ARTSCAPE

February 6, 2018

Executive Committee Members
City of Toronto
City Hall, 2nd Floor
100 Queen Street West
Toronto, ON M5H 2N2

Dear Member of the Executive Committee,

RE: EX31.1a Creative Co-Location Facilities Property Tax Subclasses

On behalf of all of Artscape's tenants, I would like to applaud the efforts of Council and City staff to create a new property tax subclass for creative co-location facilities. We appreciate the creativity and collaboration across City departments and between governments in the development of this policy. While we are supportive of the recommendations in EX31.1a, we believe the following tweaks will strengthen the policy and ensure that it provides a lasting fix to the sustainability challenges of creative -co-location facilities (CCFs):

1. Amend the proposed discount from 30% to 66%
2. Amend the qualifying property criterion related to multiple tenants from *"The property must have a minimum of (10) distinct, full-time tenants that meet the definition of 'Creative Enterprise'"* to "*The property must have a minimum of five (5) tenants that meet the definition of 'Creative Enterprise'*." We have spoken to City staff about this issue and we understand they are open to a friendly motion to change the minimum tenant criteria from 10 to 5.

The case for these amendments is laid out below.

Discount Rate:

Toronto is in the midst of an extended affordability crisis that is putting many of its cultural facilities at risk. The crisis is not unique to Toronto as many global cities are struggling to deal with similar issues. In 2017, the World Cities Culture Forum declared that real estate market growth now poses the biggest threat to culture in global cities. For example, London has lost 35% of its music venues in the last five years and projects that 30% of its artist studios will be lost by 2019. It also has recently opened an office for cultural facilities at risk to explore solutions to the crisis. Toronto, like many of its global counterparts, needs to act fast to both preserve existing cultural infrastructure and create a stronger enabling environment to support the development of new facilities.

Increases in property taxes have been a key part of the affordability challenge in Toronto. Prior to Current Value Assessment (CVA), non-profits were taxed at the residential rate, approximately 1/3 of commercial rates in Toronto. When CVA came into effect in 1999, a capping mechanism was put in place to ease the transition to the full commercial rate. Charities were offered a 40% rebate on commercial taxes but creative co-location facilities did not qualify for this support. In addition to the transition from residential to commercial rates, CCFs have been subject to dramatic escalations in property taxes driven by building valuations determined by MPAC that assesses them at the highest and best use. The combination of these issues is threatening the sustainability of CCFs and their subtenants.

We believe the new Creative Co-location Facilities Property Tax Subclasses (CCFPTS) should accomplish the following objectives:

1. It should seek to create a lasting fix to the property tax challenge faced by CCFs rather than just a quick fix to the increase in property taxes over the past 3 or 4 years.
2. It should recognize that the valuations of CCFs can vary dramatically depending on the age of the property and when it was first assessed and therefore set the discount rate at a level that provides substantial relief to all properties within the class.
3. It should seek to encourage the development of more CCFs to create and sustain multi-faceted cultural infrastructure including outside the core.

The City is considering setting the CCFPTS discount rate at 30% off commercial taxes. This rate will not meet the objectives outlined above for the following reasons:

A. Properties like 401 Richmond and Artscape Distillery Studios have seen dramatic increases in taxes over the past 5 years as seen in the table below:

401 Richmond Street				**Artscape Distillery Studios**			
Year	**Property Taxes**	**Annual % Increase**	**$ per ft^2**	**Year**	**Property Taxes**	**Annual % Increase**	**$ per ft^2**
2013	$479,000	7%	$ 2.72	2013	$103,831	25%	$ 2.37
2014	$512,448	7%	$ 2.91	2014	$120,139	16%	$ 2.75
2015	$542,025	6%	$ 3.08	2015	$133,812	11%	$ 3.06
2016	$568,330	5%	$ 3.23	2016	$150,947	13%	$ 3.45
2017	$615,000	8%	$ 3.49	2017	$166,791	10%	$ 3.81
2018	$660,000	7%	$ 3.75	2018	$217,358	30%	$ 4.97
Combined increases 2013 - 2018		40%		increases 2013 - 2018		**106%**	

Given the history of increases, it stands to reason that the benefit of a 30% reduction could be completely wiped out or significantly eroded within one 4-year assessment cycle.

B. CCFs that were first assessed after 2012 are paying significantly higher property taxes per square foot than those that led to the sustainability crisis at 401 Richmond Street. Examples of recently developed Artscape CCFs illustrate this point:

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PTCCCF Discount Analysis	2018 Gross Property Tax	Net of PTCCCF 30% Discount	Net of PTCCCF 66% Discount
Artscape Properties - Assessed After 2012			
Artscape Wychwood Barns	$ 5.80	$ 4.06	$ 1.93
Artscape Youngplace			
Low	$ 6.40	$ 4.48	$ 2.13
Avg	$ 8.03	$ 5.62	$ 2.68
High	$ 10.55	$ 7.39	$ 3.52
Daniels Spectrum	$ 6.78	$ 4.75	$ 2.26
Creative Co-location Facilities Assessed Before 2012			
Artscape Distillery Studios	$ 4.97	$ 3.48	$ 1.66
401 Richmond	$ 3.75	$ 2.63	$ 1.25

While there will inevitably be differences in the taxes levied to CCFs based on their valuations, the CCFPTS discount rate should be set at a level that is low enough to solve the sustainability challenge for all eligible properties within the class given that they are serving the same group of subtenants. A 30% reduction for the most highly assessed units at Artscape Youngplace will result in taxes that are $7.39 per sq. ft. that is more than double the rates of 401 Richmond after the discount is applied.

C. Given the growing affordability crisis in Toronto and the threat to cultural facilities that it represents, Toronto should seek to use the new CCFPTS as an incentive to create more affordable space for culture. Now that commercial taxes on new commercial spaces are often taxed at more than $10 per sq. ft., a 30% reduction will not provide enough incentive to make cultural space development in new projects viable.

D. A 30% discount through the CCFPTS would effectively put a band-aid on the challenge facing CCFs and their tenants. While this would provide some measure of relief, any gains could be wiped out when the next assessments are completed. By increasing the discount to 66%, the City would create a more lasting solution to the challenge for all eligible CCFs while providing an incentive for new CCFs to be developed. There are many precedents where community facilities are taxed at the residential rates, including the practice pre-CVA when non-profits were generally taxed at this rate.

Multiple Tenants Criterion:

Our concern about requiring eligible properties to have “10 distinct full-time tenants” is that it will preclude inclusion of multi-tenant properties in the class like Daniels Spectrum. This Artscape project is 60,000 square feet and meets all of the other criteria but has only 5 (or 6 if you count Artscape itself as we operate Ada Slaight Hall) tenants that meet the ‘Creative Enterprise’ definition. We appreciate that the City needs to set a high bar for inclusion in the subclass to create a manageable number of qualifying buildings. However, we do not think it makes sense that a building with 10 X 1,000 square foot tenancies would qualify when a significant project like Daniels Spectrum that is 60,000 square feet but has just 5 subtenants would not. As we have seen with Daniels Spectrum, it is particularly important to ensure that future creative co-location projects can adapt multi-tenant models that meet local needs.

Notwithstanding these requests for amendments, we are extremely grateful to all at the City who have worked to make the Creative Co-Location Property Tax Subclass a reality.

All the best,

Tim Jones
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