TORONTO

STAFF REPORT
ACTION REQUIRED

Enhancing Toronto's Business Climate - Update

Date:	June 7, 2007
To:	Executive Committee
From:	Deputy City Manager and Chief Financial Officer
Wards:	All Wards
Reference Number:	P:\2007\Internal Services\Cf\ec07027Cf – et (AFS #3825)

SUMMARY

At its meeting in October 2005, Council adopted a set of comprehensive incentives and initiatives intended to enhance the City's competitiveness over the long term. The core fairness principles and the business cost competitiveness initiatives contained in the Plan headed "Enhancing Toronto's Business Climate – It's Everybody's Business" was intended to help to level the playing field with the surrounding municipalities and make Toronto's businesses more competitive globally. The recommendations were developed through extensive consultation with all stakeholders, together with extensive research and analysis by staff. Taken collectively as a package they will create the conditions to help maintain and expand the City's property assessment base, with a net positive impact on the City over the long term.

Many of these initiatives, which are within the City's sphere of responsibility, have commenced. One of the most significant initiatives is the measures that City Council adopted in October 2005 to reduce Toronto's commercial and industrial tax ratios. Other initiatives still require Provincial regulatory and legislative changes and have not been implemented. This report provides an update on the status of the initiatives adopted by Council under the City's "Enhancing Toronto's Business Climate – It's Everybody's Business" plan, and makes recommendations necessary to implement the remaining initiatives.

RECOMMENDATIONS

The Deputy City Manager and Chief Financial Officer recommends to Council that:

1. Recommendation (4) of the report "Enhancing Toronto's Business Climate – It's Everybody's Business" adopted by Council on October 26, 27, 28 and 31, 2005, be deleted and replaced by the following:

   (4) (i) Council approve a program, for the taxation years 2008 to 2015, to provide property tax relief for the residual commercial class (consisting of all commercial properties which are not in any other optional commercial property class), in accordance with the following:

   (a) Subject to the regulation requested by Recommendation (2) below being filed by the October, 2007 Council meeting, Council adopt the residual commercial class for the 2008 to 2015 taxation years;

   (b) If the regulation requested by Recommendation (2) below has not been filed by the October, 2007 Council meeting, Council adopt the Large Office Buildings property class, the Parking Lots property class, the Large Shopping Centres property class, and the Large Sports Facilities property class, resulting in the balance of commercial properties essentially being the residual commercial class;

   (ii) Council endorse two bands of assessment of property for the purposes of facilitating graduated tax rates for the residual commercial class;

   (iii) Council endorse an accelerated phase-in over a maximum 8-year period, commencing in 2008, to reduce the target tax ratio for the first band of assessed value in the residual commercial class to 2.5-times the municipal residential tax rate by 2015;

   (iv) The maximum tax ratios for the first band of assessment of the residual commercial class be as set out in Column II below, and the maximum tax ratio for the second band of assessment be as set out in Column III:

Column I	Column II	Column III
Tax Year	Maximum Tax Ratio – First Band of Assessment	Maximum Tax Ratio – Second Band of Assessment
2008	3.41	3.55
2009	3.28	3.46
2010	3.15	3.38
2015	2.5	3.0
2020	2.5	2.5

(v) The assessed value threshold for the bands of assessment for the residual commercial class be initially established for the 2008 taxation year at $1,000,000 assessed value, and that the Deputy City Manager and Chief Financial Officer be directed to report annually thereafter on the threshold for the bands of assessment as part of the annual tax levy report;

2. The Minister of Finance be requested to file a regulation to create the residual commercial class, as an optional class which municipalities may chose to adopt, and consisting of all commercial properties which are not in any other optional commercial property class;

3. Recommendation (6)(a) of the report "Enhancing Toronto's Business Climate – It's Everybody's Business", adopted by Council on October 26, 27, 28 and 31, 2005, be deleted and replaced by the following:

   6(a)(i) Conditional upon the Province implementing new classes for all new commercial and industrial development for 2008, a City program be approved, commencing in 2008, to provide for a lower municipal tax rate to apply for all new non-retail office and hotel development, and expansions of 50% or more in gross floor area related to non-retail office and hotel uses, with such a lower tax rate being based on a tax ratio of 3.0 times the residential rate, and determined from the time the Occupancy Permit is issued, and that this target ratio be reviewed in five years time (2012);

   (a)(ii) The Province be again requested to grant the City the authority to establish lower tax rates for a limited time period for new or expanded non-retail office, hotel and industrial properties described above;

4. The Province of Ontario be requested to accelerate the business education tax rate reductions for the City of Toronto announced as part of the March 22, 2007 Provincial Budget, by basing the reduction on the difference between Toronto's current commercial and industrial education tax rates and the target rate of 1.6% and by phasing-in the reduction in equal instalments over seven years (2008-2014);

5. The Province of Ontario be again requested to grant the City the authority to exclude any commercial (including neighbourhood retail), industrial, or multi-residential property from any capping or clawback of taxes once such a property reaches its full-CVA level of taxation, regardless of any future reassessment;

6. The Province of Ontario be again requested to grant the City the authority provide a program to provide for the abatement of property taxes related to the vacant portion of new office construction during the initial lease-up period, for a period

not to exceed two years on that portion that remains vacant from the time that the occupancy permit was issued.

Implementation Points

City staff have been in constant communication with staff of the Ministry of Finance regarding impediments to implementing all of the aspects of the Plan. This report makes minor amendments and recommendations necessary to move forward.

Financial Impact

There is no financial impact beyond what has already been approved by Council by adoption of the 2005 'Enhancing Toronto's Business Climate – It's Everybody's Business' initiative. That report indicated the property tax initiative to provide relief to a new neighbourhood retail property tax class would have an estimated budgetary impact estimated at $4 million in each of the years 2007-2015 inclusive. The amendment made by Recommendation (1) of this report would have an estimated budgetary impact in 2008 in the order of magnitude of $4 - $5 million.

DECISION HISTORY

At its meeting on October 26, 27, 28 and 31, 2005, during consideration of Clause 1 of Policy and Finance Committee and Economic Development and Parks Committee Joint Report 1 headed "Final Recommendations - Enhancing Toronto's Business Climate – It's Everybody's Business", Council adopted the action plan contained in the staff report intended to help Toronto compete both globally and locally. The plan made 12 recommendations, including shifting some of the property tax burden away from businesses, and creating a Mayor's Economic Competitive Advisory Committee dedicated to improving the business climate in Toronto. A copy of this plan can be obtained at:
http://www.toronto.ca/legdocs/2005/agendas/council/cc051026/pofedp2rpt/cl001.pdf

ISSUE BACKGROUND

A number of the recommendations contained in the plan required, if not otherwise provided for in the new City of Toronto Act, securing the legal authority from the Province necessary to implement those recommendations. Other recommendations for which authority is already provided for in existing legislation, or are a matter of Council policy, have already been implemented.

This report identifies impediments for those action items in the plan not yet implemented, and makes recommendations necessary to move forward.

COMMENTS

The Enhancing Toronto's Business Climate report recommended a set of comprehensive incentives and initiatives intended to enhance the City's competitiveness over the long term. Toronto, while a competitive place to do business internationally, has been losing employment to the surrounding regions, with negative implications to fiscal sustainability, environmental responsibility, and social equity.

The core property tax fairness principles and the business cost competitiveness initiatives, which were developed through extensive consultation with all stakeholders, are intended to level the playing field with the surrounding municipalities and to help make Toronto's businesses more competitive nationally and internationally. Stakeholders, including residential ratepayers have recognized that the best long-term strategy to keep residential taxes down is to maintain a strong commercial and industrial tax base.

The 12 recommendations in Enhancing Toronto's Business Climate, while individually may not make a significant impact, taken collectively together as a package are intended to create the conditions to help maintain and expand the City's property assessment base, with a net positive impact on the City over the long term, as directed by one of Council's priorities – to enhance Toronto's business climate.

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

Cadillac Fairview (Royal Bank) building, 155 Wellington St W at Simcoe

- 1.2 million sq ft, 43 storeys
- $400 Million

Telus Tower, 25 York St

- 780,000 sq ft, 30 storeys
- $250 Million

Bay Adelaide Centre (KPMG is lead tenant), 333 Bay St

- 1.1 million sq ft, 50 storey office tower + 2 other buildings (1 office & residential; 1 hotel & residential)
- $290 Million

How much Enhancing Toronto's Business Climate contributed to the decisions to construct these towers is not clear, but it is important to note that even small differences in expectations about future costs and revenues can have a big impact on the decision to invest in long-lived assets like major office towers. For this reason it is very important to demonstrate to the investment community that the City's resolve to enhance Toronto's business climate was not a short-lived gesture, but is a fundamental principle to which the City remains committed.

This tentative recovery in the market for downtown office space is not, however, yet matched across the rest of the city. Manufacturing, which has been struggling to adjust to a Canadian dollar that seems to be moving closer to parity with the U.S. dollar, continues to shed jobs in the City at an annual rate of about 7,000-8,000 jobs per year. Additional strategies and incentives, including those recommended in this report, will be required to retain and attract jobs within the City and achieve our Official Plan employment targets.

Chart 1 below presents a summary description of the plan and the current status of each of the recommendations. The section following the chart provides comments on the status of the recommendations.

Chart 1 - Enhancing Toronto's Business Climate
Recommended Action Plan and Status

Initiative	Recommendation	Status
(A) Property Tax Fairness Initiatives:		
1. Correcting the imbalance in Tax Ratios	Establish tax ratio target of 2.5-times residential within 15-years; fund by 0.3% 'Policy' annual tax shift from non-residential to residential (approx. $6 per year increase for the average household).	**Implementation commenced.**
2. Business Education Tax Fairness	Request Province to reduce Toronto's business education tax (BET) rates to average of GTA.	**Proposed to commence starting 2008 -** Province has announced 7-year plan to phase-in BET reductions for municipalities above the provincial average, commencing 2008, with potential savings for Toronto's businesses of $231 million.
3. Capping and Clawback	Accelerate phase-out of capping by adopting 5% cap based on CVA taxes; funding from within each property class; Once a property reaches its full-CVA level of taxation, stays at CVA	**Implementation commenced.** **Not commenced** - Provincial legislation still required. **Recommended action contained in report.**

Initiative	Recommendation	Status
4. Protection for Neighbourhood Retail	Request Province to create separate class; City to accelerate municipal tax reduction to 2.5-times residential over 10-years, versus 15-years for rest of commercial; funded from general revenues.	**Not commenced** -Requires both Provincial regulatory changes to allow creation of such property class and MPAC to identify and reclassify properties as neighbourhood retail. Defining eligible properties continues to be problematic. **Recommended action contained in report.**
5. Property Tax Rebate for Heritage Properties	Implement tax rebate program eligible heritage properties, provide 40% tax rebate to maximum of $500,000 per property, funded from general revenues.	**Implemented.**
(B) Business Cost Competitiveness Initiatives:		
6. Lower tax rate for new office, hotel and industrial development	For new non-retail office and hotel, provide 5-year tax advantage (e.g. tax rate of 3.38-times residential if constructed in 2006, for 5-year period); For new industrial construction, provide tax rate of 2.5-times residential to the year 2020 (up to a 15-year property tax advantage).	**Not commenced** -Requires Provincial regulatory changes to allow creation of such property class and MPAC to identify new property developments eligible for this class. **Recommended action contained in report.**
7. Tax abatement for vacant portion of new office during initial lease-up period	Provide 100% vacancy rebate (verses existing requirement of 30%), of property taxes, for up to a two-year period, so long as portion remains vacant.	**Not commenced** -Requires Provincial legislative changes. **Recommended action contained in report.**
8. Expand Tax Increment Equivalent Grant program in Community Improvement Plan Areas to protect selected employment areas	Chief Financial Officer, General Manager of Economic Development, and Chief Planner to review feasibility of expanding the Tax Increment Equivalent Grant program in Community Improvement Plan Areas to protect selected employment areas, and report back.	**Commenced.** Scarborough, North York, Etobicoke, and Yonge-Eglinton Centres have been designated as Community Improvement Project Areas ("CIPAs"), and staff directed to community engagements, including consideration of the use of TIEG's to protect these employment areas.
9. Waive building permit fees for all new office, hotel and industrial development	Chief Financial Officer, Chief Building Official, General Manager Economic Development and City Solicitor to review the feasibility, including the legal and financial implications, of waiving building permit fees on non-retail, office, hotel and industrial development, and report back.	**Not commenced** – a staff working group has been established to review the feasibility, including the legal and financial implications, of waiving building permit fees. **Report expected fall 2007.**

Initiative	Recommendation	Status
(C) General Economic Development Initiatives:		
10. Protecting employment areas	The Chief Planner report to a Joint Meeting of Planning and Transportation Committee and Economic Development on development patterns since Council adoption of the Official Plan highlighting the disposition of current applications to convert employment lands to residential use; and, Council reaffirm for the Province the position taken with respect to *Planning Act* reform – that where Council refuses an application to convert employment lands to residential, where the Official Plan designates said lands for employment purposes, that the applicant have no right of appeal to the Ontario Municipal Board;	**Implementation Commenced** Phase 2 of the City's Long-Term Employment Strategy has commenced which outlines a range of actions to achieve long term employment growth in the Employment Districts consistent with the objectives of the Official Plan. The provisions of the Planning Act that remove the right of appeal of a refusal to convert employment areas to non-employment uses came into force January 1, 2007.
11. Promote the Toronto 'brand' locally and internationally to increase the City's profile and showcase our competitive advantages	A Mayor's Economic Competitiveness Advisory Committee be established to ensure the ongoing engagement and involvement of the business community;	**Commenced**. Committee established consisting of cross section of business, academic, labour and community leaders, and are providing input into the development of a Prosperity Agenda. Discussion paper anticipated fall 2007.
12. Initiate business focused outreach and engagement program	The City Manager be directed to create an Executive Interdivisional Economic Growth Team to evaluate and improve programs and services to enhance investment and economic growth.	**Commenced**. Early action area priorities identified, including creation of a "Concierge Service" and the advancement of other business friendly initiatives such as "BizPal" and the Development Application Review Process. Ongoing.

1. Correcting the Imbalance in Tax Ratios:

Status: Commenced.

Impediments: None anticipated. Reducing tax ratios is within City jurisdiction. Provincial regulation enables a portion of any residential tax increase to be imposed on the non-residential classes, and such regulation is anticipated to be continued in future years.

Comments: The tax ratio reduction plan adopted by Council in October 2005 establishes *maximum* tax ratio targets for each of the next fifteen years, calculated after any budgetary levy increase. For 2006 and 2007, the City has met or exceeded its target reductions for the Commercial, Industrial and Multi-residential classes as shown below:

Chart 2 – 2007 Ending Tax Ratios

	2005 Ending Ratios	2006 Ending Ratios	2007 Ending Ratios	2010 Target	2015 Target	2020 Target
Multi-Residential	3.71	3.63	3.54	3.38	3.0	2.5
Commercial	3.75	3.67	3.58	3.38	3.0	2.5
Industrial	4.21	4.09	3.92	3.38	3.0	2.5

2. Provincial Business Education Tax Fairness:

Status: On March 22, 2007, as part of the 2007 Provincial Budget, the Minister of Finance announced a 7-year plan to reduce business education property tax rates (BET) for those municipalities whose rates are above the provincial average. The reductions will commence in 2008.

Impediments: Business education tax rates under Provincial jurisdiction.

Comments: City Council has formally requested on numerous occasions that the Province reduce the business education tax rates it imposes on Toronto's businesses to an average for the GTA to 'level the playing field'.

The 2007 Provincial budget proposes a new target rate of 1.6%, to be achieved by 2014. At an education rate of 1.6%, Toronto's commercial businesses would see a tax reduction of $205 million, and industrial, a tax reduction of $26.5 million ($231.5 million total).

The announcement provides for a tax 'ceiling' rate in each year from 2008 to 2014 to phase-in the reductions. For 2008, the 'ceiling' rates are 2.5% for commercial and 3.0% for industrial. Toronto's 2007 commercial and industrial education rates are 1.98% and 2.06% respectively, which is already well below the ceiling rate for 2008, and for that matter, is below the 2011 ceiling rate for commercial, and the 2012 ceiling rate for industrial.

The announcement provides, where BET rates are below the annual ceiling rate, the rate will be reduced by two percent of the amount by which they exceed 1.6%. As such, Toronto's commercial businesses should experience a $4.1 million decrease in 2008 and annually thereafter until 2011, after which the annual reductions in the ceiling rate should increase the tax reductions significantly. For industrial, the annual reduction to 2012 is estimated at $500,000 annually.

The announcement is qualified that the BET rates may be recalculated in 2009 and future years to adjust for the impact of reassessment. Property assessment in 2009 will be based on a January 1, 2008 basis. If Toronto's commercial and industrial property values increase faster than the provincial average over this period, than the reductions may be less that announced.

Recommended Action: *The Province of Ontario be requested to accelerate the business education tax rate reductions for the City of Toronto, such that the reduction is based on difference between the current commercial and industrial education tax rates and the target rate of 1.6%, phased-in in equal instalments over seven years.*

3. Capping and Clawback Fairness:

Status: Commenced - accelerated capping implemented commencing 2006 taxation year.

Impediments: Excluding a property from capping and clawback regime, once it has reached full-CVA taxation, requires Provincial legislative change.

Comments: Latter point under consideration by Provincial staff.

Recommended Action: *The Province of Ontario be again requested to grant the City the authority to exclude any commercial (including neighbourhood retail), industrial, or multi-residential property from any capping or clawback of taxes once such a property reaches its full-CVA level of taxation, regardless of any future reassessment;*

4. Property tax relief program for neighbourhood retail:

Status: Not commenced. Defining eligible properties continues to be problematic.

Impediments: Requires both Provincial regulatory changes to allow creation of such property class and MPAC to identify and reclassify properties as neighbourhood retail.

Comments: The Plan contemplated using MPAC property codes to define eligibility. For this sub-group of commercial, the intent was to accelerate the municipal tax reduction to 2.5-times residential over 10-years, versus 15-years for rest of commercial, to be funded from the operating budget with an annual impact of $4 million. A physical survey undertaken by staff, Ministry of Finance, and MPAC identified definitional and eligibility issues related to the use of property codes.

The issue of providing tax relief for specific sub-groups of properties was probably one of the most complex and divisive of issues that staff had to deal with during the consultation process to enhance Toronto's business climate. The idea of providing preferential property tax treatment to small businesses is not new, having been previously raised by various stakeholders over the past two decades without reaching any clear consensus. The use of property codes as contained in the assessment rolls was thought to provide an opportunity to provide tax relief to a subgroup of commercial for which such relief was generally intended and without engaging in ongoing debate on definitional issues. Unfortunately, property codes have been determined to also be fraught with definitional problems, and are not at an appealable standard for taxation purposes. In any event, the Ministry of Finance and MPAC have not responded positively to the request of considering using property codes.

Alternate approaches considered during the consultation process included:

1. Using the available Optional Commercial Sub-Class
2. Using Graduated Tax Rates (GTR) within an optional commercial property class, which is yet to be prescribed by regulation, consisting of all commercial properties which are not within any of the other optional commercial property classes (the "residual commercial class")
3. Using Geographic boundaries - BIA's – together with the optional residual commercial class and with or without GTR

Regulation, and the returned roll provides identification of sub-classes of commercial, and which can be used for taxation purposes.

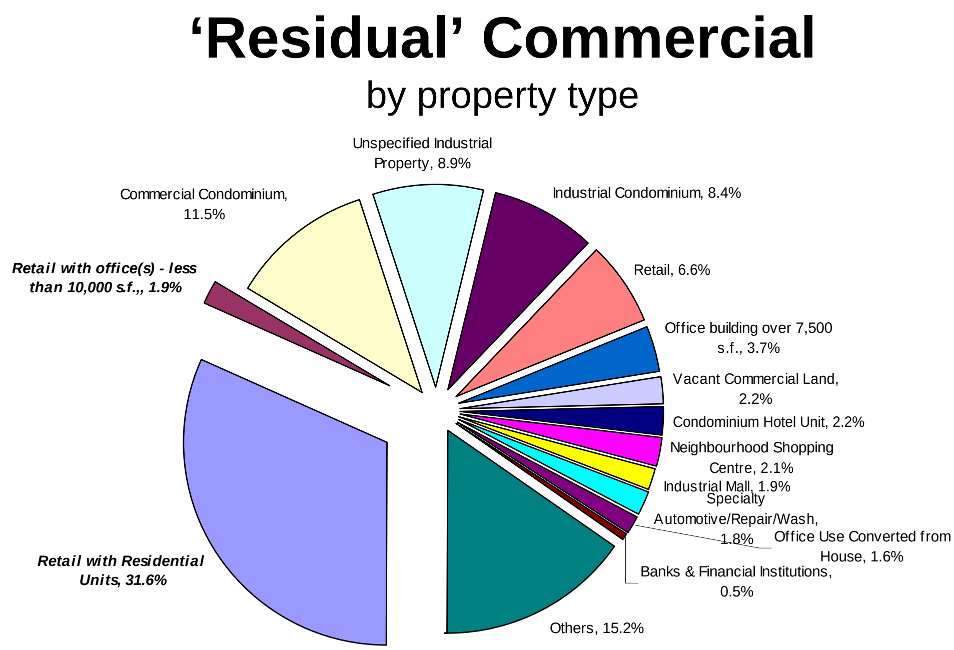
Chart 3 – Optional Sub-Classes of Commercial
As provided for in Legislation

	No. properties
Commercial ('C') "Residual" (includes strip retail – approx. 13,200 properties)	32,936
Large Office Buildings ('D')	738
Parking Lots ('G')	324
Large Shopping Centres ('S')	392
Large Sports Facilities ('Q')	3
Total - Commercial:	**34,393**

The uses of property codes, as originally proposed, would have seen the tax relief targeted to the approximately 13,200 strip retail and retail with residential above properties.

Properties of strip retail and retail with residential above are all contained within the 'residual' commercial class, and represent 33% of this class. Other major property types in this class include commercial and industrial condominiums, small and medium office, retail banking branches, and retail including big-box, as shown in Chart 4.

Chart 4 (number of properties)



Strip retail properties represent 33% of the residual commercial class

Staff have analyzed various options available that are in keeping with intent of the original recommendation, the results of which are shown in Chart 5. Staff are now recommending Option 3 (see chart below) – using a graduated tax rate within the residual commercial class, with the tax rate for the first assessment band being set at neighbourhood retail tax ratio target already approved by Council under the Enhancing Toronto's Business Climate initiative. Staff would report annually on the assessment threshold for the first band such that the budgetary funding implication would remain at the $4-$5 million approved by Council. Currently, this would be in the order of $750,000-$1,000,000 CVA, as shown under Option 3 in Chart 5.

The benefits of this approach include: it provides assistance to small and medium business, not just strip retail; all 'residual' commercial properties benefit to some extent; avoids definitional issues; and no legislative change is required.

Chart 5
Summary of Options – Small Business

Option	No. Properties Affected	Estimated Cost	Legislative Change required?
1 Tax all residual commercial class at neighbourhood retail target	32,936	$10.4 M	No
2 Tax residual commercial class below a threshold CVA value at neighbourhood retail target	10,141 11,006	$3.1 M @ $500k CVA ***or*** $4.5 M @ $1M CVA	Yes
3 Graduated tax rate within residual class, tax 1st band at neighbourhood retail target	**32,936**	**$4.6 M @ $750k CVA *or* $5.3.6 M @ $1M CVA**	**No**
4 Graduated tax rate within BIA, tax 1st band at 2.5x Res. rate, 2nd band at commercial rate	7,069	$4.41 M @ $100k CVA	Yes

Recommended Action: *Recommendation (4) of the report "Enhancing Toronto's Business Climate – It's Everybody's Business", adopted by Council on October 26, 27, 28 and 31, 2005, be deleted and replaced by the following:*

(4) (i) Council approve a program, for the taxation years 2008 to 2015, to provide property tax relief for the residual commercial property class, in accordance with the following:

(a) Subject to the regulation requested by Recommendation (2) below being filed by the October, 2007 Council meeting, Council adopt the residual commercial class for the 2008 to 2015 taxation years;

(b) If the regulation requested by Recommendation (2) below has not been filed by the October, 2007 Council meeting, Council adopt the Large Office

Buildings property class, the Parking Lots property class, the Large Shopping Centres property class, and the Large Sports Facilities property class, resulting in the balance of commercial properties essentially being the residual commercial class;

(ii) Council endorse two bands of assessment of property for the purposes of facilitating graduated tax rates for the residual commercial class;

(iii) Council endorse an accelerated phase-in over a maximum 8-year period, commencing in 2008, to reduce the target tax ratio for the first band of assessed value in the residual commercial class to 2.5-times the municipal residential tax rate by 2015;

(iv) The maximum tax ratios for the first band of assessment of the residual commercial class be as set out in Column II below, and the maximum tax ratio for the second band of assessment be as set out in Column III:

Column I	Column II	Column III
Tax Year	Maximum Tax Ratio – First Band of Assessment	Maximum Tax Ratio – Second Band of Assessment
2008	3.41	3.55
2009	3.28	3.46
2010	3.15	3.38
2015	2.5	3.0
2020	2.5	2.5

(v) The assessed value threshold for the bands of assessment for the residual commercial class be initially established for the 2008 taxation year at $1,000,000 assessed value, and that the Deputy City Manager and Chief Financial Officer be directed to report annually thereafter on the threshold for the bands of assessment as part of the annual tax levy report;

2. The Minister of Finance be requested to file a regulation to create an optional property class consisting of all commercial properties which are not in any other optional commercial property class (the "residual commercial class");

5. Property tax rebates program for eligible designated heritage properties:

Status: Commenced in 2006.

Impediments: None. Within City jurisdiction.

Comments: In 2006 the first phase of the Heritage Tax Rebate Program was initiated, for which six national historic sites were eligible to apply for a tax rebate for 2006. For 2007, the program has been expanded to include all designated historic properties with easement agreements with City, the funding of which is included in the 2007 non-program operating budget. Eligible heritage properties will receive a property tax rebate of 40%, to a maximum rebate of $500,000 per year. The Province funds the education share of the rebate. For 2007, it is estimated that between 150 and 225 properties will be eligible for the Heritage Tax Rebate, with the total amount being rebated estimated at $6.9 million, with the City's share being $3.5 million, which has been provided for in the 2007 Operating Budget.

6. Creating a New non-retail office, hotel and industrial property class

Status: On March 22, 2007, as part of the 2007 Provincial Budget, the Minister of Finance announced that all new commercial and industrial development will be eligible as a new class for lower education property tax rate of 1.6%, effective for properties constructed on or after March 22, 2007. Regulation defining the eligibility criteria has yet to be made. Provincial staff advise it is anticipated that such regulation will give the City the flexibility to adopt such a new class under its own Enhancing Toronto's Business Climate initiative to provide a lower tax rate for new non-retail office, hotel and industrial development. There are some indications this announced, but not yet implemented, measure is being viewed favourably by the development community, with three major new downtown towers beginning construction as previously noted.

Impediments: Requires Provincial regulatory changes to allow creation of such property class and MPAC to identify new property developments eligible for this class.

Comments: The City proposal to provide for a lower tax rate for new non-retail office, hotel, and industrial development was intended as a part of a "package" of business cost competitiveness initiatives to facilitate development of new business properties faster than they otherwise develop.

The proposal with respect to new non-retail office and hotel was to target the five-year forward looking tax ratio target, as shown below:

Chart 6
Original Proposal for New Non-Retail Office and Hotel Development

Column I	Column II	Column III	Column IV
Year Occupancy Permit Issued	Commercial Residual Tax Ratio	Tax Ratio Target applicable for a 5-year period for new non-retail office and hotel construction, and eligible expansions	Applicable Tax Years
2006	3.72	3.38	2006 - 2010
2007	3.63	3.30	2007 - 2011
2008	3.55	3.23	2008 - 2012
2009	3.46	3.15	2009 - 2013
2010	3.38	3.08	2010 - 2014
2011	3.30	3.00	2011 – 2015
2012+		as embodied in report	

For example, an office developed in 2007 would have a tax ratio of 3.30 for a period of five years, at which time the rest of commercial would catch up. In other words, the new development gets a five-year tax advantage. The reason the period was limited to five years was so as to not create a system that has the inadvertent effect of causing tenants to move from existing buildings to new buildings solely to get a lower tax rate. With respect to industrial development, because they compete more on a national and international level, rather than within Toronto proper, the proposal provided for the lower tax ratio of 2.5-times the residential from the onset.

Through further consultation with staff of the Ministry of Finance as well as MPAC, it was determined that the original proposal for commercial would require a new class to be created for each and every year of the Plan, and would be cumbersome and problematic. Instead of a five-year forward target, it would be simpler, and consistent with the Provincial proposal for a lower education tax rate for new development, to have one target for the new eligible development.

As such, staff are recommending the original proposal be amended to provide for the lower tax ratio of 3.0 times residential for new non-retail office and hotel development, with such target to review in five years time. This should be viewed by the industry as an improvement to the plan.

Recommended Action: *Recommendation (6)(a) of the report "Enhancing Toronto's Business Climate – It's Everybody's Business", adopted by Council on October 26, 27, 28 and 31, 2005, be deleted and replaced by:*

6(a)(i) Conditional upon the Province implementing new classes for all new commercial and industrial development for 2008, a City program be approved, commencing in 2008, to provide for a lower municipal tax rate to apply for all new non-retail office and hotel development, and expansions of 50% or more in gross floor area related to non-retail office and hotel uses, with such a lower tax rate being based on a tax ratio of 3.0 times the residential rate, and determined from the time the Occupancy Permit is issued, and that this target ratio be reviewed in five years time (2012);

(a)(ii) The Province be requested to grant the City the authority to establish lower tax rates for a limited time period for new or expanded non-retail office, hotel and industrial properties described above;

7. Enhanced Vacancy Rebate Program for New Office Development:

Status: Not commenced.

Impediments: Requires Provincial legislative change to provide for the abatement of property taxes related to the vacant portion of new construction.

Comments: The Plan contemplated, as part of a 'package' of business cost competitive initiatives, a City program to provide for the abatement of property taxes related to the vacant portion of new office construction during the initial lease-up period, for a period not to exceed two years on that portion that remains vacant from the time that the occupancy permit was issued.

The intent of this initiative was to help reduce the uncertainty and risk during the initial lease-up period of major new office development. Existing legislation already provides for a 30% tax rebate for vacant commercial space. The Province funds the rebate on the education portion of taxes. The proposal in this report would increase that rebate to 100% of taxes payable for vacant space that has never been leased or occupied. Once the building is fully leased, it would be levied taxes at the same rate as existing office buildings.

Staff continue to feel this is a relatively modest incentive for the developers of new office buildings. Like the other incentives outlined in this report, increasing the vacancy rebate creates a win-win outcome that will serve to increase the City's long term assessment base, in this case by providing the building owner with more time to attract tenants.

Recommended Action: *The Province of Ontario be again requested to grant the City the authority provide a program to provide for the abatement of property taxes related to the vacant portion of new office construction during the initial lease-up period, for a period not to exceed two years on that portion that remains vacant from the time that the occupancy permit was issued;*

8. Expanding of Tax Increment Equivalent Grant program to protect selected employment areas

Status: Commenced.

Impediments: None anticipated. Ministry of Municipal Affairs and Housing has jurisdiction to approve Community Improvement Plan Areas.

Comments: Tax Increment Equivalent Grants (TIEG's) are permitted under current legislation. These are usually targeted at specific areas. The New Toronto Community Improvement Plan (CIP) is an example of a City program of tax incremental grants to protect that employment area. The grants are funded entirely from new incremental tax revenues. The balance of new tax revenue, after paying out the grants, contribute to the City's overall tax revenues arising from new assessment growth.

A recent staff report designates the Scarborough, North York, Etobicoke, and Yonge-Eglington as Community Improvement Project Areas, which is a first step to establishing policies and incentives to protect and enhance these areas for employment uses. While the exact mix of incentives has yet to be determined, it is anticipated that the tools available through the Enhancing Toronto's Business Climate initiative will be utilized to protect these important employment areas. This report can be viewed at: http://www.toronto.ca/legdocs/mmis/2007/pg/bgrd/backgroundfile-2400.pdf

9. Waiving/rebating of building permit fees on non-retail office, hotel and industrial development

Status: Staff report pending.

Impediments: Requires Provincial regulatory change; Building Code Act does not grant the City specific authority to waive permit fees; funding implications for City/Buildings Division.

Comments: The Deputy City Manager and Chief Financial Officer, in consultation with the Chief Building Official and other staff, are to report on feasibility, and legal and financial implications of waiving building permit fees.

An internal staff working group has been established to explore the issues, and to report back in the fall of 2007.

10. Protecting Employment Areas

Status: Implementation Completed.

Impediments: None.

Comments: Disposition of applications reported on to Planning & Growth Management Committee May 3, 2007 in the report Profile Toronto: How Does The City Grow?" This document can be viewed at: http://www.toronto.ca/legdocs/mmis/2007/pg/bgrd/backgroundfile-3314.pdf

The outcomes of appeals to the OMB for sites in Employment Districts was reported to Economic Development Committee May 9, 2007. This report can be viewed at: http://www.toronto.ca/legdocs/mmis/2007/ed/bgrd/backgroundfile-3361.pdf

As well, the provisions of the *Planning Act* that remove the right of appeal of a refusal to convert employment areas to non-employment uses came into force January 1 2007.

11. Mayor's Economic Competitiveness Advisory Committee

Status: Commenced.

Impediments: None.

Comments: The Mayor's Economic Competitiveness Advisory Committee was established in June 2006. Its membership is comprised of 25 senior executives representing a cross section of business, academic, labour and community interests. At its first meeting it created three Early Action Area workgroups to focus on the topics of 1) Toronto's Identity: Establishing a Clear Message to Promote the City; 2) Retaining and Attracting Business Investment and 3) Enabling Competitiveness: Creating a Supportive Business Environment. The full committee has met four (4) times since its inception. An interim report from the Committee will be released in June 2007. The Committee is now advising the Mayor on the development of the City's Prosperity Agenda which is targeted for release and consultation in the fall of 2007.

12. Executive Interdivisional Economic Growth Team

Status: Commenced.

Impediments: None.

Comments: The City Manager leads the Executive Interdivisional Economic Growth Team with senior staff across the Corporation. The first meeting of the Committee was called by the City Manager in October 2006, chaired by the General Manager, Economic Development, Culture and Tourism and includes membership from various City Divisions, Agencies, Boards and Commissions. The Committee has reviewed the early action area priorities identified by the Mayor's Economic Competitiveness Advisory Committee and has spawned some new initiatives including the creation of a "Concierge Service" to advance industrial and commercial development applications as well being a forum for the advancement of other business friendly initiatives such as "BizPal" and the Development Application Review Process. The IEGT will be reviewing and inputting into the draft Prosperity Agenda Framework now under development. Ongoing.

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SIGNATURE

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