Economic Analysis of the Application of a Third Party Sign Tax

In the City of Toronto

David Amborski RPP MCIP

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1.0 Introduction

The purpose of this report is to undertake an economic analysis of the proposed Third-party sign tax for the City of Toronto. As the city is considering the application of a sign tax there are a number of factors or impacts that must be analyzed. In order to analyze a proposed policy or in this specific case a tax, it is necessary to undertake the analysis relative to the objectives of the policy or tax. Consequently, the report must specify the objectives of the tax.

This report also undertakes a comparison of the application of sign taxes in other jurisdictions in Canada and the United States. Although the Canadian applications are somewhat limited, there are more applications in the United States. A number of different options for structuring the tax will be analyzed as well as examining the incidence of who will bear the burden or impact of a new tax on third-party signs. As with any tax, the implementation through the administration of the tax billing and collection must be addressed to ensure that it is efficient in terms collection and enforcement. Finally, recommendations will be made regarding all aspects to the tax addressed in the report.

2.0 Objectives of the Tax

In order to evaluate any policy or policy tool (including a tax), it is necessary to evaluate that policy or policy tool in the context of its approval and implementation objectives. In examining policy options; including: (a) whether or not to impose a tax or (b) alternatives for a how a policy may be structured, one must evaluate the anticipated impacts. In the case of the third-party sign tax the anticipated or expected impacts will be evaluated in relation to the objectives indicated below.

The objectives of the tax are:

- To Provide a stable source of revenue for the administration and enhanced enforcement of the sign by-law;
- To provide revenue to support City Beautification and Arts and Culture initiatives;
- To support the objectives of the new Sign By-law and reduce Sign Clutter;
- To promote environmentally friendly sign technologies.

3.0 Comparative Framework

An attempt was made to find other municipalities in Canada and the United

States who currently impose a charge or tax on signs. Unfortunately, there are very few examples in Canadian cities as Canadian cities have very little taxing authority. However, after undertaking significant research several jurisdictions have been identified that apply some type of charge or tax. It is important to clarify that the comparisons being sought are for cities that impose a charge or tax that is not part of a building permit fee for constructing a sign, and not part of an assessment related to property tax payments. Rather, the appropriate comparisons would be jurisdictions which impose a special charge or tax on signs.

<u>Canada</u>

Winnipeg

The city of Winnipeg is one of the few jurisdictions in Canada that imposes a sign tax. It passed a by-law, "Advertising Signs Business Tax By-Law" imposing a $.34 per square foot annual business tax that came into effect January 1st 1997. The by-law provides a detailed definition of what it considers to be an "advertising sign' that is subject to the tax.

In January, a report from the Chief Financial Officer to the Executive Policy Committee recommended that the tax be increased to $1.50 per square foot. For example, this would amount to an annual tax of $1800 for a 30 by 40 sign. The increase in the tax was proposed to take place July 1, 2009.

Montreal

The City of Montreal Charter provides it with specific powers that allow it to impose certain taxes such as a tax on signs. This section of the charter permits that by-laws may be passed concerning taxes. Consequently, chapter VII of By-law 08-068 which was enacted in December 2008 states that a "special tax of $530 on advertising structures" be imposed and levied, except those inside a building, on each advertising face of a structure.

Edmonton

The City of Edmonton Transportation Department has a set of "Guidelines and Fee Schedule for Licenses of Occupation". Under this guideline, it imposes an application fee of $300 for erecting a free standing business identification sign for commercial, industrial, and institutional buildings that are located in city road rights of way. In addition, it charges a license fee of 10% of market value. The Guidelines also require a renewal fee which is required to be paid annually. It states that the renewal fee for the license is "10% of market value plus land tax equivalent per year". Although the fee collected for many of the signs is nominal in the range of $50 annually for small signs, some of the larger signs yield a fee of $2000 per year.

In reviewing the Canadian jurisdictions, despite the traditional lack of taxing authority in Canadian municipalities, there are several jurisdictions that not only apply some form of a charge or tax, but have done so for more than ten years. Consequently, the city of Toronto in applying an annual third-party sign tax would not be the first city in Canada to impose such a charge but rather would be following a practice undertaken by several other cities. It is also would be following the pattern of Montreal in that it would be applying a charge permitted under a specific city charter or legislation.

United States

In the United States there are numerous examples of jurisdictions that impose some type of an annual sign tax or charge. It is important to note however, that many of these local governments have much broader taxing authority than Canadian jurisdictions. Consequently, these charges are often structured as an excise tax that is based on the value of the annual rental fee for the advertising space which would not be permitted under the City of Toronto Act powers for taxation, which allow only for direct taxes to be applied. Although, these taxes are of a different nature than the proposed third-party sign tax, comparisons to the rate of taxation were used solely for the purpose of determining how burdensome the proposed tax may be to the sign industry and attempting to find a level of taxation which is not unduly burdensome. However, it should be pointed out that there are a number of jurisdictions that have either had sign taxes challenged, or decided not to impose a sign tax because of challenges, or threatened challenges based on the United States Bill of Rights. The argument is that the tax prohibits or impedes freedom of speech. These challenges have been especially prevalent in the western United States cities. Several examples from eastern US jurisdictions are provided below.

New Jersey

The State of New Jersey enacted legislation on 2003 that imposes a fee of 6% of the gross amount collected by the retail seller of advertising space. It applies to the gross receipts collected. The “Roadside Sign Control and Outdoor Advertising Act” defines "gross amounts collected by a retail seller for billboard advertising space" to include amounts collected from contracts that involve placing advertising on signs located in the State of New Jersey regardless of the location of the advertiser”. However, such gross amounts do not include fees received by an advertising agency that is not a related party of the retail seller and that are not received by the retail seller. The fees are reported and collected on a quarterly basis.

Philadelphia

The most recent outdoor advertising sign tax was implemented in the City of Philadelphia in 2005. It is an excise tax on the purchase, rental or licensing of space on any building, parcel or support structure for the purposes of outdoor advertising. The rate to be paid is 7% to the advertising agency by the renter or purchaser of the advertising space at the time of rental or purchase. The tax in turn must be remitted to the city by the 15th of the following month. The tax is considered to be a trust fund and any outstanding payments will be subject to interest and penalties imposed upon the advertising company. Records regarding the transactions, rates, etc must be maintained by the advertising company and made available to the city revenue department on request.

In examining the magnitude of the rates of the taxes and charges levied above, it would appear in the U S cases that rates as high as 7% of the value of the advertising rental space are acceptable and will not have significant economic impacts. The actual effective rates of the charges and taxes for the Canadian examples are more difficult to assess, but we could assume that similar rates would be appropriate as the industry is structured and operates in a very similar fashion.

4.0 Current Toronto Application

There are currently two applications in which a tax or charge is currently applied to signs or signs in the City of Toronto. The first is via the property tax system which has the potential to tax signs and does so in a very limited fashion. The second relates to a pre-existing annual fee that was developed within and still exists in the old borough of Scarborough. This was developed prior to the new City of Toronto amalgamation.

Property Tax

One of the questions that arise regarding the third-party sign tax is whether it represents double taxation as signs may also be subject to property assessment and hence taxation. In order to obtain a better understanding of the property tax treatment of signs in Ontario, discussions were held with MPAC to gain an understanding of current practice. It appears that they are also trying to revise their policy and procedures to address this issue for assessment purposes. Currently, there is some inconsistency in the way assessment practices address signs as part of existing buildings. The current practice is that MPAC does not assess signs on buildings except in the case of downtown Toronto where they do treat them as part of the assessment of the building. In the cases where they do assess them, they use the cost approach of real estate appraisal to determine the valuation. However, in terms of revising their policy, the study that they are undertaking will be evaluating and potentially recommending using the income approach to valuing the signs for assessment and property tax purposes. They are attempting to work with the industry in undertaking their study. They anticipate that the study and recommendations will be completed by early next year.

When enquiring about the assessment of signs along property highway rights of way and on the many TTC shelters, I was informed that these are problematic in terms of property tax assessments, The problem is that in many cases, there is no assessment roll number associated with these signs, and consequently it is not possible to assess them. Due to this inconsistent system MPAC wants to create a uniform policy and application to address the assessment of signs.

Toronto History, Scarborough:

Prior to the 1998 creation of the new City of Toronto, Scarborough had an annual fee in place that has continued since the amalgamation. Annual fees are charged for two kinds of signs: the fee is $100 for a wall or ground sign, and $200 for a roof sign. The revenue from this charge is intended to pay for the enforcement of the sign by-law. This fee has been appealed and tested in court and consequently provides a precedent for the proposed city wide tax. It is also important to note that this fee has not been increased in over ten years.

5.0 Tax Structure Options

It is anticipated that the Sign Tax will be levied and collected annually. There are a number of alternative methods of structuring the tax that will be explained below:

Tax Options:

There are a number of characteristics of signs and their locations that may be used to apply different rates to a sign tax. In addition to characteristics of the sign, the tax may vary by location. Location variations may include a simple two rate structure for either inside or outside the downtown core of Toronto. More complex variations may include two or more rates but may include more complex high visibility locations such as being adjacent to major highways (Gardiner expressway, 401, 427, DVP), or being located, along major arterials such as the “Avenues” identified in the City’s Official Plan. There could also be other geographic variations used to encourage, or discourage third-party signs in various areas or wards of the city.

A Uniform Tax

It would appear that a very basic flat rate tax would be simple to levy and administer but it would be a very crude tax as it would not take into account a number of important variables in the industry. It would have a more significant economic impact on smaller and less desirable signs and it would not be an equitable or fair approach to imposing a tax.

A Tax Differentiated by Location

A second approach would be to differentiate a tax by location. Location is important as some sites or locations are more desirable to locate signs as they are visible to larger numbers of people or traffic due to their location. Prime locations for advertising signs would be the downtown core are, along major highways such as the 400 series highways, the Gardiner and Don Valley express ways, in major sub-centres, and along avenues or areas identified for intensification in the official plan for the City.

As there is some concern in the city about the intensity of signs in some areas or more specifically wards in the City, and there is a correlation between current intensity and prime location, the use of a higher tax in these prime locations may serve to support the policy role of discouraging additional signs being located in areas/wards that are already considered to be saturated with signage.

Furthermore, if a tax is structured using geographic location, either the quantum of the tax across locations, or the distribution of locations with higher or lower tax rates could be altered over time to address changing conditions or policy objectives. This provides a flexible policy tool. However, there will be difficulty in delineating boundaries and in determining the tax differential.

A Tax Differentiated by Sign Size and/Type

Sign size is important as it relates to visibility as one might expect large signs are more visible and consequently more desirable. Therefore it would be expected that larger signs would be subject to a higher tax and signs below some threshold size may even be exempt.

The tax could also be differentiated by type of sign. The typology for differentiating the tax could include static signs which represent the traditional signs and billboards, tri-vision signs, and the most high tech variation being video signs. Each of these sign technologies could also be differentiated by size. This type of tax would reflect both the amount of advertising space available and the attractiveness/visibility of the sign. To effectively apply this approach signs would have to be monitored for changes in technology and changes in future taxes may be required to capture any new sign technology that is developed.

Hybrid Tax

A hybrid tax using all of the above noted variables could be developed. An advantage of this type of tax is that it could incorporate a number of the variables and thereby provide a more equitable tax that relates to the size, type and location of sign.

A proposed tax system is provided where the tax is differentiated by size of the sign face, and by sign technology/type with the signs being classified into five types. The proposed city rates for each type are shown in Table 1 where the rate could be phased in at 50 % of the full rate for the first year, 2010, and the full rate is applied for 2011. The projected revenue from this tax is approximately $10.4 million in 2011 after full phase-in.

An analysis of applying these rates to the various types of signs with corresponding rates is provided in Table 2. If the proposed tax rates are examined relative to the published rental rates for various sign types, sizes, and technologies it can be seen that the tax in all cases represents that are less than 7% (on average) of estimated annual gross revenue.

For the purpose of this analysis, the annual rental rates for the sign types were discounted by 30%. This discounted value is

Table 1 – Proposed Tax Rates per Sign Structure

	Class I Advertising Device	**Class II Advertising Device**	**Class III Advertising Device**	**Class IV Advertising Device**	**Class V Advertising Device**
Rate per Sign Structure	$1,150	$2,850	$4,950	$11,000	$24,000

based on feedback from members of the industry who made it clear that signs may be vacant for certain periods of the year, or may have had a discounted price for any other number of reasons.

Sign Classes:

Based on the goals and objectives of the new Sign By-law, staff have created the following 5 sign classes:

Signs included in Class 1 are:

- Ground signs only displaying static copy with an aggregate sign face area of less than or equal to 15 square metres, these are commonly 2 or 4 sided street level signs; and,

- Wall signs only displaying static copy with an aggregate sign face area of less than or equal to 25 square metres, these would be a standard (10 x 20) billboard or in some cases a vinyl or painted mural

Signs included in Class 2 are:

- Ground signs only displaying static copy with an aggregate sign face area greater than 15 square metres and less than 45 square metres, this would include a double sided ground sign;

- Wall signs only displaying static copy with an aggregate sign face area greater than 25 square metres but less than 45 square metres, and;

- Wall signs displaying mechanical copy (including a tri-vision sign), in whole or in part, with an aggregate sign face area of less than or equal to 25 square metres

Signs included in Class 3 are:

- Ground signs displaying mechanical copy, in whole or in part, with an aggregate sign face area of less than or equal to 25 square metres, and

- Roof signs displaying static or mechanical copy, in whole or in part, with an aggregate sign copy area less than or equal to 45 square metres

Signs included in Class 4 are:

- Ground signs only displaying static copy with an aggregate sign face area greater than 45 square metres,

- Ground signs displaying mechanical copy, in whole or in part, with an aggregate sign face area greater than 25 square metres

- Wall signs only displaying static copy with an aggregate sign face area greater than 45 square metres,

- Wall signs displaying mechanical copy, in whole or in part, with an aggregate sign face area greater than 25 square metres and,

- Roof signs displaying static or mechanical copy, in whole or in part with an aggregate sign copy area greater than 45 square metres

Signs included in Class 5 are:

- All signs displaying or containing electronic static copy or electronic moving copy

Table 2 - Analysis of Tax Levels on Posted Rates

	Full Card Rate		Card Rate *0.7		Annual Gross Revenues (70%)	Average Number of sides per structure		Total Revenue Per Structure		Tax as % of Annual Gross Revenues (70%)	Proposed Tax
Class 1 Signs											
1	$ 705.00		$ 493.00		$ 6,409.00	3.00		$ 19,227.00		5.98%	
2	$ 715.00		$ 500.14		$ 6,501.88	3.00		$ 19,505.65		5.90%	
3	$ 718.00		$ 502.56		$ 6,533.29	3.00		$ 19,599.87		5.87%	
4	$ 2,750.00		$ 1,925.00		$ 25,025.00	1.00		$ 25,025.00		4.60%	
5	$ 1,610.00		$ 1,126.13		$ 14,639.63	1.00		$ 14,639.63		7.86%	
6	$ 5,100.00		$ 3,570.00		$ 46,410.00	1.00		$ 46,410.00		2.48%	
Average	**$ 1,933.00**		**$ 1,352.81**		**$ 17,586.47**			**$ 24,067.86**		**4.78%**	**$ 1,150.00**
Class 2 Signs											
1	$ 6,000.00		$ 4,200.00		$ 54,600.00	1.00		$ 54,600.00		5.22%	
2	$ 7,900.00		$ 5,529.30		$ 71,880.90	1.00		$ 71,880.90		3.96%	
3	$ 5,540.00		$ 3,878.00		$ 50,414.00	1.00		$ 50,414.00		5.65%	
4	$ 5,500.00		$ 3,850.00		$ 50,050.00	1.00		$ 50,050.00		5.69%	
5	$ 3,850.00		$ 2,704.14		$ 35,153.85	1.00		$ 35,153.85		8.11%	
6	$ 5,700.00		$ 3,990.00		$ 51,870.00	1.00		$ 51,870.00		5.49%	
7	$ 1,930.00		$ 1,352.07		$ 17,576.92	1.74		$ 30,583.85		9.32%	
8	$ 1,500.00		$ 1,050.00		$ 13,650.00	1.74		$ 23,751.00		12.00%	
9	$ 2,850.00		$ 1,995.00		$ 25,935.00	1.74		$ 45,126.90		6.32%	
Average	**$ 4,530.00**		**$ 3,172.06**		**$ 41,236.74**			**$ 45,936.72**		**6.20%**	**$ 2,850.00**

Class 3 Signs											
1	$ 1,930.00		$ 1,352.07		$ 17,576.92	1.74		$ 30,583.85		16.19%	
2	$ 2,850.00		$ 1,995.00		$ 25,935.00	1.74		$ 45,126.90		10.97%	
3	$ 2,750.00		$ 1,925.00		$ 25,025.00	1.74		$ 43,543.50		11.37%	
4	$ 1,610.00		$ 1,126.13		$ 14,639.63	1.74		$ 25,472.95		19.43%	
5	$ 5,100.00		$ 3,570.00		$ 46,410.00	1.74		$ 80,753.40		6.13%	
6	$ 6,000.00		$ 4,200.00		$ 54,600.00	1.74		$ 95,004.00		5.21%	
7	$ 7,900.00		$ 5,529.30		$ 71,880.90	1.74		$ 125,072.77		3.96%	
8	$ 5,550.00		$ 3,878.00		$ 50,414.00	1.74		$ 87,720.36		5.64%	
9	$ 3,860.00		$ 2,704.14		$ 35,153.85	1.74		$ 61,167.69		8.09%	
10	$ 6,000.00		$ 4,200.00		$ 54,600.00	1.74		$ 95,004.00		5.21%	
11	$ 3,250.00		$ 2,271.18		$ 29,525.29	1.74		$ 51,374.01		9.64%	
Average	**$ 4,254.54**		**$ 2,977.35**		**$ 38,705.51**			**$ 67,347.58**		**7.35%**	**$ 4,950.00**
Class 4 Signs											
1	$ 6,000.00		$ 4,200.00		$ 54,600.00	1.74		$ 95,004.00		11.58%	
2	$ 17,500.00		$ 12,250.00		$ 159,250.00	1.74		$ 277,095.00		3.97%	
3	$ 20,000.00		$ 14,000.00		$ 182,000.00	1.74		$ 316,680.00		3.47%	
4	$ 18,000.00		$ 12,600.00		$ 163,800.00	1.74		$ 285,012.00		3.86%	
5	$ 16,500.00		$ 11,550.00		$ 150,150.00	1.74		$ 261,261.00		4.21%	
6	$ 7,900.00		$ 5,529.30		$ 71,880.90	1.74		$ 125,072.77		8.79%	
7	$ 9,270.00		$ 6,489.00		$ 84,357.00	1.74		$ 146,781.18		7.49%	
8	$ 29,400.00		$ 20,580.00		$ 267,540.00	1.74		$ 465,519.60		2.36%	
9	$ 29,350.00		$ 20,545.00		$ 267,085.00	1.74		$ 464,727.90		2.37%	
10	$ 27,500.00		$ 19,250.00		$ 250,250.00	1.74		$ 435,435.00		2.53%	
11	$ 19,725.00		$ 13,807.50		$ 179,497.50	1.74		$ 312,325.65		3.52%	
12	$ 5,540.00		$ 3,878.00		$ 50,414.00	1.74		$ 87,720.36		12.54%	
13	$ 12,500.00		$ 8,750.00		$ 113,750.00	1.74		$ 197,925.00		5.56%	
14	$ 16,195.00		$ 11,336.50		$ 147,374.50	1.74		$ 256,431.63		4.29%	
Average	**$ 16,812.85**		**$ 11,768.95**		**$ 152,996.35**			**$ 266,213.65**		**4.13%**	**$ 11,000.00**

Class 5 Signs											
1	$ 120,000.00		$ 84,000.00		$ 1,092,000.00	1.00		$ 1,092,000.00		2.20%	
2	$ 105,000.00		$ 73,500.00		$ 955,500.00	1.00		$ 955,500.00		2.51%	
3	$ 110,000.00		$ 77,000.00		$ 1,001,000.00	1.00		$ 1,001,000.00		2.40%	
4	$ 95,000.00		$ 66,500.00		$ 864,500.00	1.00		$ 864,500.00		2.78%	
5	$ 83,250.00		$ 58,275.00		$ 757,575.00	1.00		$ 757,575.00		3.17%	
6	$ 72,500.00		$ 50,750.00		$ 659,750.00	1.00		$ 659,750.00		3.64%	
Average	**$ 97,625.00**		**$ 68,337.50**		**$ 888,387.50**	**1**		**$ 888,387.50**		**2.70%**	**$ 24,000.00**

6.0 Incidence of the Tax

The most direct approach would be to levy the tax upon the operator of the third-party sign who is renting the space. In this way the tax is being imposed upon the actor who is initiating the economic activity as they would have to contract with the property owner to locate the billboard or sign, and they would have to contract with the end user who wishes to advertise on the space provided.

Current Market Conditions

Everyone is aware of the current economic downturn, however it is important to recognize that the advertising industry in Toronto was growing and strong prior to the current downturn and as Toronto moves back to a leadership position in the Canadian recovery it is anticipated that the advertising sector will have growth that will mirror the general economy.

Evidence of the strength of the market prior to the downturn is provided by examining both increases in posted advertising rates and recent increases in spending on outdoor advertising.

- For example, posted advertising rates by Clear Channel (www.clearchanneloutdoor.ca/pdf/spectaculars/2009mediaguides) shows an average increase in rates of 9% between 2008 and 2009.
- Industry data is also available from the Out of Home Marketing Association of Canada (OMAC) for spending on out of home advertising. Although "out of home" advertising includes a number of items in addition to outdoor signs, they do represent a significant component of the category. Its data indicated that over the 2003-2007 period out of home advertising spending in Canada increased from $303 million to $498 million. (www.omaccanada.ca/en/research/facts-stats/canada-us/default.omac). (See Appendix A)

7.0 Implementation/Administration

The City will need to consider provisions for indexing or increasing the tax on an annual (or other regular basis) to avoid the revenues being eroded over time.

The third-party sign tax will be collected every year directly by City of Toronto staff. Based on the tax being levied on the sign owners or operators, the bills could simply be mailed to property owners or directly to the owner of the sign for payment to the City. The appointment of the authorized agent, or person responsible for paying the tax would need to be submitted to the City for inclusion into their records. Property Owners and/or Sign Owners would also be responsible for keeping the City informed of any changes to an authorized agent.

Rebates, Refunds, and Exemptions:

Sign tax refunds should be administered by the City of Toronto and issued where the tax has been collected in error.

There should also be a mechanism available for the tax to be pro-rated for those signs that are erected or removed throughout the tax year. Although this may add to the administrative costs associated with the third-party sign tax.

There are also instances where signs should be exempted from payment of the third-party sign tax. Examples of this would be where signs are located on crown or city of Toronto property, or where the city has already negotiated a revenue sharing agreement with the sign owner, such as with the Street Furniture and Astral Media.

Enforcement:

The tax will need to include anti-avoidance provisions to address certain situations where a sign owner may seek to avoid payment of the tax.

The City will also need the power to audit or demand information from any person for purposes relating to the administration and enforcement of the tax by-law.

In cases where the payment has not been received, the City will need to assess the tax, together with any applicable interest and penalties, and notify the property owner/sign owner in writing. If payment has not been received within 30 days of the date of an assessment notice, the City will need to determine the appropriate collection mechanism, which may include:

- Bringing an action in the courts to recover any unpaid tax;
- Referral to a bailiff or a collection agency for collection of the tax

Dispute Resolution:

Similar to the Municipal Land Transfer Tax and the Personal Vehicle Tax, the Government Management Committee will act as the City's appeal and dispute resolution body for the third-party sign tax and should be delegated the power to hold hearings of such appeals, and make recommendations to council for final decisions. In doing so, the Government Management Committee will be bound by the procedures set out in the current procedural by-law of the City.

8.0 Summary and Conclusions

In conclusion, it is necessary to assess if the tax, as proposed, will address the objectives that have been identified earlier in the report and not have any significant negative economic impacts. The ability of the tax to address each of the objectives is summarized below. It appears that the tax as proposed is within the rate that has been identified in the examples of charges and taxes presented earlier, capping out at 7-8% of gross annual revenues. There was no evidence that where these charges are in effect, that there have been any significant negative economic impacts.

The first and most significant step will be to impose a tax that will recoup the costs of administering and enforcing the proposed Sign By-law. Staff have indicated that the current building permit fee is not sufficient to cover the current and anticipated costs of the program that is being recommended to council.

This approach is simply prudent fiscal management, and will provide a stable source of revenue for the administration and enhanced enforcement of the by-law. This will meet the first objective of the tax. As the increases in the tax are phased in over the subsequent years (a two or three year phase in would be desirable to mitigate the impact of the tax), increased revenue will be available to meet the second objective of the tax identified in the earlier section of the report: "to provide revenue to support city beautification and arts and culture initiatives." This revenue may be allocated to the support of arts and culture in the city which include improving the public realm. This could include the development of an Arts and Culture Master Plan.

The tax should be structured in a hybrid format where the actual charge is based on three variables, the size of the sign, the type of sign, and the technology employed by the sign. In applying this approach, it is anticipated that the sign tax will be a valuable tool in the implementation of the new Sign By-law.

In this way the sign charge relates to the size or visibility of the sign as well, and may help in the goal of reducing sign clutter contributing to the third goal of the tax. There is also the opportunity to reward those signs that do not consume as much electricity or create as much light pollution, which would work towards achieving the fourth goal of the tax stated earlier.

An alternative hybrid structure would be to have the charge based on sign size and location. The tax could be structured so that it is higher in certain areas of the city. These areas are the high visibility areas of the city which coincide with those wards that have high concentrations of third party signs. This structure of the tax is intended to meet the third objective: To provide incentives to reduce sign clutter in certain areas of the city. The intention is that the higher fees may serve as an economic deterrent to locating more signs in these areas and, increasing the sign density further. This approach provides the city with a policy tool whereby simply increasing the rate in these areas, may provide an opportunity to further deter additional signs in the wards that are considered to have high concentrations of signs. Fees and geographic areas could be adjusted over time to improve the effectiveness of the policy if the initial fee structure does not meet the policy objective. However this approach would require complex policy decisions regarding the variation of the charge by location that could be open to many questions and potential legal challenges.

In terms of levying the tax, the best alternative would be to levy it upon the owners of the third-party signs as they generate the economic activity and collect the revenue from the rental of the advertising space. However, if this proves to be too administratively difficult, the tax can be collected from the property owner on which the sign is located.

It can be seen from the discussion of the objectives of the tax that in addition to generating revenue for the city and to support costs related to the implementation and administration of the sign by-law, the tax has a number of additional policy objectives that will be addressed through the implementation of the tax. It has the potential of being an effective policy tool to meet a range of city policy objectives.

Appendix A –

Annual Increases in Posted Advertising Rates 2008-2009:

Although there were significant limitations in industry data available to the Sign By-law Team throughout this project, there was the opportunity to review changes to industry posted advertising rates for a group of third-party signs from 2008-2009.

Table 1 summarizes advertising rate increases that took place for some signs in Toronto over the past year, taking into account bonuses (incentives for the purchase of advertising space) that are offered in exchange for the purchase of advertising space on their sign.

With one exception, the % increase in the posted advertising rates was 8% or more, with an average of 8.66% from 2008 to 2009, even when an incentive is being offered. Although these figures are limited to the inventory of one company operating signs in Toronto, they do indicate the advertising rate at which outdoor advertising rates were increased year over year, even taking into account incentives.

Table 1 - Increases in Toronto Advertising Rates for 2008-2009

(Source: *www.clearchanneloutdoor.ca/pdfs/spectaculars/2009mediaguide/SPECTACULARMEDIAGUIDE.pdf)*

2008 Posted Rate (4 week period)	2009 Posted Rate (4 week period)	$ Change Year over Year (4 week period)	Approximate Value of 'Bonus'	Net $ Increase	% Increase in Rate
$26,700.00	$36,500.00	$9,800.00	$7,500.00	$ 2,300.00	9%
$17,300.00	$26,500.00	$9,200.00	$7,500.00	$ 1,700.00	10%
$25,900.00	$35,500.00	$9,600.00	$7,500.00	$ 2,100.00	8%
$38,800.00	$47,500.00	$8,700.00	$7,500.00	$ 1,200.00	3%
$36,400.00	$47,500.00	$11,100.00	$7,500.00	$ 3,600.00	10%
$32,500.00	$42,500.00	$10,000.00	$7,500.00	$ 2,500.00	8%
$25,000.00	$35,000.00	$10,000.00	$7,500.00	$ 2,500.00	10%
$50,000.00	$62,500.00	$12,500.00	$7,500.00	$ 5,000.00	10%
$18,000.00	$27,000.00	$9,000.00	$7,500.00	$ 1,500.00	8%
$17,500.00	$26,500.00	$9,000.00	$7,500.00	$ 1,500.00	9%
$ 5,500.00	$13,500.00	$8,000.00	$7,500.00	$ 500.00	9%
$ 9,000.00	$17,400.00	$8,400.00	$7,500.00	$ 900.00	10%
				Average	**8.66%**

Recent Increases in Spending on Outdoor Advertising in Canada:

One advantage of a charge on outdoor advertising that was identified in the Hemson Report was that it is likely to represent a relatively stable source of revenue year over year with minimal avoidance. This conclusion seems to be supported by industry data based on spending rates out-of-home advertising from 2003-2007; it is possible, however, that this spending has declined during the past year due to global economic conditions.

The Out-of-Home Marketing Association of Canada (OMAC) publishes statistics on their website describing trends in the spending on out-of-home advertising in Canada on a year to year basis. OMAC also provides data over the same time period showing spending on out-of-home advertising vs. other advertising mediums. See Figures 1 and 2 below.

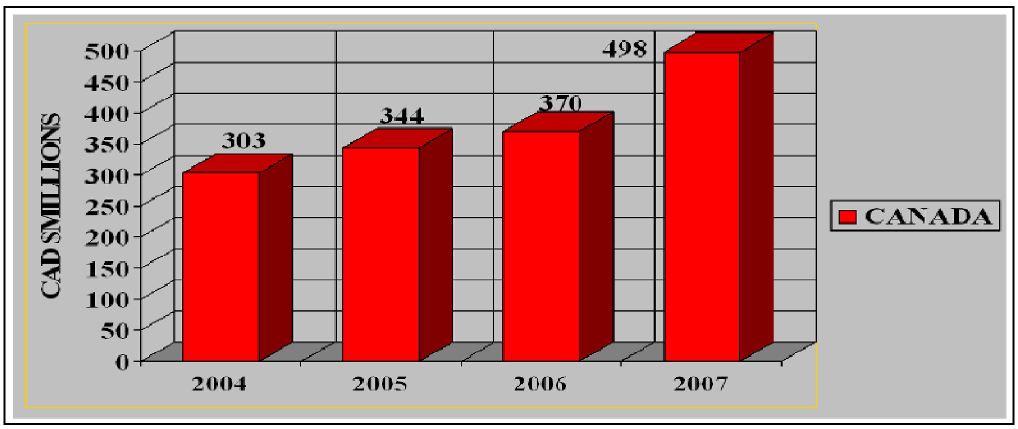

Figure 1 - Growth in Out-of-Home Advertising Spending 2004-2007 ***(Source: http://www.omaccanada.ca/en/research/facts_stats/canada_us/default.omac)***

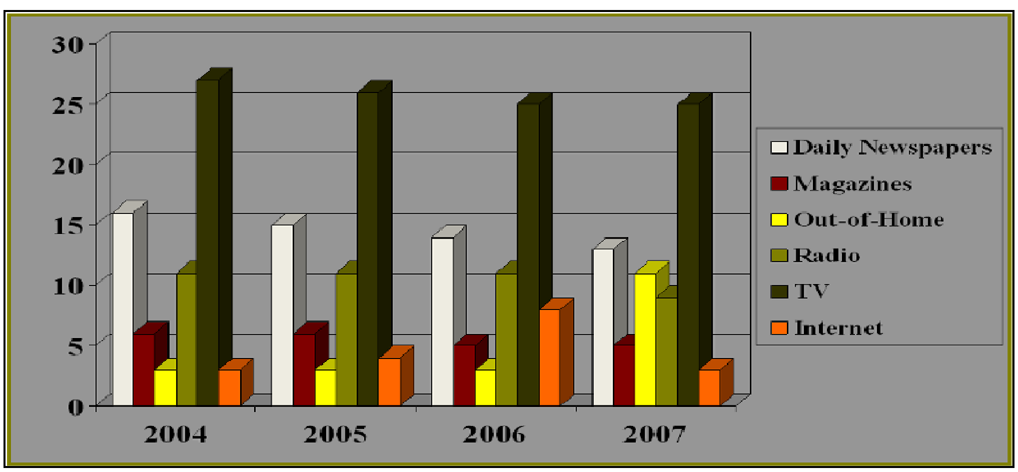

Figure 2 - % of Advertising Spending by Medium
(Source: http://www.omaccanada.ca/en/research/facts_stats/canada_us/default.omac)

Appendix B:

Review of Altus Group Report on the Proposed Billboard Tax for the City of Toronto

This appendix contains a brief review and analysis of the economic impact study (Dated May 20, 2009) carried out by The Altus Group with respect to the preliminary consultation piece prepared by the City of Toronto Sign By-law Team.

- The Altus report is based entirely on a preliminary consultation piece and is not reflective of the actual third-party sign tax that is being proposed by the City.
- The Altus report does not explore any other taxes in effect in other jurisdictions, provides little empirical data, and relies almost exclusively on one source for the information used within the report.
- Page 3 and 4 of the report makes reference to the revenue potential projected in the Hemson Report.
    - The Hemson report stated that the tax structure and rates would likely vary based on the policy objectives guiding the tax and that the revenue and rate structure may also vary based on the objectives of the tax;
    - The city's proposal has identified several policy objectives that the tax could assist in achieving and has a rate structure that has been proposed accordingly.
- Page 7 of the report makes reference to earnings and revenues that are generated by the outdoor advertising industry.
    - The numbers put forth assume that 90% of the Out of Home industry contributes to 90% of the economic activity in the Out of Home industry. There is no data presented in the report to support this.
    - The numbers stated in the report are 2008 figures and may not be reflective of any increases to the rates for various Out of Home advertising products (see appendix A of this report)
- Page 8 of the report confirms the information in this report that third-party signs are not often captured in the property tax.
- Page 8 of the report makes reference to revenues that the City already receives from Out of Home advertising. The out of Home advertising products mentioned in this section of the report would most likely be exempt from paying the third-party sign tax

as proposed by the City for the duration of any agreements. It should also be mentioned that the city may receive these annual payments in lieu of any rent for the space on the streets or transit vehicles.

- Page 9 of the report speaks to space that is ‘donated’ to the city and other charitable organizations. This may be in reference to the requirements in the Coordinated Street Furniture RFP that a total of 7% of the total advertising space on the Street Furniture is donated to the City for its exclusive use, as well as the donation of one surface to the local BIA for its exclusive use (See page 25 of the Street Furniture RFP, dated September 8^{th}, 2006). As stated earlier the Street Furniture would be exempt from paying any third-party sign tax under the current proposal for as long as their agreement with the city is in effect.
    - Due to the exemption from the tax and the fact that the Street Furniture is contractually obliged to provide this ‘donated’ space, it is unlikely that the proposed third-party sign tax will have impacts on these particular advertising opportunities for the city and for local organizations.