INFORMATION REPORT

TO:	Mayor and Members General Issues Committee
COMMITTEE DATE:	January 15, 2025
SUBJECT/REPORT NO:	Revenue Sources to Fund Council Priorities and Ongoing Operating and Capital Works (FCS24022(a)) (City Wide)
WARD(S) AFFECTED:	City Wide
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SUBMITTED BY: **SIGNATURE:**	Kirk Weaver Acting Director, Financial Planning, Administration and Policy Corporate Services Department

COUNCIL DIRECTION

On May 15, 2024, Council provided the following direction to City staff:

(a) That staff be directed to report back to the General Issues Committee by the end of Q4-2024 with recommendations on the legislative requirements, framework and implementation plan for the following revenue tools to advance priorities and investment in infrastructure:

(i) parking levies in high traffic areas;
(ii) a tiered land transfer tax; and,
(iii) alcohol and tobacco sales tax;

(b) That staff be directed to include the following in the report back:

(i) the steps necessary to action and implement the models;
(ii) the length of time it would take to implement the models;
(iii) the estimated amount of revenue that could be generated by implementing these models; and,
(iv) what other municipalities are implementing or considering regarding alternative revenue sources.

INFORMATION

Purpose

The purpose of Report FCS24022(a) is to provide Hamilton City Council with an analysis regarding alternative revenue tools to support Council's identified priorities for the 2022-2026 term, alongside the City's ongoing operating and capital funding needs. Recognizing the limitations of property tax as a primary revenue source, Report FCS24022(a) explores options such as parking levies in high-traffic areas, a tiered municipal land transfer tax (MLTT) and sales taxes on alcohol and tobacco. These revenue tools have been selected based on their potential to generate more revenue for the City.

Report FCS24022(a) aims to advise Council on the legislative requirements, framework, implementation timelines, revenue potential and comparability with measures adopted in other municipalities, notably Toronto. While Report FCS24022(a) focuses primarily on the revenue-generating opportunities of these tools, it does not delve into the broader social and economic implications, both positive and negative, that these measures may entail.

Background

Hamilton, like other municipalities in Ontario, operates within a fiscal environment largely defined by provincial legislation, which restricts its ability to diversify revenue sources. Currently, Hamilton relies primarily on property taxes as its source of revenue to fund essential services and infrastructure. This reliance poses challenges as the City faces significant financial pressures.

Municipalities are facing increasingly complex challenges, such as, tackling homelessness, climate change, and barring a more progressive provincial-municipal fiscal framework. These challenges impact the City's ability to deliver services and invest in infrastructure in an affordable way. In response to these challenges, Hamilton City Council previously directed staff to conduct an analysis of revenue tools accessible under the *Municipal Act* and explore other potential sources under the *City of Toronto Act*.

In April 2024, staff submitted Report FCS24022, which provided a detailed review of existing revenue authorities, options available to Toronto but not to Hamilton, and an overview of revenue mechanisms used by municipalities across Canada. Report FCS24022 underscored the need for Hamilton to diversify its revenue base, especially as other Canadian cities, such as Toronto, have other tools to employ to generate revenue such as the Municipal Land Transfer Tax (MLTT). As a result of Report FCS24022, Council passed a motion, in May 2024, requesting a more focused study on three specific revenue tools, parking levies, tiered MLTT and alcohol and tobacco sales taxes, to address Hamilton's fiscal challenges while supporting Council's sustainable development and infrastructure goals.

Report FCS24022(a) builds on the findings of Report FCS24022 and Council's directive, providing a comprehensive analysis of the legislative pathways, potential revenue and implementation strategies for these revenue tools. It aims to inform Council on the feasibility of adopting similar measures to those available to the City of Toronto and other municipalities, considering Hamilton's unique demographic and economic landscape and aligning with the City's development goals.

Municipal Land Transfer Tax (MLTT) for Hamilton

A Municipal Land Transfer Tax (MLTT) presents Hamilton with a substantial opportunity to diversify its revenue sources and reduce dependency on property taxes. Modeled after Toronto's MLTT, a tiered tax structure would allow Hamilton to receive revenue based on property transaction values with higher rates applied to high-value transactions and lower rates reserved for more affordable properties. This progressive structure could enable Hamilton to raise significant revenue from property transactions. However, implementing an MLTT brings unique challenges, such as, potential impacts on business attraction and first-time homebuyer affordability. Addressing these challenges will help ensure the effectiveness of this revenue tool.

Toronto's MLTT Revenue and Structure

In September 2023, Toronto updated its MLTT rate structure, adjusting both the tax rates and rebate eligibility criteria to reflect changing market dynamics. The revised rates for residential properties containing one or two units, as set out in Figure 1, include:

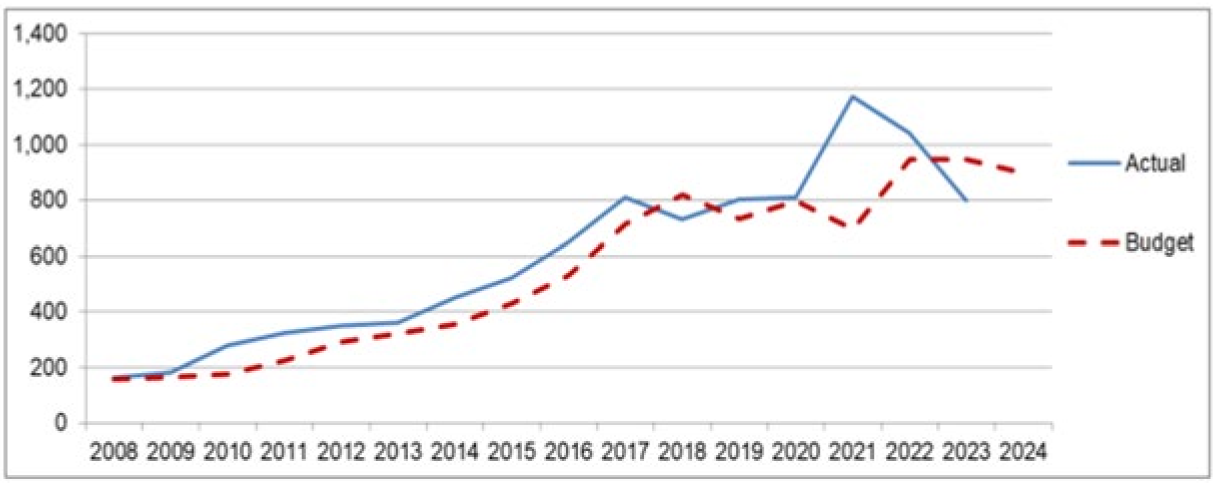
Figure 1 – City of Toronto MLTT Rates

Value of Consideration	MLTT Rate
Up to and including $55,000.00	0.5%
$55,000.01 to $250,000.00	1.0%
$250,000.01 to $400,000.00	1.5%
$400,000.01 to $2,000,000.00	2.0%
Over $2,000,000.00	2.5%
Over $3,000,000 and up to $4,000,000	3.5%
Over $4,000,000 and up to $5,000,000	4.5%
Over $5,000,000 and up to $10,000,000	5.5%
Over $10,000,000 and up to $20,000,000	6.5%
Over $20,000,000	7.5%

For other non-single-family residences, the rates remain simpler, with tiers up to 2.0% for values above $400,000. This updated structure enables Toronto to capture more revenue from luxury properties while maintaining affordability for mid and lower-market buyers. In 2023, Toronto's MLTT generated approximately $950 M. The City of Hamilton could similarly benefit from an MLTT.

However, Toronto's experience underscores the revenue volatility associated with an MLTT as shown in recent budget versus actual revenue (Figure 2). Due to this volatility, the City of Toronto moved away from relying on 100% of MLTT as a funding source for the operating budget. Real estate market fluctuations can lead to significant deviations from projected revenues, particularly during economic downturns. For example, Toronto saw notable shortfalls around 2020–2022, aligned with broader economic slowdowns affecting the housing market. To manage this risk, Hamilton would need to adopt conservative revenue projections and possibly establish contingency funds to absorb periods of reduced MLTT income.

Figure 2 – City of Toronto MLTT Revenue ($Million)



Revenue Projections for Hamilton's MLTT

Hamilton's real estate market, while smaller than Toronto's, still provides a robust base for MLTT implementation with a population of over 569,000 and approximately 233,564 dwellings. Using Toronto's 2023 MLTT revenue per dwelling, around $758 as a reference point, Hamilton could anticipate generating close to $177 M annually. Given Hamilton's smaller market and lower average property values, a more conservative estimate of $500 per dwelling could still yield an annual revenue of approximately $117 M.

This revenue stream could significantly contribute to Hamilton's objectives in infrastructure enhancement, housing and other strategic priorities. Nevertheless, high MLTT rates on mid-range properties could impose additional burdens on first-time homebuyers who already face high upfront costs in a competitive housing market. According to Teranet, first-time homebuyers have consistently represented 20%-25% of the purchasing market in Ontario. To alleviate this concern, Hamilton could introduce a rebate for first-time buyers, similar to Toronto's MLTT rebate structure.

In Toronto, first-time buyers are eligible for a rebate of up to $4,475 on their MLTT. However, applying a comparable rebate in Hamilton could lead to reduction of revenue generated from an MLTT. While this rebate would help maintain affordability, encourage homeownership and ensure that the MLTT does not disproportionately impact younger or lower-income residents, it would require a balanced approach to mitigate its impact on overall revenues.

MLTT Administration and Implementation Considerations

The MLTT could be administered using Ontario's existing electronic land registration system, Teraview, which is managed by Teranet on behalf of the Ministry of Government Services. This system processes tax revenue from land title registrations. Leveraging Teranet's established framework would allow Hamilton to efficiently collect MLTT revenues with monthly transaction processing and minimal additional infrastructure requirements.

Since Teranet already handles property registration and MLTT remittance for the City of Toronto, Hamilton would benefit from adopting a similar streamlined approach, keeping administrative costs low. Given these efficiencies, the City of Hamilton could expect to fully implement the MLTT within one year from the time of Council approval.

Alcohol and Tobacco Taxes for Hamilton

Other potential revenue sources for the City of Hamilton are the implementation of alcohol and tobacco taxes, inspired by options available to the City of Toronto under the *City of Toronto Act* (COTA). Unlike Hamilton, Toronto has the option, with provincial collaboration, to impose these taxes. Expanding Hamilton's revenue tools to include alcohol and tobacco taxes would require provincial support and legislative change as the *Municipal Act* does not currently allow Ontario municipalities outside Toronto to levy these sales-based taxes. Examining frameworks from other municipalities provides valuable insights into the revenue potential these taxes could offer Hamilton if legislative permissions were obtained.

Alcohol Tax

The City of Toronto's authority under COTA permits an alcohol tax on retail sales, with an estimated revenue potential between $21 M and $151 M annually, depending on the tax rate (1-10%) and local consumption. For Hamilton, an alcohol tax at a similar rate could generate meaningful revenue. A similar tax rate between 1% and 10% could yield the City of Hamilton between $4.2 M and $31 M in alcohol tax revenue each year, when adjusted for population size.

If the City of Hamilton were permitted to impose an alcohol tax, it would require cooperation with retail vendors, such as LCBO and Beer Store outlets, as well as, local bars and restaurants. The tax collection process could be streamlined by integrating it with Hamilton's existing business licensing system, but it would still pose administrative challenges, especially for smaller establishments. To ease the transition, Hamilton could phase in the tax, starting with large vendors and extending to smaller businesses once the initial systems are established.

Although an alcohol tax could provide Hamilton with a reliable revenue stream, it may also impact local businesses in the hospitality sector, which could face reduced sales due to higher prices. To balance revenue goals with business competitiveness, Hamilton might consider a modest initial rate, such as 3-5% and monitor the tax's impact on sales. If demand remains stable, the City could consider gradual rate increases over time.

Tobacco Tax

A tobacco tax offers another potential revenue source for Hamilton. The City of Toronto estimates annual revenue between $5 M and $6 M at tax rates of 1%-10%. For Hamilton, a similar rate structure could generate approximately $2 M per year. In the United States, more than 700 local jurisdictions implement their own cigarette tax rates, which collectively generated over $340 M in revenue in 2023.

Though a tax on tobacco could increase revenue, the increase in cost could also become a deterrent for specific demographics. Evidence from other jurisdictions, such as New York and Chicago, suggests that higher tobacco taxes reduce smoking rates, particularly among youth and lower-income individuals.

For Hamilton, collecting a tobacco tax would involve working with local tobacco retailers, who could remit the tax through Hamilton's business licensing framework. This approach would streamline the administrative process. Compliance and enforcement would be required to ensure the taxes are collected. Drawing on Toronto's potential framework illustrated in previous Council reports, Hamilton could collaborate with retailers to establish clear guidelines and periodic audits to minimize revenue leakage.

Parking Levy for Hamilton

A downtown / high traffic area parking levy offers another revenue option for Hamilton. Many cities globally have implemented downtown or commercial parking levies, primarily to manage congestion, reduce carbon emissions and generate revenue. These examples from other cities, both in the U.S. and around the globe, highlight different approaches to implementing parking levies. Implementing a parking levy in Hamilton's high-traffic downtown core could help address fiscal needs while promoting sustainability.

In Canada, both Montreal and Vancouver have introduced parking levies to fund urban infrastructure and promote sustainable transportation choices. Since 2010, Montreal's parking levy has targeted off-street parking facilities using a graduated rate structure based on the facility's location within four designated sectors. The levy charges higher rates in Montreal's central business district, with fees varying between $12.45 and $50.10 per square meter for indoor and outdoor parking, respectively. Vancouver has a 24% parking levy, which brought in $69 M in 2023.

In the U.S., Chicago levies a parking tax rate of 20% to 22% on commercial parking facilities, while New York City imposes an 18.375% tax on commercial parking within Manhattan's business districts. Outside the U.S., Melbourne, Australia, uses a Congestion Levy on private and commercial parking in its central district. These examples illustrate a range of approaches to parking levies that could inform Hamilton's implementation strategy.

To accurately project the revenue potential and design of a downtown parking levy in Hamilton, a feasibility study would be essential. Drawing on the approach taken by other municipalities, engaging a consulting firm that would help map out parking density, analyze utilization rates and assess potential business impacts, would help in informing a well-rounded levy proposal tailored to Hamilton's specific needs.

Implementation Considerations

In terms of administration, a centralized collection system like those used by other municipalities or through partnerships with private parking operators could streamline the process. Partnering with a provincial registry, similar to how some U.S cities do with designated commercial parking providers, could also reduce implementation issues.

Legislative Requirements and Advocacy for Expanding Revenue Options for the City of Hamilton

To enable Hamilton to implement diverse revenue tools, such as a Municipal Land Transfer Tax (MLTT), taxes on alcohol and tobacco sales and a downtown parking levy, similar to those permitted in Toronto, legislative amendments to the *Municipal Act* are required.

Toronto's authority under the *City of Toronto Act* allows it to generate significant revenue through these mechanisms, providing a financial boost for the city's infrastructure, housing and transportation projects. For Hamilton, achieving comparable flexibility would provide options to address increasing fiscal demands and also help reduce reliance on property taxes.

Given the absence of a formal standardized process for requesting amendments to the *Municipal Act*, Hamilton's approach to advocacy must be strategic and multifaceted. To effectively advocate for these essential changes, the City of Hamilton could consider the following strategies.

Formal Communication to Provincial Authorities: Initiate a formal request to the Ministry of Municipal Affairs and Housing (MMAH) outlining the need for expanded revenue-generating powers to address Hamilton's growing budgetary pressures. A letter from the Mayor, supported by a City Council resolution, can formally communicate Hamilton's position and underscore the unified backing for this initiative. Such a letter should highlight the anticipated benefits of implementing an MLTT, taxes on alcohol and tobacco and a downtown parking levy, particularly in light of Hamilton's rising infrastructure and social service needs.

Engagement with Municipal Advocacy Groups: Leveraging the influence of organizations such as the Association of Municipalities of Ontario (AMO), the Municipal Finance Officers' Association (MFOA) and the Ontario Big City Mayors (OBCM) can add weight to Hamilton's request. By collaborating with these groups, Hamilton could elevate its message to a province-wide platform, emphasizing the importance of these revenue tools for Ontario cities broadly.

Building Support from Other Municipalities: Hamilton could also seek support from other municipalities facing similar revenue challenges. By building a coalition of cities that support amendments to the *Municipal Act*, Hamilton's lobbying efforts would gain greater legitimacy. Resolutions from other municipalities endorsing Hamilton's request for an MLTT, alcohol and tobacco taxes and a parking levy could present the province with a compelling case for extending these powers beyond Toronto.

Direct Advocacy at Strategic Events: Presenting Hamilton's revenue challenges and proposed solutions at events such as the annual AMO conference could provide a direct avenue to engage with provincial leaders. Given that senior policymakers often attend these conferences, this venue offers an ideal opportunity to advocate for additional revenue tools.

Utilizing Local MPPs and Private Members' Bills: Hamilton could work with local MPPs to advocate for these legislative changes. In particular, the introduction of a Private Member's Bill, while not typically sufficient for amending major acts, can spur conversation and bring visibility to the issue, potentially influencing the government's priorities. Engaging local MPPs as champions within the legislature could help bolster Hamilton's position and increase the chances of legislative consideration.

Aligning Revenue Requests with Provincial Priorities: To enhance Hamilton's case, the City could frame its request for new revenue sources in terms of broader provincial objectives. Emphasizing how the MLTT, alcohol and tobacco taxes and parking levy could fund affordable housing initiatives, public transit improvements and urban infrastructure aligns with Ontario's ongoing priorities. This approach not only strengthens Hamilton's advocacy but also positions these revenue tools as part of a collaborative effort to advance the province's economic and social goals.

Next Steps

Should Council wish to pursue any of these revenue tools further, staff would need direction that could include the specific tools to be investigated, the development of an implementation framework, undertaking public engagement, or any other details that Council may wish to have reviewed further.

APPENDICES AND SCHEDULES ATTACHED

N/A