



TORONTO STAFF REPORT

July 4, 2005

To: Policy and Finance Committee

From: Deputy City Manager and Chief Financial Officer

Subject: Enhancing Toronto's Business Climate - It's Everybody's Business

Purpose:

To report on the outcome of public and stakeholder consultations and to present a preliminary action plan for further consultation to improve the business climate in the City of Toronto.

Financial Implications and Impact Statement:

There are no direct financial implications associated with this report. The intent of the proposed action plan is to implement incentives and initiatives to maintain and improve the business climate and expand the City's property assessment base, with a net positive impact on the City over the long term. Staff will report back to the Policy and Finance Committee at its meeting of October, 2005, on the outcome of further stakeholder consultation in this regard, and recommend specific longer-term policies for consideration of Council and the Province.

Recommendations:

It is recommended that:

- (1) the Deputy City Manager and Chief Financial Officer and Executive Director, Economic Development be directed to meet with interested stakeholders and hold a public/stakeholder meeting(s) in July - September 2005, to seek input on the economic competitiveness initiatives articulated in the "Proposed Action Plan" set out in Chart 1 of this Report and in the accompanying Discussion Paper (Attachment 1);
- (2) the Deputy City Manager and Chief Financial Officer be directed to report to the Policy and Finance Committee at its meeting to be held in October, 2005, on the results of such consultation, making specific long-term recommendations and identifying any specific legislative or regulatory amendments required to implement the recommendations; and,

- (3) the appropriate City Officials be authorized and directed to take the necessary actions to give effect thereto.

Background:

Toronto is one of the world's most cost-competitive cities for business. Toronto has lower business costs than most of the European, North American and Asian cities studied in the 2004 Competitive Alternatives report by KPMG. The study found Toronto ranks first in cost competitiveness against such U.S. cities as Birmingham, Boston, Chicago, Dallas, New York, and San Jose, and global cities such as Amsterdam, Frankfurt, London, and Sydney. Even when smaller cities are added to the comparison, Toronto still has lower costs than 99% of all U.S. cities studied.

Toronto is Canada's corporate capital and leading business address. It is home to more nationally and internationally top-ranked companies than any other Canadian city. Toronto is the third largest financial services centre on the continent and is the headquarters of Canada's five largest banks, Canada's six largest accounting companies and nine of Canada's ten largest law firms. Toronto is also a centre of culture and creativity, and is a major centre for live theatre and music. Significant expansions are currently underway at every major cultural facility in Toronto. Most important, however, is Toronto's highly skilled, educated and multi-lingual workforce which provides the knowledge and know-how to keep Toronto businesses at the forefront of their sectors. Toronto has been very successful in attracting the best and brightest people from across Canada and indeed from around the world.

As with any city, Toronto must compete for investment and jobs with other large urban areas in North America and increasingly around the world. Toronto also has to remain competitive with other Canadian centres and its own rapidly expanding "905" suburbs. At the same time, new technologies in telecommunications and information technologies have freed many businesses from central city locations. The decentralization of office employment has been happening across North America. The factors that influence the location decisions of new firms coming into the region or the relocation decisions of existing firms within it are complex and often interrelated, and include such considerations as:

- Labour market and costs;
- Transportation and accessibility;
- Proximity to clients and business contacts;
- Prestige and visibility;
- Land costs and availability;
- Building rents, maintenance and utility costs, and
- Property taxes.

Total office occupancy costs in downtown Toronto remain significantly higher than in the suburbs, and commercial property taxes are much higher in the City of Toronto than in the surrounding GTA. City Council recognizes there are structural problems in its property tax system, a situation that has been some sixty years in the making and one which neither the

provincial nor local level of governments have so far been able to effectively address, and that, if left unattended, will only worsen.

In addition, City Council has identified nine Priority Areas for its 2003 – 2006 term, one of which is to “*Improve the Business Climate*”. The City has responded to the challenge of addressing Council’s priorities in a number of areas. Economic Development staff have been actively working to implement Toronto’s Economic Development Strategy adopted in 2000 and to establish and implement a specific action plan for this term of Council. In addition, a City staff team co-ordinated by the Deputy City Manager and Chief Financial Officer undertook a stakeholder consultation process related to long-term financial strategies. Together, these have led to the development of an Action Plan which deals with tax policy and associated business competitiveness issues.

Comments:

The City’s public meetings provided an opportunity to consult with Toronto’s residents, business owners, landlords, tenants and other stakeholders on economic competitiveness policies and the longer term strategies and direction that should be considered to make the City a better place to live, work and play. The interest in this issue was evident by the level of participation and the thoughtful and insightful advice provided by the participants.

What became clear during the dialogue with the City’s residents and businesses was the complexity of the issues, and that improving the property tax system alone is not enough. There was a clear recognition that a comprehensive strategy involving all three orders of government needs to be taken together with property tax reform to achieve the longer term strategic objective for the City. There was an emphasis on the opportunity for the public and private sectors to partner with the City to play an important role in creating the conditions and climate that supports economic and assessment growth, job creation, and that improves upon the existing strengths and economic quality of life for its residents in a way that is sustainable and fair to all taxpayers.

City staff have listened to, researched, and analyzed the issues and input of stakeholders. A strong local economy and the creation of jobs is a central component of any sustainable long-term strategy to address pressing community issues and to sustain quality public amenities and services. Commercial and industrial property taxes do in fact provide a fiscal benefit to residents of Toronto, and the lowering of tax rates has been shown to increase development activity.

With this in mind, staff have developed a preliminary action plan and a comprehensive set of initiatives as part of a longer-term plan to improve the business climate, as outlined in Chart 1, and is presented for the purpose of further consultation with stakeholders. The rationale for this preliminary direction is more fully described in the attached Discussion Paper (Attachment 1).

Chart 1 – Proposed Action Plan Improving the City’s Competitiveness

Tax Policy and Cost Competitiveness Initiatives

- (1) Long-term Strategy to Reduce Commercial, Industrial and Multi-Residential Tax Ratios from the current level of approximately 4-times residential to 2.5-times residential over a maximum 15-year period;
 - (a) allowing commercial, industrial and multi-residential (CIM) tax increases at one-third pass-through of residential tax increases (e.g. 3% res. and 1% CIM);
 - (b) accelerate CVA-related tax burden shift from non-residential to residential;
- (2) Request the Province to reduce Toronto's business education tax rates to the average of the surrounding GTA municipalities to create a 'level playing field';
- (3) Phase-out of capping/clawback regime over fifteen years by utilizing capping limit of 5% of CVA taxes;
- (4) Property tax relief program for the neighbourhood retail class by way of an accelerated phase-in to a tax ratio of 2.5 times residential over a maximum 10-year period;
- (5) Property tax rebate program for designated heritage properties;
- (6) Lower tax rate for new office, hotel and industrial development (2.5x residential);
- (7) Tax abatement for vacant portion of new office during initial lease-up period;
- (8) New tenant business tax credit equal to the existing vacancy allowance for defined period of time;
- (9) Expand Tax Increment Equivalent Grant program in Community Improvement Plan Areas to protect selected employment areas;
- (10) Waive building permit fees for all new office, hotel and industrial development;

Non-Tax Policy Initiatives

- (11) Invest in proactive programs to stimulate job creation by anchoring existing jobs and firms in Toronto. For example:
 - (i) start-up assistance for new businesses, support for key industry clusters, and expansion of BIAs;

- (ii) labour force development initiatives, including strengthening linkages to Toronto's diverse communities and partnerships with universities and colleges;
- (12) Stimulate investment, revitalization and assessment growth through non-tax policy initiatives. For example:
- (i) streamlining the development and building approvals process;
 - (ii) enhance quality of place to lever employment related investment;
 - (iii) partnerships with the Federal and Provincial governments and improved coordination of intergovernmental policies and programs;
- (13) Promote the Toronto 'brand' locally and internationally to increase the City's profile and showcase our competitive advantages; and,
- (14) Initiate business focused outreach and engagement program. For example:
- (i) establishment of a Mayor's Business Roundtable and other mechanisms to ensure ongoing engagement and involvement of the business community;
 - (ii) establishment of an Interdivisional Economic Growth staff team to evaluate and improve programs and services to meet the needs of business;
 - (iii) implementation of a comprehensive communication strategy to advance this tax policy and economic competitiveness action plan.

With respect to the partnership issue, the City of Toronto and the Province of Ontario have embarked on an initiative to modernize the *City of Toronto Act*, and which will provide Toronto with broad governmental powers by way of replacement of the existing numerous legislation with an Act providing plenary powers to the City, subject to only to specific exemptions in the provincial interest. It is anticipated that, with the elimination of prescriptive legislation, the City will adopt specific policies to guide its new plenary powers, such as in the area of tax policy. The actions and preliminary policies presented in this report is a first step in this regard.

Next Steps:

The following is the proposed next steps towards the development of longer-term policies for the City of Toronto:

July 7, 2005	Policy & Finance Committee Presentation and stakeholder update.
July – September 2005	Public meeting and further stakeholder consultation.
October 2005	Policy & Finance Committee Final report and specific recommendations to Council.

Conclusions:

After conducting public meetings and stakeholder consultations, together with additional research and analysis, staff have identified a set of comprehensive incentives and initiatives intended to enhance the City's competitiveness over the long term. This report seeks Council's endorsement of the preliminary initiatives conceptualized in Chart 1 of this report, and to authorize a further public meeting and stakeholder consultation, with the objective of making specific longer-term tax policy recommendations at the Policy & Finance Committee meeting to be held in October, 2005.

The decisions that Council ultimately makes, together with the new partnership arrangement with the senior orders of government, will send an important signal to the City's taxpayers and businesses that the City is committed to fair tax treatment, to improving the business climate, and to strengthening Toronto's competitive advantage.

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Attachment 1: Discussion Paper – Enhancing Toronto's Business Climate – It's Everybody's Business

Attachment 2: 2004 Public Consultation – Synopsis of Tax Policy Workshop Comments