TAX INCREMENT FINANCING PROJECTIONS FOR SMARTTRACK

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ABOUT THE AUTHORS

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Summary

FAST has requested us to update revenue projections released in 2014 by the John Tory mayoralty campaign. The 2014 projections were of potential revenue from tax increment financing (TIF) as a means of funding SmartTrack. Our updated projections rely on growth projections from a section entitled "Tax Increment Financing Analysis", in a report commissioned by the City of Toronto. The report, prepared in consultation with city staff and published on the city web site in March 2016, forecasts future development and value along the SmartTrack route. Rather than estimating tax increments themselves, the report's authors note that city staff will estimate tax increments using the report's growth projections. We inserted these same growth projections into the Tory campaign's TIF model, resulting in the updated projections reported here: an estimated total of $2.319 billion in present value – consisting of $1.380 billion in City property tax revenue, $0.939 billion in provincial ("education") property tax revenue. These estimates are based on a 30-year projection period: 2017 – 2046.

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Introduction

John Tory's 2014 mayoral campaign proposed SmartTrack – all day, two-way frequent express service (fifteen minutes or less) across the city utilizing existing GO lines. More specifically, SmartTrack would cut journey times on routes connecting three major employment nodes in the GTA – Unionville in Markham south to downtown Toronto utilizing the Stouffville line, and north from downtown Toronto to the Airport employment lands utilizing the Kitchener GO line, along with a proposed western spur along Eglinton.

The campaign proposed paying for the city's cost share using Tax Increment Financing (TIF). At the time, it was estimated that $2.5 billion could be raised using this revenue tool. Assumptions underlying the $2.5 billion projection were outlined in a pre-election article written on behalf of the campaign, A Defence of John Tory's SmartTrack Proposal. The article cited sources for development projections underlying the $2.5 billion estimate, while also emphasizing the need for-in depth analysis – after the election – by a consulting team with relevant expertise and resources beyond those available to a campaign.

After the election, the Tory administration sought and received approval from council to retain Strategic Regional Research Alliance (SRRA) to conduct the required in-depth growth projections along the SmartTrack route. SRRA's report "Commercial and Multi-Residential Forecast for the Review of SmartTrack" was posted on the city web site in March 2016.[1] *SRRA's "Medium Growth Scenario" – seen by city staff as the most likely scenario – is used for the revenue projections reported here.*[2]

Neither SRRA nor the Tory campaign projected TIF inputs outside the City of Toronto, where the SmartTrack corridor extends into Markham and Mississauga.

SRRA Report

The SRRA report's growth projections differ from the Tory campaign's in three respects:

1. Commercial development in TIF zones – SRRA analyzed 18 TIF zones along the SmartTrack route versus three zones analyzed by the campaign: Liberty Village, Downtown, and the Unilever site[3]. SRRA projects commercial growth due to Smarttrack in two of these zones: Liberty Village and Unilever, but does not foresee SmartTrack-related growth in the downtown core over the next 30 years; over that period SmartTrack will allow Unilever to draw development away from downtown. Among other TIF zones analyzed by SRRA, only Lawrence East is expected to see significant commercial growth due to SmartTrack.

2. Multi-Residential development in TIF zones – SRRA analyzes multi-residential growth in addition to commercial growth. The campaign did not have access to residential growth projections. However, the campaign recognized that multi-residential growth could augment commercial tax increments along the SmartTrack route.[4]

3. Incremental growth in TIF zones – The campaign's overall commercial growth projection for the three zones was 42 million square feet gross floor area (gfa). In line with Ontario's TIF Act, the 42 million sq. ft. projection was adjusted downward to account for "natural growth" in the three zones – i.e. projected growth in the zones that would occur anyway without SmartTrack. The campaign deducted 36% for natural growth leaving 27 million of the initial 42 million sq. ft. to enter tax revenue estimates.[5] The corresponding estimates by SRRA are overall growth of 22,040,000 sq. ft., reduced by just 510,000 sq. ft. for natural growth (labeled "Without ST" in the SRRA report). This low natural growth projection reflects a judgement that without SmartTrack, potential growth in the Unilever and Lawrence East zones is minimal, while growth in Liberty Village would be limited. Table 1 summarizes the commercial growth projections by SRRA as well as their residential growth projections.

Table 1

SRRA Growth Projections (TIF Zones): sq. ft. gfa (2011-2041)

	(1)Without SmartTrack	(2)With SmartTrack	(3)ST Incremental Growth (2) – (1)	(4)Natural Growth percentage (1)÷(2)
Commercial	510,000	22,040,000	21,530,000	2.3%
Residential	40,930,000	71,085,000	30,155,000	57.6%

As is noted in Table 1's heading, the SRRA projections extend from 2011 to 2041. They are used here as a proxy for 2017-2046 projections.

The SRRA report includes intra-city diversion estimates – i.e. growth amounts within Column (3) that would be realized elsewhere in the city without SmartTrack. While not required by Ontario's TIF Act, the revenue projections reported here are based on Column (3) adjusted downward to eliminate intra-city diversion. The commercial incremental growth estimate in column (3) was reduced by a 10,080,000 sq. ft. intra-city diversion estimate from SRRA, leaving 11,450,000 sq. ft. net incremental growth city-wide.[6] The residential incremental growth estimate in Column (3) was reduced by the 25,000,000 sq. ft. intra-city diversion estimate from SRRA, leaving 5,155,000 sq. ft. net incremental growth city-wide.

The SRRA report projects growth in terms of employment in the case of commercial growth and apartment units in the case of multi-residential growth. SRRA suggests 252 sq. ft. per employee as a conversion factor for commercial. To convert multi-residential residential units to gfa it is assumed that unit sizes are equivalent to 1000 square feet of gross floor area on average.[7] These conversion factors are reflected in Table 1 above.

Uplift

In an October 2015 report,[8] city staff noted that tax increments can potentially flow from two sources: development of new buildings; and "uplift" (defined as appreciation – caused by new transit – of vacant land and properties with existing buildings). Ontario regulations limit increased property tax revenue to revenue from new development and from tax increases announced in annual budgets – municipalities are not permitted to obtain revenue from appreciation. However, the staff report said amendments to provincial regulations and / or legislation could allow the city to obtain revenue from the uplift component of appreciation. The SRRA report estimated between 10% and 20% uplift along the SmartTrack route for multi-residential.[9] The current projections assume 20% for commercial uplift.[10]

Projected TIF Revenue along the SmartTrack Corridor

To obtain an updated revenue projection, the SRRA estimates of gfa and uplift have been used as inputs here. The model used here includes a net 4%[11] discount rate and property tax rates projected forward over time.[12] Because Tax Increment Equivalent Grants (TIEGs) are likely to be available to investors in TIF zones, all commercial development revenue in our projections was assumed to receive these grants – a downward adjustment.

The resulting City property tax revenue projection (in present value terms) is $1.380 billion, potentially available from TIF over 30 years along the SmartTrack route. The Tory campaign's revenue projections included provincial education property tax – as contemplated by the Tax Increment Financing Act, 2006. If provincial revenue is included, another $0.939 billion would be added for a total of $2.319 billion. Table 2 (below) summarizes the various components of the total.

The incremental cost of SmartTrack has been estimated in the City staff report "Developing Toronto's Transit Network Plan to 2031" – on the Executive Committee agenda for the June 28, 2016 meeting. This incremental cost estimate, which includes upgrades to provincially-funded Regional Express Rail as well as the Eglinton West LRT, is in the $2.7- $3.1 billion range. The estimated TIF revenue in Table 2, along with the federal SmartTrack funding commitment (up to $2.6 billion) and potential revenue from Mississauga and York Region, appears sufficient to fund the estimated cost.[13]

Table 2

TIF Projections - Summary of Present Values of Tax Increments 2017-2046

	Residential			Commercial			Total		
Jurisdiction	Uplift Tax ($M)	Develop. Tax ($M)	Total Tax ($M)	Uplift Tax ($M)	Develop. Tax ($M)	Total Tax ($M)	Uplift Tax ($M)	Develop. Tax ($M)	Total Tax ($M)
City	426.41	67.72	494.13	396.43	489.24	885.67	822.84	556.96	1,379.80
Province	141.48	22.12	163.60	331.45	443.69	775.14	472.93	465.81	938.74
Total	**567.89**	**89.84**	**657.73**	**727.88**	**932.92**	**1,660.80**	**1,295.77**	**1,022.77**	**2,318.54**

1 http://www1.toronto.ca/City%20Of%20Toronto/City%20Managers%20Office/Transit%20Initatives/Files/Population%20and%20Employment%20Projections.pdf

2 Page 1 of attachment 4 to appendix 1 - http://www1.toronto.ca/City%20Of%20Toronto/City%20Managers%20Office/Transit%20Initatives/Files/Population%20and%20Employment%20Projections.pdf

3 A defence of John Tory's SmartTrack Proposal https://www.thestar.com/opinion/commentary/2014/10/14/a_defence_of_john_torys_smarttrack_transit_proposal.html

4 ibid

5 ibid

6 The intra-city commercial diversion estimate includes diversion from downtown into TIF zones (primarily Unilever); while the SRRA report provisionally classifies downtown as a TIF zone, absence of positive SmartTrack influence effectively disqualifies it.

7 GFA area includes common areas of a condominium or apartment building.

8 Page 5 Appendix 9 Capital Funding and Financing: http://www.toronto.ca/legdocs/mmis/2015/ex/bgrd/backgroundfile-84733.pdf

9 Page 55 Commercial and Multi-Residential Forecasts for the Review of SmartTrack http://www1.toronto.ca/City%20Of%20Toronto/City%20Managers%20Office/Transit%20Initatives/Files/Population%20and%20Employment%20Projections.pdf

10 The 20 percent commercial uplift estimate is likely conservative; properties in the Unilever and Lawrence East TIF zones, where much of the SmartTrack-related commercial development projected by SRRA will be realized, include large vacant land areas. The impact of uplift is on land value so the percentage increase on vacant land properties is higher than on properties with existing buildings. Uplift is assumed here to occur over the 2016-2020 period so tax increments due to uplift will begin in 2021 when assessed values based on a 2020 valuation date are available to compare with 2016 values. We have not estimated uplift for single family homes since the SRRA report does not include data on the single-family stock in TIF zones. The Tory campaign did not include revenue from uplift in its revenue projections.

11 6% nominal discount rate; 2% inflation rate

12 Initial municipal property tax rates are 0.499% residential, 1.460% commercial; initial provincial property tax rates are 0.188% residential, 1.180% commercial.

13 It is our expectation that city staff projections of TIF revenue will be available in the fall.

ABOUT FAST

FAST is a not-for-profit advocacy group committed to providing Toronto with much-needed transit relief by ensuring that SmartTrack is built – and within a seven year timeframe.

FAST was established by a group of like-minded people who believe that SmartTrack is Toronto's chance to erase decades of inaction on transit that have negatively impacted the city's livability and functionality. Not only is Toronto's current transit system over capacity and underperforming; it also fails to adequately serve all areas of the city.

FOR A CITY TO WORK, IT MUST BE ABLE TO MOVE ITS PEOPLE.

SmartTrack will do just that – it will connect all four corners of the city with electrified, frequent, all-day, two-way express rail service along existing GO rail lines. It is a bold solution to our current challenge, and one that will move the most people in the shortest time, across the entire city. It will connect people to jobs across the Greater Toronto Area, and provide Torontonians with the transit relief we so desperately need.

FAST generates, mobilizes and solidifies momentum and support for SmartTrack with all audiences, ranging from decision makers to the general public, through education, awareness building and advocacy efforts. It is governed by an independent volunteer Board of Directors.

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