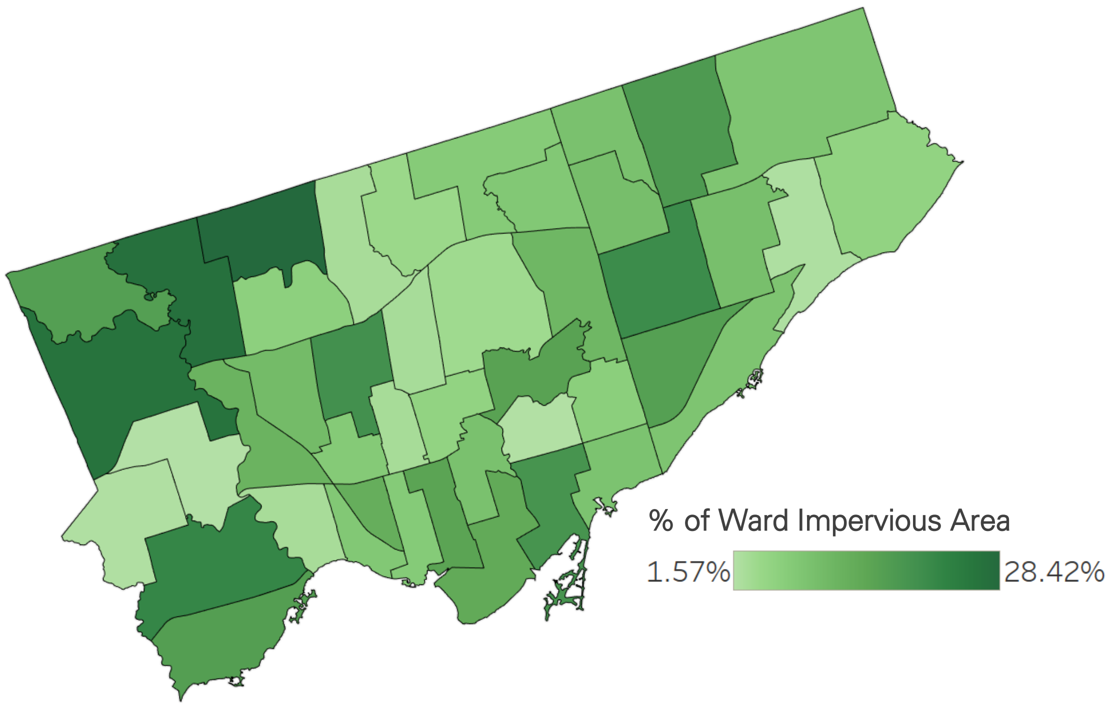
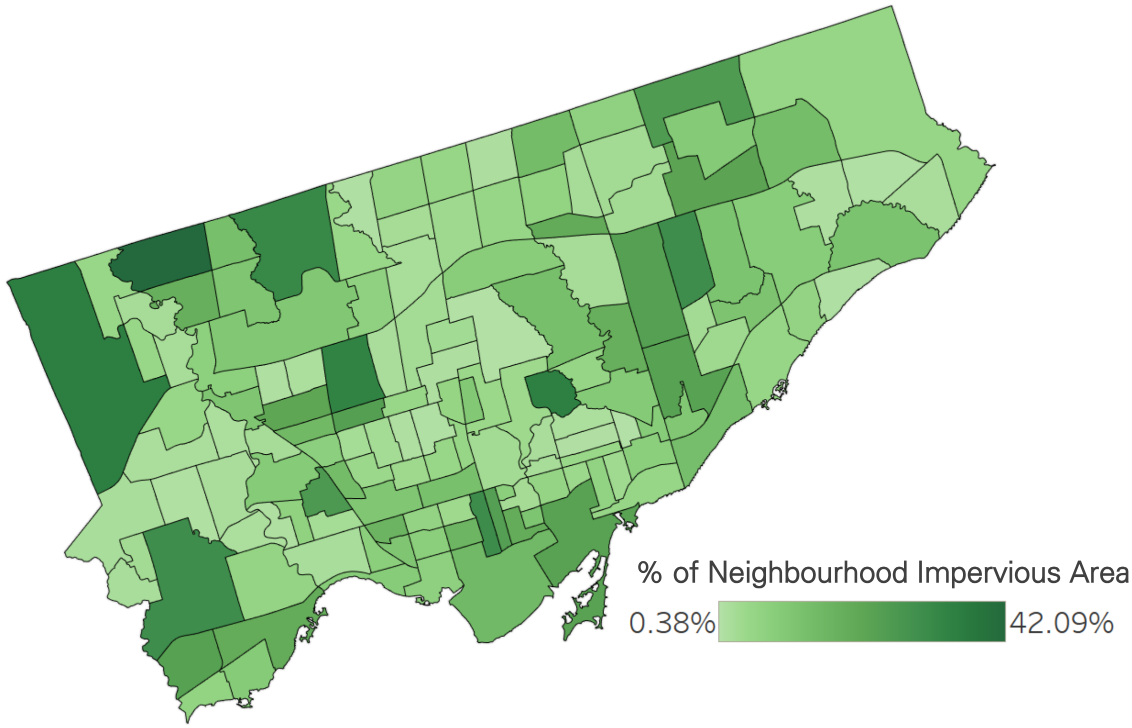


Exhibit 2.6 – Parking Levy Heat Map by Neighbourhood



2.3.4 Parking Sales Tax

The parking sales tax heat map has been developed based on the total number of addresses within the city that have been classified as parking lots that are non-exempt from property taxation. The higher the number of addresses within a Ward or Neighbourhood, the darker the shading on the heat map.

Exhibit 2.7 – Parking Sales Tax Heat Map by Ward

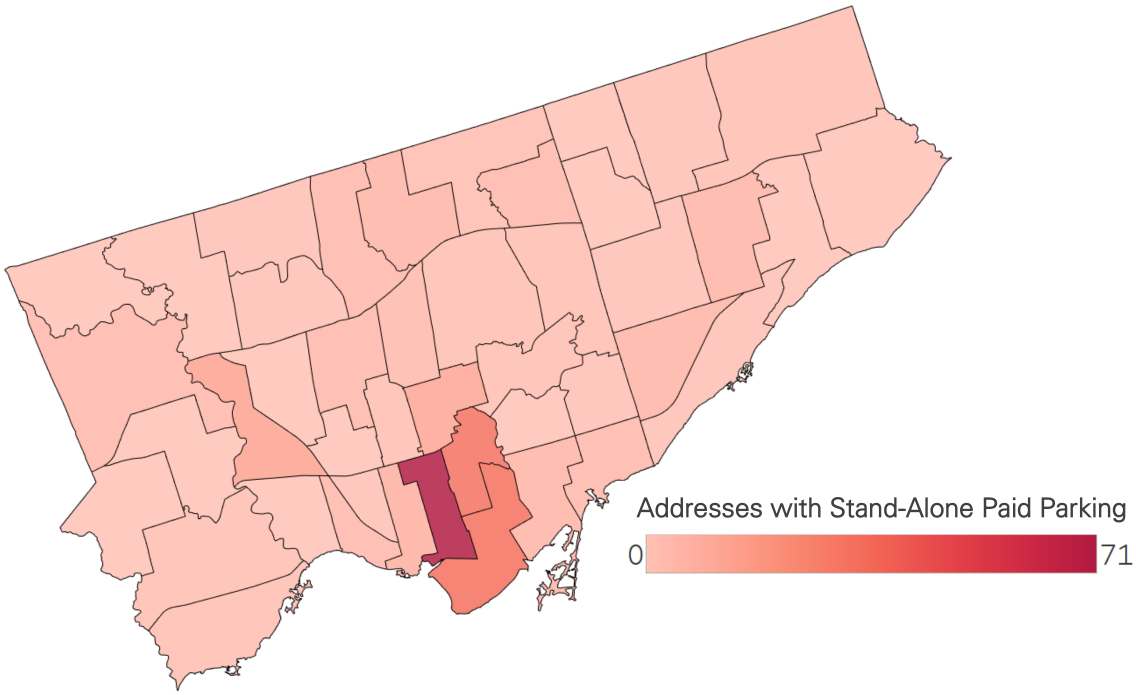
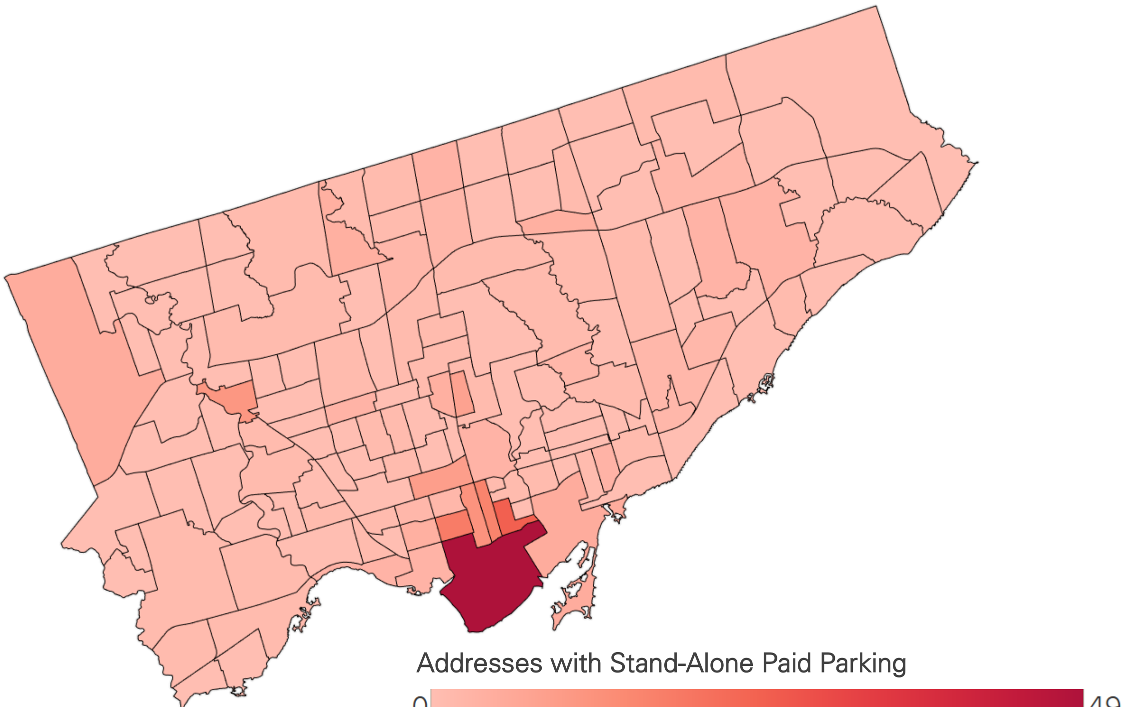


Exhibit 2.8 – Parking Sales Tax Heat Map by Neighbourhood



2.3.5 Municipal Land Transfer Tax

For the purposes of consolidating the MLTT data at an aggregate level, the Municipal Land Transfer Tax heat map presented below has been developed based on the total value of MLTT revenues collected by the City in Fiscal 2015 by Ward and Neighbourhood. This means that the areas within the city that generated higher MLTT revenues for the City in 2015 are shaded darker than those that generated less. In the Municipal Land Transfer Tax section, more specific heat maps have been produced to identify the total number of transactions by Ward and Neighbourhood for specific properties (e.g., residential properties with a value of consideration greater than $250,000).

Exhibit 2.9 – Municipal Land Transfer Tax Heat Map by Ward

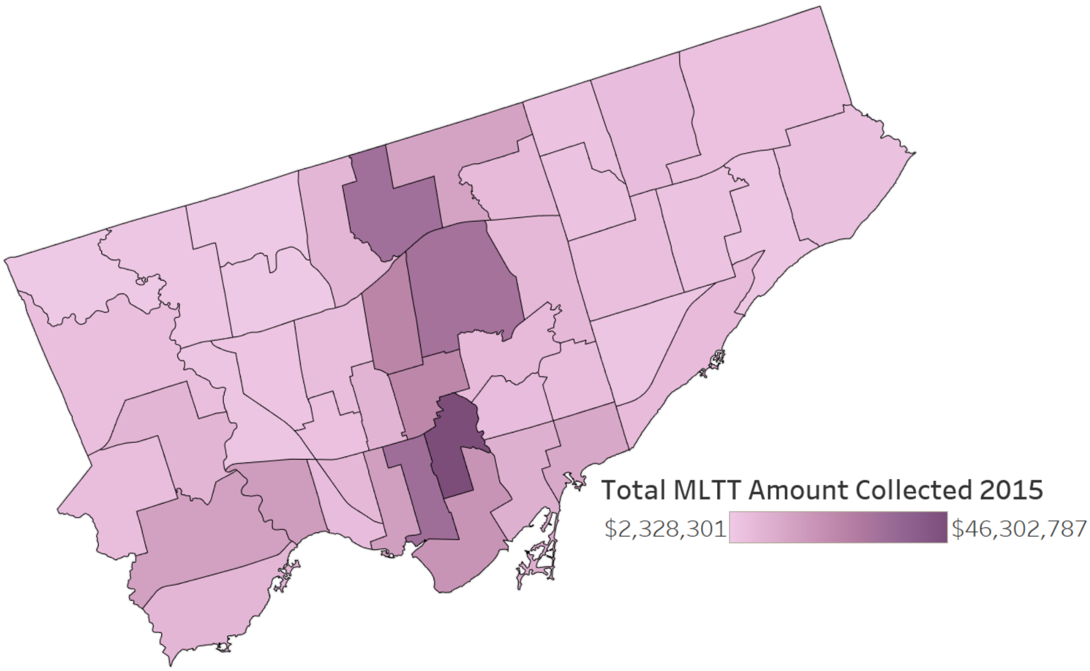
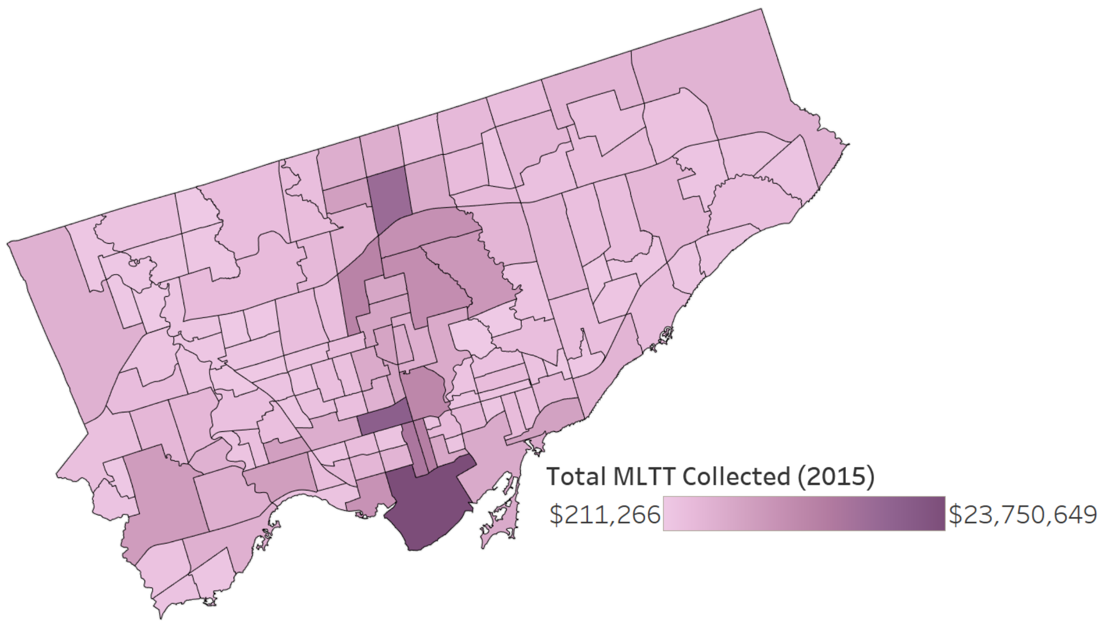


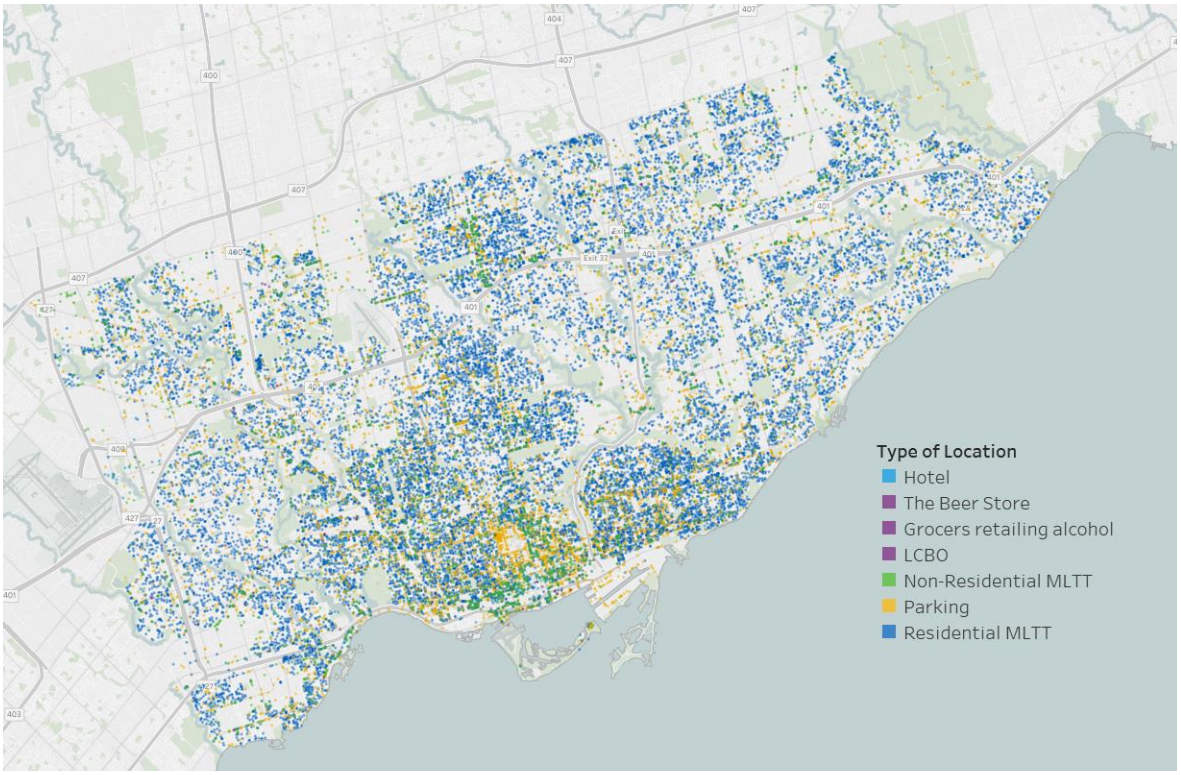
Exhibit 2.10 – Municipal Land Transfer Tax Heat Map by Neighbourhood



2.3.6 Consolidated Map

The address point map details each address included in the alcohol tax, hotel tax, parking levies and sales tax and municipal land transfer tax heat maps based on the corresponding latitude and longitude of each location. Each address is represented as a single dot on the map below, and is colour-coded according to type. These data points formed the basis for consolidating addresses by Ward and Neighbourhood.

Exhibit 2.11 – Address Map for Locations Impacted by Selected Revenue Options



3 Alcohol Tax

3.1 Overview of Scheme Design

Alcohol taxes generate revenue by placing a product-specific tax on the sale of alcohol. The tax structure can take a variety of forms, such as a sales tax at the final point of sale, a volume-based tax embedded in the price that consumers pay, or as a direct mark-up. Since an alcoholic beverage tax in the form of a sales tax is permitted under COTA, this form of alcohol tax was assessed in the Revenue Options Study.

Retail alcohol sales in Ontario are made through two primary channels: store sales and licensee sales. Store sales are made through the LCBO, The Beer Store, various small breweries, distilleries and wine retailers. The Province has also announced the expansion of beer and wine sales in grocery stores across Ontario, including Toronto locations. Licensee sales mainly occur at bars, restaurants, nightclubs and entertainment venues (e.g., sporting events, theatres).

Based on direction provided by City Staff, the discussion of the alcohol sales tax in this section is focused on retail sales (i.e., in store sales and not licensee sales). In the Revenue Options Study, the revenue potential of an alcohol tax on store sales (not including sales from licensees, e.g., bars, restaurants, etc.) was estimated between $15 million and $126 million annually at tax rates ranging from 1% to 10% of pre-HST sales.

Implementing and administering an alcohol tax would require alcohol retailers to collect the tax and submit remittance forms to the City or, alternatively, to a third-party administrator acting on behalf of the City. The City would require regulatory changes from the Province to enable the imposition and collection of an alcohol sales tax at LCBO, Beer Store and other retail locations. For the purposes of the mapping exercise performed as part of this analysis, only Beer Store, LCBO and grocery locations (where alcohol is sold) within the City of Toronto have been identified.

3.2 Economic and Social Impacts

3.2.1 Impacted Stakeholders

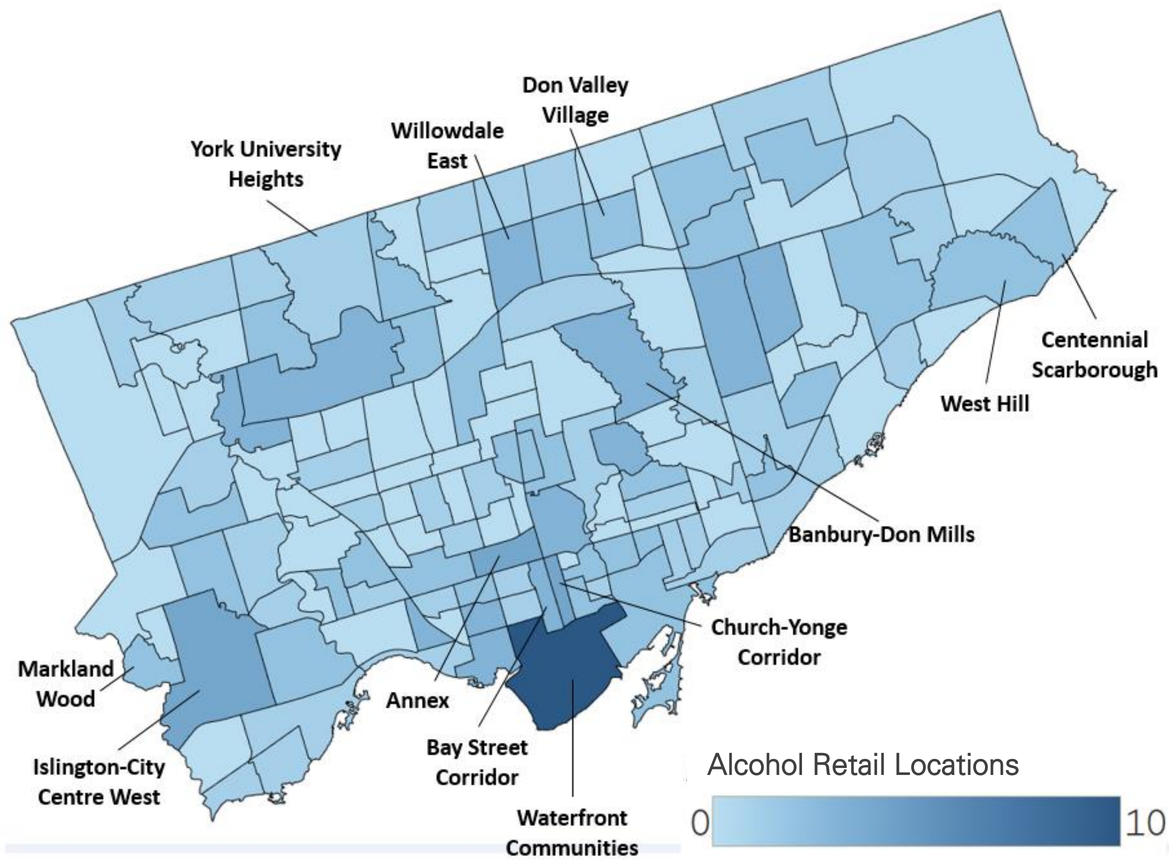
As previously noted, an alcohol tax would likely be collected by retailers through their POS (point of sale) system and remitted back to the City. Thus, an alcohol tax on retail sales in Toronto would largely be borne by Toronto residents and residents of the GTA working within the city who purchase alcohol from retailers located in Toronto.

Alcohol retailers located near the border of the City, may be most negatively impacted by an alcohol tax regime if consumers choose to purchase alcohol in neighbouring municipalities to avoid paying the tax. The incentive to do so will be greater at higher tax levels and when purchasing larger quantities of alcohol.

3.2.1.1 Location

The following graphic presents the alcohol tax heat map for retail locations by City Neighbourhood. Neighbourhoods coloured in darker shades of blue represent the largest concentrations of LCBOs, Beer Stores and grocery stores that sell alcohol.

Exhibit 3.1 – Alcohol Retailers Heat Map by Neighbourhood



Alcohol retailers are spread all across Toronto. The greatest concentration of alcohol retailers is in the densely populated downtown core, particularly in the Waterfront Communities, Church-Yonge Corridor, and the Annex. Given their geographic location and convenience to residents, it is unlikely that a large portion of people from the downtown core will go out of their way to purchase alcohol in other municipalities to avoid paying an alcohol tax. The cost of commuting outside of the city to purchase alcohol may outweigh the costs incurred through the tax. Nevertheless, while travel may be impractical on a day-to-day basis, some residents of the downtown core could adjust their purchasing behaviour and purchase larger than usual quantities of alcohol when they travel outside of the city to displace some purchases that they would otherwise make downtown.

Alcohol retailers in Etobicoke (e.g., Markland Wood, Islington-City Centre West), North York (e.g., York University Heights, Willowdale East), and Scarborough (e.g., Centennial Scarborough, West Hill) are most vulnerable to leakage from an alcohol tax. Residents closer to the city boundary may have a higher propensity to avoid an alcohol tax by purchasing alcohol in neighbouring jurisdictions. It is also important to consider the impact of an additional alcohol tax on an area like York University Heights, which has been designated as a Neighbourhood Improvement Area by the City of Toronto.

3.2.1.2 Ability to Pay

Given that a large majority (approximately 80%[1]) of adults drink alcohol, impacted individuals will have different abilities to pay for an alcohol tax. Consumers that have sufficient disposable income will likely choose to continue purchasing alcohol in the city despite the increased cost from the alcohol tax. That said, many consumers could adjust their purchasing behaviour and purchase larger quantities of alcohol when they travel outside of the city to avoid paying the alcohol tax, particularly if the City imposes much higher tax rates.

Given that alcohol is a discretionary item, consumers with a lower ability to pay can purchase less alcohol or buy lower priced alcohol to reduce the impact of the alcohol tax on their purchases. Consumers that have a lower ability to pay can also avoid an alcohol tax altogether by purchasing alcohol outside of the city. The ability to purchase alcohol outside of the city will depend on the location of the impacted consumer and their ease of access to transportation options for commuting outside of the city. Consumers that live far away from the city boundary would face high commuting costs that would likely outweigh the cost incurred through the alcohol tax. Consumers closer to the city boundary may have a higher propensity to avoid an alcohol tax by purchasing alcohol in neighbouring jurisdictions.

3.2.2 Impact on City's Competitiveness

Alcohol sold in neighbouring jurisdictions is a perfect substitute for alcohol sold in Toronto stores. Because of this, some individuals will avoid an alcohol tax by purchasing alcohol outside of Toronto. The extent of consumer tax avoidance depends on an individuals' proximity to alternative retail stores where the alcohol tax is not being charged (i.e., other jurisdictions) and the level of taxation upon implementation (i.e., the alcohol sales tax rate).

[1] The Chief Public Health Officer's Report on the State of Public Health in Canada, 2015, Alcohol Consumption in Canada, Available at: http://healthycanadians.gc.ca/publications/department-ministere/state-public-health-alcohol-2015-etat-sante-publique-alcool/alt/state-phac-alcohol-2015-etat-aspc-alcool-eng.pdf

Alcohol retailers in Etobicoke, North York, and Scarborough may be challenged to compete with retail outlets in neighbouring municipalities and could lose customers to those jurisdictions. Based on the findings of the heat mapping exercise, specific Toronto neighbourhoods vulnerable to an alcohol tax include Markland Wood, Islington-City Centre West, York University Heights, Willowdale East, Centennial Scarborough, and West Hill, which are all located near the city border.

3.2.3 Impact on Business and Economic Activities

With the implementation of an alcohol sales tax, alcohol retailers in neighbouring jurisdictions will have a competitive advantage over stores located in the city. Since the major players of retail alcohol in Ontario - LCBO and The Beer Store - face limited competition, these corporations may be incentivized to move their Toronto locations that are near the city border to neighbouring jurisdictions with the expectation of generating additional sales volume. The incentive to do so will be greater at higher tax levels. To the extent that these shifts occur, there may be some impact on employment in the city.

Discussions with City Staff suggest that some alcohol retailers in suburban neighbourhoods are "anchor tenants" to the strip malls and plazas in which they reside. If the LCBO or The Beer Store choose to move the location of their stores to neighbouring jurisdictions, this could also adversely impact surrounding businesses.

Overall, it is unlikely that the introduction of an alcohol tax will reduce the attractiveness of the city for residents, visitors and local businesses.

3.2.4 Social Impacts

Approximately 80% of Canadians consume alcohol.[2] Many Canadians who consume alcohol do so responsibly, in a social setting and in moderate amounts. However, millions of Canadians are at risk from excessive levels of alcohol consumption. Alcohol misuse can lead to a number of chronic health conditions, such as cirrhosis of the liver and several types of cancers, as well as acute problems such as injuries (e.g., from road crashes), violence and suicide.[3]

Excessive alcohol consumption can result in a wide range of negative impacts on society, including increased rates of premature death, disability and disease, impaired driving, reduced productivity, a burdened health care system, and high financial burden to both the individual and society.[4] An alcohol tax can act as a means for reducing alcohol consumption

[2] Ibid
[3] Canadian Centre on Substance Abuse, Autumn 2014, Alcohol, Available at: http://www.ccsa.ca/Resource%20Library/CCSA-Canadian-Drug-Summary-Alcohol-2014-en.pdf
[4] The Chief Public Health Officer's Report on the State of Public Health in Canada, 2015, Alcohol Consumption in Canada, Available at: http://healthycanadians.gc.ca/publications/department-ministere/state-public-health- In

and abuse. This impact is to the extent that an alcohol tax is substantial enough to reduce demand. Overall, an alcohol tax can be viewed as bringing a positive social impact to Toronto residents and visitors. This social impact is stronger as the alcohol tax rate increases.

3.3 Summary of Considerations in Implementing the Revenue Option

An alcohol tax is a revenue option that can not only generate significant revenue for governments but also potentially helps reduce alcohol consumption and abuse. This can be seen as a positive social impact to Toronto residents and visitors.

The highest concentration of alcohol retailers is located in the downtown core. As noted earlier, residents in this area are less likely to purchase alcohol in neighbouring jurisdictions to avoid paying an alcohol tax because of its geographic location and convenience to residents. However, they may be more willing to make purchases of alcohol when they are travelling or commuting outside of the city. Leakage is likely more of an issue for residents living near the City boundary. To address such differences, the City could theoretically explore the potential of implementing a tiered alcohol tax that is higher in the city's core compared to boundary areas. However, this would result in significant additional administrative complexity and would lack a compelling public policy rationale.[5] Additionally, it would be difficult for the City to determine appropriate boundaries for the tiered rate structure.

Alcohol stores located near the city boundaries in Etobicoke, North York, and Scarborough, are the most vulnerable to an alcohol tax because they have a competitive disadvantage to stores in neighbouring jurisdictions. Even if inter-store competition is ignored as all stores are owned by LCBO and The Beer Store, LCBO and The Beer Store may still be incentivized to move their stores to locations outside of the city to avoid the tax and hence a loss in sales volume. To the extent that these shifts occur, there may be some adverse impact on employment in the city and surrounding businesses that depend on these stores to be an anchor tenant.

general, taxes on alcohol are viewed favourably as a revenue option that not only generates significant revenue for governments but also acts as a means for reducing alcohol consumption and abuse. alcohol-2015-etat-sante-publique-alcool/alt/state-phac-alcohol-2015-etat-aspc-alcool-eng.pdf

[5] There is no reason to charge a higher rate downtown other than to recognize potential differences in consumer avoidance. For other measures, such as parking levies, in contrast, differences might be justified based on differences in urban built form and in the availability of other transportation options.

4 Hotel Tax

4.1 Overview of Scheme Design

A hotel tax is a tax on the rental of a room for the purpose of short-term[6] overnight accommodation. In the Revenue Options Study, we assumed that a hotel tax would be imposed on anyone staying in any form of commercial accommodation, such as a hotel, motel and bed and breakfast. We also assumed that the hotel tax would be applied as a percentage of the cost of a room night sold (as opposed to as a hotel levy with a fixed charge per room per night).

Although it was not reviewed in the Revenue Options Study, a hotel tax could also be applied to online, non-hotel accommodations such as Airbnb. There is certainly precedent to do so. Cities across North America, such as San Francisco, Portland, and Cleveland, have been working with Airbnb to apply the same hotel tax regime as applied to commercial hotels in those locations.[7]

The City does not currently have legislative authority to apply a hotel tax. Subsection 267(2) of COTA expressly prohibits a large number of taxing possibilities, including "c) tax on lodging, such as hotel, motel, apartment house, boarding house and club". In order to implement a hotel tax, the City would need to request an amendment to COTA from the Ontario government.

In the Revenue Options Study, the annual revenue potential of the hotel tax ranged from $21 million to $126 million at tax rates ranging from 2% to 14%. If the City attained legislative authority to apply a hotel tax, as well as explicit authority to require hotels to collect the sales tax on behalf of the City, it is believed that implementation could occur in short order without significant additional implementation or administrative costs. It is likely that collection of the tax would be carried out by hotels on behalf of the City.

4.2 Economic and Social Impacts

4.2.1 Impacted Stakeholders

As previously noted, Toronto hotels would likely be responsible for the collection of the tax and payments to the City. The charge would be passed on to visitors to Toronto staying in short-term overnight commercial accommodations, such as hotels, motels and bed and breakfasts. While it is likely that the majority of individuals staying in these establishments

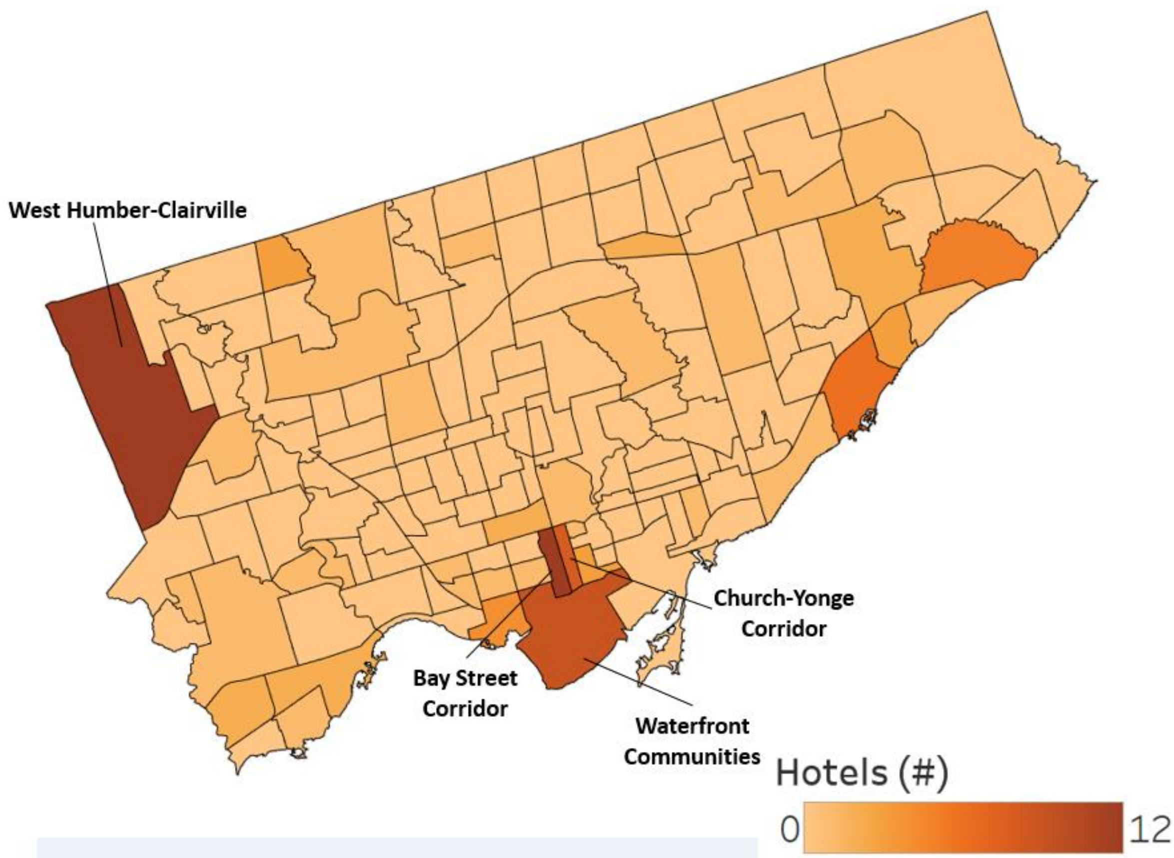
[6] This refers to stays of 30 days or less.
[7] For a more extensive overview of jurisdictions where Airbnb facilitates Occupancy Tax Collection and Remittance, refer to Airbnb's Help Centre.

will be visitors to Toronto, there will also be residents of Toronto that elect to stay overnight at hotels in the city and they would also be charged the fee.

4.2.1.1 Location

The following exhibit presents the hotel tax heat map by City neighbourhood. Neighbourhoods coloured in darker shades of orange represent the largest concentrations of hotels in Toronto.

Exhibit 4.1 – Toronto Hotel Heat Map by Neighbourhood



Visitors to the city often choose accommodation close to where they will be working and/or visiting. Not surprisingly, the heat map above shows that 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).

Visitors choosing to stay in the downtown core (away from the city boundary) will have difficulty avoiding the hotel tax. Presumably, individuals who choose to stay in the downtown core have selected that location for a reason, whether it is proximity to businesses, entertainment venues (e.g., Air Canada Centre, Rogers Centre), or clubs and restaurants. Thus, hotels in this area face limited competition from hotels in surrounding jurisdictions.

Hotels located in Etobicoke (specifically, West Humber-Clairville and Mimico) are the most vulnerable to a hotel tax, since they compete more directly with hotels in neighbouring jurisdictions.

4.2.1.2 Ability to Pay

Generally, travel is considered to be a luxury/discretary good. Visitors that have a high ability to pay the hotel tax will likely choose to continue staying in commercial accommodations in the city. Visitors with a lower ability to pay can choose to stay in less expensive commercial accommodations to reduce the additional costs incurred through the hotel tax. Visitors to the city with a lower ability to pay may also choose to stay in commercial accommodations outside of the city boundary in order to avoid paying the hotel tax altogether.

4.2.2 Impact on City's Competitiveness

Below we present a number of considerations for a hotel tax within the context of its potential impact on the City's competitiveness.

4.2.2.1 Hotels in Surrounding Jurisdictions

As presented in Exhibit 4.1, there is a large concentration of hotels by Pearson Airport, near the city border. The implementation of a municipal hotel tax gives hotels in neighbouring jurisdictions a competitive advantage over hotels located in the city. Because of this, some visitors may choose to stay in nearby hotels in Mississauga or Brampton in order to avoid paying a hotel tax. Hotels located in the downtown core face limited competition from hotels in surrounding jurisdictions because they are located away from the city boundary.

4.2.2.2 Sharing Economy Platforms

The City will also need to consider if the hotel tax would apply to online, non-hotel accommodations such as Airbnb. A review of Airbnb locations in Toronto suggests that these listings are concentrated in the downtown core. Hotels located in this area will have a competitive disadvantage to Airbnb if the hotel tax is not applied to these alternative platforms for short-term overnight accommodation.

There is certainly precedent for the City to apply a hotel tax to Airbnb listings. Cities across North America, such as San Francisco, Portland, and Cleveland, have been working with Airbnb to apply the same hotel tax regime as applied to commercial hotels in those locations. If the City applies the hotel tax to sharing-economy platforms such as Airbnb, overnight visitors to the city will have limited ability to avoid the hotel tax.

4.2.2.3 Conventions

Another consideration with respect to impacts on competitiveness from the hotel tax is the potential impact on hotels and their ability to compete for conventions and business meetings. During the deputations on the Revenue Options Study in June 2016, representatives from Toronto Tourism and the Greater Toronto Hotel Association indicated that Toronto already has some of the highest property taxes in North America and implementing additional tax measures on hotels would have a significant impact on their ability to compete, including for business travellers and conventions. These additional taxes would further increase the cost of an average night stay and would reduce the ability of Toronto hotels to compete for major business with other GTA hotels (in the case of individual travellers) and other major urban centres (in the case of conventions).

4.2.2.4 Destination Marketing Program

An important consideration of a hotel tax in the City of Toronto is the implication on the operations of Tourism Toronto. The organization is the official Regional Tourism Organization ("RTO") responsible for tourism marketing and destination management for the cities of Toronto, Brampton and Mississauga. International marketing is key to being relevant in the global visitor market. The RTO is supported by several funding sources including hotels in Toronto, Brampton and Mississauga that voluntarily participate in Destination Marketing Programs ("DMPs"), for the purpose of supporting regional tourism marketing and development. Participating hotels voluntarily remit these contributions (typically up to 3% of room revenues) to the Greater Toronto Hotel Association ("GTHA"), which then transfers funds to Tourism Toronto. In some instances hotels include the fee on their bills (in the form of a Destination Marketing Fee), while other hotels make contributions from their general accounts.

Based on their 2014 Annual Report, Tourism Toronto's revenue were broken down as follows:

Exhibit 4.2 - 2014 Tourism Toronto Revenue

Revenue Source	Percentage Allocation
GTHA Funding	59.3%
Provincial Funding	29.6%
Co-Operative Advertising & Program Buy-In's	6.2%
Ontario Convention Development Fund	2.5%
Membership Fees	1.7%
Interest & Other Income	0.7%

Source: Tourism Toronto 2014 Annual Report

According to the Ministry of Tourism, Culture and Sport's website, in 2014-15 Tourism Toronto received $9.5 million in funding from the Province.[8] It is also estimated that the DMP contributed approximately $19-20 million towards Tourism Toronto's budget in 2014.[9] Extrapolating from the budget breakdown above, it can be assumed that Tourism Toronto had a budget of approximately $33 million in 2014.

The City would have to weigh the trade-offs of implementing a hotel tax within the context of the DMP. If a hotel tax is implemented in Toronto, it can be reasonably assumed that hotels that participate voluntarily in the DMP will discontinue their contributions to remain competitive with hotels in surrounding jurisdictions. Because of this, the City may feel the need to compensate Tourism Toronto for the funding lost when hotels discontinue their voluntary contributions to the DMP.

To compensate for such losses, the City may wish to consider a hotel tax rate that is high enough to allow it to replace DMP contributions while still providing significant amounts of net revenue to the City. Under this scenario, the hotel tax would need to generate enough revenue to keep Tourism Toronto's budget levels whole, while at the same time keeping the rate competitive. In the Revenue Options Study, the combined hotel tax and sales tax rates in comparable jurisdictions ranged from roughly 7% to 14%. Given that a 13% HST is applied to hotel accommodations in Ontario, a hotel tax rate of 2% to 5% would be the likely range of practical application. In the Revenue Options Study, we estimated the net annual revenue potential of the hotel tax if it replaced the DMP for Toronto hotels and contributed $20 million[10] to Tourism Toronto annually. Based on these funding assumptions and a hotel sales tax rate of 2% to 5%, the revenue option is estimated to generate net revenues for the City of between $1.3 million and $31.1 million. (In other words, these net

[8] Ministry of Tourism, Culture and Sport, Support for Ontario's Tourism Regions, Available at: http://www.mtc.gov.on.ca/en/regions/funding.shtml

[9] City of Toronto, January 2016, 2016 Operating Budget Briefing Note, Destination Marketing Program.

[10] It is important to note that $20 million is generated from hotels in Toronto, Mississauga and Brampton. If, say, 20% of the hotels are outside the city, the City would only have to replace $16 million through the hotel tax.

revenues are achieved after providing Tourism Toronto with the same amount of funding previously provided by the GTHA through voluntary DMP contributions.)

As an additional consideration, if the City were to implement the hotel tax and assume the DMP funding contribution to Tourism Toronto, this could incentivize hotels located in other jurisdictions to cease their voluntary participation in the DMP. In doing so, these hotels in other jurisdictions would create a competitive advantage against Toronto hotels who would now be required to pay the hotel sales tax.

Lastly, the City should also consider how a hotel tax could impact the Province's funding to Tourism Toronto. As previously mentioned, Tourism Toronto received $9.5 million in funding from the Province in 2014. This funding amount is based on three items:

1. **Base Funding.** Each RTO receives $500,000 in base funding to maintain its operation and support respective RTOs' business plans.
2. **Proportional Funding**. Each RTO receives funding proportional to its region's tourism performance. This funding is calculated based on historical tourism data, such as overnight visits.
3. **Partnership Funding**. RTOs are eligible to receive additional funds where they can demonstrate that they have received funds from multiple partners in support of regional tourism activities.[11]

If the hotel tax replaces the DMP for Toronto hotels and directly provides funding to Tourism Toronto, the City should confirm with the Province that the City's contribution to Tourism Toronto (through hotel tax revenues) is eligible partnership funding, under item three above.

4.2.3 Impact on Business and Economic Activities

A hotel tax would likely have a small adverse impact on the overall economic activities of the city. Hotels in Toronto, both downtown and by the city boundary, may face reduced demand with the introduction of a hotel tax.

The adverse impacts would be to the extent that a hotel tax would make the city a marginally less attractive destination for leisure tourism and conventions. In the Revenue Options Study, it was indicated that most comparable urban destinations to Toronto also have hotel taxes in place. The adverse impact may be most relevant for leisure tourism, which tends to be more price-sensitive than business travel. Conventions and business meetings may also be price-sensitive if meeting participants come from various locations that are a close substitute to Toronto as a destination.

Overall the magnitude of the adverse impacts above are likely to be small if the hotel tax is set at a modest level. While the introduction of hotel tax would make the city a marginally

[11] Ministry of Tourism, Culture and Sport, Support for Ontario's Tourism Regions, Available at: http://www.mtc.gov.on.ca/en/regions/funding.shtml

less attractive destination for visitors, it is unlikely that a hotel tax will lessen the city's overall attractiveness to visitors, residents and local businesses.

4.2.4 Social Impacts

A hotel tax would likely have a small social impact to the city and its residents. The positive social impact of a hotel tax would be the benefits of city improvements potentially arising from the revenues that the hotel tax generates.

4.3 Summary of Considerations in Implementing the Revenue Option

A hotel tax is revenue option that has the potential to generate significant revenue for the City with minimal economic and social impact to its residents.

The highest concentrations of hotels and Airbnb listings are found in the downtown core and by Pearson Airport. Visitors planning to stay downtown will likely not choose to stay outside of Toronto to avoid the tax, resulting in limited competitiveness concerns for downtown hotels. In contrast, hotels located by Pearson Airport, near the city boundary, are the most vulnerable to a hotel tax since they have a competitive disadvantage to hotels in neighbouring jurisdictions.

In order to mitigate this issue, the City may wish to consider a hotel tax rate for the downtown core alone, or different rates for hotels by Pearson Airport. This would allow the City to generate significant revenues from the hotel tax, while allowing hotels by Pearson Airport to remain competitive with surrounding jurisdictions.

The City will also need to consider whether Airbnb and other sharing economy platforms should also face the same hotel tax regime. Since Airbnb listings are concentrated downtown, hotels located in this area will have a competitive disadvantage to Airbnb if the hotel tax is not applied to these alternative platforms. Cities across North America have come to agreements with Airbnb to apply the same hotel tax regime as applied to commercial hotels. Applying such a tax would allow downtown hotels to remain competitive and allow the City to generate greater revenues from a wider pool of visitors to the city.

Lastly, the City will need to consider if the hotel tax will be in addition to or a replacement of the DMP voluntarily contributed by Toronto hotels. If it is the former, the combination of a hotel tax and Destination Marketing Fee may further effect the competitiveness of Toronto hotels.

5 Parking Levy

5.1 Overview of Scheme Design

A parking levy is an annual charge levied against non-residential parking within a defined area. The charge can be levied against both paid and unpaid parking and would be based on the total property area used for parking or the total number of parking spaces. If a parking levy were to be introduced in the City of Toronto, the levy would be applied based on the size of the parking area. This would help to reduce instances of dispute and tax avoidance, as the number of parking spaces for a given parking area can vary and be adjusted. It would also allow the levy to be implemented in a similar fashion to a property tax, which would be permitted under COTA and reduce the potential for court challenges against the application of the levy.

By implementing a parking levy based on the amount of area dedicated to parking on a particular property, as opposed to the number of parking spaces, the City can leverage its existing municipal property tax collection framework to minimize implementation and administrative costs. This is similar to the approach taken in Montréal and Vancouver (as described in the case studies in Section 5.3). In those examples, the most time consuming and costly component of implementing the revenue option was the development of a parking inventory. This process took several months for both cities and was performed prior to implementing the parking levy.

The revenue potential for a parking levy can vary significantly. Montréal has implemented a graduated rate system that focuses on paid non-residential parking in downtown Montréal. As outlined in the Revenue Options Study, a parking levy applied to paid spaces in the City of Toronto has the potential to generate revenues of approximately $35 million to $107 million if a uniform rate ranging from $0.50 to $1.50 is applied (assuming 195,000 paid spaces). If unpaid spaces were also included in the implementation of the revenue option, the revenue potential increases to $171.3 million to $535.4 million annually. It should be noted that the revenue estimates presented in the Revenue Options Study did not consider any exemptions to the levy, but rather estimated the revenue potential of all parking spaces being included in the implementation.

5.2 Economic and Social Impacts

5.2.1 Impacted Stakeholders

If the parking levy were to be implemented city-wide on all paid and unpaid parking areas, the levy charges would be applied to property owners of commercial, industrial and retail properties and would be collected through the municipal property tax bill. In most cases, these property owners would try to pass these increased costs to tenants through higher rents or operating costs.

A commonly used practice for commercial leases is the inclusion of an escalation clause that allows landlords to raise rent if the operating costs of the property increase as a result of a greater tax burden.[12] Therefore, in the short-term commercial property owners would be able to flow an increased tax burden down to retailers, who would then likely pass the costs to consumers (either through more expensive paid parking or higher prices of goods / services). However, for many tenants it may be difficult to pass cost increases onto their customers. In these cases, the increased costs associated with the parking levy could lead to lower profits.

In Canada there are various types of commercial leases including a percentage rent lease, gross rent lease, net lease, net-net lease and a triple net lease.[13] A common form for retail leases is the percentage rent lease, which means that retail businesses pay a fixed base rent plus an additional variable rent set as a percentage of sales. Percentage leases are particularly common in multiple-tenant malls and shopping malls.[14] Percentage leases (unlike net leases for example) are designed to cover (or include) property taxes in the base rent. Hence, escalation factors are provided in commercial property leases to allow landlords to pass any increased tax burden on to tenants.

Generally, small business tenants have less leverage negotiating rent rates with property owners when compared to larger, anchor businesses who typically have more favourable lease agreements. Many non-residential properties are composed of small businesses who will be less able to absorb shocks and are more susceptible to competition than larger businesses. Implementing a parking levy, particularly at locations that do not have paid parking and cannot be used to recover increased property costs from consumers, could create financial challenges for small businesses.[15]

Additionally, the industrial sector could be significantly impacted by the implementation of a parking levy. These businesses generally have large, unpaid parking lots and rely on employees with cars. Depending on the profitability of the businesses, a parking levy could have a significant negative impact. If these industrial businesses are significantly impacted and have more parking area than is necessary for the capacity at the facility, they could decide to convert unused parking to grass or other uses to avoid some of the taxation. While this is a positive change from an environmental standpoint it may decrease the revenue potential of the tax.

[12] http://www.cbo-eco.ca/en/index.cfm/starting/choosing-a-location/understanding-your-business-lease/
[13] http://www.canadabusiness.ca/managing-your-business/day-to-day-operations/protecting-your-business/legal-issues/legal-issues-for-small-business/signing-a-commercial-lease/
[14] http://www.gov.mb.ca/jec/emb/MobilePages/smbus/guides/before_renting.html
[15] Real Estate Industry Coalition. *Revenue tools: 10 reasons a proposed parking levy is a poor choice for Toronto.* (2016) (1st ed., pp. 1-44), Available at http://c.ymcdn.com/sites/www.bomatoronto.org/resource/resmgr/news/Parking_Levy_Report_-_Real_E.pdf

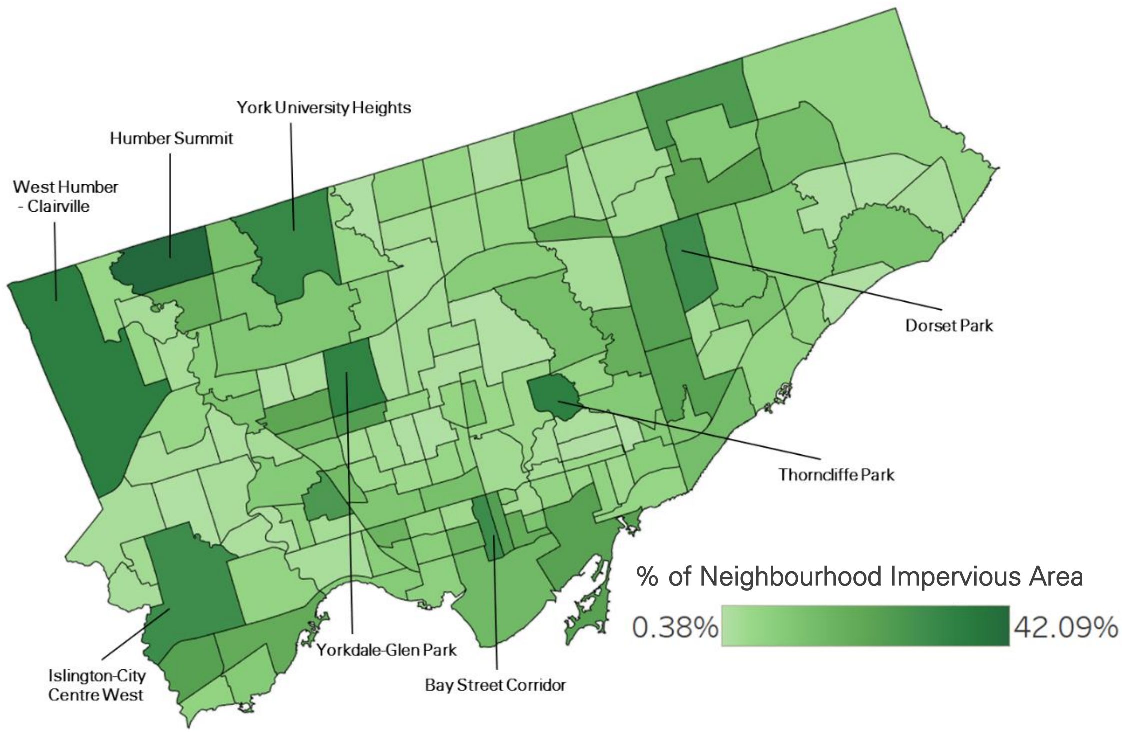
The other consideration for the City when it comes to the parking levy is identifying potential exemptions to the levy. Would schools, hospitals, churches and other institutions be exempted from paying the levy? What about publicly owned lots such as Toronto Parking Authority lots or parking areas at police stations or fire stations?

Many of the condos being developed downtown include parking for residents and general public parking. While the parking dedicated to residents would fall under residential parking and not be included, the City would have to develop an approach to capturing the non-residential parking included in these facilities. This could make the administration of the levy challenging at these locations.

5.2.1.1 Location

The heat map presented below (Exhibit 5.1) identifies the amount of impervious space located at the non-exempt ICI property addresses as a percentage of the total gross area within a Neighbourhood. As mentioned previously, the impervious area represents the amount of the property that is covered by a building or is paved. Due to the limited data available related to the actual area dedicated to parking at a particular property, we have used the impervious area as a percentage of total gross area as a proxy for measuring the amount of eligible parking in a given area. While this may not be an accurate representation of the actual parking area within a Neighbourhood, it is believed to be a reasonable proxy based on the information available at the time of writing this report. The illustrative results presented in the map below may be skewed somewhat as this approach does not take into consideration properties that have vertical parking structures (e.g., underground parking garages or tiered parking facilities at shopping malls). Regardless, the heat map provides an initial foundation for assessing the locations that may be most impacted by the implementation of a parking levy.

Exhibit 5.1 – Toronto Parking Levy Heat Map by Neighbourhood



Based on the parking levy heat map represented in Exhibit 5.1 the Neighbourhoods that would be the most impacted by a parking levy are Humber Summit, West Humber-Clairville, York University Heights, Islington-City Centre West, Yorkdale-Glen Park, Bay Street Corridor, Thorncliffe Park and Dorset Park. These impacted Neighbourhoods all have greater than 30% impervious area at non-exempt ICI property addresses. This suggests that there is a significant amount of land dedicated to parking within these neighbourhoods.

Islington-City Centre West, West Humber-Clairville, Humber Summit and York University Heights are all located on the border of Toronto's jurisdictional boundaries. The location of these Neighbourhoods suggests that there could be competitive challenges with neighbouring municipalities, particularly if the parking levy is being passed on to consumers through higher parking rates. In the case of the Yorkdale-Glen Park, Bay Street Corridor, Thorncliffe Park, and Dorset Park the increased costs associated with the parking levy could still strain the profitability of businesses in these locations; however, it may have a smaller impact on the number of customers visiting the businesses when compared to businesses in the border Neighbourhoods. This is because the locations of these Neighbourhoods make them more easily accessible by public transit and therefore the impact of the parking levy may not be as significant for some customers of businesses in these areas.

5.2.1.2 Ability to Pay

The various stakeholders impacted will have different abilities to pay a uniform parking levy applied across the City of Toronto. Where paid parking exists, it is possible that parking levy costs will be passed on to the consumer or parking user. As paid parking is a choice, consumers can either pay the higher costs or opt to use alternative forms of transportation. In other words, the consumers that have the ability to pay will choose to continue using paid parking. It is expected that consumers who already choose to pay for parking will likely continue to have the ability to pay the increased parking fees following the introduction of the levy.

Smaller businesses that are located outside of the downtown core and that are dependent on customers with cars may have a reduced ability to pay the additional taxes than centrally located businesses with higher customer usage.[16] Businesses located outside of the downtown core are less likely to charge for parking and, as a result, would not have an existing mechanism to pass increased property costs along to consumers. In the case of retail businesses the cost of the parking levy could be transferred to consumers through increased prices of goods and services, or result in lower business and employment income.

However, in the case of industrial businesses many entities may find it difficult to pay the cost of a parking levy. Many industrial businesses have large parking lots and rely on employees who drive and require parking. A parking levy has the potential to substantially increase the property taxes for these industrial businesses that have no mechanism to pass on the costs. These businesses may experience a material decrease in profitability.

The ability to pay for impacted stakeholders will vary depending on whether the revenue option is implemented on a tiered basis or a uniformly across the city. For example, in Montréal the parking levy was applied at different rates depending on the location in the city – with the highest rates being applied to the financial district and no charges being applied outside of the downtown core. A similar approach could be applied to the City of Toronto. The City could also design the parking levy to resemble a parking sales tax and focus the levy on properties with paid parking. These approaches may reduce the revenue potential of the tool quite significantly and it may be difficult to determine appropriate boundaries for where the rates should be levied.

5.2.2 Impact on City's Competitiveness

A parking levy (like an increase in commercial and industrial property taxes) will likely have a negative impact on Toronto's ability to attract businesses. As mentioned above, small businesses, particularly those with unpaid parking, may struggle to pay increased property taxes because they have less financial resources and will be more easily affected by

[16] Altus Group Economic Consulting, October 2016 *Potential Economic Impacts of Proposed Parking Levy on Properties in the City of Toronto*, page 14

competitive pressures. In addition, businesses in the industrial sector or shopping centres located near the municipal border may choose to relocate entirely.

The implementation of the parking levy could also impact the competitiveness of businesses located near the municipal boundaries. Office growth would likely be discouraged in large commercial centres and potentially lead to the conversion of parking areas to other uses. The implementation of a tiered levy, with a higher levy applied to Toronto's downtown core, could make office space in alternative neighbourhoods or possibly other jurisdictions more attractive for businesses seeking to minimize operating costs. As a result, a parking levy would give Toronto a competitive disadvantage for attracting office tenants, particularly in Neighbourhoods near the City's jurisdictional boundaries.

If retail property owners elect to recover the additional costs through increased or new parking rates, it is likely that downtown properties are in a better position to implement that approach compared to properties located outside of downtown. Paid parking is already common downtown and there are more transportation alternatives available in downtown.

For consumers and parking users, alternatives to driving can take the form of public transit, cycling or walking. However in areas where transportation alternatives are more limited, a requirement to pay for parking or increases in parking rates may cause consumers to shop where parking is less expensive.[17]

5.2.3 Impact on Business and Economic Activities

The impact of a parking levy will be mostly be on businesses. A parking levy is not expected to have a direct impact on people living in Toronto. The impact on residents will primarily be through increases in prices of goods and services as a result of the levy. For paid parking, to the extent that the increase in the parking levy would lead to increases in parking rates residents would be impacted.

A parking levy is not expected to impact the number of visitors who choose Toronto as a destination. It is unlikely that the increases in price of goods and services and parking fees as a result of the parking levy would be a key factor that visitors consider when selecting Toronto as a destination.

A parking levy will likely have an impact on business activity in Toronto. The City of Toronto is an economic powerhouse for both Canada and North America. Toronto generates approximately 10% of Canada's GDP and contributes billions of dollars in fiscal benefits. A major contributing factor to Toronto's superior global ranking is that its tax competeveness facilitates an environment that encourages business growth.[18] In 2016, the Toronto metropolitan area was ranked 5th of 23 metropolitan areas in Northeast US/Central Canada for business operating cost competitiveness. Although the high value of the US dollar gives

[17] AECOM KPMG, March 2013, Metrolinx Big Move Implementation Economics Revenue Tool Profiles,
[18] http://www.tfsa.ca/toronto-advantage/

Canadian cities an advantage over their American counterparts, the Toronto area had only marginally greater costs than some of its domestic competitors, specifically Montréal, Sault Ste. Marie, Barrie, and Quebec City.[19] The implementation of a parking levy would increase costs in the city and decrease Toronto's competiveness, particularly against some of the other cities in the Toronto area that have contributed to the overall competitiveness of the Toronto region (e.g., Mississauga, Markham, Vaughan, etc.). Toronto, however, is in a relatively good starting point with respect to its competitive position against other metropolitan areas.

The extent to which additional costs associated with a parking levy would impact the financial performance of a particular business (large or small) will ultimately be dependent upon the profitability of the business and the ability of the business to pass on increased costs to its customers. Small businesses generally have less financial resources and are more likely to be impacted by the tax, particularly if they are unable to pass along the costs to consumers. However large businesses are also subject to cost pressures.

From an income tax perspective, small businesses pay a lower tax rate than large businesses. The 2016 Federal Budget further reduced the small business tax rate from 11% to 10.5% (although this reduction was less than the anticipated reduction to 9% prior to the release of the budget).[20] As a result, the competitive advantage enjoyed by small businesses has been further enhanced (albeit by less than was expected). In order to remain a competitive location for job creation it is important to create a tax landscape that is sustainable for small businesses and encourages business growth and a parking levy may work against this objective.

While some businesses can pass the increased cost to consumers, a greater parking fee could dampen overall economic growth. A parking levy could significantly raise the operating costs for industrial properties with large, unpaid parking lots and who rely on employees with cars. Another consideration is commercial, industrial and retail property owners with long-term leases and unpaid parking fees. In these instances, the businesses that occupy the space would likely cover the additional costs of the parking levy, which may lead to increased costs of consumer goods or in the case of industrial businesses lower profitability.

The parking levy may be perceived unfavourably by businesses because it is essentially a double taxation on property for commercial and industrial owners. The parking levy will be added onto the property bill resulting in non-residential property owners paying a "property tax" twice since parking is already factored into property value.[21]

This concept is further illustrated in the table below.

[19] https://www.competitivealternatives.com/cities/necc.aspx
[20] http://globalnews.ca/news/2595662/the-biggest-losers-of-the-2016-federal-budget-small-business-wealthy-canadians/
[21] KPMG, City of Toronto Revenue Options Study, June 2016, page 55

Exhibit 5.2 – Potential Impact on ICI Property Owners of Parking Levy

Toronto Business Description (and Neighbourhood)[22]	Approximate Municipal Property Tax (2016)	Estimated Parking Area (m²)[23]	Annual Parking Levy at Rate of:[24]		Parking Levy as % of Municipal Property Tax	
			$6.75/m²	*$20.25/m²*	*$6.75/m²*	*$20.25/m²*
Funeral home (Cliffcrest)	$40,000	1,728	$11,664	$34,992	29.2%	87.5%
Small mall (Pleasant View)	$320,000	18,522	$125,024	$375,071	39.1%	117.2%
Regional mall (Bendale)	$8,590,000	81,000	$546,750	$1,640,250	6.4%	19.1%
Retailer (Danforth Village)	$190,000	4,077	$27,520	$82,559	14.5%	43.5%
Car service centre (Caledonia-Fairbank)	$50,000	1,755	$11,846	$35,539	23.7%	71.1%
Mid-size office complex (Flemingdon Park)	$245,000	5,940	$40,095	$120,285	16.4%	49.1%

The examples in the table above are based on actual property samples that were provided to the City by a coalition that represented various stakeholders that would be impacted by the implementation of a parking levy. As evidenced, the amount of the levy can have a significant impact on the total cost of the tax to property owners. In addition, the impact of the parking levy on these businesses compared to the annual property tax paid can be significant. The example of the small mall would experience an annual parking levy cost that is greater than its annual property tax expense if the tax was levied at a rate of $20.25/m².

[22] *Real Estate Industry Response to Revenue Tool Options Report*, Real Estate Industry Coalition, August 29, 2016.

[23] The number of parking spaces at each of the properties was estimated in the *Real Estate Industry Response to Revenue Tool Options Report*, prepared by the Real Estate Industry Coalition. Using these estimated parking spaces, the total parking area was estimated based on the assumption that a single parking space requires 27m² of area (approximately 3m width and 9m depth, which includes the drive aisle associated with each parking space).
This is based on the City of Toronto by-law requirements related to parking spaces: http://www.toronto.ca/zoning/bylaw_amendments/ZBL_NewProvision_Chapter200.htm

[24] The parking levy rates identified in the table represent equivalent rates to $0.50/parking space per day and $1.50/ parking space per day based on the assumption that one parking space requires 27m² of area.

5.2.4 Social Impacts

A positive impact from the implementation of a parking levy is that if it leads to an increase in parking rates and/or reduction in parking spaces, it may encourage more people to use public transit thereby decreasing the number of vehicles on the road. While this would likely have a minimal to moderate impact on congestion, it could also encourage individuals to car pool or walk to work.

The implementation of a parking levy downtown would likely impact more Torontonians than non-residents. The exhibit below presents statistics related to how individuals get to work in Toronto's financial district on a daily basis and their trip origin. There are approximately 115,275 people with a place of work in the financial district. Approximately 64% (or 74,330) of these individuals commute to work through public transit. Another 9% (or 9,985) walk to work or ride a bicycle. Approximately 23% (or 26,525) of individuals working in the financial district drive to work. Of these 26,525 individuals, 58.1% have trips that originate in the City of Toronto. Based on this sample of the financial district, the majority of individuals that would bear the additional costs of parking are Toronto residents.

Exhibit 5.3 – Journey to work flows for Toronto's financial district (NHS, 2011)

Geography	Total – Mode of transportation	Car, truck, van as driver	Car, truck, van as rider	Public transit	Walk	Bicycle	Motorcycle, scooter/ moped	Other modes
Toronto CMA - City	71,475	12,485	695	43,745	8,000	370	0	25
- 905	35,475	7,465	50	23,725	0	0	0	0
Toronto CMA Total	***108,025***	***25,000***	***3,210***	***68,905***	***8,605***	***1,380***	***100***	***820***
Other Ontario CMAs	7,250	1,525	160	5,425	0	0	0	45
Total	**115,275**	**26,525**	**3,370**	**74,330**	**8,605**	**1,380**	**100**	**865**

5.3 Case Studies

5.3.1 Montréal

In 2010, the City of Montréal introduced a new tax for off-street non-residential parking facilities using graduated rates based on the location of the parking facility in the city and whether or not the facility is indoor or outdoor. The parking levy was only implemented on parking lots in the downtown core of the city and applied a higher fee per square meter for outdoor parking compared to indoor parking, which was meant to encourage more efficient use of outdoor space.

The tax was implemented based on the area of the parking facility rather than on a per space basis. When the parking levy was first introduced, the original rates were applied to only two sectors: the Montréal business district (Sector A) and downtown Montréal (Sector B). Fees are charged on an annual basis and are based on the total number of square meters of parking at the facility.

The original levy rates from 2010 have been included in the exhibit below.

Exhibit 5.4 – Montréal Parking Levy Rates (2010)

	Sector Descriptions	Indoor ($/m^2)	Outdoor (in $/m^2)
Sector A	Montréal business district	9.90	19.80
Sector B	Downtown Montréal, excluding Sector A	4.95	14.85

In 2013, the city doubled the levy on outdoor parking lots, increasing the annual fee for Sector B lots from $14.85/m^2 to $29.70/m^2. As noted in a Montréal Gazette article from 2013, outdoor parking lot owners take up space that "the city, urban planners and environmental groups like the Conseil régional de l'environnement de Montréal would far rather see used for gleaming new condo towers."[25]

More recently, the city defined a third sector (Sector C), which was an area previously included in Sector B, but located farther away from downtown. By creating Sector C, the city was able to reduce the outdoor rates for the lots located in this area which were deemed by the City of Montreal to be less conducive to densification in the short-term and are under served by public transit. The exhibit below provides the parking levy rates for 2016.

Exhibit 5.5 – Montréal Parking Levy Rates (2016)[26]

	Sector Descriptions	Indoor ($/m^2)	Outdoor ($/m^2)
Sector A	Montréal business district	10.10	40.40
Sector B	Downtown Montréal, excluding Sector A	5.05	30.30
Sector C	Enclosed in Sector B, farther away from the business district	5.05	15.15

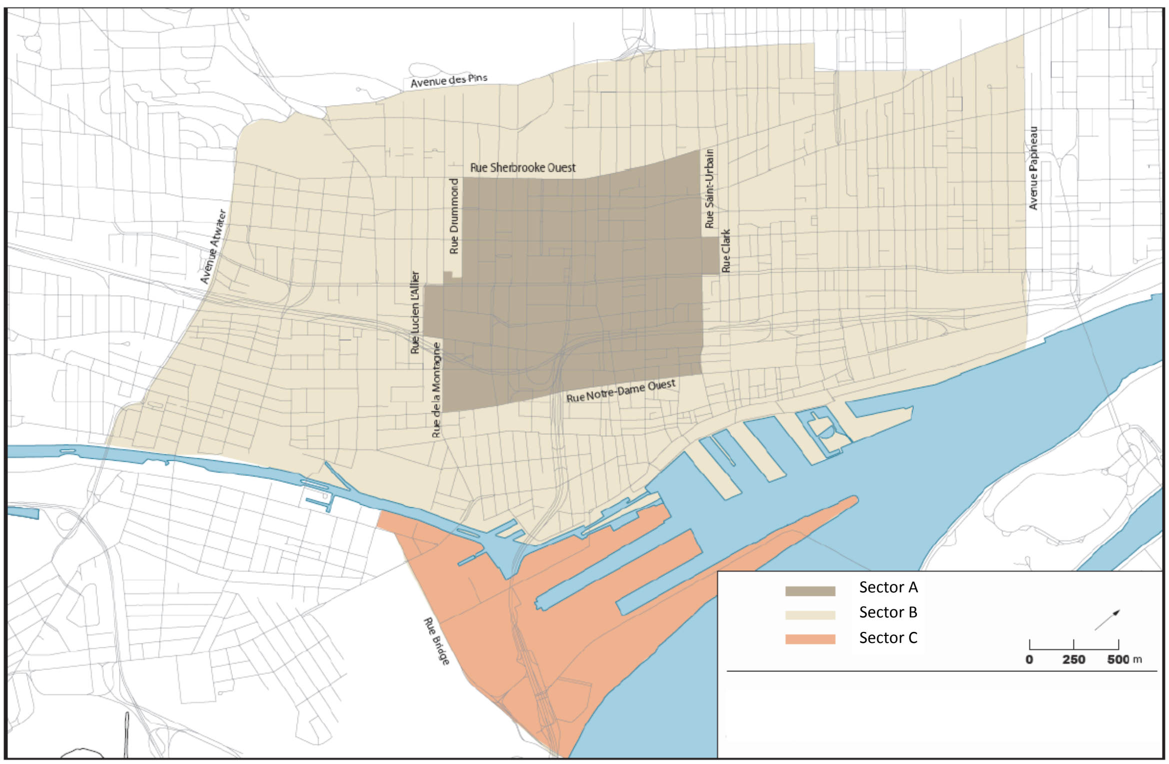
As can be seen in the table above, other than the doubling of outdoor rates in 2013, the rates have increased minimally. The parking levy generates annual revenues of approximately $23 million. All revenues collected from the tool are allocated directly towards funding public transit.[27]

[25] Montreal Gazette, January 2013, Montreal parking lots: when a tax is just a tax, Available at: http://montrealgazette.com/business/montreal-parking-lots-when-a-tax-is-just-a-tax?__lsa=2727-d1ce
[26] http://ville.montreal.qc.ca/portal/page?_pageid=44,57217573&_dad=portal&_schema=PORTAL
[27] http://torontoist.com/2016/09/commercial-parking-levy/

There are approximately 975 properties subject to the tax. In 2016, the City of Montreal estimated the number of equivalent taxable parking spaces was approximately 52,000 and the number of exempted spaces was just under 5,000 (using standard space assumptions). As mentioned previously, the levy is calculated at a specified rate per square meter of gross parking area and so the City of Montreal did not require an inventory of individual parking spots. The first 390 square meters is exempted for all parking lots if it is not located on a serviced vacant lot where a parking business is situated.[28]

The exhibit below provides the current boundaries for the Montréal parking levy. As can be seen in the map, the city's business district is at the centre of the map (Sector A) and the other targeted areas surround the business district.

Exhibit 5.6 – Montréal Parking Levy Sectors (2016)[29]



When applying the levy, buildings situated on either side of a street located at a sector limit are considered to be part of that sector (applicable to the edges of Sectors B and C). In the

[28] http://ville.montreal.qc.ca/pls/portal/docs/page/service_fin_fr/media/documents/09-budget-2011-fiscalite.pdf

[29] http://ville.montreal.qc.ca/pls/portal/docs/PAGE/SERVICE_FIN_FR/MEDIA/DOCUMENTS/2016_budget_final_20151125_15h.pdf

case of a street that separates Sectors A and B, the buildings on each side of the street are considered to be part of Sector A.

5.3.1.1 Implementation Timeline

On June 20, 2008 the Province of Quebec passed provincial legislature Bill 22, *An Act to amend various legislative provisions concerning Montréal*, in an attempt to provide municipalities with additional revenue options to fund public assets.[30] Bill 22 provided the City of Montreal with the legislative authority to implement a parking levy even though it had not specifically been requested. However, the decision to implement the parking levy was not made until the summer of 2009. The new by-law took effect on January 1, 2010. As part of the public communication plan for the new by-law, the City distributed a public notice on January 29, 2010.

After legislative approval was granted and prior to the actual implementation of the parking levy in 2010 a collection roll was established by the city. The collection roll took 10 weeks to establish before the tax was imposed. In an effort to develop an accurate inventory of taxable parking lots, 12 investigators within the City of Montreal's internal resources were tasked with all fieldwork responsibility. Owners were not involved in the inventory process nor were they offered a credit for parking vacancies. Following the development of the collection roll, property owners were given 120 days to submit letters to the city's financial services office to inquire or verify their allocation of parking spaces and confirm its applicability to the new by-law.

The City of Montréal keeps the collection role updated by maintaining a description of properties in the jurisdiction, built or vacant and compiling a database of all deed transfers. Requests for information are sent to taxpayers in order to complete the assessment roll updates and modifications.[31] The next assessment roll will be released on January 1, 2017 by Service de l'évaluation foncière de la Ville de Montréal.[32] In the interim, property owners are responsible for submitting their own parking information on their statement of income and expenses.[33]

In addition to developing an inventory of eligible parking lots prior to implementing the levy, the City of Montréal also conducted a study to determine the economic impacts that would likely result from the introduction of a parking levy. The study concluded that owners of taxed lots would likely pass the cost burden of the new parking levy onto consumers. Original estimates calculated that parking costs could increase between $1 to $2 per day.[34]

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30 http://www.assnat.qc.ca/en/travaux-parlementaires/projets-loi/projet-loi-22-38-1.html
31 http://ville.montreal.qc.ca/portal/page?_pageid=3077,3528877&_dad=portal&_schema=PORTAL
32 http://ville.montreal.qc.ca/portal/page?_pageid=3077,3528877&_dad=portal&_schema=PORTAL
33 http://ville.montreal.qc.ca/pls/portal/docs/page/evaluation_fonciere_fr/media/documents/Brochure_evaluation_Fonciere_fr.pdf
34 http://www.stikeman.com/2011/en/pdf/RemMar10-2.pdf

5.3.1.2 Implementation Costs

The parking levy is collected in the same manner as the city's property taxes so an existing framework for tax collection was already in place, which minimized the overall costs of implementing the levy. The parking levy due date, interest rate, and penalties, were aligned with those of property taxes and were collected through the same invoicing process. The City of Montréal did not contract out for services to develop the inventory of taxable lots and it is believed that this helped to further minimize the costs of implementation for the levy.

5.3.1.3 Other Considerations

The City of Montreal has faced some challenges since the implementation of a parking levy. Firstly, establishing a strong tax base for the first year introduced implementation challenges. Secondly, in order for the tax to achieve its revenue potential the City of Montreal has had to ensure that no taxable parking is omitted. While the City of Montreal faced some challenges in establishing the file system that tracks taxable lots, they have been able to update the file system regularly while utilizing only a few resources.

The revenue potential of the parking levy can be reduced if property owners convert parking lots to other uses. Since the implementation of the tax, the number of outdoor parking spaces has decreased due to the construction of residential buildings. The City of Montreal, estimates that since 2013 the area covered by the tax has decreased by approximately 5%.

Less than a month after the tax was introduced, the Coalition pour une véritable métropole publically opposed the implementation of the parking levy. The coalition's major concern was the potential negative effect that the levy would have on Quebec's most significant economy as a commercial and business destination. The coalition lobbied for the introduction of a gradually increasing fuel tax, or vehicle registration fees as preferred revenue mechanisms.[35] Their rationale for increasing the fuel tax was that it would apply more equitably to all tax payers and would align with the City of Montréal's long-term goal of financing public transit.[36]

The Coalition pour une véritable métropole includes:

- Association of Owners and Administrators of Quebec Buildings
- Restaurant Association of Quebec
- International Council of Shopping Centers
- Board of Trade of Metropolitan Montreal
- Urban Development Institute of Quebec
- Parking Industry Association of Montréal

[35] http://www.btmm.qc.ca/en/news/a-coalition-forms-to-give-Montréal -the-means-of-a-real-metropolis/
[36] http://www.stikeman.com/2011/en/pdf/RemMar10-2.pdf

The city has continued with the parking levy since it was implemented in 2010. As mentioned previously, the city doubled the parking levy on outdoor lots in 2013. This dramatic levy increase resulted in some property owners selling their centrally located parking lots to condo developers, taking advantage of the housing boom in the city and low interest rates.[37] The city supported this trend of property sales to condo developers by adjusting zoning for certain properties in the area to allow for the development of taller buildings, which would favour more dense residential development and public transit use.[38]

However, it has been noted by some commercial real estate experts that the higher taxes and increased costs associated with parking lots in this area could become an obstacle to competitiveness for businesses located in the downtown core. The experts have warned that these additional costs could be a significant factor when businesses are deciding to renew their existing leases in the area or re-locate their businesses to downtown.[39] As a result, the parking levy could result in the hollowing out of a profitable economic area.

5.3.2 Vancouver

In January 2006, a parking levy was implemented in the Greater Vancouver Area on both paid and unpaid parking spaces within a specified transit zone. The implementation of the tool was administered by the Greater Vancouver Transportation Authority ("TransLink") with the revenues generated by the levy being earmarked for road/transit expansion. When initially introduced, the tax was the first of its kind in Canada. The rate was based on the size of parking areas located on non-residential properties throughout the region and the rate was set at $0.78/m^2. This rate equated to approximately $23/stall per year and was included in the municipal property tax notice.

TransLink had implemented the parking levy using the area basis for rates as it was their assumption that parking lot sizes are less likely to change over time when compared to the number of spaces, which could change based on the size of the spaces used and the shift towards designated small car parking spaces in British Columbia.[40] Using the parking levy approach, TransLink generated average annual revenues of $22.2 million.[41]

In January 2010, the method of taxation changed from an area basis (as described above) towards a tax based on paid parking sales in the form of a PST, collected by the commercial parking vendor and remitted to TransLink. The PST on parking in the jurisdiction is currently

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[37] http://globalnews.ca/news/385451/taxes-on-Montréal -parking-lots-have-doubled/
[38] Ibid
[39] Ibid
[40] Hemson Consulting Ltd, March 2007, Assessment of Potential New Tax Measures Under the City of Toronto Act, 2006-City of Toronto,
[41] Independent report provided for the "No Translink Tax Campaign", Revenue analysis of Metro Vancouver municipalities, TransLink, and the Congestion Improvement Tax. Available at: http://divestor.com/wp-content/uploads/2009/11/RevenueAnalysis-TransLink-CIT.pdf
Revenues were: 2005 $11.5M, 2006 $31.8M, 2007 $36.5M, 2008 $15.4M, and 2009 $15.6M

21% and is charged prior to the GST, which is then applied on top of both the base parking charge and the PST.[42] Revenues generated since the change to a regime that is more in line with a parking sales tax have been $50 to 58 million annually.[43]

5.3.2.1 Implementation Timeline

In 1998 the Greater Vancouver Transportation Authority Act ("GVTAA") was passed, which was the official provincial legislation that created TransLink. Through the GVTAA, TransLink was given authority to collect taxes on parking spaces and levy tolls to pay for the public transportation services provided to the Greater Vancouver Regional District ("GVRD").

Despite the legislative power to introduce a parking levy, TransLink had no existing staff or systems to collect revenues or to enforce the tax. In fall 2003, TransLink's board of directors approved a parking site levy as a revenue source, but did not immediately implement the tax. In 2004, TransLink assembled a team tasked with developing an implementation framework for the tool. The implementation team's focus was on identifying and requesting amendments to existing legislation that would add additional clarification on collection, exemption and enforcement rights. This task was completed in December 2005, when amendments were made to the GVTAA that provided a framework for collecting and enforcing the levy through the municipal property tax system.[44] An additional focus of the implementation team was to consult with municipalities, businesses, advisory groups and other critical stakeholders to obtain feedback on the administration of the levy. In particular, the team concentrated on working with municipalities in order to leverage existing property tax collection mechanisms for the collection and remittance of the new tax (that would commence in 2006).

Prior to implementing the parking levy, TransLink contracted BC Assessment (the provincial property tax assessment agency) to create a parking site inventory in GVRD and to help design a provision of appeals service. The contract negotiations with BC Assessment and TransLink's implementation team were completed in March 2005, then revised in February 2006 and June 2006. BC Assessment used aerial photography, digital mapping and municipal records to establish the taxable parking areas and supplemented this with site visits to ensure accuracy and confirm measurements.[45]

The parking levy was introduced in late December 2005 in a specified transit zone which was already established on the basis of existing TransLink legislation that outlined the municipalities forming the GVRD. Additionally, in December 2005 TransLink distributed

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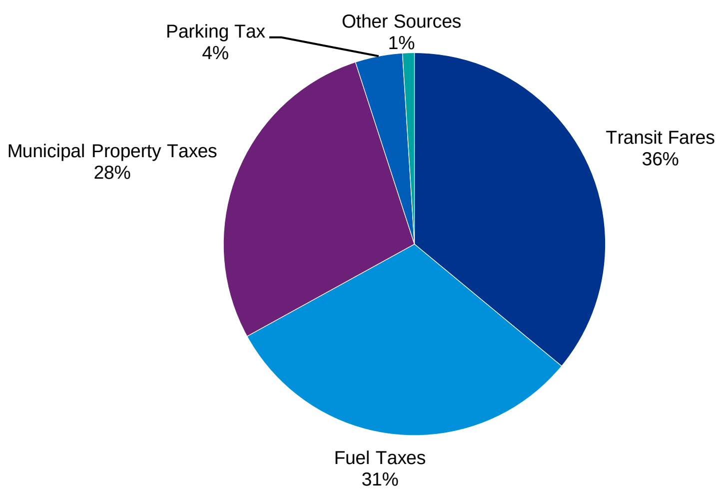
[42] Tanslink, June 2014, Translink Tax Bulletin-Motor Vehicle Parking, Bulletin 105, Available at: http://www.translink.ca/-/media/Documents/about_translink/parking_tax/105_motor_vehicle_parking.pdf
[43] AECOM KPMG, March 2013, Metrolinx Big Move Implementation Economics Revenue Tool Profiles,
[44] Transport Canada, Urban Transportation Showcase Program, Case Study 43, *TransLink Parking Tax Case Study*. October 2006.
[45] Ibid

approximately 29,600 parking notices to property owners throughout the GVRD. A deadline of January 31, 2006 was set for tax payers to request appeals of their parking site assessment before the Property Assessment Review Panel. The panel was provincially appointed and independent of TransLink. Decisions could be further appealed to the Property Assessment Appeal Board which would be conducted through the B.C. Supreme Court. There were 5,100 cases introduced for review: approximately 28% of these requests successfully resulted in a tax alteration.[46]

The introduction of the levy was estimated to generate approximately $20 million of TransLink's $390 million annual budget in 2006 (as shown in the exhibit below).

Exhibit 5.7 – TransLink's Estimated Operating Revenues for 2006[47]



The tax collection commenced in 2006 but was discontinued in 2007. The tax was short-lived due to the complicated assessments and appeals process as well as a large consensus of unfairness from taxpayers. In response to the public's negative response the province removed the ability to charge a parking levy and replaced it with an additional property tax revenue that could not exceed $18 million annually.

As mentioned previously, TransLink altered the taxation structure from a space levy to a sales tax in 2010. The 21% tax rate is applied on individual parking sales (that is calculated as a percentage of parking sales before GST is applied) and is collected by individual vendors and passed along to TransLink.[48] At the time of introducing the new parking sales tax, the

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[46] ibid
[47] ibid
[48] http://www.translink.ca/en/About-Us/Taxes/Parking-Tax/FAQs.aspx

effective tax rate for parking (including HST) was the highest parking tax rate in North America and received considerable negative public criticism.[49]

5.3.2.2 Implementation Costs

In planning for the implementation of the parking levy, TransLink allocated $6 million to cover the costs associated with developing an inventory of parking area, establishing the mechanism for collection and administering the tool. The majority of planning costs were related to contracting out the task of creating a parking lot inventory to BC Assessment. As part of the $6 million allocation, TransLink had budgeted approximately 50% of the costs for implementing the levy and administering the appeals process during the first year. TransLink had estimated that the annual cost for administering the levy would be approximately $1 million following the first year of implementation.[50]

5.3.2.3 Other Considerations

In 2003 when the tax was first being considered TransLink polled local residents to gauge public receptiveness to a parking levy. The results of the polls found that public opinion was in favor of a parking levy over a fuel tax. However, polls post-implementation revealed that only a small majority, 56%, still supported the levy.[51] In the first year after implementing the tax TransLink received a significant number of complaints and appeals. After alteration of the tool to become a sales tax, public support greatly decreased; the majority of taxpayers now oppose parking charges.[52]

During the two years the parking levy was in place in the GVRD, a review of the parking site rolls from 2006 to 2007 revealed that there was a 3.7% increase in folios (from 28,669 to 29,733) and an increase of 8.8% in square meters (from 25,537,332 to 27,782,914).

As discussed above, TransLink abandoned the parking levy in 2007 and eventually implemented a parking sales tax. The change of taxation was the result of a number of factors. The business community opposed the tax and lobbied the provincial government to eliminate the parking levy. Their main reason for opposition was disagreement with the parking site assessment process and they were of the opinion that appeals were not being seriously considered. Businesses also argued that the tax was inequitable because of the belief that it taxed business more than residents.

When the parking levy was introduced, non-residential property owners that were exempt from property taxes and other forms of taxation were also exempted from the parking levy.

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[49] http://bc.ctvnews.ca/hst-to-make-vancouver-parking-tax-highest-in-north-america-1.513724

[50] Transport Canada, Urban Transportation Showcase Program, Case Study 43, *TransLink Parking Tax Case Study*. October 2006.

[51] http://publications.gc.ca/collections/collection_2012/tc/T41-1-43-eng.pdf

[52] http://vancouversun.com/news/staff-blogs/its-official-gsthst-applies-to-21-parking-tax-not-just-parking-fees

This included places of worship, schools, airports, First Nations reserves and health authorities.[53]

5.4 Summary of Considerations in Implementing the Revenue Option

Although a parking levy has the potential to generate significant revenue rather quickly, it also has the potential to strain financial resources for large and small businesses in the city, particularly those that do not have existing mechanisms to pass the additional costs along to consumers (e.g., paid parking already exists). A parking levy, if applied as a parking area tax (i.e., charge per square meter of parking), can be collected relatively smoothly through the City's existing property tax collection mechanism. For example, in Vancouver, TransLink did not encounter any significant administrative challenges following implementation due to existing property tax management processes. The largest administrative impediment to implementing the parking levy is the development of a parking assessment roll. This process took approximately 18 months in Montréal. If the City were to develop a parking assessment roll prior to implementing the tool, it would likely take 18 to 24 months depending on the boundaries established for the revenue option and the amount of resources deployed to the development of the roll (e.g., direct labour or hiring a firm to develop the inventory). The City could also elect to implement the revenue option sooner and have property owners self-report the parking area at a particular property. This could lead to under- or non-reporting by property owners and would require an audit to be undertaken by the City.

A parking levy has the potential to decrease the City's competitiveness for industrial and commercial businesses as it will increase the operating costs for these businesses. Larger businesses with paid lots and high utilization will likely be able to pass along increased costs to consumers by raising prices. However, some businesses may be unable to pass costs along due to contractual obligations or because prices are set exogenously and if a firms raises its prices it will decrease the competitiveness of the business.

The location of where a parking levy is implemented and the design of the parking levy should be major considerations for the City when assessing this revenue option. If implemented city-wide, it will likely pose a challenge for some businesses, particularly those located closer to the city's border as they face competition from businesses in neighbouring jurisdictions that do not have a parking levy. Montréal focused its parking levy in the downtown core and targeted paid parking lots. By doing this the City of Montréal reduced the number of impacted businesses quite substantially. In addition, the implementation of a tiered levy, with higher rates applied downtown can minimize the negative impacts of the levy.

[53] Transport Canada, Urban Transportation Showcase Program, Case Study 43, *TransLink Parking Tax Case Study*. October 2006.

6 Parking Sales Tax

6.1 Overview of Scheme Design

A parking sales tax operates like any other sales tax and is a fixed percentage that is applied to the cost of all commercial paid parking within a defined transportation region. Paid parking at residential properties is typically excluded from the taxation. The tax revenue would be collected by individual vendors and then passed along to the City of Toronto. As per Canada Revenue guidelines the sales tax would be added in addition to any general sales taxes already charged.[54] The federal goods and service tax and the harmonized sales tax would be applied to the parking sale tax. This would include paid parking that is charged hourly, monthly, annually or on any other basis. A parking sales tax is not permitted under COTA and amendments would be required in order to implement this revenue tool.

6.2 Economic and Social Impacts

6.2.1 Impacted Stakeholders

A parking sales tax would only be applied to paid commercial parking spaces in the city. Therefore, it can be expected that frequent and long-term users of paid parking spaces in Toronto would be most impacted by the implementation of this revenue option. While it is likely that the majority of these individuals would be Toronto residents, there are also a number of non-residents who commute to work in the city or visit the city for shopping or entertainment purposes. Commuters who drive to work and park at paid commercial parking lots (particularly in the downtown core) would likely feel the impact of a parking sales tax most significantly.

A parking sales tax would have a limited impact on businesses. However, parking operators would be marginally impacted by a parking sales tax to the extent that the tax causes a reduction in paid parking users.

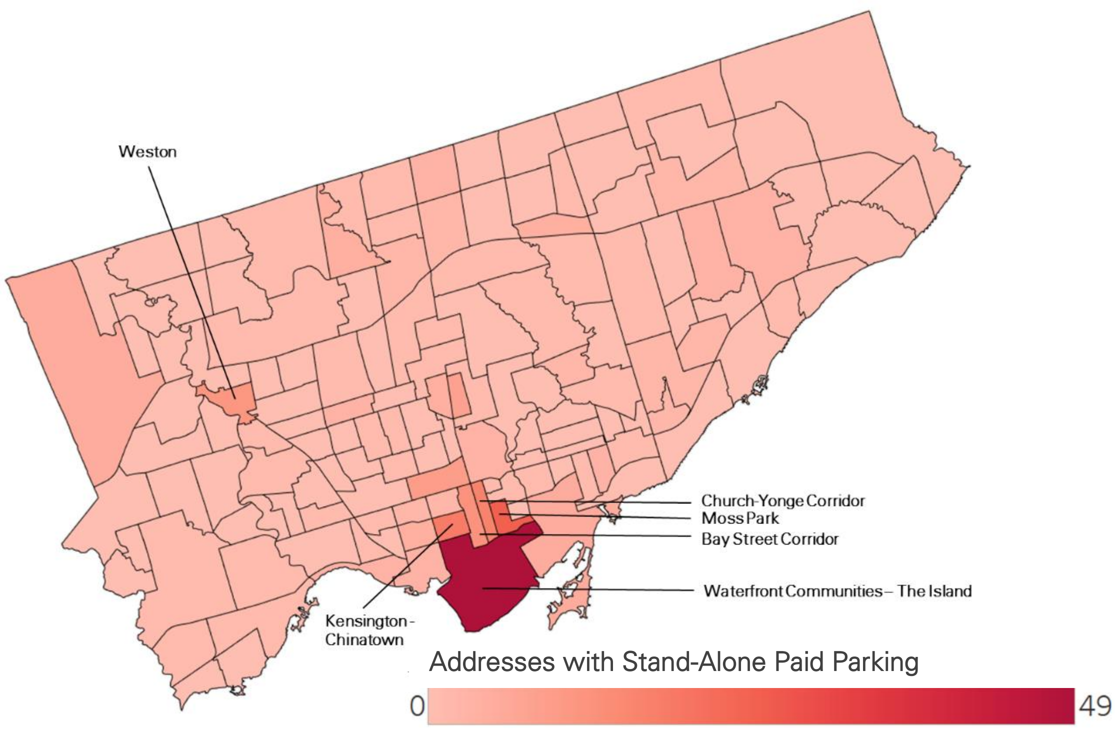
6.2.1.1 Location

A parking sales tax would be concentrated in areas that have paid parking. The heat map presented below identifies the total number of paid parking locations by Neighbourhood. The heat map is limited in that it does not take into consideration the current parking fees charged at these lots or the parking lot usage rates. An additional limitation of the heat map is that it does not take into account the number of parking spaces within each parking lot. For example, depending on the size of a parking lot, a small number of addresses with paid

[54] http://www.translink.ca/-/media/Documents/about_translink/parking_tax/110_GST_HST_Applied_on_Parking_Rights_Tax.pdf

parking could represent a significant number of parking spaces (and vice versa). Nonetheless, we have used the data that was available for this exercise and presented the heat map to provide an initial foundation for identifying the Neighbourhoods in Toronto that could be most impacted by the implementation of a parking sales tax.

Exhibit 6.1 – Toronto Parking Sales Tax Heat Map by Neighbourhood[55]



Based on the parking sales tax heat map above, the Neighbourhood that would be most significantly impacted by the implementation of the revenue option is the Waterfront Communities – The Island. The Waterfront has 49 paid commercial parking addresses. Other Neighbourhoods that would be impacted by the implementation of a parking sales tax are Kensington-Chinatown, Bay Street Corridor, Church-Yonge Corridor, Moss Park, and Weston. The number of paid parking lot addresses in these neighbourhoods ranges from 11 to 25 addresses. Therefore, the heat map demonstrates that the parking sales tax would have a real impact on paid parking users in Toronto's downtown core.

[55] RTC = G means Realty Tax Class G (parking lot rate); RTQ = T means Realty Tax Qualifier T (the property is taxable at the full rate).

6.2.1.2 Ability to pay

A parking sales tax would only be applied to paid parking spaces in commercial centres. As a result, the impact of a parking sales tax is more significant in Toronto's downtown core than in outlying Neighbourhoods. Businesses in shopping malls and strip malls with unpaid parking spaces would not be impacted by the tax. The impact of a parking sales tax on businesses in commercial centres with paid parking is expected to be minimal.

The stakeholders who will be paying for the parking sales tax are parking space users. From a consumer perspective, the users of paid downtown parking lots, particularly in the financial district, are more likely to be higher income Torontonians or tourists. In that sense, effects would be mostly felt by higher income individuals who have the ability to pay higher parking fees. Ultimately, individuals who drive have a choice in whether they use paid lots. As mentioned previously, consumers who have the ability to pay for parking and are already choosing to do so will likely continue to pay for parking following the implementation of a parking sales tax (although avoidance will likely increase as the parking sales tax rate increases).

6.2.2 Impact on City's Competitiveness

A parking sales tax would not impact Toronto's competiveness. Parking operators would transfer the tax onto consumers without experiencing significant demand reduction, given low price elasticity of demand. As demonstrated in Exhibit 6.1, the Neighbourhoods that are impacted most greatly by the parking sales tax are located in Toronto's downtown core (The Waterfront–The Island, Kensington-Chinatown, Bay Street Corridor etc.). A decrease in customer traffic for these areas is not expected because the majority of parking alternatives within a reasonable distance will likely be paid parking as well. Furthermore, the downtown Neighbourhoods are more directly connected with public transit so if consumers do choose to avoid paying the increased parking fees they have alternative modes of transportation available to them. Hence, the business and economic landscape in Toronto would not be affected materially by a parking sales tax.

A parking sales tax (at low rates) would not increase the cost of doing business in Toronto and it can be reasonably expected that Toronto's overall competitiveness when compared to other cities would remain unchanged. Parking operators may be marginally impacted by the implementation of a parking sales tax. However, the impact felt by these parking operators would be limited to impacts related to the price elasticity of demand for paid parking, which is expected to be small. Competition would mostly be between Toronto Neighbourhoods. Parking operators located near Toronto's boundaries may experience a slight competitive disadvantage because their lots will have slightly higher rates than adjacent paid parking lots in neighbouring jurisdictions. However, this disadvantage is expected to minimal.

6.2.3 Impact on Business and Economic Activities

It is expected that Toronto residents will not be significantly impacted by the parking sales tax. The scheme of the tax only applies to paid parking lots. Parking users, including heavy paid parking users such as commuters, can be reasonably expected to continue paying for parking even with the increased cost.

A parking levy is not expected to impact the number of visitors who choose Toronto as a destination. A raise in parking fees is not a factor that visitors use when considering Toronto as a destination. An increase in paid parking fees is not expected to deter Toronto visitors

A parking sales tax is not expected impact Toronto businesses. A parking sales tax would place most of the tax burden on major commercial districts where paid parking is generally already in place. The implementation of a parking sales tax would have a minimal impact on the existing competitive disadvantage that commercial centres already have compared to suburban office nodes who generally have unpaid parking spaces.[56]

6.2.4 Social Impacts

Consumers are unlikely to make significant changes to their behaviour based on the implementation of a parking sales tax. A small price elasticity effect may be observed if a parking sales tax is implemented. However, since the tax is only applied to parking spaces that are already charging parking fees, the elasticity impact is expected to be small. A study conducted by the Victoria Transport Institute and Washington State Transportation Centre in Seattle found that a 20% parking sales tax would result in a decrease in paid parking demand in the affected area by approximately 4% to 8%. The study also found that the implementation of a parking sales tax had an even smaller reduction in number of residents who travelled by car.[56]

The price elasticity effect is expected to be greater for parking users who require longer-term spaces.[56] For example, commuters who pay parking fees on a monthly or even annual basis would be more likely to demonstrate avoidance if the parking sales tax was significant. Avoidance behaviours in the short-term could consist of parking in alternative locations, taking public transit, or carpooling in order to reduce the parking cost paid per person. Alternatively, short-term or casual users of parking spaces such as tourists and shoppers are less likely to change behaviours to avoid paying the increased parking rates. In the longer term, workers may seek jobs at locations outside the city where they do not have to pay the tax; however, because the tax only affects existing paid parking a significant change in behaviour is not expected.

[56] Litman, T., Carlson, D., Blumenthal, A., & Lee, J. (2010). Evaluating Seattle Parking Tax Options (1st ed., pp. 1-49). Victoria Transport Policy Institute.

6.3 Summary of Considerations in Implementing the Revenue Option

A parking sales tax is not expected to increase the cost of doing business and, from an economic perspective, is not expected to have a significant impact on the competitive position of businesses in Toronto because all parking operators would pass the cost of the tax onto the consumer. Given that the tax would be applied to parking that is already charging a fee, it is unlikely that material elasticity of demand would be experienced.

Overall, the impacts of a parking sales tax would be felt more in Toronto's downtown core. The main impacted stakeholder for a parking sales tax is the consumer and the majority of people using paid parking in Toronto's downtown would likely be commuters travelling for work and tourists. Small businesses with paid parking who rely on customers with cars in boundary neighbourhoods may experience a competitive disadvantage if a parking sales tax were applied; however, this competitive disadvantage would likely be far less than if a parking levy were introduced (since it would impact small businesses with both paid and unpaid parking).

As discussed in Section 5.3.2, TransLink implemented a parking sales tax in Vancouver to replace short-lived parking levy that was in place from 2006 to 2007. The parking levy had been imposed on all non-residential parking lots.[57] In 2010, the parking sales tax was introduced and limited to paid parking transactions. The main reason for this switch was the negative public response to the parking levy generated from local businesses and stakeholders. Businesses impacted by the parking levy argued that they were being taxed more than residents. They also believed that the appeals process that was instituted to re-evaluate a parking site assessment was not legitimate, causing more unfavourable opinions of the levy. The provincial government changed legislation to disallow a parking levy due to the negative public opinion.

[57] Transport Canada, Urban Transportation Showcase Program, Case Study 43, TransLink Parking Tax Case Study. October 2006.

7 Property Tax

Property taxes are the City of Toronto's largest revenue source. In 2016, the City of Toronto budgeted to collect almost $4.0 billion in municipal taxes from property taxes, of which 51% was from residential properties, 12% from multi-residential properties, 34% from commercial properties, and 3% from industrial properties.[58] A summary of property tax revenues by property type is summarized below.

Exhibit 7.1 - 2016 City of Toronto Budgeted Property Tax Revenue ($ millions)

Property Tax Type	Budget 2016 Revenue	% of Total Property Tax
Residential	2,029.1	51%
Multi-Residential	478.1	12%
Commercial	1,346.8	34%
Industrial	114.8	3%
Other	3.2	0%
Total	**3,971.9**	**100%**

Currently, property tax rates are based on the property type (e.g., residential, commercial, industrial). A summary of the City's property tax rates are summarized below:

Exhibit 7.2 – City of Toronto Property Tax Rates

City of Toronto 2016 Property Tax Rates				
Property Type	**City Tax Rate**	**Education Tax Rate**	**Transit Tax Rate**	**Total Tax Rate**
Residential	0.5081190%	0.1950000%	0.0024847%	0.7056037%
Multi-Residential	1.5290188%	0.1950000%	0.0025294%	1.7265482%
New Multi-Residential	0.5081190%	0.1950000%	0.0024847%	0.7056037%
Commercial General	1.5361843%	1.2278260%	0.0025294%	2.7665397%
Residual Commercial - Band 1	1.2811685%	1.2278260%	0.0021095%	2.5111040%
Residual Commercial - Band 2	1.5361843%	1.2278260%	0.0025294%	2.7665397%
Industrial	1.5301969%	1.2946100%	0.0025294%	2.8273363%
Pipelines	0.9773995%	1.5065730%	0.0047794%	2.4887519%
Farmlands	0.1270297%	0.0487500%	0.0006212%	0.1764009%
Managed Forests	0.1270297%	0.0487500%	0.0006212%	0.1764009%

Source: City of Toronto

[58] KPMG, 2016, Revenue Options Study

Currently, the City's objective is to set its residential property tax rate at an approved target that is 2.5 times less than that of commercial, industrial, and multi-residential property tax rates. To achieve this objective, the City's current policy is to increase commercial, industrial, and multi-residential property tax rates by only 0.33% for every 1.00% increase in the residential property tax rate.

7.1 Graduated Residential Property Tax

In this section, we review the economic implications of a graduated residential property tax regime, where property tax rates increase with property values. As seen in the table above, the City's existing property taxation system assigns a single property tax rate to all properties within each property type or classification (e.g., residential, commercial, etc.), regardless of property value. This type of system is distinct from our existing federal and provincial income tax regimes, where an individual's income tax rate is dependent upon their annual income.

The general rationale for graduated property tax rates is that property owners with higher property values have likely benefitted the most from increased demand in the local real estate market and should be in a better financial position to pay for municipal services provided by the city. In our review of other jurisdictions, we found that graduated property tax rates were structured in tiers, where rates increase after property values reach a certain threshold.

Subsection 279(1) of COTA permits graduated property taxes on commercial and industrial properties only. As such, the City would need amendments to COTA to allow for the implementation of a graduated residential property tax regime. Once the City is provided legislative authority under COTA, it can be assumed that the implementation costs associated with introducing a graduated property tax regime would be low. This is because the City already has mechanisms in place for administration and collection of the revenues and the City already has access to the necessary data required for adjusting the system (e.g., property classifications, assessed property values).

Prior to implementing a graduated property tax, the City would likely need to perform additional analysis to determine the appropriate number of property tax brackets and the dollar values for those brackets. As one approach to implementation, the City could adjust tax rates and tiers so that the process raises the same amount of revenue overall as the existing property tax regime, but where lower-valued homes are paying lower property taxes and higher-valued homes are paying higher taxes. Alternatively, the City could also choose to generate additional property tax revenues through the introduction of this system by simply increasing existing rates for higher-valued properties.

7.1.1 Other Jurisdictions

Based on the research performed by our team, we were not able to identify any examples of a graduated property tax regime being implemented in North America or at the municipal level elsewhere in the world. However, graduated property tax regimes were identified in Singapore, Denmark, and Ireland; all of which are administered by their respective federal taxing authorities.

7.1.1.1 Singapore

Singapore introduced a graduated property tax regime in 2010. Unlike Toronto, property taxes are determined by the annual value of a property instead of the total property value. The annual value of a property is based on the estimated gross annual rent of the property if it were to be rented out, excluding furniture, furnishings and maintenance fees. It is determined annually by the Inland Revenue Authority of Singapore (IRAS) and is based on estimated market rentals of similar or comparable properties.[59]

Property tax rates vary for owner-occupied and non-owner-occupied residential properties. Taxes on owner-occupied properties are slightly lower to encourage home ownership. It is only residential properties that see tax rates applied on a graduated scale. All other properties (e.g., industrial and commercial) are taxed at a single flat rate.[60] A summary of owner-occupied and non-owner occupied residential tax rates are summarized in the following tables.

[59] Inland Revenue Authority of Singapore, About Annual Value
[60] Singapore Ministry of Finance, Property Tax

Exhibit 7.3 – Singapore Owner-Occupied Property Tax Rates (2015)

Singapore 2015 Owner-Occupied Property Tax Rates		
Annual Value ($)	**Rates**	**Property Tax Payable**
First $8,000	0%	$0
Next $47,000	4%	$1,880
First $55,000	-	$1,880
Next $15,000	6%	$ 900
First $70,000	-	$2,780
Next $15,000	8%	$1,200
First $85,000	-	$3,980
Next $15,000	10%	$1,500
First $100,000	-	$5,480
Next $15,000	12%	$1,800
First $115,000	-	$7,280
Next $15,000	14%	$2,100
First $130,000	-	$9,380
Above $130,000	16%	

Source: Inland Revenue Authority of Singapore, Property Tax Rates and Sample Calculations

Exhibit 7.4 – Singapore Non-Owner-Occupied Property Tax Rates (2015)

Singapore 2015 Non-Owner-Occupied Property Tax Rates		
Annual Value ($)	**Rates**	**Property Tax Payable**
First 30,000	10%	$3,000
Next $15,000	12%	$1,800
First $45,000	-	$4,800
Next $15,000	14%	$2,100
First $60,000	-	$6,900
Next $15,000	16%	$2,400
First $75,000	-	$9,300
Next $15,000	18%	$2,700
First $90,000	-	$12,000
Above $90,000	20%	

Source: Inland Revenue Authority of Singapore, Property Tax Rates and Sample Calculations

KPMG

7.1.1.2 Denmark

Denmark has a two-tier graduated rate structure for its property taxation on residential properties.[61] Property values up to 3.04 million Danish krone (approximately $605,000 Canadian dollars) are taxed at 1%. Any incremental value above this amount is taxed at 3%.[62] This tax is paid to the federal government.

In addition to this, residents pay a land tax to municipalities based on land value. The tax rate varies between 1.6% and 3.4%, depending on the municipality in which the property is located.

7.1.1.3 Ireland

Similar to Denmark, Ireland has a two-tier graduated property tax regime. All owners of residential property, including rental properties, pay an annual local property tax ("LPT") to the federal government. The tax is based on the chargeable value (i.e., the market value) of a residential property on the valuation date (May 1).[63]

The basic LPT rate is set at 0.18% for properties under €1 million and 0.25% on the amount of the value over €1 million. Local authorities have the right to increase or decrease rates up to 15% (called a local adjustment factor) for residential properties in their jurisdiction.[64]

7.2 Economic and Social Impacts of a Graduated Residential Property Tax Regime

7.2.1 Impacted Stakeholders

A graduated property tax regime would impact property owners of Toronto residential real estate and could be further passed down to tenants of residential real estate in Toronto.

The intent of a graduated property tax regime is for the City to generate greater revenues from higher value properties. The assumption behind a graduated property tax is that individuals who own higher valued homes are also higher income earners and have likely benefitted from the increased demand for Toronto real estate through higher property values.

While this may be true in theory, there are examples where individuals or families that are living in high valued homes do not have a proportionately high annual household income. Detailed analysis related to the breakdown of household income and assessed property

[61] UN Habitat, 2013, Property Tax Regimes in Europe
[62] SKAT, Property value tax and land tax, Available at: http://www.skat.dk/skat.aspx?oId=2114240&vId=0
[63] Revenue (Irish Tax and Customs, Local Property Tax, Calculating your Liability, Available at: http://www.revenue.ie/en/tax/lpt/liability.html
[64] Ibid

values was not included in the scope of this report; however, if the City decides to pursue a graduated property tax, it should perform a more detailed analysis using actual data to understand these impacts and assist in establishing rational brackets for a graduated property tax.

7.2.2 Impact on City's Competitiveness

In the Revenue Options Study, we presented the City of Toronto's property tax rates compared to surrounding municipalities. A report by BMA Management Consulting ("BMA") found the weighted average (by population) municipal component of the residential property tax rate of surrounding municipalities, excluding Toronto, was 0.86%. This average rate is higher than the municipal component of Toronto's property tax rate (0.51%), which was the lowest of all municipalities reviewed.

The introduction of a graduated property tax regime may dampen the demand for high valued property in the city and lower the attractiveness of the City's real estate market for high net worth individuals. Given that property values are typically higher in Toronto, relative to surrounding municipalities, some current and prospective home owners may look to avoid the increased taxes by downsizing their homes within Toronto or purchasing houses in other municipalities in the GTA.

As previously discussed, jurisdictions with graduated property tax rates are generally structured in tiers, where rates increase after property values reach certain thresholds. This could also discourage property owners from undertaking capitalized renovations that would increase their property values above the set thresholds.

Property taxes are generally difficult to evade because property is immovable and cannot be hidden. Therefore, some property owners may choose to relocate outside of Toronto to avoid the graduated property tax; however, given the strength of the real estate market currently in Toronto, it is likely that a prospective buyer (in a seller's market) would be willing to take on the cost of a graduated property tax.

7.2.3 Impact on Economic and Business Activities

A graduated property tax on residential properties is unlikely to have a significant impact on economic and business activities. Toronto residents already pay property tax; the introduction of a graduated property tax regime would only impact those who own higher value properties and would require those owners to pay higher property taxes. While the introduction of graduated residential property tax would make the city marginally less attractive for some residents, it is unlikely that the tax will lessen the city's attractiveness to visitors and local businesses.

7.2.4 Social Impacts

As discussed previously, the implementation of a graduated property tax could have positive and negative social impacts. While the theory behind implementing a tiered property taxation system is to provide a more equitable mechanism for paying for municipal services, it can have the opposite impact in some instances.

Some property owners in the City of Toronto may be "house rich" where the majority of their equity is invested in their property and they have limited disposable income. This could be a young couple with most of their wealth invested in a dream home or a recent retiree who is no longer earning employment income. In these situations, the higher value of their houses does not necessarily mean that they have sufficient income to pay higher property tax rates under a graduated tax structure. For these homeowners, the proportion of property tax compared to household income can be quite high.

7.2.5 Summary of Considerations in Implementing a Graduated Residential Property Tax Regime

The implementation of a graduated property tax within the City of Toronto could have a positive impact on the perceived equitability of the existing property tax regime and has the potential to generate additional revenues for the City (depending on how the rates and tiers are structured). While the City's current property tax policy allows for annual increases to property tax revenues at the rate of inflation, a significant change in the tax policy could provide an opportunity for the City to generate additional property tax revenues rather than simply redistributing the existing rate structure.

The City would need amendments to COTA to allow the implementation of a graduated residential property tax regime. Once the City is provided legislative authority under COTA, it can be assumed that the implementation costs of introducing a graduated property tax regime would be low because of the mechanisms the City already has in place for administration and collection of existing property taxes. Prior to adjusting the existing property tax regime, the City should undertake additional analysis on the assessed property values in the city compared to average household income and other economic indicators to quantify the potential impacts.

The City is continuing to experience high demand for housing which suggests that property owners would be willing to continue living in the city should a new property tax regime be implemented. However, it should be noted again that the assessed value of residential properties may not necessarily be a direct indicator of annual household income, which means that a graduated tax system could have negative impacts on families and property owners within the city.

8 Property Tax Increases to the Industrial and Commercial Sectors

In this section, we review the economic implications of increasing property tax rates on industrial and commercial properties in the city. As previously noted, the City of Toronto budgeted to collect almost $4.0 billion from property taxes for 2016. As presented in Exhibit 6.1, approximately $1.46 billion or 37% is estimated to be generated from commercial and industrial properties.

A 2015 report developed by BMA Management Consulting ("BMA") reviewed the average property tax rates in the City of Toronto in comparison to other Ontario municipalities.[65]

The section below highlights some of the data and results from this review. Specifically, Section 7.1 compares the City's industrial and commercial property tax rates to other Ontario municipalities. Section 7.2 assesses the potential increase to commercial property tax rates that would be required to generate the equivalent amount of revenues as the parking levy.

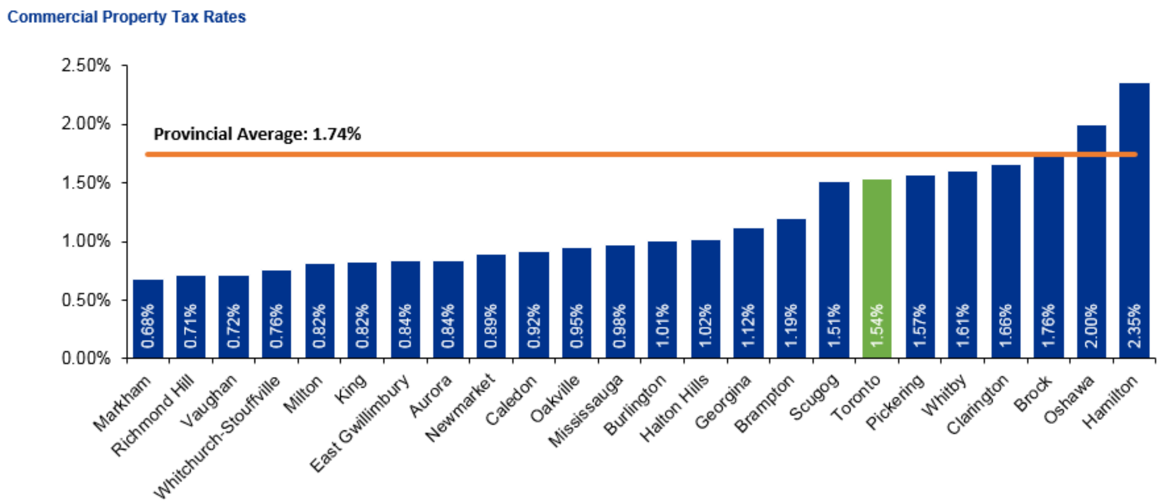
8.1 Impact on the City's Competitiveness

8.1.1 Commercial Property Tax Rates of Ontario Municipalities

The following exhibit presents the 2015 property tax rates on commercial properties for various Ontario municipalities. These rates have been modified to isolate the municipal property tax rates by subtracting the provincial education property tax component from the total property tax rate.

[65] BMA Management Consulting, Municipal Study 2015.

Exhibit 8.1 – 2015 Commercial Property Tax Rates of Ontario Municipalities (excluding education property tax component)



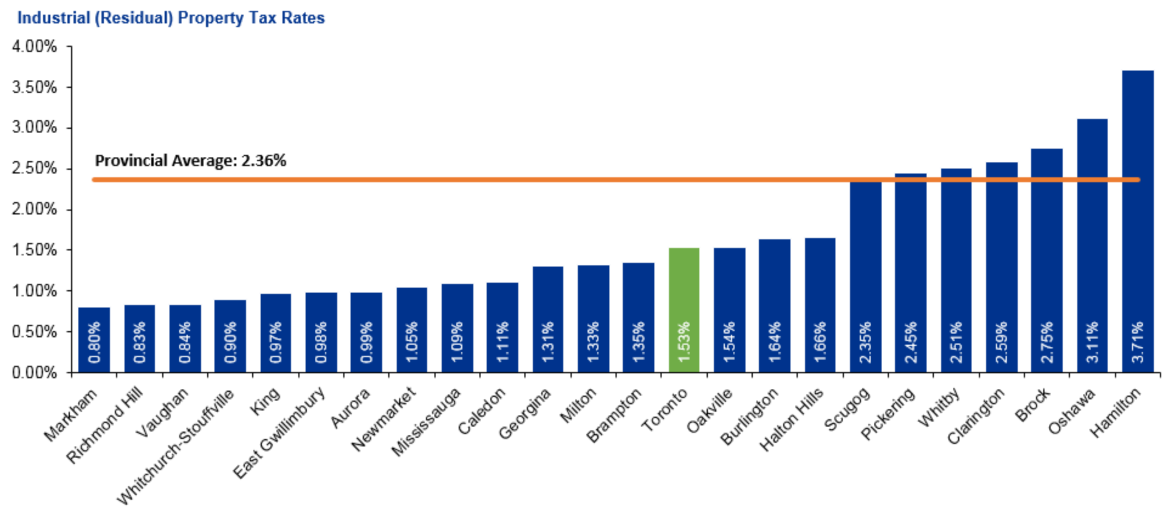
Source: BMA, Tax Policies, Municipal Study 2015

As indicated above, the simple average of the municipal component of the commercial property tax rate for Ontario municipalities was approximately 1.74% in 2015. Although the municipal component of the Toronto property tax rate (1.54%) is lower than the provincial average, Exhibit 8.1 demonstrates that Toronto is higher than most GTHA municipalities when it comes to commercial property tax rates. This suggests that increases to the City's commercial property tax rates could further reduce the competitiveness of investing in Toronto commercial real estate. It may also discourage businesses from locating within the city because of the cost of office space.

8.1.2 Industrial Property Tax Rates of Ontario Municipalities

The following exhibit presents the 2015 property tax rates on industrial properties for various Ontario municipalities. These rates again represent the municipal property tax rate by municipality (excluding the education property tax component set annually by the Province).

Exhibit 8.2 – 2015 Industrial Property Tax Rates of Ontario Municipalities (excluding education property tax component)



Source: BMA, Tax Policies, Municipal Study 2015

As indicated above, the simple average of the municipal component of the industrial property tax rate for Ontario municipalities was approximately 2.36%. Although the municipal component of the Toronto property tax rate (1.53%) is lower than the provincial average, Exhibit 8.2 demonstrates that Toronto is higher than most GTHA municipalities. This suggests that increases to the City's industrial property tax rates could further reduce the competitiveness of investing in Toronto industrial real estate.

8.2 Comparison to Parking Levy

As discussed in Section 5.0, the parking levy contemplated by the City would target all non-residential off-street parking in the city. The majority of these locations are parking lots located at commercial or industrial properties. Instead of implementing a parking levy, however, the City could instead choose to implement a property tax rate increase for commercial properties. The City would then avoid spending time and money developing an inventory of parking locations across the city and communicating the new tax to impacted stakeholders,

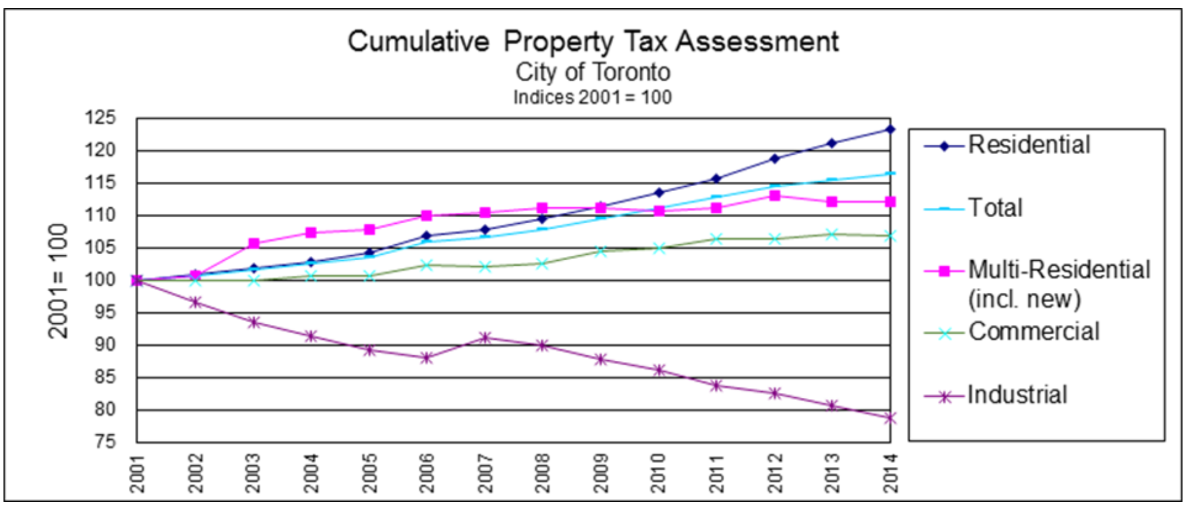
The Revenue Options Study estimated that the parking levy could generate net annual revenues of $171.3 million to $535.4 million of additional revenue annually for the City. These revenue estimates were based on a levy of $0.50 to $1.50 per parking space per day. While the introduction of a parking levy would more likely be implemented based on a cost per square meter of parking (similar to how Montreal and Vancouver administered their parking levies) rather than a per space basis, the rate per parking space was used as a proxy for estimating the annual revenues as this was the best available data.

As noted earlier, the City of Toronto budgeted $1.35 billion from commercial and $0.11 billion from industrial property taxes, for a total of $1.46 billion. If the City were to increase industrial and commercial property tax rates to generate between $171.3 million to $545.4 million, rather than introducing a parking levy, the City would need to increase the municipal component of commercial and industrial property tax rates by 12% to 37%.

If the City were to only increase commercial property tax rates to generate the equivalent revenues of a parking levy, the City would need to increase the municipal component of commercial property tax rates by 13% to 40%. It is important to note that the estimated percentage increase of commercial and industrial property tax revenues noted here is independent of changes to residential and other property tax revenues.

In practice, increasing industrial property tax rates may not achieve additional revenues to the City. For more than ten years, the property tax assessment growth of industrial properties in the city has been declining. This is demonstrated in the exhibit below.

Exhibit 8.3 – City of Toronto Cumulative Property Tax Assessment



Source: City of Toronto

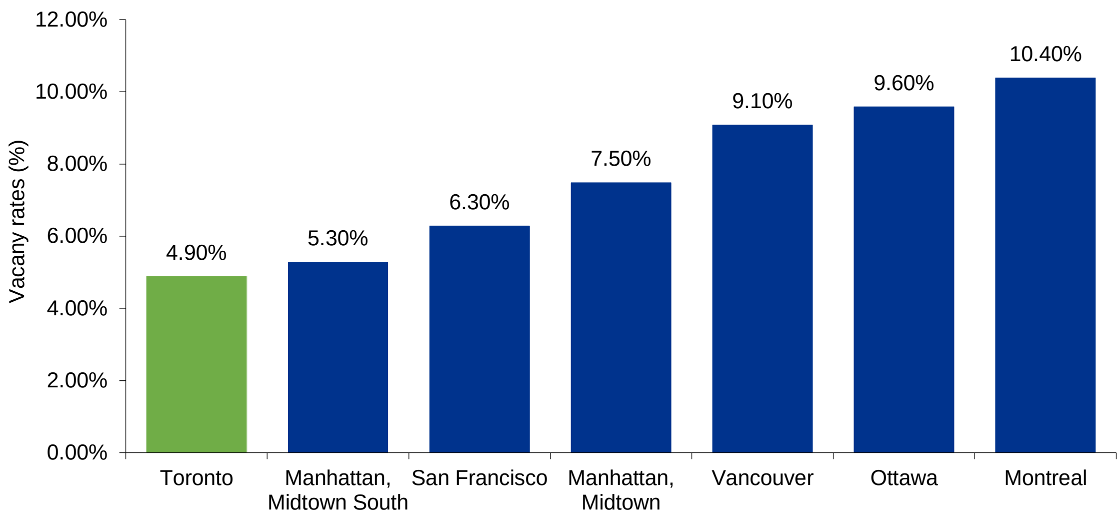
Increasing industrial property tax rates in an environment of declining assessment value growth may not be an effective way to generate revenues for the City.

Conversely, commercial properties in Toronto have shown positive, albeit modest, growth in assessed value over the past ten years, as demonstrated in Exhibit 8.3. This is due to healthy investment and occupier demand in Toronto's commercial real estate market, particularly in downtown Toronto.

From an investment perspective, the office market of downtown Toronto had sales volume of $668 million in the second quarter of 2016[66] and accounted for 52.5% of the entire GTA sales volume for the quarter.[67] Across the city, the total 2016 second quarter investment in the office market was $1.3 billion, which was a substantial increase in total transaction prices compared to the first quarter of 2016 ($452 million).[68]

From an occupier demand perspective, Toronto had the lowest office vacancy rate based on a sample of North American cities, dropping to 4.9% in the second quarter of 2016 from 5.3% in the first quarter.[69] The exhibit below demonstrates how Toronto's vacancies compare to these other cities, including markets like Midtown Manhattan and San Francisco, which are traditionally the strongest commercial markets in the U.S.

Exhibit 8.4 – Q2 2016 Vacancy Rates in Major North American Markets



Source: Kalinowski, T, 2016, Toronto's office vacancy rate lowest in North America: Report, Toronto Star Newspaper Ltd.

Toronto's office real estate market is particularly strong in downtown Toronto, with a vacancy rate of 2.8%.[70] Despite two new buildings and about 1.3 million square feet of office space being added to the office market by the second quarter of 2016, the total

[66] The majority of this amount ($654.5 million) was related to the sale of a 50% stake in Scotia Plaza.
[67] Colliers International, 2016, Greater Toronto Area Office Market , Second Quarter 2016
[68] Ibid
[69] Kalinowski, T, 2016, Toronto's office vacancy rate lowest in North America: Report, Toronto Star Newspaper Ltd., Available at: https://www.thestar.com/business/2016/07/20/torontos-office-vacancy-rate-lowest-in-north-america-report.html
[70] Colliers International, 2016, Greater Toronto Area Office Market , Second Quarter 2016

downtown Toronto vacant space did not increase drastically. Another 2.2 million square feet of space remains under construction, but much of this space is already pre-leased.[71]

These findings suggest that the City's commercial and office sector, particularly in the downtown core, has the capacity to generate greater revenues through commercial property tax rate increases, compared to industrial property tax increases.

[71] Ibid

9 Municipal Land Transfer Tax

9.1 Overview of Scheme Design

A land transfer tax is a revenue option that is widely-used across North America and beyond, and is applied when a property is sold. In Ontario, the land transfer tax is calculated as a percentage of the transaction price, with tiered rates by property value. It is paid by the purchaser of the property.

Effective in February 2008, the Municipal Land Transfer Tax ("MLTT") was implemented under the authority of COTA in parallel with the Ontario government's Land Transfer Tax ("LTT"). Toronto is the only municipality in Ontario to levy a MLTT.

In the City's 2016 budget, the MLTT was expected to generate revenues of $532 million, which represents approximately 5% of its tax supported operating budget. By comparison, the property tax represents the largest source of operating revenue at 33% of its tax supported operating budget.[72]

When purchasing property in the City of Toronto, the buyer pays both the provincial LTT and the MLTT at the rates presented in Exhibit 9.1.

Exhibit 9.1 – Ontario and Toronto Land Transfer Tax Rates, Effective January 1, 2017[73]

<table>
<tr><th colspan="7">Toronto's MLTT and Ontario's LTT Tax Rates</th></tr>
<tr><th rowspan="2">Value of Consideration</th><th colspan="3">Residential[74]</th><th colspan="3">All Other Properties</th></tr>
<tr><th>Toronto</th><th>Ontario</th><th>Total</th><th>Toronto</th><th>Ontario</th><th>Total</th></tr>
<tr><td>$0 - $55,000.00</td><td>0.50%</td><td>0.50%</td><td>1.00%</td><td>0.50%</td><td>0.50%</td><td>1.00%</td></tr>
<tr><td>$55,000.01 - $250,000.00</td><td>1.00%</td><td>1.00%</td><td>2.00%</td><td>1.00%</td><td>1.00%</td><td>2.00%</td></tr>
<tr><td>$250,000.01 - $400,000.00</td><td>1.00%</td><td>1.50%</td><td>2.50%</td><td>1.00%</td><td>1.50%</td><td>2.50%</td></tr>
<tr><td>>$400,000.00</td><td rowspan="3">2.00%</td><td>2.00%</td><td>4.00%</td><td rowspan="2">1.50%</td><td rowspan="3">2.00%</td><td rowspan="2">3.50%</td></tr>
<tr><td>>$ 2 million</td><td rowspan="2">2.50%</td><td rowspan="2">4.50%</td></tr>
<tr><td>>$40 million</td><td>1.00%</td><td>3.00%</td></tr>
</table>

Source: City of Toronto

[72] City of Toronto, 2016, Where your money goes, Available at: http://www1.toronto.ca/City%20Of%20Toronto/Strategic%20Communications/City%20Budget/2016/PDFs/Charts/WhereMoneyComesGoes_Full2016.pdf

[73] In November 2016, the Province introduced changes to its LTT structure. The rates presented reflect the new Provincial rates, that will come into effect January 1, 2017

[74] Residential properties are defined as properties with at least one, and not more than two, single family residences. All other properties refer to those with more than two single family residences, as well as non-residential (commercial & industrial) properties.

As demonstrated in the exhibit above, the City's MLTT is applied on a tiered rate basis and uses the same value thresholds as the LTT for setting the rates.[75] However, there are four instances where the City's rates are lower than the provincial rates:

- For Value of Consideration ("VOC") ranging from $250,000.01 to $400,000.00, the City's rate is 1.0% compared with Ontario's 1.5%, for both residential and non-residential transactions.
- For residential property transactions in excess of $2 million, the City's rate is 2% compared with Ontario's 2.5%.
- For non-residential property transactions with a VOC between $400,000 and $40 million, the City's rate is 1.5% compared with Ontario's 2.0%.
- For non-residential property transactions in excess of $40 million, the City's rate is 1.0% compared with Ontario's 2.0%.

In addition to this, both the MLTT and LTT offer a First-Time Home Buyers ("FTHB") rebate for purchasers who identify themselves as first-time home-owner. The rebate is automatically applied at the time of the purchasers' land transfer tax payment.

In November 2016, the Province announced its plans to double the maximum provincial exemption from $2,000 to $4,000 (corresponding to a LTT on a $368,000 home), effective January 1, 2017.[76] Currently. the maximum City exemption is $3,725 (corresponding to the MLTT on a $400,000 home).[77]

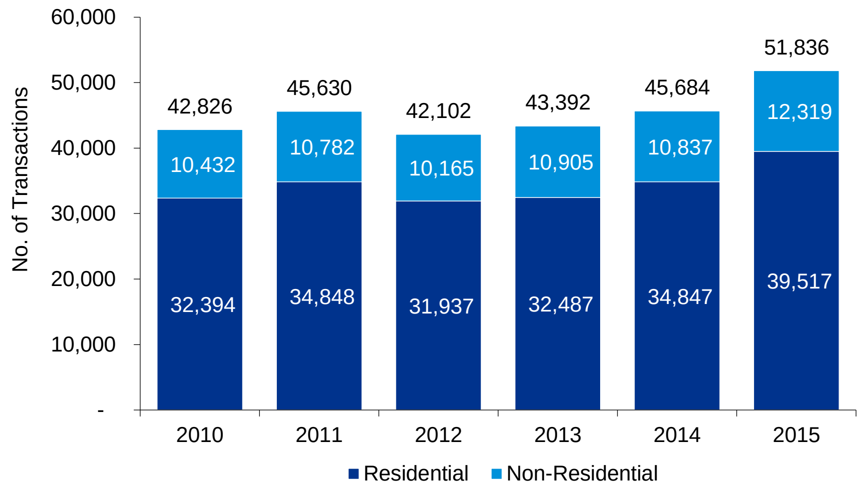
Given the above information, the City is considering four changes to the MLTT:

1. **Harmonize the MLTT to LTT rates for residential and non-residential transactions for VOC ranging from $250,000.01 to $400,000.00.** The MLTT rate would increase from 1% to 1.5%, for a total of 3% in land transfer taxes paid to the City and the Province in this tier. In this section of the report, we will refer to this change as the "Harmonization".

   The following exhibit presents the number of residential and non-residential transactions for VOC over $250,000 over the past 6 years:

[75] For any given transaction, the rates in each tier apply to the value of the transaction that falls within that tier. Thus, the first $50,000 in value associated with any residential transaction is taxed at a 0.50% rate by the City.
[76] Government of Ontario, November 2016, Ontario Helping First-time Homebuyers, Available at: https://news.ontario.ca/mof/en/2016/11/ontario-helping-first-time-homebuyers.html
[77] City of Toronto, June 2016, Updated Assessment of Revenue Options under the City of Toronto Act, 2006

Exhibit 9.2 - Residential and Non-Residential Transactions for VOC above $250,000



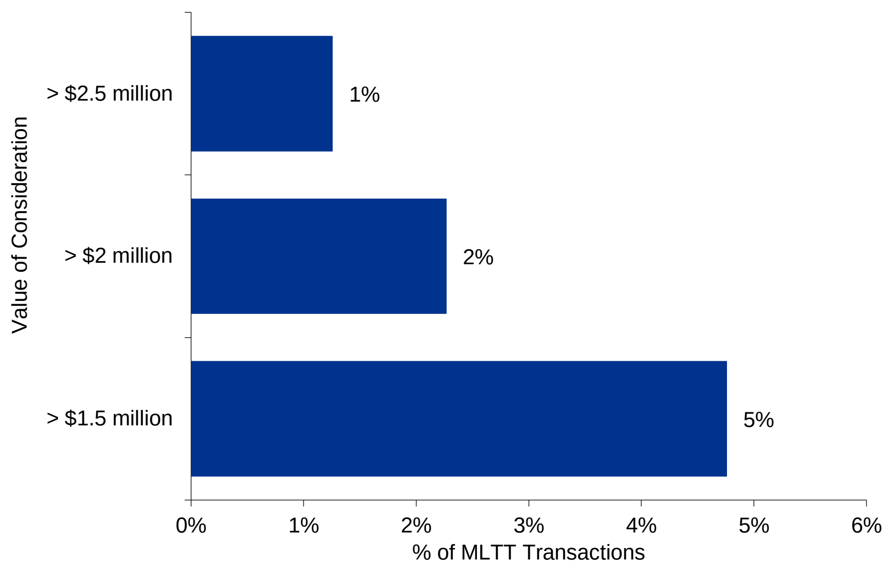
Source: City of Toronto

2. **Introducing a new MLTT tier for residential transactions with a VOC greater than $2 million and harmonize the rate with the Province.** In November 2016, the Province announced a new LTT tier for residential properties with a VOC greater than $2 million. Properties in this tier will be charged a LTT rate of 2.5%, effective January 1st, 2017.

   Currently, the City charges a MLTT rate of 2% for all residential properties above $400,000. This change would allow the City to apply a MLTT rate of 2.5% to all residential properties valued above $2 million. This would result in a total of 5% in land transfer taxes paid to the City and the Province in this tier. We refer to this as the "Luxury Tax".

   Based on the City's 2015 MLTT data, there were approximately 57,000 residential property purchases in Toronto. Of these transactions, 2% had a VOC above $2 million. The following graph presents the percentage of 2015 MLTT transactions at various VOC levels above $1.5 million.

Exhibit 9.3 - Percentage of MLTT transactions in Toronto at various VOC levels above $1.5 million (2015)

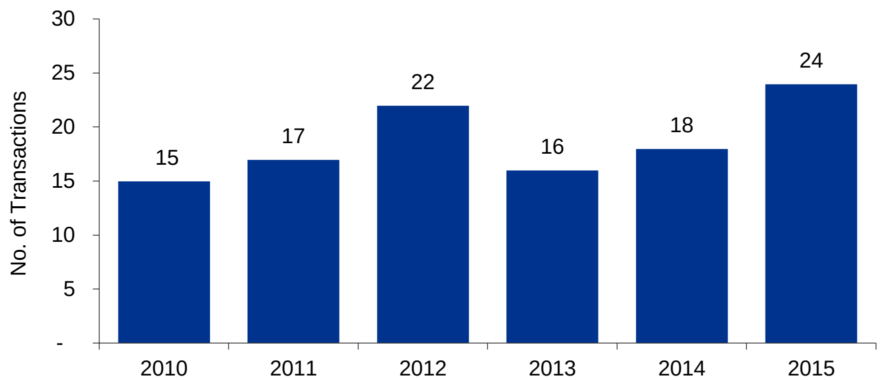


Source: City of Toronto

3. **Alignment of the MLTT and LTT rates for non-residential transactions for VOC greater than $400,000.** Here, the MLTT rate would increase from 1.5% to 2% for the portion of non-residential properties valued above $400,000 and increase from 1% to 2% for the portion of non-residential properties valued above $40 million. This would result in a total of 4% in land transfer taxes paid to the City and the Province in these tiers. We refer to this as the "ICI Capture".

   Based on the City's 2015 MLTT data, there were approximately 20,750 non-residential property purchases in Toronto. Of those, 1,700, or 8%, of transactions had a VOC greater than $400,000. In 2015, there were and 24 non-residential property transactions above $40 million. The following exhibit presents the number of non-residential transactions for VOC greater than $40 million over the past 6 years:

Exhibit 9.4 – Non-Residential Transactions for VOC greater than $40 million

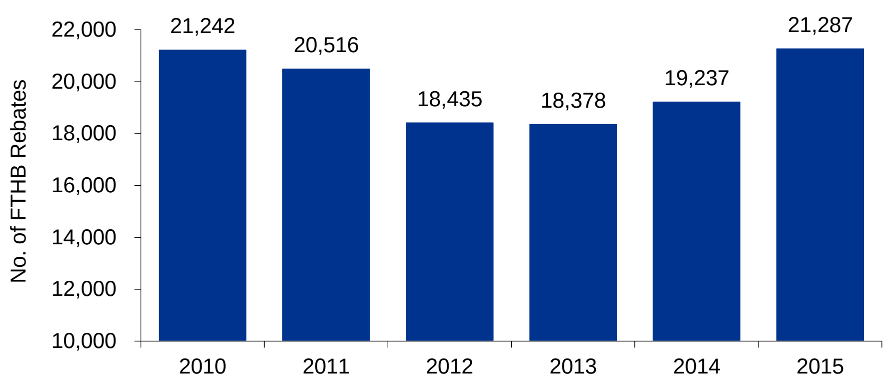


Source: City of Toronto

4. **Increasing the City's maximum FTHB rebate to $4,000 to match the Province's new FTHB rebate.** The total maximum FTHB rebate would increase from $7,725 ($4,000 from the Province, $3,725 from the City) to $8,000 ($4,000 from the Province and the City). We refer to this as the "Rebate Increase".

   The following exhibit presents the number of FTHB rebates over the past 6 years:

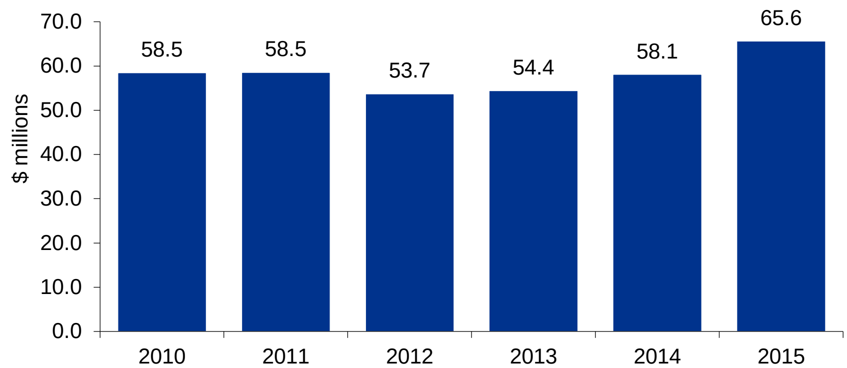
Exhibit 9.5 - Number of First-Time Homebuyer Rebates



Source: City of Toronto

The following exhibit presents the total value of FTHB rebates provided by the City over the past 6 years. This represents significant foregone revenue from the City, and will likely increase if the City chooses to increase its maximum FTHB rebate to $4,000.

Exhibit 9.6 – Total Value of FTHB Rebates Provided by the City ($ millions)



Source: City of Toronto

9.2 Economic and Social Impacts

9.2.1 Impacted Stakeholders

The Harmonization of the MLTT will impact any buyer of a residential or non-residential property valued at over $250,000. The maximum impact (of $750 per transaction) will be reached for any property with a value of $400,000 or more.[78] Given the average prices for various types of dwellings (as shown in the exhibit below), it is likely that virtually all purchasers of single-family dwellings in the City will face the maximum impact, as will most buyers of townhouses. Many condo buyers may face a somewhat lesser impact than the $750 amount if their properties do not exceed the $400,000 threshold.

[78] The maximum impact is equal to 0.5% times $150,000, where $150,000 is the value covered by the tier from $250,000 to $400,000.

Exhibit 9.7 – Average Home Prices in Toronto by Property Type ($)

Property Type	Average Home Prices in Toronto
Single-Family Detached	1,303,339
Single-Family Attached	902,137
Townhouse	687,809
Condominium Apartment	459,199
All Properties	**770,480**

Source: Toronto Real Estate Board, November 2016, GTA Realtors Release Monthly Resale Housing Market Figures

Most non-residential transactions are also likely to see the maximum increase of $750. The Harmonization of the MLTT will be paid by property owners, but likely will be ultimately passed down to small businesses (tenants) and their customers.

The Luxury Tax would directly impact home buyers that purchase a home valued above $2 million. As demonstrated in Exhibit 9.3, this represented 2% of residential property transactions in 2015.

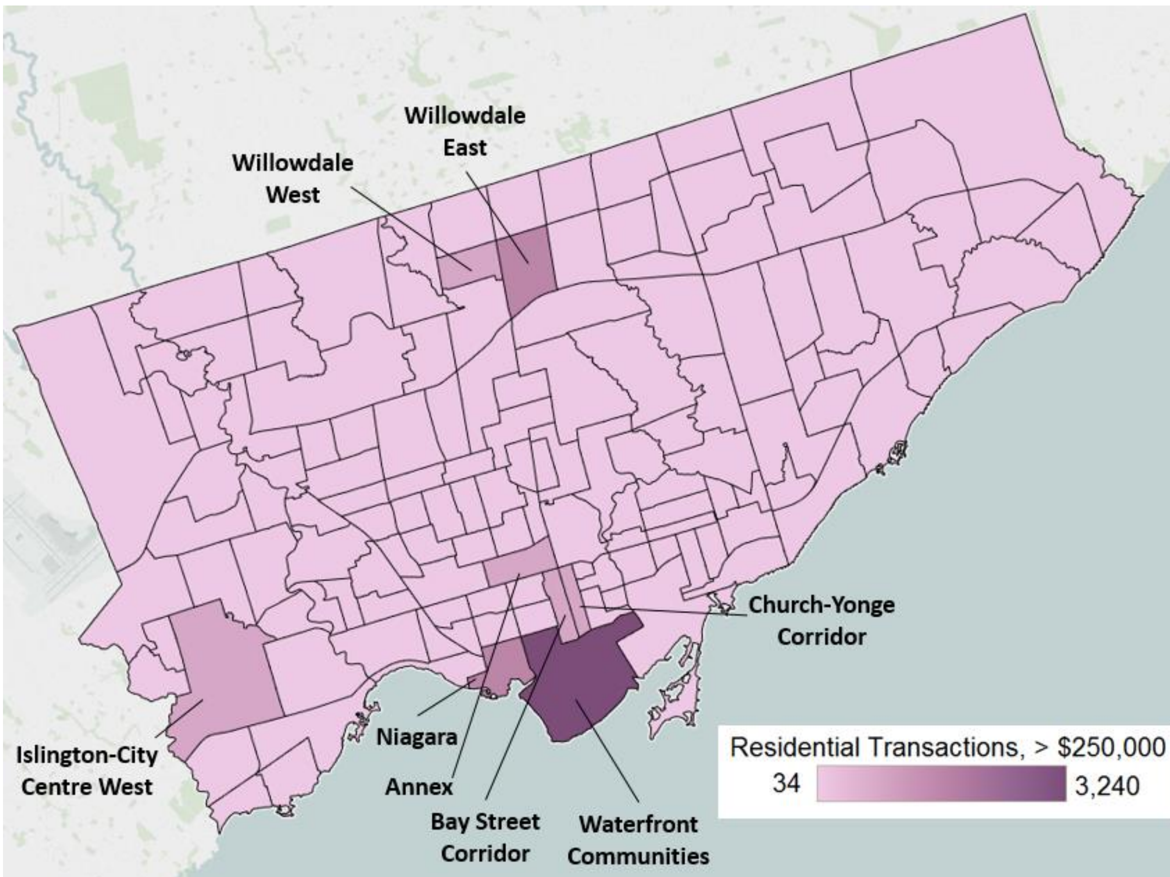
ICI Capture will impact prospective purchasers of commercial and industrial properties valued above $400,000. Although the MLTT rate increase will be paid by purchasers, the increase in MLTT payments will likely be passed down to businesses through marginal increases in rents or lease arrangements.

The Rebate Increase will positively impact prospective first-time home buyers. In 2015, the average value of residential properties purchased with a FTHB rebate applied was approximately $476,000. This is below the average home price in Toronto. First-time homeowners are likely to have lower incomes than homeowners overall because they are typically buying a home at an earlier point in their life and may not yet have reached their full earnings potential. In addition, first-time homeowners generally have not yet accumulated significant wealth, meaning that fees are a larger proportion of their asset base (which is typically why these types of rebate programs are offered in the first place). Lower income and lower wealth are consistent with the fact that the transaction value for homes purchased with a rebate is lower than for home transactions overall. It should be noted that first-time homebuyers may, on average, have higher household incomes than renters, although we have not examined data on this issue. Very low income households, who are generally not in a position to purchase a home, will not be impacted by this measure.

9.2.1.1 Location

The following exhibit presents a heat map of residential property transactions that had a VOC above $250,000 in 2015. Given housing price levels in Toronto, it is likely that a majority of residential transactions reached this threshold. Therefore the exhibit effectively shows the distribution of residential transactions.

Exhibit 9.8 – City of Toronto Residential Property Transactions for VOC above $250,000

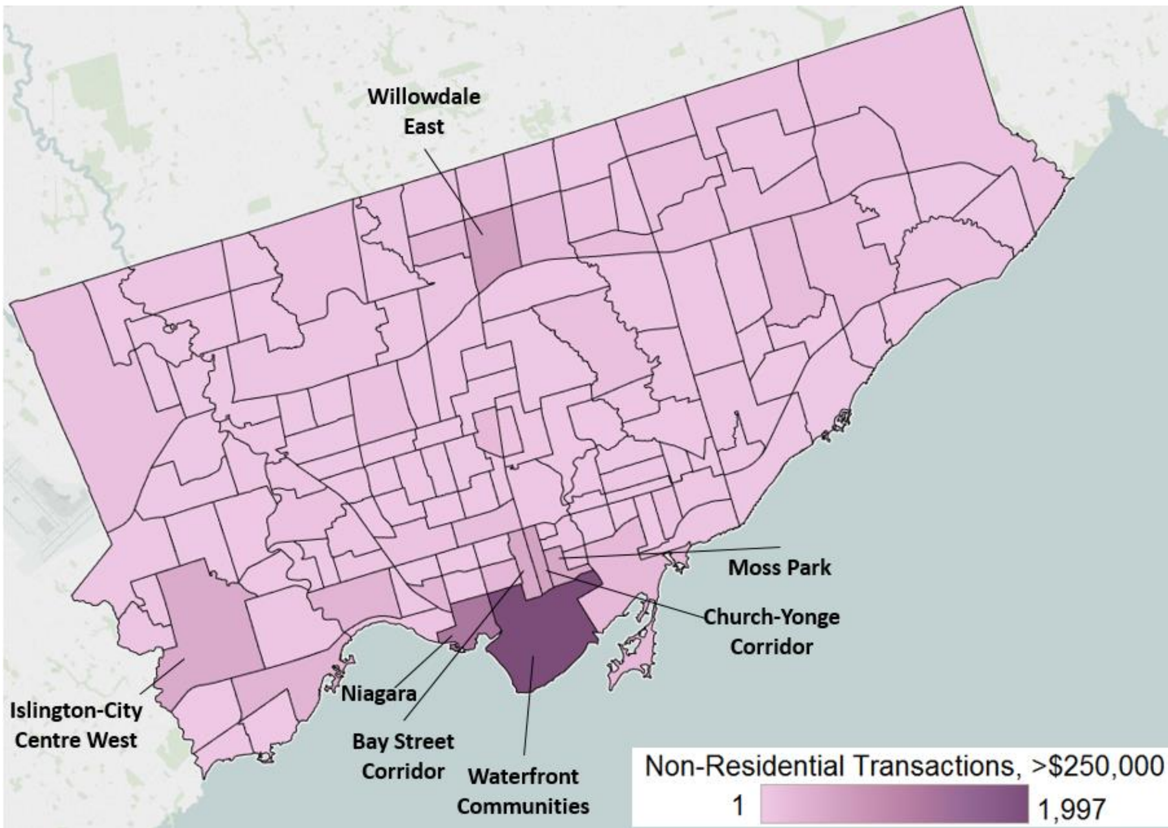


The strongest concentration of residential transactions that had a VOC above $250,000 were in the downtown core. In the Waterfront Communities Neighbourhood, there were 3,240 residential property transactions that fit this criteria. Second to this was the Neighbourhood of Niagara, with 1,528 residential property transactions with a VOC above $250,000. Other impacted neighbourhoods in the downtown core include Bay Street Corridor, Church-Yonge Corridor, and the Annex. The concentration of transactions in the downtown core reflects the high density of housing in this area, largely in the form of high-rise condominium buildings.

In Etobicoke, affected properties were concentrated in the Islington-City Centre West, with 833 residential transactions for properties with a VOC above $250,000. In North York, affected properties were concentrated in the Willowdale East and Willowdale West Neighbourhoods, with a combined total of 2,436 residential transactions that fit this criteria.

The following exhibit presents the heat map of non-residential property transactions valued above $250,000 in 2015.

Exhibit 9.9 – City of Toronto Non-Residential Property Transactions for VOC above $250,000

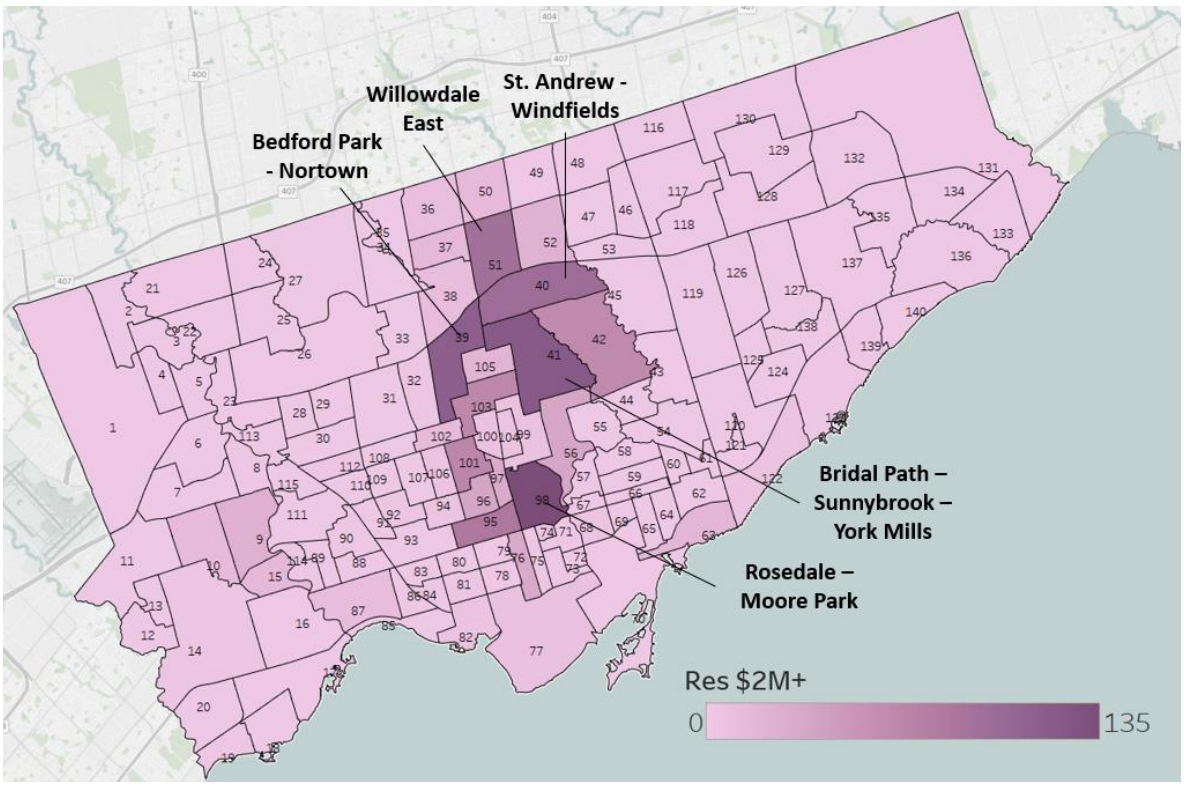


Once again, the strongest concentration of non-residential transactions that had a VOC above $250,000 was in the downtown core. In the Waterfront Communities Neighbourhood, there were 1,997 non-residential property transactions that fit this criteria. Second to this was the Neighbourhood of Niagara, with 1,253 non-residential property transactions with a VOC above $250,000. Other impacted Neighbourhoods in the downtown core include Bay Street Corridor, Church-Yonge Corridor, and Moss Park.

In Etobicoke, affected properties were concentrated in the Islington-City Centre West, with 444 non-residential transactions that had a VOC above $250,000. In North York, affected properties were concentrated in Willowdale East, with 596 non-residential transactions that fit this criteria.

For the Luxury Tax, the following exhibit presents a heat map of residential property transactions that had a VOC above $2 million in 2015.

Exhibit 9.10 - City of Toronto Residential Property Transactions for VOC above $2M



The strongest concentration of residential transactions that had a VOC above $2 million were in North York, Midtown and Uptown Toronto. In the Rosedale-Moore Park Neighbourhood, there were 135 residential property transactions that fit this criteria. Second to this was the Bridal Path-Sunnybrook, with 121 residential property transactions with a VOC above $2 million. Other impacted neighbourhoods from a Luxury Tax include Bedford Park, Willowdale East, and St. Andrew-Windfields.

Under the ICI Capture, there are two MLTT rates for non-residential properties that would be changed. First, the MLTT rate applied to non-residential properties valued between $400,000 and $40 million would increase from 1.5% to 2%. Second, the MLTT rate applied to non-residential properties valued above $40 million would be charged 2% instead of 1%. Thus, prospective buyers of non-residential property valued above $40 million would face the full impact from the first change, plus an additional 1% charge on the portion of the property that is valued above $40 million.

The following exhibits present heat maps of non-residential property transactions. The first shows the number of transactions involving non-residential properties with a VOC between

$400,000 and $40 million in 2015, while the second heat map presents the number of transactions that had a VOC above $40 million in 2015.

Exhibit 9.11 - City of Toronto Non-Residential Property Transactions for VOC between $400,000 and $40M

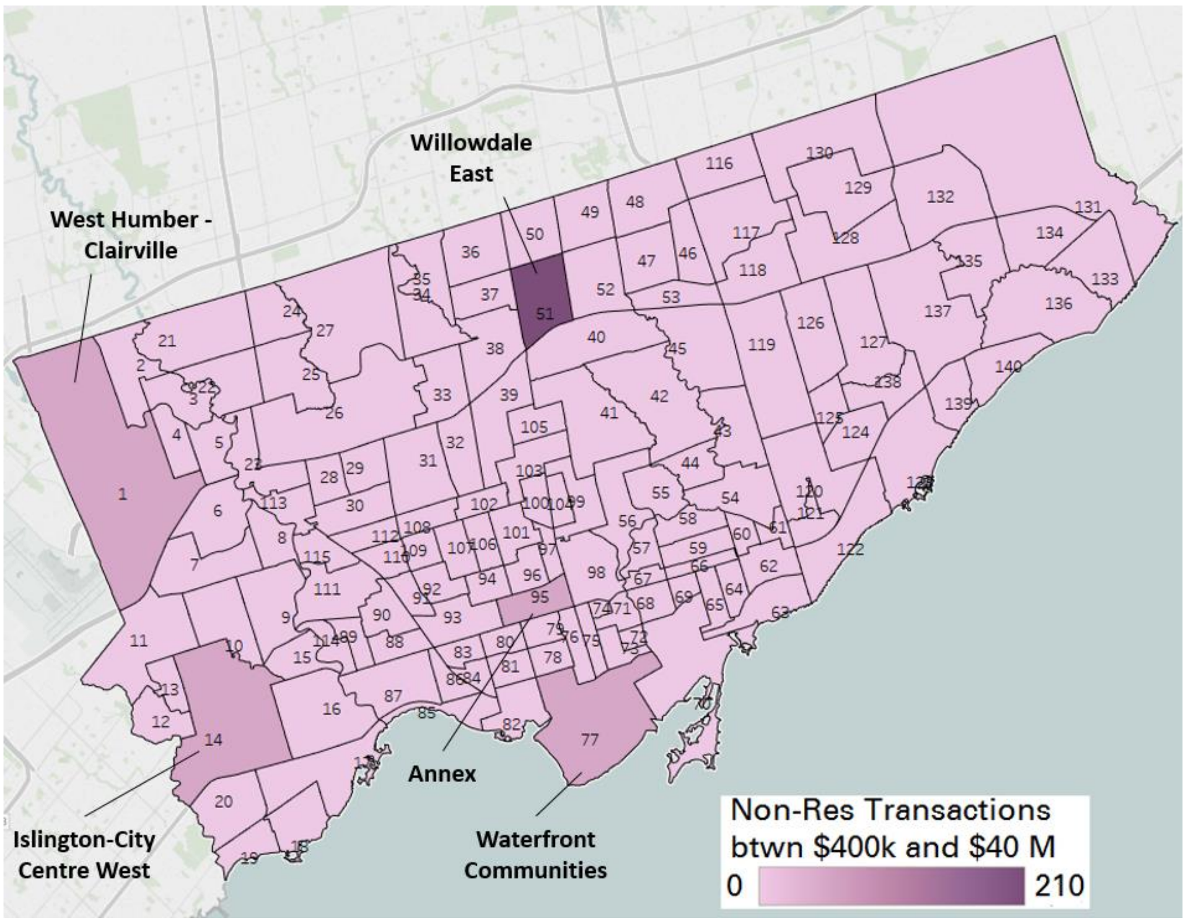
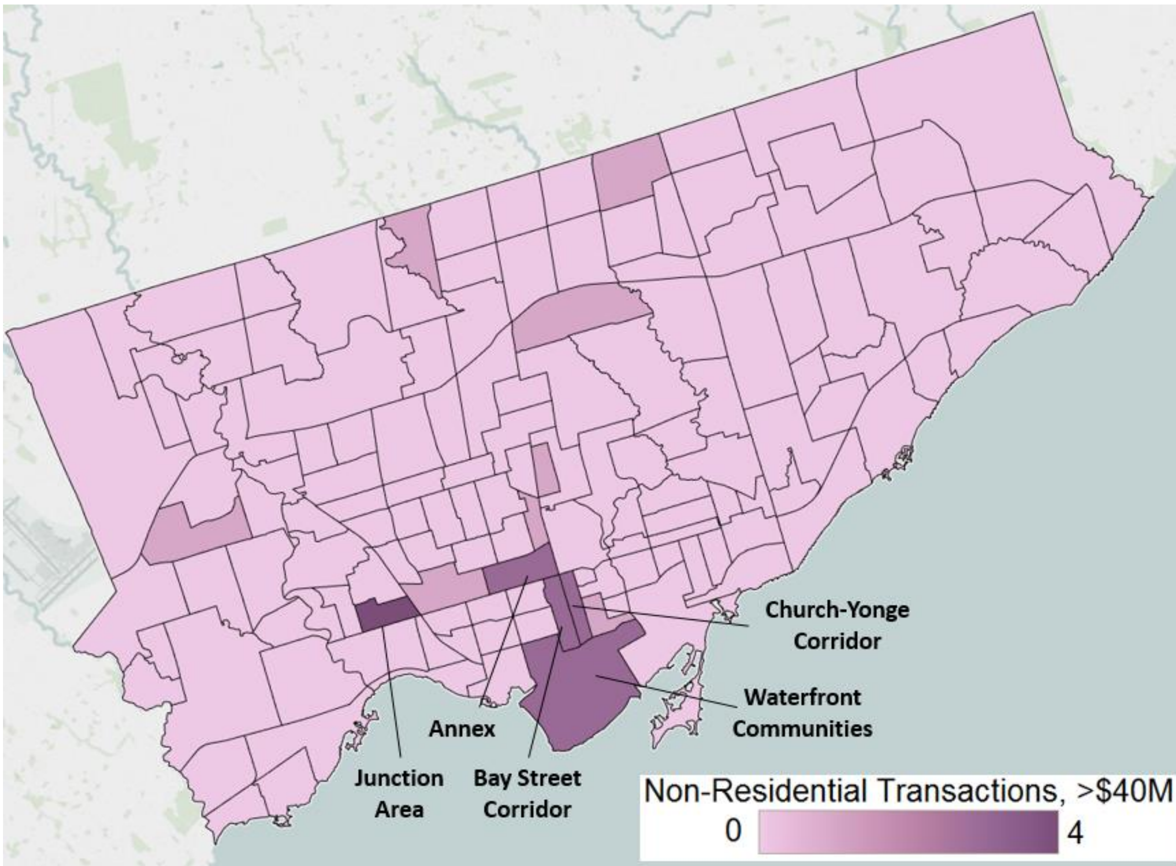


Exhibit 9.12 – City of Toronto Non-Residential Property Transactions for VOC above $40M

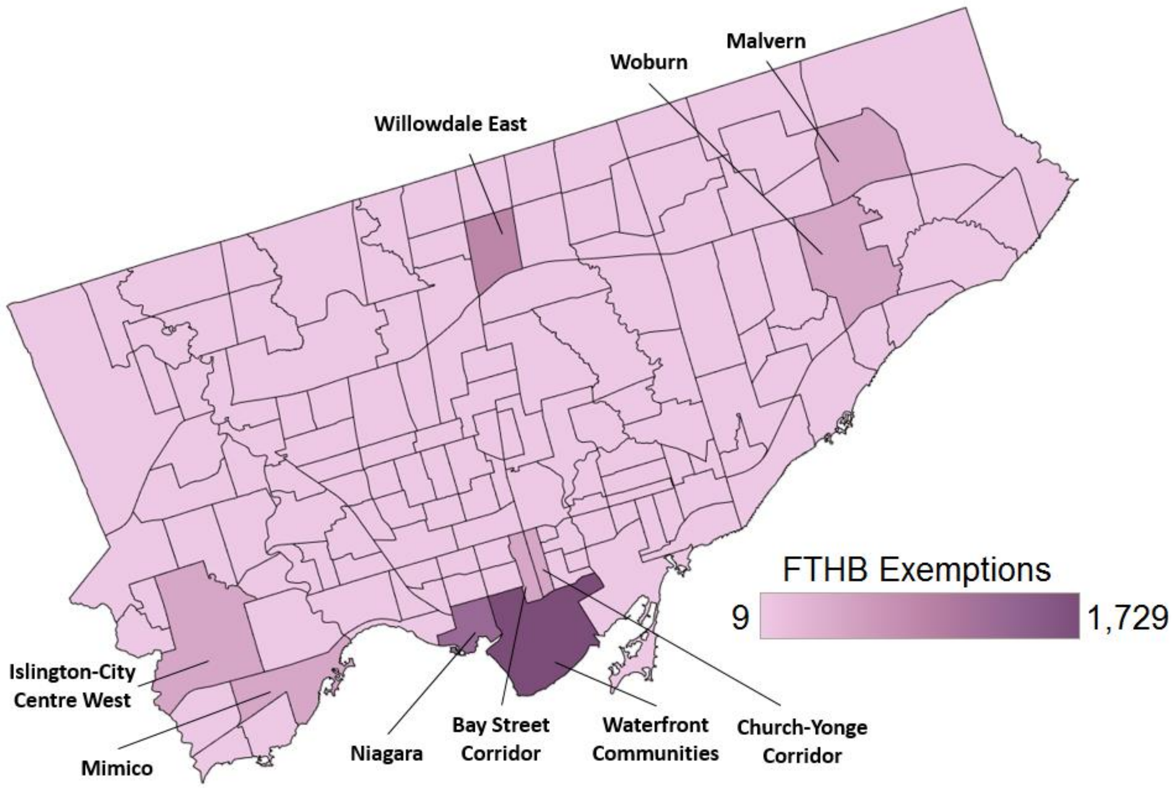


In 2015, there were approximately 1,670 transactions of non-residential properties valued between $400,000 and $40 million. As demonstrated in Exhibit 9.11, the strongest concentration of transactions valued between $400,000 and $40 million was in Willowdale East, with 210 transactions fitting this criteria.

In 2015, there were 24 non-residential property transactions above $40 million. These transactions were concentrated in the downtown core, where 16, or 67% were in the Neighbourhoods labeled in Exhibit 9.12.

For the Rebate Increase, the following exhibit presents a heat map of FTHB exemptions applicable to property transactions in 2015.

Exhibit 9.13 – City of Toronto FTHB Exemptions



In 2015, the strongest concentration of FTHB transactions was in the downtown core. In the Waterfront Communities Neighbourhood, there were 1,729 FTHB with an average VOC of approximately $420,070. Second to this was the Niagara Neighbourhood, with 1,042 FTHB transactions with an average VOC of approximately $395,150. Other impacted Neighbourhoods in the downtown core include the Bay Street Corridor and the Church-Yonge Corridor.

In Etobicoke, FTHBs were concentrated in the Islington-City Centre West and Mimico Neighbourhoods. These Neighbourhoods had a total of 909 FTHB transactions and a simple average of VOC between the two Neighbourhoods of approximately $384,650. In North York, FTHBs were concentrated in Willowdale East, with 771 FTHB transactions and an average value assessment of approximately $467,270. Lastly, in Scarborough, FTHBs were concentrated in Woburn and Malvern, with 732 FTHB transactions and a simple average of VOC between the two Neighbourhoods of approximately $379,550.

9.2.1.2 Ability to Pay

Given the average prices for Toronto homes by dwelling type (shown in Exhibit 9.6), most purchasers of single-family dwellings in the City will face the maximum impact ($750) from the Harmonization of the MLTT, as will many buyers of townhouses and condos. Impacted households will have varying abilities to pay for the increased cost of up to $750. Households that have the ability to pay for the increase in the MLTT will likely choose to continue purchasing homes in the city. While the increase in MLTT is a small percentage of the total transaction cost, some households with a lower ability to pay may look to purchase homes in neighbouring jurisdictions.

The Luxury Tax is intended to impact households that have a high ability to pay higher land transfer taxes to the City.

For the ICI Capture, the increase in MLTT payments will be paid by prospective ICI property owners but will likely be passed down to tenants (businesses) through marginal increases in rents or lease arrangements. Given the wide range of properties impacted by the ICI Capture, impacted stakeholders will have varying abilities to pay. Businesses that have the ability to absorb the increase to the MLTT will likely choose to continue establishing locations in the city. Businesses with a lower ability to pay (i.e., small businesses) may look to establish locations in neighbouring jurisdictions.

First-time home buyers are likely to have lower incomes or less wealth than other prospective home buyers. Thus, the Rebate Increase to the MLTT provides first-time home buyers with additional savings on the land transfer taxes paid to the City.

9.2.2 Impact on City's Competitiveness

The Harmonization of the MLTT may dampen the demand for properties valued above $250,000 and lower the attractiveness of the City's real estate market for prospective homeowners. Given that property values are typically higher in Toronto, relative to surrounding municipalities, some prospective homeowners may look to avoid paying higher land transfer taxes by purchasing houses in other municipalities in the GTA. In addition to this, since the City is the only municipality in Ontario to levy a MLTT, increasing the rate for properties valued over $250,000 further amplifies the competitive disadvantage of the Toronto residential real estate market. This is especially true for individuals/households looking to purchase homes near the city boundary.

Although some reduction in demand may occur from the Harmonization, as noted above, overall impacts are likely to be minimal given that these changes represent only minor adjustments to the existing MLTT rates. It is likely that the impact on the City's competitiveness would be greater if the MLTT were being introduced as a new revenue option.

The Luxury Tax may dampen the demand for properties valued above $2 million; however, it can be expected that prospective homebuyers for these luxury homes would be high income earners and/or have the wealth to be able to pay the additional taxes.

The ICI Capture to the MLTT would likely impact the competitiveness of ICI real estate in the city compared to neighbouring jurisdictions. The portion of non-residential properties valued between $400,000 and $40 million would face a MLTT rate increase of 0.5% (from 1.5% to 2%). The full impact of this change is $198,000. In other words, prospective buyers of non-residential property valued between $400,000 and $40 million could pay up to an additional $198,000. Prospective buyers of non-residential property above $40 million would face the full impact from the first change of the ICI Capture ($198,000), plus the additional 1% charge on the value of the property above $40 million.

Although some reduction in demand may occur from the ICI Capture, as noted above, overall impacts are likely to be minimal given that these changes represent minor adjustments to the existing MLTT rates. Similar to the Harmonization, it is likely that the impact on the City's competitiveness would be greater if the MLTT were being introduced as a new revenue option.

The Rebate Increase will likely increase the competitiveness of the city's residential real estate market for first-time home buyers, against neighbouring jurisdictions.

9.2.3 Impact on Business and Economic Activities

The proposed changes to the MLTT will have various impacts on the city's overall business and economic activities.

It is likely that the Harmonization to the MLTT will have a minimal impact on the city's attractiveness to current and prospective residents and businesses. This is because the full impact of the Harmonization is $750 and represents only minor adjustments to the existing MLTT rates.

Given that the Luxury Tax will impact only a small percentage (2%) of home buyers, it is unlikely that the Luxury Tax will have a significant impact on the city's attractiveness to residents and businesses.

To the extent that the additional costs from the ICI Capture will be passed along by property owners to its tenants and businesses occupying the space, these changes will likely impact 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 ICI Capture. The extent of the ICI Capture on the city's attractiveness to residents would be based on how much of the costs incurred by businesses are passed down to their customers. However, this impact is likely to be negligible.

The Rebate Increase will likely increase the attractiveness of the city's residential housing market for first-time home buyers and increase residential real estate activity in the city.

9.2.4 Social Impacts

The proposed changes to the MLTT could have positive and negative social impacts. It can be argued that the additional charge to homes valued above $250,000, due to the Harmonization of the MLTT, has negative social impacts. This is because the maximum impact ($750) will be reached for any property with a value above $400,000. Given that the average price for a home in Toronto is $770,480, virtually all purchasers of single-family dwellings in the City, as well as many buyers of townhouses and condos, will face the maximum impact. Thus, the additional $750 charge reflects a larger percentage of income from lower-income households.

The Luxury Tax will have minimal social impacts since it affects only a small percentage of home buyers who likely have the ability to pay a higher MLTT.

It can be argued that the ICI Capture has negative social impacts. This is because higher land transfer taxes will likely be passed down to business, impacting small businesses that are more price-sensitive to higher rents or lease arrangements.

Lastly, the MLTT Rebate Increase from $3,725 to $4,000 will likely have positive social impacts since first-time homebuyers typically have lower incomes and less wealth than other homeowners. Overall, the Rebate Increase will promote new home ownership in the city.

9.3 Summary of Considerations in Implementing the Revenue Option

It is likely that some of the proposed changes to the MLTT will have positive and negative economic and social impacts for the city. The Harmonization will increase the costs for prospective homeowners and for lower income households, this increased cost will represent a larger percentage of their income. The Rebate Increase will provide some additional financial support for first-time home buyers and may somewhat offset the additional costs related to the Harmonization. The Luxury Tax will have a minimal economic and social impacts on the City.

The ICI Capture will likely have the largest social and economic impact to the city, relative to other proposed MLTT changes. This is because there is a wide range of properties impacted by the ICI Capture, and the impacted stakeholders will have varying abilities to pay. Although some reduction in ICI real estate demand may occur from the ICI Capture, as noted above, overall social and economic impacts are likely to be minimal, given that these changes represent minor adjustments to the existing MLTT rate.

Overall, the City is continuing to experience high demand for both residential and non-residential real estate which suggests that prospective property owners would be willing to continue buying properties in the city should these adjustments to the MLTT be implemented.

9.4 Potential Adjustments to the Existing MLTT

In this section, we review other potential adjustments to MLTT, including:

1. Canadian Residency Test for the FTHB Rebate; and
2. VOC Threshold for the FTHB Rebate.

9.4.1 Canadian Residency Test for the FTHB Rebate

9.4.1.1 Design Scheme

The City may consider a Canadian Residency Test for the FTHB (the "Canadian Residency Test"), similar to British Columbia. To qualify for a full FTHB property transfer tax exemption in B.C., applicants must:

- be a Canadian citizen or permanent resident;
- have lived in B.C. for 12 consecutive months immediately before the date of registration or have filed at least 2 income tax returns as a B.C. resident in the last 6 years;
- have never owned an interest in a principal residence anywhere in the world at any time; and
- have never received a first time home buyers' exemption or refund.[79]

In the spring of 2016, B.C. introduced new citizenship disclosure requirements for property transfer tax applications, including FTHB exemption applications.[80] Applicants must verify their Canadian citizenship or permanent residency using official government issued identification. Applicants' social insurance number must also be collected and verified against a T4 Statement or Canada Revenue Agency Notice of Assessment.[81] If the applicant

[79] Government of British Columbia, 2016, First Time Home Buyers' Program, Available at: http://www2.gov.bc.ca/gov/content/taxes/property-taxes/property-transfer-tax/understand/first-time-home-buyers
[80] Government of British Columbia, 2016, B.C. Budget Tax Changes, Available at: http://www2.gov.bc.ca/gov/content/taxes/audit-ruling-appeal/budget-changes
[81] Government of British Columbia, Legal Professionals, Available at: http://www2.gov.bc.ca/gov/content/taxes/property-taxes/property-transfer-tax/file/legal-professionals

provides false declarations of the FTHB requirements listed above, he or she may be subject to a penalty equal to double the property transfer tax.[82]

9.4.1.2 Impacted Stakeholders

The intention of adding a Canadian Residency Test to the FTHB Rebate eligibility criteria is to help keep residential property ownership within the city affordable for first-time purchasers who are already residents. To date, residency status is not required for the purpose of registration of conveyances of land in Ontario. Data on foreign first-time home purchases in Toronto was not made available for this report. If the Canadian Residency Test is put in place, it may reduce the demand for residential real estate in Toronto from non-permanent residents.

9.4.1.3 Economic and Social Impact in Toronto

In the spring of 2016, B.C. introduced a number of changes to the property transfer tax structure in its budget. These changes included:

- New citizenship disclosure requirements for property transfer tax applications;
- A new property transfer tax rate of 3% on the portion of the fair market value greater than $2 million;[83]
- An additional 15% tax on the fair market value of any residential property acquired by non-permanent residents, in addition to the existing property transfer fee; and
- A Newly Built Home Exemption that reduces or eliminates the amount of property transfer tax individuals pay if they purchase a newly built home.[84]

Following the implementation of changes to the property transfer tax structure in B.C, home sales in Vancouver dropped 26% in August 2016, compared to the same month in the prior year.[85] In addition to this, the average price of a detached Vancouver home fell by 16.7% between July and August 2016.[86] Housing prices of attached homes and apartments fell by

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[82] Government of British Columbia, 2016, First Time Home Buyers' Program, Available at: http://www2.gov.bc.ca/gov/content/taxes/property-taxes/property-transfer-tax/understand/first-time-home-buyers

[83] Originally, the portion of properties valued above $200,000 were charged a property transfer tax of 2%

[84] Government of British Columbia, 2016, B.C. Budget Tax Changes, Available at: http://www2.gov.bc.ca/gov/content/taxes/audit-ruling-appeal/budget-changes

[85] Real Estate Board of Greater Vancouver, August 2016, Monthly Statistical Reports, Available at: http://www.rebgv.org/monthly-reports?month=August&year=2016

[86] Huffington Post, September 2016, Vancouver Average Detached Home Prices See Worst Slide In 39 Years, Available at: http://www.huffingtonpost.ca/2016/09/02/vancouver-detached-home-price-crash-housing_n_11837936.html

8.6% and 7.8%, respectively, in the same time frame.[87] It is unclear how much the decline in home sales and prices in Vancouver was attributable to the new citizenship disclosure requirements, compared to other changes made to the property transfer tax structure; however, the year-over-year drop in the number of sales and the reduction in housing prices from July 2016 to August 2016 were significant.

It can be expected that the implementation of a similar Canadian Residency Test will dampen demand for housing by first-time home buyers who are not permanent residents. This reduced demand could lead to a decrease in the number of home sales in Toronto or potentially reduce housing prices. A reduction in sales volume and decrease in housing prices would have a negative impact on the existing MLTT revenues received by the City.

9.4.2 VOC Threshold for the FTHB Rebate

9.4.2.1 Design Scheme

The City may consider implementing a VOC Threshold for the FTHB Rebate (the "VOC Threshold"). This would mean that first-time home buyers who purchase properties with a total value above the threshold would not be eligible for the rebate.

In B.C., the VOC Threshold is set at $500,000.[88] For properties less than $475,000, a full FTHB exemption on property transfer taxes is applied. As property values increase from $475,000 toward $500,000 the exemption gradually decreases to zero.

9.4.2.2 Impacted Stakeholders

The VOC Threshold directly impacts first-time home buyers who purchase a home valued above a certain threshold. The extent to which first-time home buyers are impacted depends on the value that is set as the threshold.

Based on the City's 2015 MLTT data, approximately 21,000 MLTT transactions were eligible for a FTHB Rebate. Of this amount, 90% of these transactions had a VOC below $750,000. Thus, if the VOC Threshold was set at $750,000 in 2015, approximately 10% of first-time home buyers would be impacted. Similarly, if the VOC Threshold was set at $500,000, approximately one-third of first-time home buyers would be impacted based on 2015 figures.

The following graph presents the percentage of FTHB transactions at various VOC levels.

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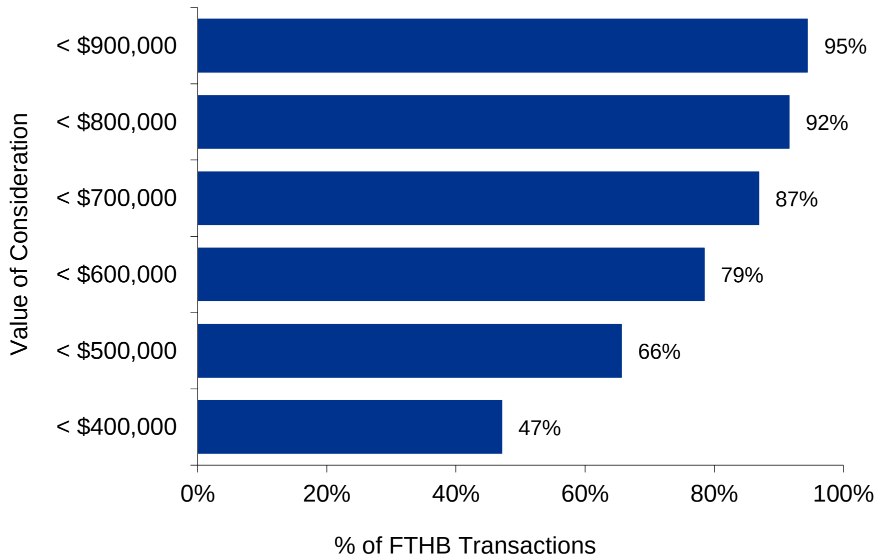
[87] Ibid

[88] Government of British Columbia, 2016, First Time Home Buyers' Exemption Amounts, Available at: http://www2.gov.bc.ca/gov/content/taxes/property-taxes/property-transfer-tax/understand/first-time-home-buyers/current-amount#current-exempt

Exhibit 9.11 - Percentage of FTHB transactions in Toronto at various VOC levels (2015)



Source: City of Toronto

9.4.2.3 Economic and Social Impact in Toronto

The extent of the economic and social impact of a VOC Threshold depends on where the threshold is set. The VOC Threshold may dampen the demand for properties valued above the set threshold. First-time home buyers that are interested in purchasing a home that is near the threshold value may choose to limit their purchase prices to the VOC Threshold in order to be eligible for the FTHB Rebate.

The VOC threshold is unlikely to have a significant impact on economic business activities. From a social impact perspective, the VOC Threshold will impact a specific demographic of first-time homebuyers. The VOC Threshold will create an additional barrier to new home ownership, and the number of impacted stakeholders will be dependent upon the level at which the threshold is set.

10 Summary of Economic Assessment for Selected Revenue Options

This section provides a summary of the economic assessments performed for selected revenue options. The specific revenue options summarized in the table that follows are:

- Alcohol tax;
- Hotel tax;
- Parking levy;
- Parking sales tax;
- Graduated property tax; and
- Adjustments to the existing Municipal Land Transfer Tax ("MLTT").

In presenting impacts for the MLTT, we have assessed the various adjustments collectively. This reflects our assessment that the stakeholders impacted and economic impacts are largely the same under each of the various options for adjustment.

For each revenue option, the table presented in this section provides a summary of the key dimensions of the economic and social impact assessment that we have performed. The table provides a summary of the following:

- *Key Impacted Stakeholders* – who is most likely to end up paying the new costs associated with the option and who will likely collect the tax.
- *Impact on Key Stakeholders* – the potential impact of the option on the stakeholders that are most likely to pay the new tax.
- *Broader Economic Impacts* – the potential impact of the option on business and economic activities across communities within the city, including impact on the ability to attract business, visitors, and new residents.
- *Social Impacts* – consideration of whether implementing the revenue option assists with the achievement of social goals and outcomes.

For the purpose of presenting the summary analyses in the table below, we have grouped the revenue options into two distinct categories:

1) Specialty taxes – these are sales taxes that target specific activities such as alcohol purchases, hotel accommodations and paid parking.
2) Taxes on real property – this includes changes to the existing property tax structure and Municipal Land Transfer Tax system, along with the implementation of a parking levy.

Exhibit 10.1 – Summary of Stakeholders and Impacts for Selected Revenue Options

Revenue Option	Key Impacted Stakeholders	Impact on Key Stakeholders	Broader Economic Impacts	Social Impacts
Specialty Taxes				
Alcohol Tax	Alcohol retailers in Toronto (LCBO, Beer Store and grocers) and the individuals purchasing alcohol from those retailers.	May lead to shifting alcohol purchases outside of Toronto (extent dependent on level of taxation). Potential for reduced alcohol sales at retailers near the city border; could lead to relocation of some LCBO / Beer Stores outside of Toronto.	To the extent that alcohol retailers relocate outside of the city, this may impact employment in the city. In some areas of the city, these retailers are "anchor tenants" for strip malls; their relocation could adversely impact surrounding businesses and property values. Overall, it is unlikely to materially impact the City's ability to attract new business, visitors or residents.	An alcohol tax can act as a means for reducing alcohol consumption and abuse, to the extent that the tax rate is substantial enough to reduce demand. The potential for this social impact increases as the alcohol tax rate increases (although economic impacts would also increase).
Hotel Tax	Hotels and private short-term rentals located in Toronto, as well as individuals staying in short-term overnight commercial accommodations (both residents and non-residents).	Decreases competitiveness of hotels in the city relative to those in neighbouring jurisdictions (particularly near the airport where Toronto hotels are directly competing with hotels nearby).	Likely to have a small adverse impact on the city's overall economic activities, to the extent that a hotel tax would make the city a less attractive destination for tourism (particularly leisure tourism, which tends to be more price-sensitive than business travel). Implementing the tax on short-term private rentals (e.g., Airbnb) in addition to hotels would level the playing field for hotels operating in areas where there is a high concentration of short-term rental locations,	A hotel tax is not expected to have a material impact on social outcomes or behaviour.

Revenue Option	Key Impacted Stakeholders	Impact on Key Stakeholders	Broader Economic Impacts	Social Impacts
			such as Toronto's downtown core.	
Parking Sales Tax	Parking operators and users of paid commercial parking in the city.	Charges can likely be passed along by paid parking operators to consumers without experiencing significant demand reduction; these individuals have already made the decision to use paid parking and are unlikely to be deterred by a marginal cost increase.	Most of the tax burden would fall on major commercial districts where paid parking is generally already in place. From a retail perspective the scheme of a parking levy may reduce the competitive position of downtown businesses to elsewhere. Overall, it is unlikely that a parking sales tax would have a material impact on the City's ability to attract new business, visitors or residents.	Most consumers are unlikely to change their car use behaviour due to a marginal increase in parking cost. To the extent that the tax reduces the number of vehicles on the road (thereby reducing congestion), it may encourage some drivers to walk, cycle, take public transit or car pool.
Taxes on Real Property				
Graduated Property Tax	Owners and lessees of high-value residential properties.	The City's current residential property tax rates are among the lowest in the GTA, suggesting additional taxes can be levied without hampering competitiveness of City relative to nearby jurisdictions. A graduated rate may dampen the demand for, and hence prices (and potentially new building activity) of, high-value residential properties in the city, but the impact	Overall, it is unlikely to have a material impact on economic and business activities given that the tax is borne by residents instead of businesses. Could theoretically have a small second-order impact on businesses by making Toronto a less desirable location for high-income employees, thereby making it harder to attract talent to the City. Overall, it may have some impact on the decision to live in Toronto but it is not likely to be material.	Likely no social impact, since burden is borne by higher-income residents who have a greater ability to pay.

Revenue Option	Key Impacted Stakeholders	Impact on Key Stakeholders	Broader Economic Impacts	Social Impacts
		is expected to be minimal.		
Adjustments to MLTT	Prospective homebuyers (incl. first-time homebuyers and non-permanent residents) and buyers of non-residential property.	While these potential changes would increase the transaction costs associated with purchasing a home in Toronto, it is likely to have a minimal impact on the demand for housing in Toronto given that these are only minor adjustments to the existing MLTT rates. The impact would likely be greater if the MLTT was being introduced as a new revenue option.	Minimal impact on economic and business activities is expected. The additional costs associated with the adjustments to the MLTT are a low percentage of the overall transaction costs and hence it is unlikely to have a significant impact on the demand for Toronto housing; however, it may influence the timing of transactions with buyers attempting to make purchases prior to implementation of the changes.	The adjustments will increase the transaction costs for most property purchases. Changes related to non-permanent resident transactions will likely create an additional barrier to home ownership for these individuals; however, the harmonization of the FTHB rebate with the new Provincial rebate may help first-time buyers to purchase a residence in the city.
Parking Levy	Owners of commercial, industrial and retail properties in the city that provide parking. Likely to be passed on to customers through increased parking fees (where paid parking exists), or to tenants, where unpaid parking exists, through other means (e.g., increased rent costs).	Potential to decrease the competitiveness of Toronto businesses, particularly those with unpaid parking or who are located near the municipal border. Small businesses may struggle to pay the increased costs because they have fewer financial resources and could be more easily impacted by competitive pressures.	Likely to dampen economic growth in the commercial and industrial sectors and may impact the decision of some businesses to locate in Toronto; largest impact will be on small businesses with unpaid spaces located near the municipal border who may choose to relocate entirely. Could be perceived unfavourably by businesses because it is essentially double taxation on property for commercial and industrial owners.	Potential for a slight reduction in the number of vehicles on the road if availability of unpaid parking falls (through conversion of unpaid parking to paid parking), thereby reducing congestion and encouraging some drivers to walk, cycle, take public transit or car pool.

11 Auto Rental Tax

11.1 Background

An auto rental sales tax is a daily 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 rental car companies, including both brick-and-mortar and online business, on behalf of the City. Given that this revenue option is being considered by the City of Toronto, the fee would only be applicable to vehicle rentals from establishments located within the city limits.

In other jurisdictions, the revenues collected through these fees are typically dedicated to improving the transportation infrastructure and network within the jurisdiction that it is implemented. If a fixed daily fee were applied to traditional rental services, this daily fee would need to be prorated for companies that rent vehicles by the hour.

The City of Toronto does not currently have the authority to implement an auto rental tax and would have to request the Government of Ontario to either change existing legislation or apply for an exemption to facilitate implementation.

11.2 Implementation Considerations

Through discussions with representatives from the Associated Canadian Car Rental Operators, it was indicated that an auto rental tax can be biased towards local residents. They indicated that 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 who choose not to own their own fleet. The representatives also indicated that visitors, although a source of revenue, are not their largest customer segment. As a result, a material portion of the tax likely will be borne by middle and lower income Toronto residents who cannot afford to own their own vehicle and only rent when necessary.

In addition, Toronto Pearson International Airport is not located within the jurisdictional boundaries of the City of 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, those visitors will not be impacted by a Toronto auto rental tax. As a result, the percentage of local residents versus tourists being taxed will be even further distorted and Torontonians will likely bear the majority of the tax burden.

Local auto rentals are often placed by insurers on behalf of local residents who need a temporary replacement vehicle. An auto rental tax places a small upward pressure on insurers to raise their premiums on auto rental claims. The Government of Ontario (the "Province") has indicated that high insurance premiums are already a major concern to the

Province. It has been working to lower insurance rates in the past year by introducing the new *Ontario Auto Reforms 2016*. As of June 1, 2016 the Province implemented changes to the automobile insurance system to facilitate the creation of more affordable options such as a "Winter Tire Discount".[89] In addition, the maximum interest rate that insurance companies are allowed to charge for payment of premiums on a monthly basis has been reduced from 3% to 1.3% for one year policies (a proportionate reduction has also been applied to monthly policies).[90] The Province may not fully support a municipal auto rental tax that has the potential of applying upward pressure on insurance premiums when they have been trying to reduce these premiums. This has the potential to introduce some challenges when the City goes to the Province to receive legislative authority to implement the revenue option.

Additionally, the use of application-based rideshare companies such as Zipcar, Enterprise's CarShare (CarShare), and Car2go present new challenges to implementation. In order to tax rideshare companies, the trip origin would need to be identified in order to tax the appropriate transactions; it is not as simple as identifying the address of a brick-and-mortar auto rental location. For example, a CarShare that is picked up in Mississauga with a destination in Toronto may not be eligible as a taxable transaction for the auto rental tax as the vehicle was picked up outside of Toronto. However, when a CarShare is rented from Toronto to Mississauga the auto rental tax would apply. Companies like Car2go offer one-way car sharing and may expand to one-way trips outside city boundaries.[91] Hence, additional effort would be required to differentiate among transaction locations.

With the cost burden of the tax being passed on to consumers, it is important that the tax be implemented across all service providers to ensure that all businesses are competing based on the same rules and regulations. Consumers will seek out the lowest cost alternative for substitute services. A tax that applies to only a portion of service providers, such as brick-and-mortar auto rental companies, will create a competitive disadvantage against substitute providers whose transactions are more difficult to tax, such as the application-based rideshare companies. It may also cause businesses to adjust their operational models to avoid taxation.

Further, the growth and expansion of the sharing economy has made some existing models for revenue collection irrelevant. For example, Turo is a California-based company established in 2009 whose business model is based on the premise of peer-to-peer car rentals. Turo entered the Canadian market (Ontario, Alberta and Quebec) in April 2016 and is working towards expanding into additional jurisdictions.[92] New business models and platforms like this present challenges to establishing revenue collection methods that are based on point-of-sale transactions due to the added necessity of tracking where the transaction actually took place (i.e., within the City's boundaries). The evolving industry

[89] https://www.mcdougallinsurance.com/2016/04/21/car-insurance-policy-changes-2016/
[90] https://www.allstate.ca/webpages/auto-insurance/auto-reform.aspx?lang=en
[91] http://www.mississauga.com/news-story/6401406-car2go-not-waiting-for-toronto-regulation/
[92] http://www.theglobeandmail.com/report-on-business/airbnb-of-autos-coming-to-canada/article29672598/

landscape is threatening the relevance of brick-and-mortar car rental retailers (particularly when not connected to airports) and may lead to a completely mobile market for urban destinations.

11.3 Jurisdictional Review

There are currently no existing cities in Canada that implement an auto rental tax. However, in the U.S. the only states that have not implemented an auto rental tax are California, Georgia, Idaho, Louisiana, Massachusetts, Nebraska, Ohio and Oregon.[93] These are generally excise taxes applied on top of standard retail sales taxes, vehicle licensing fees, and other appropriate taxes and fees. However, in some states (e.g., Missouri) a fixed daily rental fee is applied.

The total car rental market in the United States generated revenues of approximately $27.1 billion from a fleet of 2.1 million rental cars in 2015.[94] This revenue is forecasted to increase to over $31.3 billion by 2020.[95] The popularity of an auto rental tax in the US is likely due to the magnitude of their auto rental market. In Canada the car rental market is much smaller with an annual growth rate of 0.7%.[96]

In the US, auto rental taxes are typically implemented state-wide, such as in New York and Washington State, and in some instances county or municipal rates are added on top of the state rates, such as in Kansas City.

11.3.1 Kansas City, Missouri

Kansas City implemented a $4/day car rental tax in 2004 in order to subsidize a new sports arena.[97] A study funded by Enterprise found that after the introduction of the tax the number of rentals per month significantly decreased (see exhibit below).

Exhibit 11.1 – Change in Monthly Revenue Activity in Kansas City at Taxed Branches[98]

	Number of Customers	Number of Rental Days	Total Revenues
Average Change	-38.16	-152.69	-$2,635.81
Percent Change	-8.63%	-5.95%	-3.00%
Average Value	443	2568	$87,936

93 http://www.ncsl.org/research/fiscal-policy/rental-car-taxes.aspx
94 http://www.autorentalnews.com/fileviewer/2229.aspx
95 https://www.statista.com/forecasts/409732/united-states-passenger-car-rentals-revenue-forecast-naics-532111
96 http://www.ibisworld.ca/industry/default.aspx?indid=1363
97 http://www.nytimes.com/2006/07/17/business/17tax.html?_r=0
98 Gale, William and Kim Rueben. 2006. *Taken For A Ride: Economic Effects Of Car Rental Excise Taxes*. 1st ed.

Car rental activity at all Enterprise branches in Kansas City was measured at taxed and untaxed branches after the introduction of the auto rental tax. The study found that the average number of customers per month at each tax branch decreased by approximately 38 customers. In addition, the number of rental days per month, or the number of customers per month multiplied by car rental duration, decreased by almost 152 days at each taxed Enterprise branch. The decrease in car rental customers at taxed branches resulted in an average decrease of $2,635.81 in monthly revenue at each taxed branch prior to auto rental taxation.

11.3.2 Washington State

Washington State introduced an auto rental tax in the early 1990s that is paid in addition to sales tax on car rentals that are less than 30 days. The rates for car rental taxes in Washington State are shown in the exhibit below. The rates below are combined with retail sales to create an overall rental rate.[99] Each county introduced its own rate which was then combined with the State rate, the Regional Transit Authority (RTA) rate and the sales tax.[100]

Exhibit 11.2 – Auto Rental Tax Rates in Washington State[101]

	Rate
State Rental Rate	5.90%
County Rental rate	1%-2%
Regional Transit Authority	0.80%

11.3.3 New York State

New York State ("NYS") has been using an auto rental tax since 1990 under Article 28-A of the State Tax Law. The NYS auto rental tax is a 6% tax on passenger vehicles rented for a period of less than one year. In addition, in the Metropolitan Commuter Transit District ("MCTD") a 5% supplemental tax was levied on top of the 6% state rate. Therefore, a full auto rental price will have the NYS rate, MCTD rate and sales tax imposed. Certain identified groups were given exemptions, these groups included; disabled veterans; federal, state/local government agencies; foreign consulates/diplomats and the United Nations; and certain non-profit organizations. In 2010, $76 million (USD) was generated from the state's auto rental tax. All auto rental tax revenues were focused towards the NYS Dedicated Highway and Bridge Trust Fund and the MTA Financial Assistance Fund.[102]

[99] http://dor.wa.gov/docs/reports/2010/Tax_Reference_2010/25rentalcar.pdf
[100] http://usatoday30.usatoday.com/travel/news/2009-11-02-rental-car-taxes-rising_n.htm
[101] http://dor.wa.gov/content/findtaxesandrates/othertaxes/tax_rentalcar.aspx
[102] http://pjsc.magikcms.com/Tax%20guides/StateGuideWeb.pdf

Appendix A: Mapping of Environics and StatsCanada Data

Environics' Q1 2015 data release provides the most up to date demographic data for the City of Toronto. Environics independently develops and provides a data model to estimate demographic changes in years for which long form census data is unavailable. Environics data has been mapped onto boundaries in two ways.

1. Wards – Demographic data for the City of Toronto's 44 Wards are found by summing demographic data for each of the 6-digit postal codes constrained within the Ward boundary. Six digit postal codes are the most granular level of data available through Environics without requesting special StatsCanada tabulations. Due to the imperfect nature of matching postal code data to the boundaries at the Ward level, there may be some under representation of the demographics within the Ward, depending on the specific ward and postal code being considered (as some postal codes cross over Ward boundaries). For accuracy, only postal codes that are entirely contained within a ward were included in demographic summaries.
2. Neighbourhoods – The City of Toronto's 140 Neighbourhoods are comprised of census tracts and, to an extent, dissemination areas ("DAs"). [103,104] The construction of Neighbourhood boundaries aligns with the StatsCanada census tract boundaries, meaning that no census tract will cross Neighbourhood definitions. This allows for more accurate aggregation of demographic and firmographic data. Demographic data is mapped to the most granular dissemination area, and all of the dissemination areas that fit within a Neighbourhood are summed to give the total demographic and firmographic makeup.

A similar methodology to the mapping described above was conducted for StatsCanada 2015 Business Estimates. Provided by Alteryx, the Business Estimates provide the number of establishments within a DA that are defined in the StatsCanada Business Register as part of the Retail Sector using the North American Industry Classification System, 2012. Retail establishments are characterized into those with greater than 500 employees ('large establishments') and those that would be characterized as small-medium enterprises. Retail trade has been included as an economic indicator in the heat maps; the variable shown is the number of large retail establishments within the Neighbourhood or Ward as a percentage of total retail establishments in the boundary area.

[103] A dissemination area is a small, relatively stable geographic unit composed of one or more adjacent dissemination blocks. It is the smallest standard geographic area for which all census data are disseminated. DAs cover the entire territory of Canada.

[104] StatsCanada Census Program Reference Materials 2011, Census Dictionary. Updated 11/27/2015. Available at : https://www12.statcan.gc.ca/census-recensement/2011/ref/dict/geo021-eng.cfm