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2016 OPERATING BUDGET BRIEFING NOTE
Revenue Tools under the City of Toronto Act, 2006

Issue/Background:

This note responds to the January 11, 2016 Budget Committee's request for a briefing note on new revenue tools that could fund Council approved directions (Operating and Capital), including consideration of:

i. tools for which the City has legal authority to implement in 2016; and

ii. tools for which the City would require provincial authority.

The briefing note should also include expected annual revenue, cost to administer and other impacts.

At the 2016 budget launch on December 15, 2015, staff identified a substantial preliminary operating budget shortfall of $57M and total unfunded capital requirements of $22B. This did not include new/enhanced budget requests, estimated at $67M net for 2016. Property tax and assessment growth are not keeping pace with growing labour costs, and reliance on the municipal Land Transfer Tax is being maximized. New revenue tools are a way to link new spending initiatives to either capital or new/enhanced operating service requirements such as transit service improvements or poverty reduction.

The *City of Toronto Act, 2006* (COTA) was proclaimed as law on January 1, 2007 and sets out a broad, permissive legislative framework for the City that gives it more tools commensurate with its size, responsibilities and significance. COTA provides the City with a new set of taxing powers, subject to prescribed limits. To date, these powers have not been extended to other Ontario municipalities.

Eight taxation options were studied with the help of an outside consultant (Hemson) in 2007. To-date three taxes have been implemented — Municipal Land Transfer Tax, Personal Vehicle Tax (later repealed) and Third Party Sign Tax. The remaining five taxes initially studied were Alcohol Tax, Tobacco Tax, Amusement Tax, Parking Tax and Road Pricing (i.e. Road Tolls, Congestion Tax).

General Authorities and Exclusions:

The City's taxation authority is limited to those taxes for which it is provided express authority under Provincial legislation. The power to impose new taxes is embodied in Part X of the COTA. The City has been provided the authority to impose direct taxes within the City of Toronto.

COTA also expressly **excludes** the power to impose certain taxes. They are:

1. income tax and sales tax*;
2. tax imposed on a person in respect of the person's paid up capital, reserves, earned surplus, capital surplus or any other surplus, indebtedness or in respect of similar amounts
3. tax on lodging, such as hotel, motel, apartment house, boarding house and club;
4. tax on the supply of natural gas or artificial gas;
5. tax on the generation, exploitation, extraction, harvesting, processing, renewal or transportation of natural resources;
6. tax on the use of a highway in respect of equipment placed under, on or over the highway for the purpose of supplying a service to the public;
7. tax on a person's wealth, including an inheritance tax and a tax in respect of:
   i. the total value of assets owned by the person, or
   ii. any monetary assets or financial instruments owned by the person
8. poll tax imposed on an individual by reason only of his or her presence or residence in the City or in part of it;
9. tax on machinery and equipment used in research and development or used in manufacturing and processing and on assets used to enhance productivity, including computer hardware and software;
10. tax on the acquisition of any gas or liquid that may be used for generating power by internal combustion; and
11. tax imposed on the consumption or use of energy, including electricity

*COTA explicitly provides exemptions to the sales tax prohibition for the following (i.e. the City is allowed to impose these types of sales taxes):

1. tax on admission to a place of amusement;
2. tax on purchase of liquor for use or consumption;
3. tax on production of beer or wine at a brew-on-premise facility for use or consumption;
4. tax on purchase of tobacco for use or consumption.

Key Points:

<u>List of Revenue Tools:</u>

Eight revenue tools were considered by the City's consultant in 2007. Subsequently, Council members identified support for additional tools that the City does not currently have the legal authority to implement: Lodgings/Hotel tax, Development levy, highway tolls (requiring provincial regulation), Sales, Income, Profit and Capital Taxes. The following table summarizes these tools by ease of implementation:

	COTA revenue tools ranked by suitability for implementation	Comments/ Council decisions (see Council reference on p. 4)	Legal authority to implement in 2016
A	Least Difficult Options		
	Personal Vehicle Tax (PVT)	Implemented Sep 1, 2008; Repealed Jan 1, 2011	Yes
	Municipal Land Transfer Tax (MLTT)	Implemented Feb 1, 2008	Already implemented
	Alcohol/Liquor Tax on store sales	Not adopted (Council ref #4 – 2007)	Yes (express authority)
B	Moderately Difficult Options		
	Tobacco Tax	Not adopted (Council ref #2 – 2007)	Yes (express authority)
	Amusement Tax	Not adopted (Council ref #2 – 2007)	Yes (express authority)
	Parking Tax	Not adopted (Council ref #7 – 2013)	Yes (depending on how it is structured)
	Third Party Sign Tax (TPST)	Implemented Apr 6, 2010	Already implemented
C	Most Difficult Options		
	Road Pricing (Road tolls, Congestion tax)	Not adopted (Council ref #7 – 2013)	Road tolls require provincial regulations to authorize (s. 41 and s. 116 of COTA).
	Additional taxes proposed/ considered in 2015:		
	Development Levy	Request endorsed by Council (Council ref #8 – 2015)	Requires amendment to COTA
	Lodging/Hotel Tax	No Council references	Requires amendment to COTA
	Sales, Income, Profit and Capital Taxes	No Council references	Requires Federal and/or Provincial agreements and related amendments

Key Suitability Considerations:

The Appendix summarizes the key considerations for assessing the suitability of each revenue tool with respect to four general attributes:

- revenue potential (e.g. revenue estimate and growth potential)
- administrative complexity (e.g. collection and enforcement cost, implementation challenges, and cost relative to revenue)
- economic distortion (e.g. visibility, market/activity response relative to economic development and other policy objectives)

The revenue potential figures in the Appendix are preliminary and order-of-magnitude estimates. Should Council decide to proceed with any of these tools, greater due diligence will be taken to assess the revenue potential and policy implications.

Current Status and Next Steps:

In June, the Province initiated a five-year review of COTA, following a two-year review completed in 2009. At its meeting on Sept 30 – Oct 2, 2015, Council confirmed a list of proposed amendments to COTA, including a new Development Levy previously requested by Council, for submission to the Province as part of the five-year review.
http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX8.1

Revenue tools need to be considered within the broader context of the City's financial sustainability and Long Term Fiscal Plan, which will identify issues and risks related to the City's expenditures, revenues, assets and liabilities and the financial strategies to address them. This will include the use of revenue tools, including obstacles posed by the existing blanket prohibitions on certain taxes such as a sales tax and any required amendments to COTA. An updated Long Term Fiscal Plan will be brought forward to the Executive Committee in early 2016. Council decisions related to revenue tools will be forwarded to the Province at that time as an addendum to the City's submission.

Council Reference:

The following staff reports contain Committee/Council decisions on those taxes that were considered and implemented, rejected or repealed, as well as the five-year review of COTA:

1. 2007 EX6.5 A Discussion of Public Policy Revenue Tools under the City of Toronto Act, 2006 March 26, 2007
2. 2007 EX10.1 New Taxation Measures - City of Toronto Act, 2006 June 25, 2007
3. 2007 EX13.7 New Taxation Measures - Design Features and Implementation Authorities October 29, 2007
4. 2007 EX13.8 New Taxation Measures - Results of Further Consultations respecting Alcohol Tax on Store Sales November 19, 2007
5. 2008 EX19.9 Personal Vehicle Tax - Administrative Design Features and Implementation Authorities April 28, 2008
6. 2011 EX1.7 Personal Vehicle Tax - Repeal of Tax and Termination of Collection Agreement December 16, 2010
7. 2013 EX31.3 Metrolinx Transportation Growth Funding - Dedicated Revenues May 7, 2013 (for road pricing and parking tax)
8. 2015 EX8.1 Five-Year Review of the City of Toronto Act, 2006 Sep 30 – Oct 2, 2015

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Date:	January 15, 2016

Appendix: Key Considerations for COTA Revenue Tools

The revenue potential figures are preliminary and order-of-magnitude estimates. Should Council decide to proceed with any of these tools, greater due diligence will be taken to assess the revenue potential and policy implications.

<table>
<tr><th></th><th>Revenue Tool</th><th>Revenue Potential
(magnitude & growth)</th><th>Administrative Complexity
(Implementation challenges & cost efficiency)</th><th>Economic Distortion
(visibility, market/activity response relative to economic development and other policy objectives)</th><th>Comments</th></tr>
<tr><td colspan="6">Implemented</td></tr>
<tr><td>1</td><td>Municipal Land Transfer Tax (MLTT)</td><td>Implemented Feb 1, 2008
Rate structure:
<table>
<tr><th>Value of Consideration</th><th>Properties with no more than 2 single family residences</th><th>All other properties</th></tr>
<tr><td>$0-$55K</td><td>0.50%</td><td>0.50%</td></tr>
<tr><td>$55K - $250K</td><td>1.00%</td><td>1.00%</td></tr>
<tr><td>$250K - $400K</td><td>1.00%</td><td>1.00%</td></tr>
<tr><td>>$400K</td><td rowspan="2">2.00%</td><td>1.50%</td></tr>
<tr><td>>$40 million</td><td>1.00%</td></tr>
</table>
<table>
<tr><th></th><th>Actual Revenues
Net $M</th></tr>
<tr><td>2008</td><td>154.9</td></tr>
<tr><td>2009</td><td>178.5</td></tr>
<tr><td>2010</td><td>274.5</td></tr>
<tr><td>2011</td><td>319.2</td></tr>
<tr><td>2012</td><td>344.5</td></tr>
<tr><td>2013</td><td>356.8</td></tr>
<tr><td>2014</td><td>432.0</td></tr>
<tr><td>2015 proj</td><td>520.0</td></tr>
</table>
Average annual growth rate = 19%</td><td>Cost efficiency: Good

Piggy-backed on the Provincial Land Transfer Tax.</td><td>Negligible. Some element of decreased location mobility.</td><td>Has sheltered property taxpayers from significant potential tax increases.

Has improved transition to fiscal sustainability.

Revenue risk associated with a potential cyclical variation in real estate transaction volumes</td></tr>
</table>

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<tr><td>2</td><td>Personal Vehicle Tax (PVT)</td><td>Implemented Sep 1, 2008
Repealed Jan 1, 2011

Flat annual rate of $60 for a personal passenger vehicle, $30 for a motorcycle or moped.

Revenues exceeded $50M/ year</td><td>Cost efficiency: Good

Piggy-backed on the Provincial collection system.

Took 10 months to implement when first introduced in 2007 (between Council decision and implementation date)

Tax as it existed could be re-implemented significantly faster with Provincial cooperation</td><td>Negligible impacts on car ownership.

High annual visibility.

Suitable for dedication to road related costs but was not done.</td><td>High visibility, lack of perceived program benefit contributed to decision to cancel the tax.</td></tr>
<tr><td>3</td><td>Third Party Sign Tax (TPST)</td><td>Implemented Apr 6, 2010

Flat rate for each of the 5 sign classes

<table><tr><th></th><th>Actual Net $M</th></tr><tr><td>2010</td><td>(0.6)</td></tr><tr><td>2011</td><td>(3.4)</td></tr><tr><td>2012</td><td>24.0</td></tr><tr><td>2013</td><td>10.4</td></tr><tr><td>2014</td><td>10.3</td></tr><tr><td>2015 proj</td><td>10.9</td></tr></table></td><td>Moderate administrative complexity.

Cost efficiency: Good</td><td>May lead to changes in signage locations.</td><td></td></tr>
</table>

	Revenue Tool	Revenue Potential (magnitude & growth)	Administrative Complexity (Implementation challenges & cost efficiency)	Economic Distortion (visibility, market/activity response relative to economic development and other policy objectives)	Comments
Not Implemented but Permitted under COTA [1]					
1	**Alcohol Tax at retail outlets (LCBO, Beer Store, wine retailers)**	A tax on Toronto liquor, beer and wine store sales was estimated to generate $44M per year @ 5%[2]. Liquor, wine and beer sales had been trending down with aging population, health trends, and poorer income distribution.	Moderate - Requires cooperation from Provincial and potentially Federal governments (CRA), legislative change may be needed (contrary to province wide uniform pricing provisions of Liquor Control Act) Relatively few outlets, zero avoidance expected. Cost efficiency: Moderate Time to implement >1 year	Good policy fit - health, policing, social Heavily taxed commodity, increases avoidance incentive. Potential impacts on retailers, retail plazas, particularly in locations near City boundary. Potential impact on marquee liquor stores. Moderate avoidance potential	Nov 19, 2007 Council considered report EX13.8 New Taxation Measures - Results of Further Consultations respecting Alcohol Tax on Store Sales and resolved not to pursue the implementation of an Alcohol Tax
2	**Tobacco Tax**	A tax on cigarette (pre-HST) sales was estimated to generate $25M per year @ 5% [2]. Poor growth potential - declining consumption, high avoidance incentive and opportunity (provincial revenue decreased 24% from 2005 -2014; high avoidance rates est. at 40%).	High -- Very high number of collection points with small revenue amounts Requires provincial/ federal cooperation; could piggy back on current HST collection. Cost efficiency: Poor Time to implement >1 year	Good policy fit – better health Low visibility Imposes burden on thousands of retailers; Smaller retailers are affected more. High avoidance potential	Already highly taxed field, significant avoidance activity, impact on small retail undermines benefits.

[1] Including Road Tolls which does not require legislative change but rather regulatory change to COTA
[2] Source: 2007 EX10.1 New Taxation Measures - City of Toronto Act, 2006 June 25, 2007

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<tr><td>3</td><td>Amusement Tax</td><td>Revenue varies with rates, taxed activities.

Estimated to generate $22M @ 5%

<table>
<tr><th rowspan="2">Est. Amusement Sales before HST ($M) *</th><th colspan="4">Est. Toronto Amusement Tax at different rates ($M)</th></tr>
<tr><th>1%</th><th>3%</th><th>5%</th><th>10%</th></tr>
<tr><td>$436</td><td>$4</td><td>$13</td><td>$22</td><td>$44</td></tr>
</table>
* estimated gross sales before HST (for movies, sporting events and live performing arts excluding nightclubs) – per Hemson study[3] based on 2005 data and inflated at 2% annually.

Good growth potential, subject to industry trends</td><td>High -- moderate number of collection points, many exemptions,

Best with Provincial cooperation; could piggy back on current HST/PST collection

Cost efficiency: Moderate

Time to implement >1 year</td><td>Moderate policy fit: progressive tax but penalizes positive/ desirable economic activity in the City subject to exemptions

Could support reinvestment in attractions/beautification

High visibility</td><td>Potentially contrary to City's economic development aspirations.

Could be applied to major stadia, highly concentrated incidence, or relatively inelastic attractions</td></tr>
<tr><td>4</td><td>Road Pricing -- Congestion Tax / Road Tolls</td><td>Various options:

Downtown Toronto Congestion Levy based on $8/vehicle/entry 6:30 am - 6:30 pm:
Revenue potential: $110M[4]

Highway Tolls on all 400 series highways & major municipal expressways @10¢/km:
GTHA: 1.4B, Toronto: $567M[4]

HOV Toll lanes on GTHA highways @30¢/km:
GTHA:$25M; Toronto: $10M[4]</td><td>High -- complicated policy, technical, capital costs, program and public relations issues

No legislative authority exists without a regulation specifically authorizing road tolls (s. 41 and s. 116 of COTA)

No existing collection system – requires significant infrastructure

Cost efficiency: Low</td><td>Benefits - pro transit, reduced congestion, better air quality, better health, improved movement of goods

Detriments –
- penalizes city core commercial assessment growth (inconsistent with property tax and development charges policies)
- may push traffic onto arteries
- requires concomitant investment in transit alternatives

High visibility</td><td>Considered but rejected by Council in May 2013 [2]

More suitable for regional (GTHA) implementation due to economic distortion concerns.

Complicated due to split ownership of highways (City owns Gardiner to Hwy 427, and DVP).

The Province is introducing a pilot project on High-Occupancy Toll (HOT) lane which would begin in summer 2016 on a section of the QEW between Trafalgar Road in Oakville and Guelph Line in</td></tr>
</table>

[3] Source: Assessment of Potential New Tax Measures under the City of Toronto Act, 2006, Hemson Consulting, March 2007

[4] Source: Staff report 2013 EX31.3 "Metrolinx Transportation Growth Funding – Dedicated Revenues" May 7, 2013 Council meeting

	Revenue Tool	Revenue Potential (magnitude & growth)	Administrative Complexity (Implementation challenges & cost efficiency)	Economic Distortion (visibility, market/activity response relative to economic development and other policy objectives)	Comments
		Toronto figures represent annual revenues that would be raised in Toronto based on population share (@~41%) assuming GTHA-wide implementation by Metrolinx Preliminary estimate for a Gardiner/ DVP toll at $1.25 flat toll (plus CPI) over 30 years could recover toll costs ($1.7B) and highway costs ($4.0B) [5], or an average of ~$190M/year over 30 years Poor growth potential – tolls will result in declining usage; require escalation			Burlington to help manage congestion. The Province is seeking feedback on the pilot.
5	**Parking Tax**	Varies with type of spaces taxed vs. exempted, area imposed, and applicable rate: <u>Estimates based on per-space charge @ $1/day/space on **non-residential** lots:</u> Off-street paid lots only [6]: Downtown core $27M City-wide $44M Off-street paid and unpaid lots: City-wide: $400M before exemptions* **$300M net * [6]** * Exemptions likely sought for MUSH (municipal organizations, universities, schools and hospitals) sector, Toronto Parking Authority & TTC lots to avoid eroding existing City revenue.	Restricted to tax on ownership of parking spaces, and must be carefully structured (as indirect taxes and sales tax on parking are not permitted) Could piggyback on MPAC assessment/property tax system Moderate complexity – requires cooperation from MPAC; subject to legal challenges, policy issues Cost efficiency: Moderate Time to implement > 1 year (establish data base, collection procedures, rates, policies and consultations).	Benefits - pro transit, reduced congestion, better air quality Detriments – Impacts car-based retailers, employers (inconsistent with property tax and development charges policies) Moderate visibility	Considered but rejected by Council in May 2013 Good policy fit but politically contentious: disproportionately affects large malls

[5] Source: Staff report 2015 EX8.14 Tolling Options for the Gardiner Expressway and Don Valley Parkway Sept 21, 2015 Executive Committee meeting
[6] Parking space data sourced from Discussion Paper: Parking Taxes: Options for Toronto, Toronto Parking Authority, March 2007

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<tr><td></td><td></td><td>Revenue may decline as marginal lots are developed.

GTHA–wide $1.4B based on CVA [7]</td><td></td><td></td><td></td></tr>
<tr><td colspan="6">Currently Prohibited under COTA</td></tr>
<tr><td>6</td><td>Hotel Tax</td><td>The Greater Toronto Hotel Association currently administers a voluntary Destination Marketing Program (DMP) where participating hotels pay up to 3% of room revenues, which are transferred to Tourism Toronto (TT). The DMP yielded ~$21M for TT (2014).

A Hotel Tax could co-exist with the current DMF or replace it.

<table><tr><td>Hotel Tax rate options</td><td>Prelim. estimate ($M)</td></tr><tr><td>A percentage of the cost of a room night sold</td><td>Each 1% = $9 M / year</td></tr><tr><td>A flax tax per room night sold</td><td>Each $1 = $7M / year</td></tr></table>
The City may be expected to restore and possibly augment funding to Tourism Toronto (or a similar agency) that was cut (approx. $10M) when the hotel association introduced the voluntary DMP system.</td><td>Like any sales tax in Ontario, the CRA is the agency responsible for collection, so there would be contractual, possibly legal, and some technical issues to be resolved.

Time to implement ~ 1 year (establish data base, collection procedures, rates, policies and consultations).</td><td>Many jurisdictions have hotel taxes, but not necessarily combined with 13% HST.

The Greater Toronto Hotel Association contends that a municipal tax could damage price perceptions and marketability.

Some avoidance/ compliance issues</td><td>One of the excluded taxes under COTA (ss 267 (2) 6)

The Province expressly prohibited this tax at a time when the City was publicly considering it.</td></tr>
</table>

[7] Source: Staff report 2013 EX31.3 "Metrolinx Transportation Growth Funding – Dedicated Revenues" May 7, 2013 Council meeting

	Revenue Tool	Revenue Potential (magnitude & growth)	Administrative Complexity (Implementation challenges & cost efficiency)	Economic Distortion (visibility, market/activity response relative to economic development and other policy objectives)	Comments
7	**Development Levy**	Potential design features and rationales are being developed. Could be structured as a levy on the value of land slated for development payable by the land owners Possible rate structures: • Percent of land value • Variable rate based on location • Rate based on the expected land value appreciation Growth potential depends on real estate activities and City policies	Levy payable at the time of building permit issuance or zoning approval Administrative complexity: low (collected by City divisions using current revenue collection mechanism) Cost efficiency: high	Moderate visibility (cost may be passed on to purchasers of the development) Detriments – - may impact development location decisions, particularly around city borders	Not one of the taxes initially studied in 2007, but requested by Council in 2015 [8] Requires COTA amendment -- could be construed as a prohibited tax (wealth tax under ss 267(2)) Existing tax regimes already tax developers (DC), buyers (MLTT), and property owners/ occupants (property tax). A Development Levy is intended to capture a portion of the significant gains made on land held for development and benefitting from City investments Council may consider dedicating revenues to general infrastructure or specific capital needs (growth, SOGR)

[8] Source: Staff report 2015 EX8.1 Five-Year Review of the City of Toronto Act, 2006 Sep 30 – Oct 2, 2015 Council meeting