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November 30, 2023

Matthew Green
Members of the Budget Committee
Toronto City Hall
100 Queen Street West
Toronto, ON M5H 2N2
To: buc@toronto.ca

RE: City of Toronto 2024 Budget

The Financial District BIA, NAIOP Toronto, BOMA Toronto, the Toronto Region Board of Trade, the Retail Council of Canada and REALPAC appreciate the opportunity to submit our comments regarding the upcoming City of Toronto Budget. We recognize the difficult financial situation the City of Toronto is facing, exacerbated by the COVID-19 pandemic.

We also understand the City delivers services that are more properly the remit of other governments, and that the delivery of these services are not adequately supported by city property taxes alone. We understand that the financial challenge the City is facing, which has been exacerbated by the pandemic, is due in large part to the fact the City bears approximately $1.1 billion in costs that would otherwise be the responsibility of federal and provincial governments, and that benefit the greater region.

We are pleased to hear that the City has successfully negotiated a New Deal with the provincial government, significantly mitigating these cost pressures and securing $1.2 billion in provincial support for operating and capital costs over the next three years. We commend the City on its continued efforts to work with both provincial and federal governments to ensure the City is supported in its delivery of important services. This will help ensure the City's financial stability and one we advocated for in our deputation to the Executive Committee in August.

In this context, we wish to support the City to build on this success and establish a sustainable financial plan that enhances economic competitiveness, growth, and stability over the long term. We recognize the need to raise revenues in a fair and equitable manner, and to avoid unintended consequences that would ultimately have harmful effects on the City's operations and its residents and businesses.

As representatives of businesses across Toronto, we would like to reiterate our concerns with the implementation of a proposed commercial parking levy, as we believe it will be inefficient, administratively burdensome and counterproductive to overall economic growth and stability. We also believe that implementing the parking levy would violate the spirit of the New Deal working group mandate to "avoid new taxes and fees on hard-working residents of the city." In particular, as the working group now embarks on the next phase of its work to undertake a targeted review of the longer-term sustainability of the City's finances, we believe consideration of a parking levy at this time would be premature.

As presented to the Executive Committee in August, the attached research paper from Altus Group outlines the negative economic impacts of a parking levy, particularly on small to medium-sized businesses struggling to recover from the pandemic. In addition, it would be slow and costly to implement, only resulting in marginal revenues for the City.

The levy is effectively a tax on commercial, industrial, and retail properties, whose tenants would be paying 70% of the parking levy's revenue and would experience an additional tax on already taxed

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parking spaces. Altus estimates that the resulting decreased investment in the non-residential sector would lead to 54,500 lost construction jobs and 40,500 lost office, retail, and industrial jobs. Ultimately, Toronto residents, employees and business owners will be experiencing the impact of a levy, through increased costs and reduced employment opportunities.

The parking levy would also be costly and burdensome to administer, and revenues collected would not offset the impacts of reduced economic activity. A parking levy would reduce market values on commercial properties, which have already suffered impacted valuations due to increased vacancies due to the pandemic. Effectively, the City would experience a reduction of $155 million per year from commercial property tax revenue. This would result in a $1 per stall, per day levy having an effective revenue of only $72 million per year, far less than the estimated $355 million— and at great economic cost.

Additionally, because this parking levy will be implemented under the City of Toronto Act, our understanding is that it cannot be implemented in other jurisdictions outside the City's boundaries. This means that a new burden will be added to Toronto businesses but not to any others in the region, presenting an obvious economic disadvantage to Toronto businesses. We believe it could drive investment elsewhere to more tax-friendly, lower-risk operating environments.

As Toronto seeks to remain competitive on a regional basis, the implementation of a parking levy that can only be paid in Toronto would undermine those efforts and exacerbate the circumstances the New Deal is designed to resolve.

In light of the successful negotiations on a New Deal for Toronto, and the commitment of the Province and City to undertake a targeted review of the sustainability of the City's finances beyond 2026, we believe now would not be the time to impose an additional cost burden on businesses and residents through a parking levy. We commend the City on its continued efforts to ensure long-term financial and economic stability, and we offer any support we can provide to ensure the provincial and federal governments fulfill their responsibilities in implementing the New Deal.

Respectfully,

Michael Brooks
Chief Executive Officer
REALPAC

Attachments:

- Report by Altus Group: *Potential Economic Impacts of Introducing a Parking Levy in the City of Toronto*

cc: Councillor Shelley Carroll
Councillor Lily Cheng
Deputy Mayor Jennifer McKelvie
Councillor Chris Moise
Deputy Mayor Amber Morley
Councillor Gord Perks

Potential Economic Impacts of Introducing A Parking Levy in the City of Toronto

Independent Real Estate Intelligence

May 23, 2023

Altus Group

Potential Economic Impacts of Introducing A Parking Levy in the City of Toronto

Prepared for:

Real Property Association of Canada (REALPAC)

BOMA Toronto

Toronto Financial District BIA

Prepared by:

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May 23, 2023

EXECUTIVE SUMMARY

Altus group was retained by REALPAC, BOMA Toronto and the Toronto Financial District BIA to produce a study looking at the potential economic impacts of a new commercial parking levy in the city of Toronto.

This study looks at the potential parking economic losses and annual municipal net gains in revenue for every $1.00 per day per stall levy implemented by the City of Toronto.

On the economic impact front, we find that a parking levy will:

- Reduce investment in industrial, commercial and retail buildings by $6.8 billion in non-residential buildings;
- Result in the loss of 459,500 years of full-time employment over the course of a decade due to:
  - 54,500 in lost construction related jobs due to lower investment activity in the non-residential sector; and
  - A loss of 40,500 in annual jobs related to office, retail and industrial activities that would have filled the space that would have otherwise been built; and
- Have little to no impact on driving behaviour, due to regulatory constraints and the structure of the levy.

Figure ES- 1

Summary of the Economic Analysis of a Parking Levy

Losses	Gain
$13 billion reduction in non-residential tax base	**$84 million** in net new annual revenues
$6.8 billion in commercial real estate investment	
459,500 in lost years of employment (jobs)	

Source: Altus Group, Based on Statistics Canada input-output economic modeling.

Our estimates of net revenue impacts show that the parking levy will be less effective at filling the City's budgetary gap than is believed.

The City of Toronto produced a background report on this matter, dated January 24, 2023 that looked at the potential revenue that could be raised from a parking levy. The data presented in this note implies that a $1.00 a day per parking spot levy would generate as much as $355 million per year. The City note presented data on potential revenues for a low ($0.50/day/stall) and a higher ($1.50/day/stall) rate scenario.

Altus Group finds that the total net new municipal revenue gain after implementing a parking levy would only amount to $84.0 million per year, or $72.0 million if paid TTC and TPA parking lots are exempt from the tax.

The implementation of such a levy would be capitalized into property values and lower non-residential investment. A reduced tax base would shave off annual commercial property tax revenues, to the tune of $155 million per year in municipal fees and $116 million for school boards.

In addition, the City identified the costs involved in both implementing the levy and in administering it on an ongoing basis, all of which would reduce the net revenue from the potential new tool. The City estimates it will cost $7.2 to $15.0 million in set-up costs, and $950,000.0 in annual on-going costs to implement a parking levy.

Overall, this report concludes that a parking space levy is a poor financing tool to help the city fund its budget gap.

Figure ES- 2

Estimated Net Annual Municipal Revenue Gains/Losses After the Introduction of a Parking Levy at $1/day/stall, City of Toronto

	Annual Revenue, $
Gain (Parking levy)	355,000,000
Losses	
Municipal property tax	(155,000,000)
Education property tax	(116,000,000)
Net Gain	**84,000,000**

Source: Altus Group, based on City of Toronto 2023 Operating Budget Benefiting Note and IMFG

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1 INTRODUCTION

1.1 STUDY PURPOSE

Altus Group was retained by RealPac, BOMA Toronto and the Toronto Financial District BIA, to study the economic impact a parking levy would have in the City of Toronto.

At the January 13, 2023 Budget Committee meeting, a motion was put forward asking the Chief Financial Officer and Treasurer to report on the potential revenue that could be generated if the City of Toronto implemented a commercial parking levy to help fill a budgetary gap and fund necessary infrastructure and transit investments.

The Chief Financial Officer and Treasurer reported back on January 24, 2023 with a 2023 Operating Budget Briefing Note.

Altus Group prepared economic reports looking at the impact a parking levy would have on the economy in both 2006 and 2016. The purpose of this report is to provide an update to the past analysis, incorporating data provided in the City of Toronto briefing note. This report revisits the impact a parking levy will have on government revenues and businesses given the challenging economic backdrop.

1.2 SCOPE OF STUDY

The proposed parking levy will have negative impacts on the local economy. This report evaluates the proposed parking levy based on:

- A review of the municipal revenue potential;
- An assessment of the levy based on the criteria set out by the City of Toronto including revenue potential, administrative complexity and economic distortions created;
- The impact a parking levy could have on businesses in the city of Toronto, including an assessment of rents and commercial real estate investment;
- An analysis of the potential magnitude and distribution of revenue that will be generated by the levy by property type;
- An estimate of the jobs that would be lost due to lost competitiveness of commercial space in the city.

1.3 CAVEAT

This report relies on information from a variety of primary and secondary sources. While every effort is made to ensure the accuracy of the data, we cannot guarantee the complete accuracy of the information used in this report from these secondary sources.

The analysis in this report relies on the City of Toronto estimates of applicable parking spots. The City does not have the authority to impose taxes on non-profit and federal and provincial government buildings, such as schools, hospitals, long-term care facilities. We assume that any City-published estimate of applicable spots would have accounted for these exclusions.

This report is intended to be used for the purposes outlined herein and is not to be relied upon by any other party without the prior written consent of Altus Group Economic Consulting.

2 BACKGROUND

The City of Toronto is expecting a budgetary gap of over $1.0 billion in 2023, owing to the lingering financial impact of the COVID-19 pandemic. The City is considering new revenue sources to continue providing its services and fund new infrastructure, including transit.

One tool the City has the power to implement is a parking levy[1]. City Council directed staff to investigate the potential use of a parking levy to help fund its budget gap. The City has also studied the use of a parking levy in 2006 and 2016, but at that time opted not to implement such a tax.

A parking levy is a fixed amount charged to real estate owners per parking spot or per size of the parking area associated with their property, per day, for both paid and unpaid parking. This contrasts to a parking tax, which is levied on paid parking, per use. A parking levy is charged to the property owner and often paid by tenants, while a parking tax is charged on drivers (users).

A 2023 operating budget briefing note, "Potential Implementation of a Commercial Parking Levy," presented some data on how such a tool would work. The main findings of the background study were the following (See Figure 1):

- The note identifies roughly 1.01 million parking spots that the levy could be charged on. Of these spots, 185,000 are paid parking, but the vast majority are unpaid parking[2];
- Drawing on results from a 2016 KPMG Report prepared for the City of Toronto on revenue options, a levy of $0.50, $1.00 and $1.50 per parking space per day in the city of Toronto is estimated to generate annual revenues of between $177 million to $532 million per year[3];
- The levy would take 12-18 months to implement. The largest hurdle would be building an inventory of parking spots. It would cost between $7.2 and $15.0 million to set up the

[1] The City of Toronto's taxing powers are limited under the City of Toronto Act 2006.
[2] The City briefing note updated parking data presented in a 2016 KPMG Report, "Revenue Options Study prepared for the City of Toronto", including an assessment of a parking levy.
[3] Calculated by Altus based on parking space estimates provided in parking memo.

infrastructure for collecting the levy, and then $950,000 per year to administer.

The 2023 City briefing note highlighted that, if implemented, the revenues will differ from that estimated. The revenue generated will depend largely on how the City designs the levy, including:

- The rate the City chooses to charge;
- Exemptions that will be allowed, for certain businesses;
- Geographic considerations. Buildings closer to transit and downtown centres may be charged higher rates than suburban locations; and
- The economic impact the parking levy may have. The tax could push businesses and customers to other nearby jurisdictions, which would reduce the revenues collected from the tax.

Figure 1

City of Toronto Estimates of Potential Revenue of a Parking Levy in the City of Toronto

		Potential Levy Revenue per Year, $		
	Number of Spots	At $0.50/Spot/Day	At $1.00/Spot/Day	At $1.50/Spot/Day
Paid	152,800	26,892,800	53,785,600	80,678,400
Non-Paid	855,000	150,480,000	300,960,000	451,440,000
Total	**1,007,800**	**177,372,800**	**354,745,600**	**532,118,400**

Source: Altus Economic Consulting, based on City of Toronto Briefing Note, January 2023

Altus Group has shown in previous reports that the revenues from a parking levy will ultimately be much lower than the calculations presented in Figure 1. The chapters that follow will re-evaluate the potential revenue of the levy using an updated model and highlight the myriad spill-over negative economic impacts such a levy could cause.

This report will present an analysis of the economic impact of a parking levy on the city of Toronto, structured as $1.00 per parking spot.

3 OVERVIEW OF WHO WILL PAY THE TAX

This section provides an assessment of how the revenue will be generated and who will pay it. The analysis is based on a parking levy scenario of $0.50, $1.00 and $1.50 per spot per day.

3.1 OVERVIEW OF A PARKING LEVY

A parking levy is a municipal tax on parking spots or parking space area for non-residential buildings. They can be levied per day, per month or per year.

Certain parking types are generally exempt from paying parking levies, including on-street parking, publicly-owned parking lots, institutional parking areas, underutilized parking lots and accessible parking.

3.2 THE BURDEN BY PROPERTY TYPE

The City briefing note estimated some 1.01 million parking spots, or 3.6 million square feet of parking area in the city of Toronto that could be subject to a parking levy.

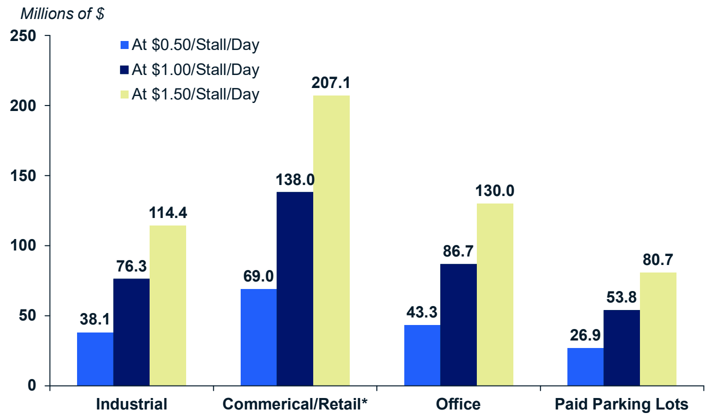
Of these spots, 128,000 are paid spots (Figure 1, page 7) and would account for $27 million to $81 million in revenue per year. Of these spots, 32,800 spots are tied to TTC commuter parking and Toronto Parking Authority spots. These spots could be exempt from a tax, and would reduce revenue on paid spots to $21.0 million to $63.0 million per year.

The bulk of the potential annual levy revenue ($150 million to $451 million) will be generated on parking that is currently free to use.

Figure 2 shows how Altus expects the levy to be borne by property type, based on Altus 2016 estimates of parking spaces by property type.

Figure 2

Potential Revenue of a Parking Levy, by Property Type, City of Toronto



*Includes restaurants and recreation.
Source: Altus Group Economic Consulting, based on Altus 2016 Report and City of Toronto Operating Budget Briefing Note, January 24, 2023

AltusGroup

The commercial, retail and office sectors are expected to account for 70% of the revenue generated by a parking levy.

Every $1.00/stall/day of parking levy implemented would lead to a financial burden of $300.0 million for the business sector and $54.0 million for paid parking lots.

The above analysis reflects impacts on the whole market. Within the office, commercial and retail market, the distributional impact of a parking levy will be uneven for individual properties. The City of Toronto January 2023 operating briefing note provided some case studies on how a parking levy will impact various individual commercial building types in the city of Toronto, based on a typical building structure. The results are found in Figure 3.

Figure 3

City of Toronto Estimates of Potential Revenue of A Parking Levy, by Business Type, City of Toronto

	Parking Spots	Potential Levy Revenue per Year At $0.50/Spot/Day	At $1.00/Spot/Day	At $1.50/Spot/Day
Large Shopping Centre	4,800	844,800	1,689,600	2,534,400
Large Office Building	1,420	249,920	499,840	749,760
Strip Mall	160	28,160	56,320	84,480
Local Grocery store	40	7,040	14,080	21,120
Small Medical/Legal office building	12	2,112	4,224	6,336

Source: Altus Economic Consulting, Based on City of Toronto Oeprating Briefing Note, January 2023

The additional tax will range from $844,000 to $2.5 million for a typical large shopping centre and between $7,000 to $21,000 for a small local grocery store.

The table shows that the parking levy would effectively double the property tax paid on a strip mall.

3.3 WHO WILL ULTIMATELY PAY THE LEVY

There is still a question of who ultimately bears the burden of the levy.

The levy charged to paid parking spots will ultimately be borne by drivers (users of the parking spot).

For the levy charged on non-paid parking spots, the charge will likely be applied to their commercial property tax bill. The tax will play out in the following scenarios:

- The property owner/landlord absorbs the additional levy and it gets embedded in land values. The levy would raise the average effective non-residential property tax rate paid from 2.0% to 2.2% for every $1.00/stall/day charged.
- The landlord passes some or all the additional operating cost onto tenants. If the levy was fully passed onto tenants, every $1.00 in levy would translate into an average increase in rent of $1,000 per tenant in the office market; $413 per tenant in the industrial market; and almost $3,000 in additional rent in the retail sector per year.
- Property owners reduce the supply of parking available to tenants and/or workforce and converts the space to something more productive. This ultimately leads to a higher cost of parking for drivers but would also lower the potential revenue that will be collected by the parking levy.

- The tenant/business operator passes the tax onto customers through higher prices for their goods and services (in other words, cause higher inflation); or
- Unpaid parking spaces are converted to paid parking spaces and the cost is transferred onto drivers. In terms of parking spaces provided to employees, this becomes an additional cost of employment and can disadvantage lower-income workers. Greater Vancouver implemented a parking levy on paid and non-paid parking spaces in 2006, but quickly repealed it because it was found to negatively impact low-income households who had to drive into the city for work.

The cost will be borne by economic players, either by property owners, businesses operating in the city of Toronto, consumers through higher inflation, or employees through higher commuting fees.

The City of Toronto 2023 briefing note on the impact of a parking levy states that:

> *"Businesses and operators will bear the cost of the levy as it will be viewed as a tax on commercial and industrial property, especially if applied to unpaid parking where property owners cannot pass the levy onto consumers in the form of higher fees" (Page 1)*

Who bears the cost will depend on economic and market conditions. In this report, we assume that property owners and tenants bear the financial burden of the levy.

3.4 WILL THE LEVY REDUCE DRIVING AND CONGESTION?

There is a belief that introducing a parking levy would reduce the amount of free parking available and therefore encourage drivers to shift to other sustainable forms of commuting, such as transit. However, there is little evidence that a parking levy will reduce parking demand.

For one, if the cost of the levy is passed onto consumers through higher prices for goods and services, the levy would be considered a hidden tax. It would not necessarily be the user paying the levy, nor does the consumer know they are paying higher prices related to parking.

Studies also show that higher parking prices lead to minimal impact on driving demand[4]. A parking levy would be too small to impact overall parking demand.

A study analyzing the impact of the introduction of a parking levy in Nottingham, U.K. found that a parking levy had little impact on the number of drivers in the downtown area. The study found that while some drivers did shift to commuting by train due to higher parking prices, this impact was offset by a shift of transit commuters to driving. Driving was still more efficient than commuting by transit, so the additional free space on the road allowed some pent-up demand for driving to be realized.[5]

It is largely believed that a 10.6% parking tax introduced in the City of Los Angeles in 1990 had very little impact on driving, and the full cost of a parking tax was passed onto drivers[6].

There will also be limits to how the levy will impact parking supply and demand in the city of Toronto, given the following factors:

- Parking is legislated in city of Toronto zoning by-laws. Most commercial, office and industrial buildings are required to provide 1 spot per 75 to 100 square meters of building space; and
- The quantum and typology of parking (free or paid) is typically coded in lease agreements. According to the International Council of Shopping Centres (ICSC), most shopping centres have anchor leases that prohibit property owners from collecting parking fees. As a result, parking will continue to be free to drivers after the implementation of the parking space levy.

[4] Todd Litman, Daniel Carlson, Aaron Blumenthal and John Lee, "Evaluating Seattle Parking Tax Options", December 2020. Shows a 10% increase in parking prices leads to a 2% to 4% decline in parking demand. At $1.5/day per stall, that adds 6 cents per hour to the cost of parking per stall, for a parking lot at full capacity.

[5] Simon Dale, Matthew Frost, Stephen Ison, Lucy Budd, The impact of the Nottingham Workplace Parking Levy on travel to work mode share, Case Studies on Transport Policy, Volume 7, Issue 4, 2019, Pages 749-760.

[6] Todd Litman et all.

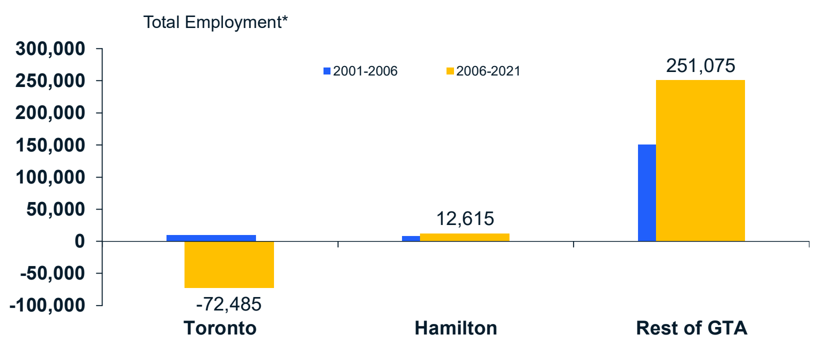
4 THE ECONOMIC BACKDROP IN THE CITY OF TORONTO

How the parking levy is borne will largely depend on the economic backdrop. The business sector in the city of Toronto is facing significant challenges coming out of the COVID-19 pandemic, that it will be difficult to pass these additional charges onto consumers and drivers. These challenges include:

- The city of Toronto has become a less competitive place to do business. Figure 4 shows that total employment fell between 2006 and 2021 in the city of Toronto, while the rest of the Greater Toronto and Hamilton Area (GTHA) experienced employment growth. Much of this weakness began before the pandemic started, with employment underperforming in the 2001 and 2006 period relative to other areas in the GTHA.

Figure 4

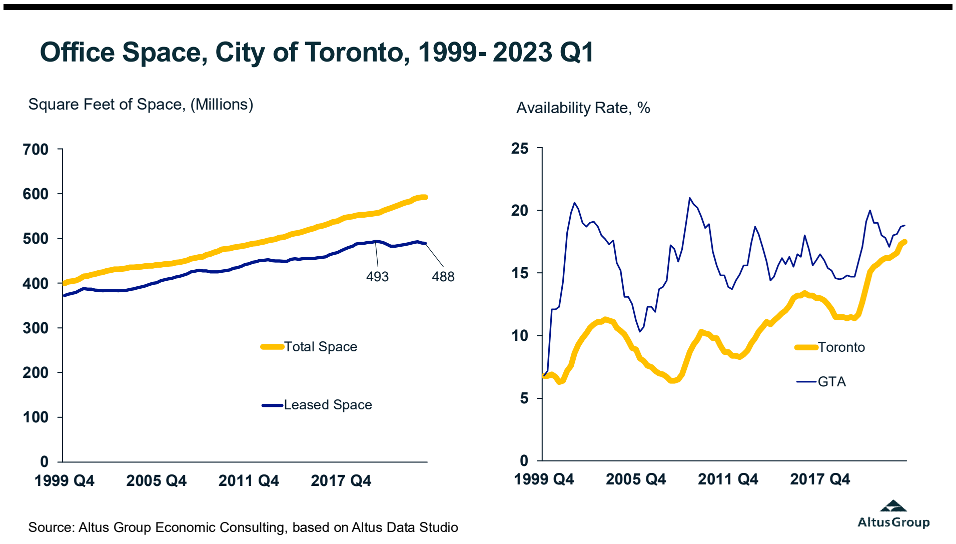
Place of Work* Employment, Greater Toronto Area and Hamilton, 2006 - 2021



Source: Altus Group Economic Consulting, based on Statistics Canada Census data.
*Includes those with a usual place of work, including work from home

- The office market is showing negative and long-term effects from the pandemic (Figure 5). The availability rate (vacant space, or space on the market and soon to be vacant) has risen from a market average of about 10.0% to 17.5% in the first quarter of 2023. Demand for office space was still below its pre-pandemic peak in early 2023. The combination of a shift to remote work and a large number of new office space reaching completion is likely to continue to push the availability rate to above 20.0% by 2041. And in most cases, the parking levy will be borne by tenants at these properties.

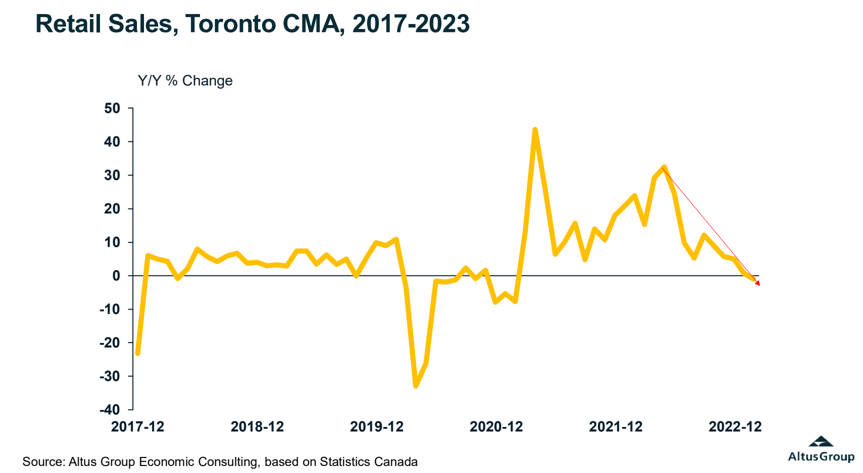
Figure 5



- While the performance of the retail and restaurant sectors have fared better than office coming out of the pandemic, they are likely to face their own challenges over the next few years. Rents have been rising for both retailers and restaurants. Meanwhile, the Canadian consumer is facing high inflation and rising interest rates, which is taking some steam out of spending in the Toronto CMA. Retail sales have already started to turn down and fell 1.0% in February 2023, compared to February 2022 levels.
- In addition to expectations that demand will weaken in 2023, restaurants are facing squeezed profit margins due to the higher cost of food and rent[7].

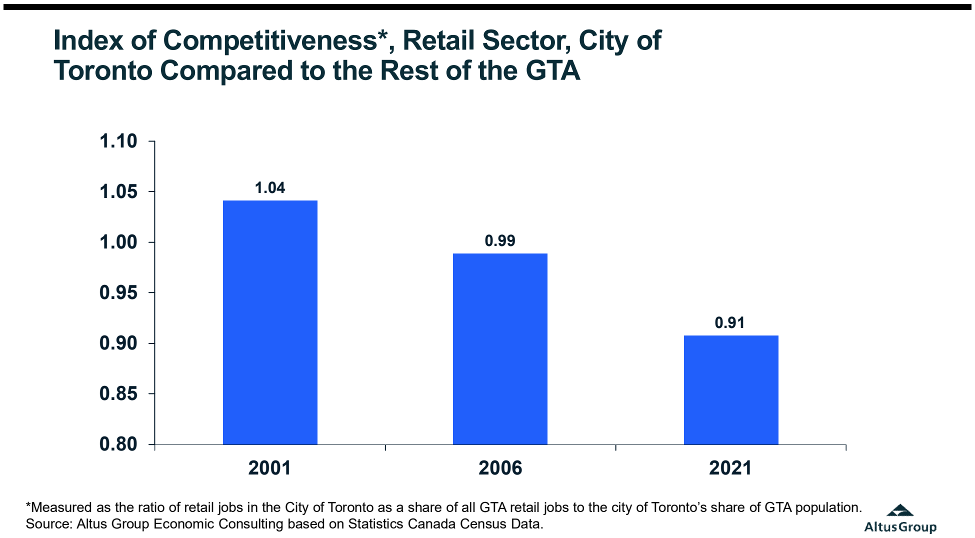
[7] "Slowdown to Curtail Food Service Sales in 2023", the Restaurant Association of Canada, April 27, 2023. Accessed at https://www.restaurantscanada.org/resources/economic-slowdown-to-curtail-foodservice-sales-in-2023/.

Figure 6



- The Toronto retail sector is also becoming less competitive. According to research by the Institute on Municipal Finance and Governance[8] , the relative competitiveness of the retail sector in the city of Toronto could be measured as its share of overall retail employment in the GTA divided by its share of GTA population (Figure 7). A ratio under 1.00 suggests that the city of Toronto is less competitive in retail than its surrounding regions, meaning that residents are more likely to leave the city for retail needs than those who are willing to come to the city to shop.

Figure 7



[8] Michael Smart, "The Reform of Business Property Tax in Ontario: An Evaluation", The Munk School of Global Affairs, 2012.

5 THE ECONOMIC IMPACT OF A PARKING LEVY

Treating a parking levy like an increase in the non-residential property tax allows us to estimate the economic impact of such a tax. This report looks at what the negative economic impacts for every $1.00/stall/day charged could be.

5.1 IMPACT ON MUNICIPAL REVENUE

A 2006 report by the Institute on Municipal Finance and Governance (IMFG) studied the impact a rise in the property tax rate would have on total government revenues in the Greater Toronto Area[9], by municipality.

The report showed that a 10.0% increase in the effective property tax rate in the city of Toronto would reduce the tax base (market value of all non-residential buildings) by 9.0% following the introduction of the tax.

The reduction in market value would be due to the following two factors:

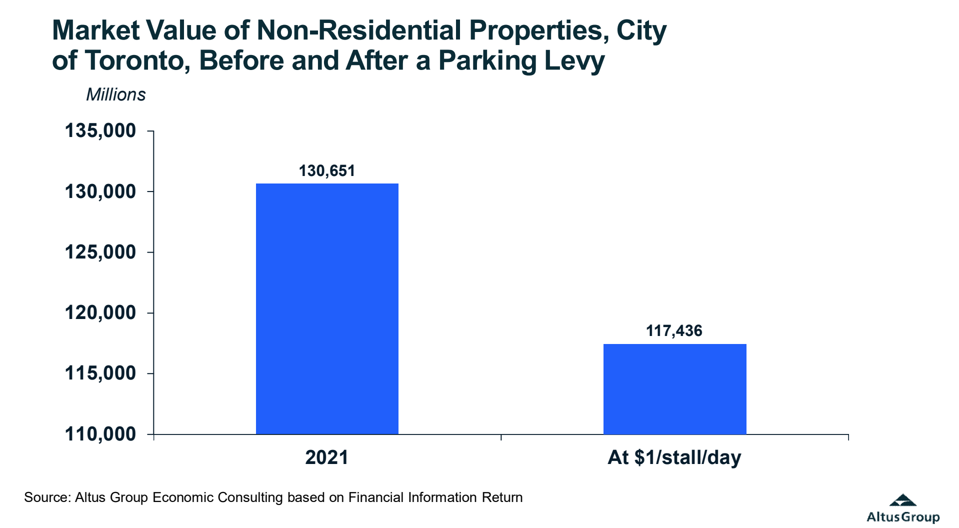
- It has been well studied that property tax rates get capitalized into property values. The higher tax will reduce net operating income. Property values fall to bring rates of returns to pre-tax levels; and
- A higher effective property tax rate will result in less investment. The higher cost of real estate will push investment and demand for space to nearby markets, for example, from the city of Toronto to Mississauga.

The report states that in 2006, the city of Toronto was at the top of its "Revenue hill", meaning that changes in the property tax rate would largely be offset by reduction in the tax base and will have a limited impact on overall municipal revenues.

Figure 8 shows the results of applying these results to a parking levy of $1.00 per stall per day using 2021 as the base year.

[9] Almos Tassonyi, Richard M. Bird, and Enid Slack, *"Can GTA Municipalities Raise Property taxes, An analysis of Tax Competition and Revenue Hills."*, Institute on Municipal Finance and Governance, 2010.

Figure 8



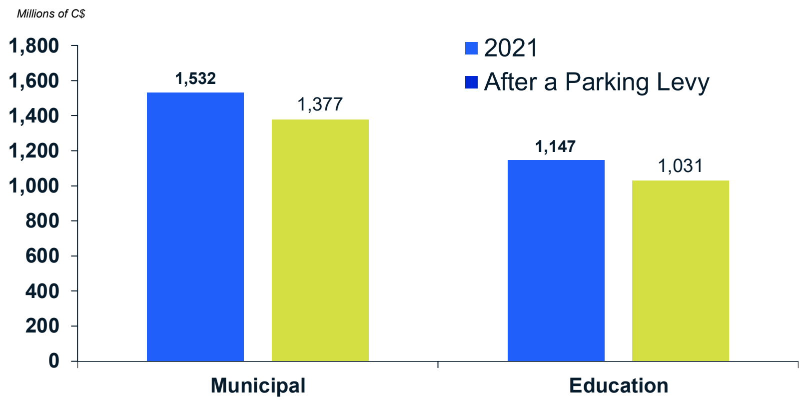
For every $1.00 levied per stall per day, the market value of non-residential real estate will fall by 10.0%, or almost $13.0 billion.

This reduction in market value would then reduce the municipal and education components of the property tax collected on non-residential buildings per year. Figure 10 shows that if the parking levy were introduced in 2021, the impact of a parking levy of $1.00/stall/day would be to reduce municipal property taxes collected by almost $155.0 million per year, and education funds by $116.0 million.

While the revenue on a parking levy would be $355.0 million per year for every $1.00/stall/day introduced, the net change in municipal revenues would only total $84 million per year, less implementation costs. If TPA and TTC commuter lots are exempt, the net change in revenues would only be $72.0 million a year.

Figure 9

Estimated Annual Municipal Non-Residential Property Tax Revenues Before and After Implementing a Parking Levy ($1/stall/day), City of Toronto



Source: Altus Group Economic Consulting, based on IMFG and Ontario Financial Information Return

5.2 IMPACT ON INVESTMENT

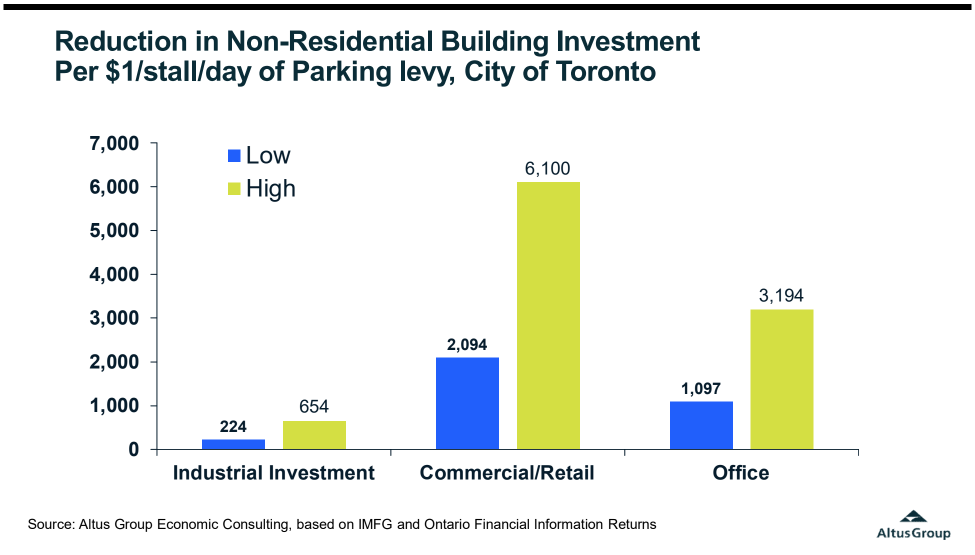
The 10.0% reduction in market assessment value estimated in the prior section would come from two sources – a decline in property values and a reduction in overall investment as demand shifts to nearby locations not subject to the tax. This section estimates what the reduction in investment could total if a parking levy was introduced in the city of Toronto. Consider two scenarios:

- Low Impact Scenario: where only 25.0% of the reduction in market assessment is driven by a decline in demand for space (square feet produced). Rather, the bulk of the impact is driven by a decline in value; and
- High Impact Scenario: where 75.0% of the reduction in market assessment is driven by a decline in demand for space and square feet built.

Investment in non-residential activity could fall by $6.8 billion after the implementation of the levy for every $1.00 in levy per parking spot. This estimate represents the mid-range of both scenarios[10]. 60.0% of the reduction in investment would be experienced in the commercial and retail sector.

[10] Reflects the average of $ 3.5 billion (low range) to $10.0 billion (high impact scenario).

Figure 10



5.3 IMPACT ON JOBS

Lower investment and higher operating costs generated by a parking levy would have a negative impact on the number of jobs in the city. This section presents the results of estimating how the reduction in non-residential investment would impact jobs, based on a $1.00 per stall per day parking levy.

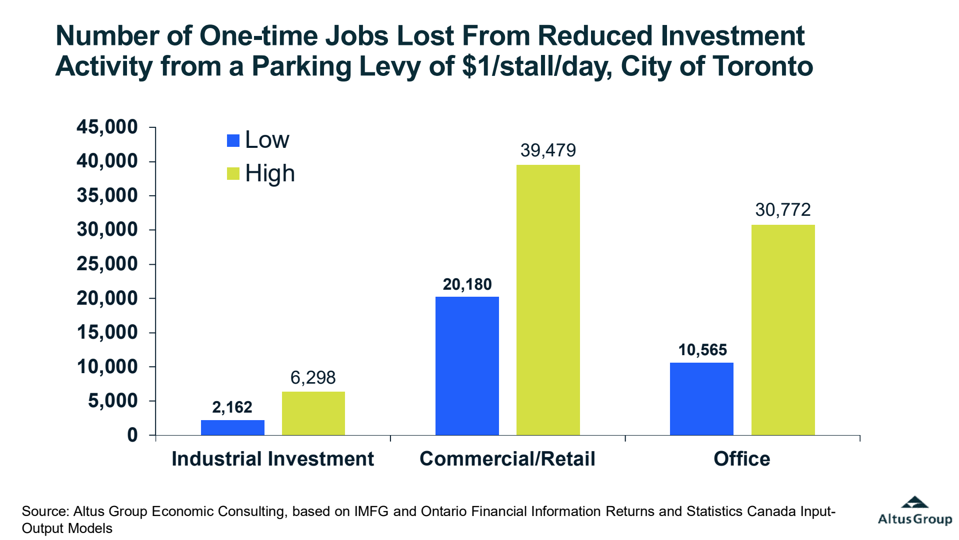
The negative economic impact comes from two sources:

- The one-time reduction in construction activity due to lower investment; and
- The permanent jobs that would have been created had the levy not been introduced. These are the jobs that would have filled the space that would have been built.

We estimate the economic impact for the low scenario (where 75.0% of the reduction in assessment values is due to property values) and the high scenario (where 75.0% of the reduction in assessment value is due to a reduction in demand and investment).

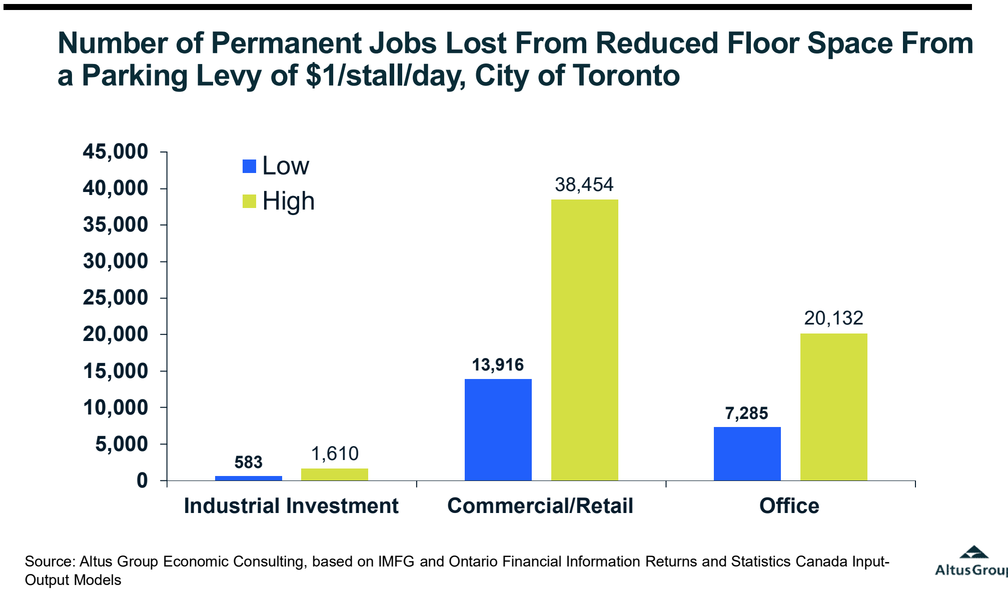
The results for the one-time job losses are found in Figure 11. The lost one-time jobs from the lost non-residential construction investment could total 54,500. This represents an average of 32,000 (low impact scenario) to 77,000 (high impact scenario) jobs.

Figure 11



The results of the potential permanent job losses are presented in Figure 12. The results show that there will be a permanent reduction in jobs of 40,500 (The average of 21,000 to 60,000) per $1.00 of levy charged. Most losses will be borne by the commercial, retail and office sectors.

Figure 12



6 CONCLUSION

In order to raise revenue to fund an identified budget gap and to likely help finance investment in public transit, the City of Toronto is considering implementing a levy on parking spaces in the city. The policy would likely apply to all off-street commercial paid and unpaid parking spots and would entail a levy of a certain amount per day. The City of Toronto estimates potential annual revenues from the levy could amount to $177 million, $355.0 million or $532 million based on per space per day levy rates of $0.50, $1.00, and $1.50.

A detailed analysis of this proposed new levy finds that the revised levy structure will be a poor choice for financing the City's budget deficit as every $1/spot/day levied will lead to the following economic impacts:

- While the parking levy will generate $355.0 million in revenue per year, a 10.0% reduction in assessment value will lower annual municipal commercial property taxes by $155.0 million and education property taxes by $165.0 million. The net addition to annual revenue would only total $84.0 million;
- A drop in investment of $3.5 to $10.0 billion in non-residential buildings;
- 54,500 in lost jobs due to lower investment activity;
- A loss of 40,500 office, retail and industrial jobs per year that would have filled the non-residential space that would have otherwise been built; and
- Have little to no impact on driving behaviour, due to regulatory constraints and the structure of the levy.

Overall, this report concludes that a parking space levy is a poor financing tool to help the City fund its budget gap.