

STAYING ON TRACK: SUSTAINING TORONTO'S MOMENTUM AFTER THE GLOBAL RECESSION

*Moving the Region Forward in a Modest Growth, Fiscally-
Constrained Environment Will Require New Approaches*

April 11, 2013

TD Economics

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SPECIAL REPORT

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Executive Summary

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Moving the Region Forward in a Modest Growth, Fiscally-Constrained Environment Will Require New Approaches

At the request of the Greater Toronto CivicAction Alliance (CivicAction), we have undertaken this long-term economic assessment of the Toronto region in order to help frame the discussion – and identify trends to address – at the upcoming Forum *Our Region, Our Move* to be held in Toronto on April 17, 2013.

It has not been perfectly smooth sailing for Toronto region's economy since the outbreak of the global financial crisis in 2008-09. Still, Canada's largest urban region (which includes the Greater Toronto Area and the City of Hamilton) has exhibited a degree of strength and stability that has made waves internationally. In particular, gains in employment and living standards have far outstripped those of most competing large North American city-regions. Moreover, most parts of the Toronto region economy have contributed to the relative strength, led by the City of Toronto, which enjoyed a steady inflow of young, highly-skilled workers to its downtown core.

Looking ahead, the big task at hand for leaders in the Toronto region is sustaining this forward momentum amid a number of significant longer-term challenges to growth and prosperity. On pages 11-23 of this report, we highlight seven key structural issues, which have received varying levels of regional attention and progress in recent years:

- Worsening gridlock – while improvements in land-use planning have spurred increased intensification in the Toronto region over the past decade, congestion has been getting worse. According to the Toronto Region Board of Trade, car dependency and gridlock costs the region roughly \$6 billion in lost productivity annually – a number which would rise to \$15 billion by 2031 if nothing is done. This congestion also leads to ill health effects.
- A still-sizeable infrastructure deficit – along with a world-class transportation system, other areas of physical infrastructure, including water, wastewater and sewer systems, require significant investment, up-keep and funding for operations in order to sustain future growth and quality of life in the region. Much of the tab for infrastructure falls on the doorstep of municipalities. Yet, these jurisdictions have lacked fiscal and administrative flexibility to adequately tackle their challenges.

- An ageing workforce and slower population growth – the lower labour force participation of ageing baby boomers compared to younger cohorts will put a growing damper on the region’s income-generating capacity, while an ageing population will put upward pressure on health care expenditures. Newcomers, who will continue to be relied upon to power population gains, are increasingly looking to other destinations to reside. The Toronto region’s share of national immigrants has declined to 34% from 44% in 2006. Lastly, as further highlighted during the current recovery, there is a persistent challenge of newcomers’ ability to take advantage of labour market opportunities.
- Weakened cost competitiveness – despite a number of positive moves to reduce the business tax burden, the mix of a strengthening Canadian dollar and downward pressure on wages in competing U.S. states has left many businesses in the Toronto region struggling to compete. Furthermore, in light of federal and provincial deficits, there is a real risk that at least some of the progress recorded on the tax front could be reversed.
- Too few opportunities for youth – the Toronto region boasts a relatively high rate of post-secondary education attainment. However, the higher education system in Ontario is not well integrated with employer needs and private training expenditures are relatively low, leaving many youth in the region unemployed or under-employed. These trends contribute to other less-than-desirable social outcomes, including increased poverty, civic disengagement and higher crime rates than what would otherwise be the case.
- Too many marginalized residents – despite a decent economic recovery since the recession, many residents in the Toronto region have been left behind. The income security system is an integral part to ensuring a social safety net is present in a time of need. However, the current system is too complex and erects a number of barriers to making work pay. Despite the boom in new home construction, the supply of purpose-built affordable housing has not increased in line with demand in recent years.
- Environment has declined in priority – there has been progress on the environmental front in the past decade, including fewer smog days and reduced carbon emissions from electricity generation. Nonetheless,

since the financial crisis, the urgency to take action to improve the environment has waned as focus within North America has turned to the economy. Southern Ontario is already beginning to experience an array of climatic changes ranging from increasing temperatures to erratic precipitation, which will require adaptation strategies.

Economic and fiscal backdrop complicating factors

Efforts to strengthen the economic and social foundations of the Toronto region going forward will be complicated by the economic and fiscal backdrop that is likely to prevail over the next 3-5 years. Economic growth in recent years has been bolstered by some unsustainable trends – most notably, ultra-low interest rates, excessive household borrowing and over-valuations in housing. An expected reversal of these imbalances is likely to leave the pace of annual economic expansion in the region running at a modest 2% rate, well down from the economy’s historical 3% cruising speed.

Furthermore, the federal and provincial governments have been staying the course on plans to gradually eliminate their deficits. A healthy government fiscal position is critical to the region’s fortunes over the long haul. However, the current attention placed on eliminating budget shortfalls will reduce governments’ medium-term wiggle room to further invest in important policy areas. Meanwhile, municipalities in the region will also face an increased financial squeeze from a cooling in housing market activity, downward pressure on federal and provincial grants, and pressure to take up slack in areas where other levels of government have reduced support.

Not only are public resources likely to be limited, but a catalyst to spur immediate change such as an economic crisis is absent. This creates a significant leadership challenge.

Considerations for action

In order to move the region forward in this modest growth, fiscally-constrained environment, there needs to be more energy placed into key priorities based on a number of core considerations. We highlight a number of them in the text box on the next page. Initiatives that bring together the region in a cohesive way, manage to tackle multiple economic and social objectives but don’t result in negative unintended consequences offer the most potential to achieve positive change. Above all, an over-arching requirement that needs to carry special weight in deciding policy actions

is addressing the Toronto region’s weak productivity performance. This is because increased efficiency and higher productivity is the most important driver of higher living standards over the long run.

A focus on doing more with less would involve the notion that governments focus their attention on those residents that need help the most. To the extent that new revenue-raising measures are required, emphasis needs to be placed on those sources that inflict less damage to economic growth and competitiveness. Such a shift will require innovative funding approaches in areas which offer large net benefits and where broad support across the region can be galvanized.

It’s time to move on the Big Move

There are a number of areas that would satisfy these various conditions. One that stands out in our view – and a core theme of the upcoming Forum – is the need to transform Toronto region’s transit and road system from a relative disadvantage into a significant advantage. Transportation is a lifeline of an economy. Yet, as we noted previously, traffic gridlock carries a heavy price tag in terms of lost productivity to the Toronto region. An inadequate transit system is costly in terms of reducing mobility of people, including cutting off those in poverty with job opportunities, as well as business. It also forces people into their cars to the detriment of the environment.

The regional transportation authority, Metrolinx, has issued an ambitious plan called “The Big Move” that would mark a major step forward. The plan will require funding of some \$50 billion for capital outlays over 25 years and \$1.5-2 billion in annual operating expenses. With government coffers already stretched, there is an increasing recognition across the public and private sectors that new revenue tools will need to be implemented in order to make the Big Move a reality. By June 1, Metrolinx will release its long-awaited proposals for funding its investment strategy. Options on the table include a sales tax, highway tolls, a parking space levy among others.

Considerations for future action

- Priority setting critical;
- Discussion should be regional in focus, not municipal;
- Best approaches tackle multiple economic/social objectives;
- Policies should be looked at through a productivity/efficiency lens;
- Avoid measures that create large unintended consequences;
- Reap the benefits of strong collaboration and involvement of the private sector;
- Recognize that the competition does not stand still.

In a number of reports released over the past decade, TD Economics has come out in favour of the efficient and transparent use of road pricing and/or a regional sales tax levied in the commuter area to help fund key local services such as transportation. We continue to support this position. Measures taken through the income tax system could help to mitigate the impact of the higher cost on lower-income households.

Bottom line

Notwithstanding financial problems globally, the Toronto region has recorded solid gains in living standards since the Great Recession. Still, building on this relative success over the next five years in what is likely to be a slow growth, fiscally-constrained environment will not be easy. The best chance of success is likely to revolve around finding areas of common challenge across the region and where residents perceive a significant payback in terms of economic benefits and improved quality of life. After years of talk, developing a world-class transportation system of the 21st century could be one major initiative that finally sees its day in the sun.

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SPECIAL REPORT

TD Economics



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STAYING ON TRACK: SUSTAINING TORONTO'S MOMENTUM AFTER THE GLOBAL RECESSION

Moving the Region Forward in a Modest Growth, Fiscally-Constrained Environment Will Require New Approaches

In this report, we provide an assessment of prospects for the economy of the Toronto region¹ over the next five years. We have undertaken the analysis at the request of the Greater Toronto CivicAction Alliance (CivicAction) in order to help frame the discussion – and identify trends to address – at the upcoming Forum *Our Region, Our Move* to be held in Toronto on April 17, 2013.

Whereas most global cities have faced a difficult ride in recent years, the relative strength and stability of the Toronto region has received international attention. After enduring a relatively temporary setback in 2008-09, employment in the region has rebounded, while housing and non-residential real estate markets – a key gauge of confidence of the region's prospects – have forged ahead. The global spotlight has shone down on the health of the region's financial services cluster, which has given the economy an enormous advantage since the global financial crisis erupted some five years ago.

A reviving U.S. economy along with the Toronto region's strengths – which include a diversified economy, solid population gains and a high quality of life – will continue to set the stage for further expansion in the years ahead. Still, there are reasons for pause. Economic growth has been bolstered in part by some unsustainable trends – most notably, ultra-low interest rates, excessive household borrowing, overvaluations in housing, and increased government budget shortfalls. A likely reversal of these imbalances is poised to exert a drag on job creation and overall economic growth over the next 2-3 years and further complicate efforts to improve social outcomes.

Perhaps even more importantly, the recent housing boom in particular has hidden the persistence of a number of longer-term challenges that continue to manifest under the surface – chief among them include ongoing barriers to competitiveness, transportation gridlock, a misalignment between labour market skills and needs, a lack of regional cooperation, and too many marginalized residents.

Progress on knocking down these roadblocks will be vital to unlocking the region's sizeable potential. However, the upcoming period of modest economic growth and fiscal restraint could prove a difficult mix in laying down new, effective policy actions. Not only

The Toronto Region: Geographical Definition and Economic Importance

Throughout this report, the 'Toronto region' is defined as the sum of the Greater Toronto Area (GTA) and the City of Hamilton. The GTA includes Durham, York, Peel and Halton Regional Municipalities as well as the City of Toronto. This geographical region is sometimes often referred to as the Greater Toronto and Hamilton Area.

The Toronto region is home to roughly 6.5 million people. It is a highly diversified population with one in two residents being foreign-born. The region contributes slightly less than half towards provincial GDP and about one-fifth towards national GDP.

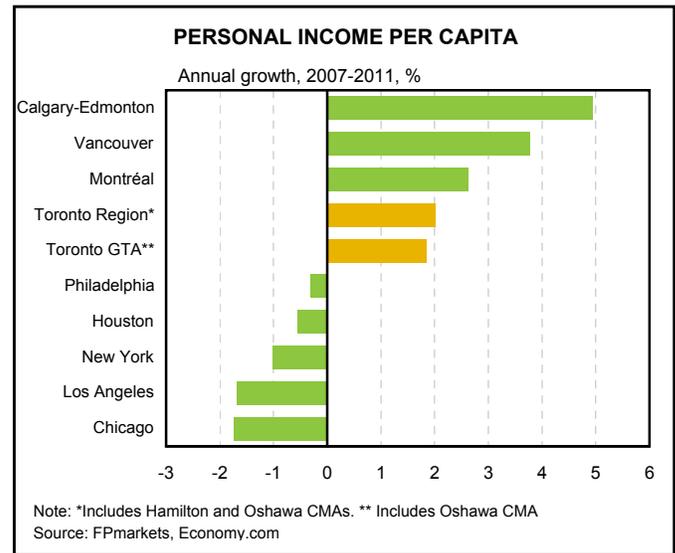
When using Statistics Canada data throughout this report, we have approximated the Greater Toronto Area as the sum of the Toronto Census Metropolitan Area (CMA) and the Oshawa Census Metropolitan Area (CMA).

are public resources more limited, but a catalyst to spur immediate change such as an economic crisis is absent. More than ever before, there will need to be a focus on innovative approaches in selected areas where the public perceive large net benefits and where broad support across the region can be galvanized. While there are many potential candidates that deserve attention, forging ahead with the funding and building of Metrolinx’s ambitious transit plan is one that we shine a spotlight on. We discuss the need to act now as well as highlight some of the bold funding proposals that are currently being contemplated in the final section.

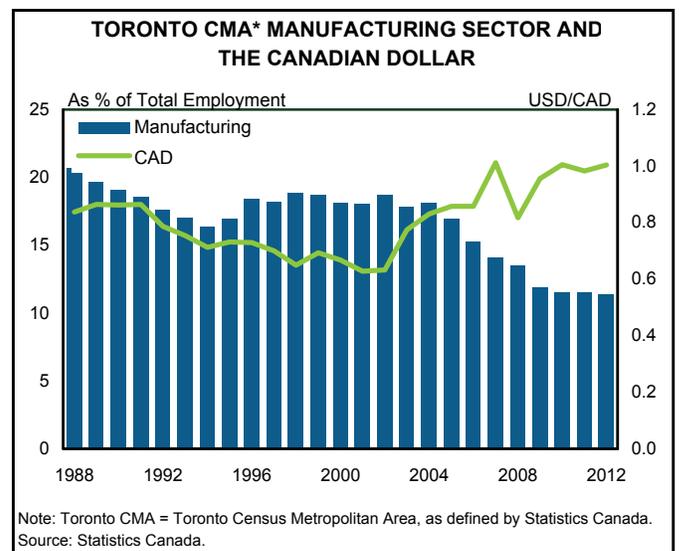
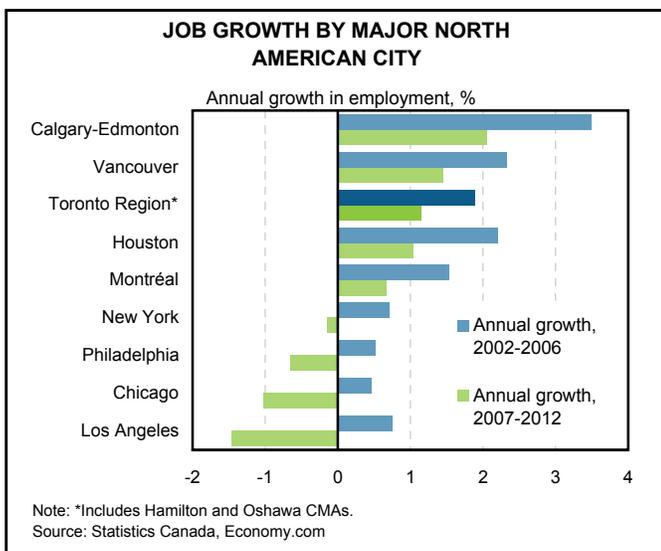
Domestic strength offsets shrinking manufacturing

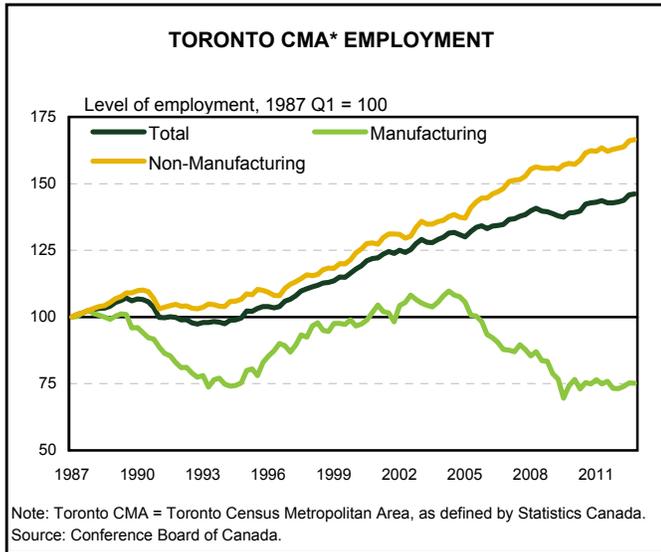
The economy of the Toronto region has turned in a decent showing since the start of the global recession in 2008-09. Compared to other large urban Canadian centres, the region has placed in the middle of the pack in terms of employment gains and personal income per capita, the latter being a measure of living standards. However, relative to global North American urban centres, the Toronto region has enjoyed a significant edge on both fronts (see charts).

The respectable growth rate of the region has been all that more surprising given the extended longer-term decline of its important manufacturing sector, an area which has been further devastated by the economic problems which plagued the United States. In fact, since the U.S. economy fell into crisis in 2007, factory employment in the Toronto region has declined by a further 60,000 jobs, bringing the total losses suffered over the past decade to 170,000 positions. However, the strength of other, more domestically-oriented areas have come to the rescue.



The Toronto region boasts one of the world’s strongest presences in professional services, health care, green energy among others. That said, much of the spotlight since the financial crisis has been shone on the large financial services cluster. Home to more than 200,000 employees and 17% of the region’s GDP, financial services makes an enormous economic contribution and one that has been particularly evident in recent years.² Across the major advanced economies, risky lending practices and exposure to the U.S. mortgage crisis led to bank failures and government bailouts, which deepened the recession. The financial roots of the recession have resulted in a sub-standard recovery. In contrast, Canada’s banks – which have been ranked number one by the World Economic Forum in terms of soundness – managed to navigate the crisis in good shape. Accordingly, lending to households and business has continued to flow,





while the financial industry has been a leader in terms of job growth since 2007.

Housing boom a massive contributor to growth

The mix of extraordinarily-low interest rates and good access to credit has helped to sustain the decade-long housing boom in the region. Average annual price gains have run at an above-trend 6.5% per year since 2002. In the new home construction sector, much of the boom has been focused on multi-residential building activity, which in turn has been supported by recent government efforts to promote intensification and the growing attractiveness of the condominium market for developers and buyers.

TD Economics has calculated the economic impact on the region of the recent housing strength. This includes the direct and indirect boost to jobs, income and spending from housing construction, new and existing home sales, as well as the increase to spending from rising household wealth. As such, the positive impacts have extended across most goods and service areas of the economy, especially retail trade, financial and professional services. When all of these broad impacts are considered, we estimate that the housing boom accounted for as much as one quarter of overall economic growth and job creation in the city-region over the past decade. This contribution has been especially pronounced over the past five years.

Commercial real estate, government also big players

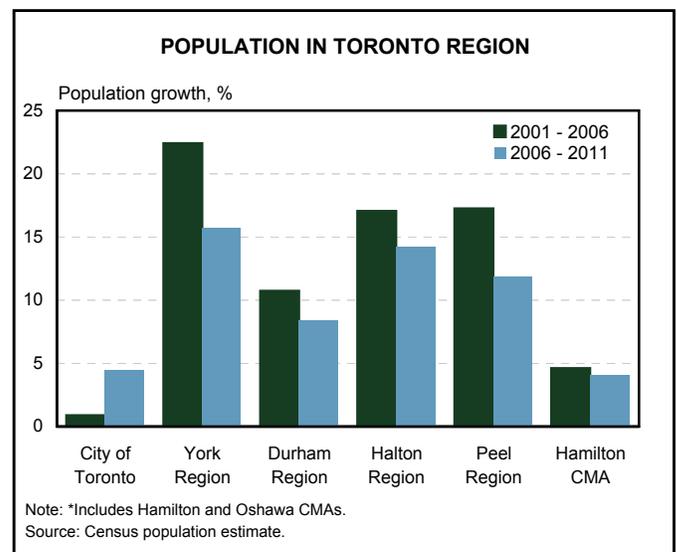
Two other critical players to the recent regional economic growth performance have been commercial real estate de-

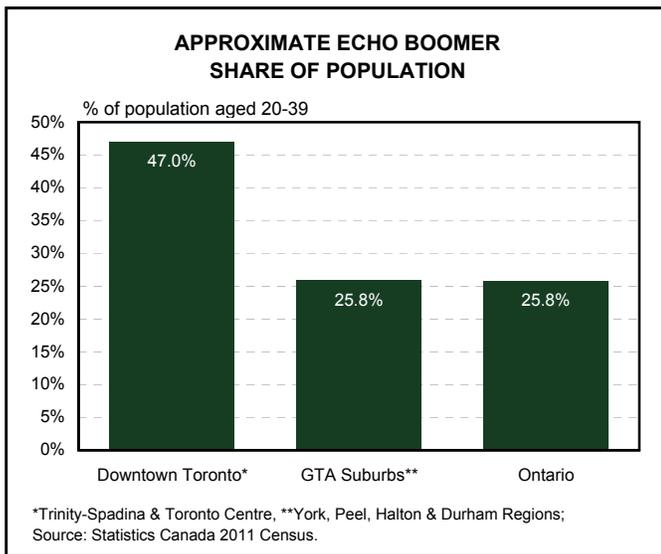
velopment and the public sector. Although not quite as hot as its residential counterpart, the commercial real estate market has been an increasing source of growth, especially in the downtown core. Increased commercial development activity has been fuelled by relatively low vacancy rates and an expanding employment base. In addition, a rising trend in residential development has been mixed-use properties that have included commercial space.

The federal and provincial governments have been lending support to the economy through higher spending and selected tax relief since budget surpluses began to emerge in the late 1990s. Public sector efforts rose to a new level in the wake of the global financial crisis, when Canadian governments joined the international bandwagon by running significant deficits partly to add stimulus to the economy. The stimulus has been delivered through a number of tax and spending programs, but the biggest focus has been on infrastructure development. As such, employment in public administration and non-commercial services in the Toronto region has surged by more than 200,000 positions since 2002.

The City of Toronto enjoys a revival

Consistent with the shift in residential and commercial development patterns, the past few years has been marked by the revival of growth in the Toronto downtown core. Recent Census figures show that population gains in the outlying areas continued to surpass that of the City of Toronto in the 2006-11 period, led by Milton, Whitchurch-Stouffville, Ajax, Brampton and Vaughan. However, the differential in





the rates of expansion narrowed significantly, with the City enjoying a growth rate of 8% over the period compared to virtually no gains in the prior five years. The rebound in the City of Toronto’s fortunes has been chalked up to the growing desire of young and highly-skilled to locate close to the amenities of the large urban centre.³ What’s more, an increasing number of employers and retailers are relocating to the downtown in order to take advantage of this growing labour pool, as evidenced by a solid bounce-back in job creation over the past half decade.

Imbalances to limit the medium-term growth potential

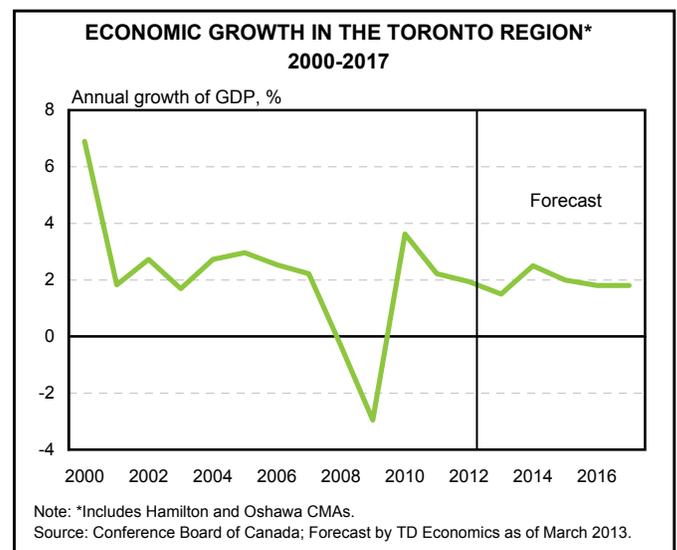
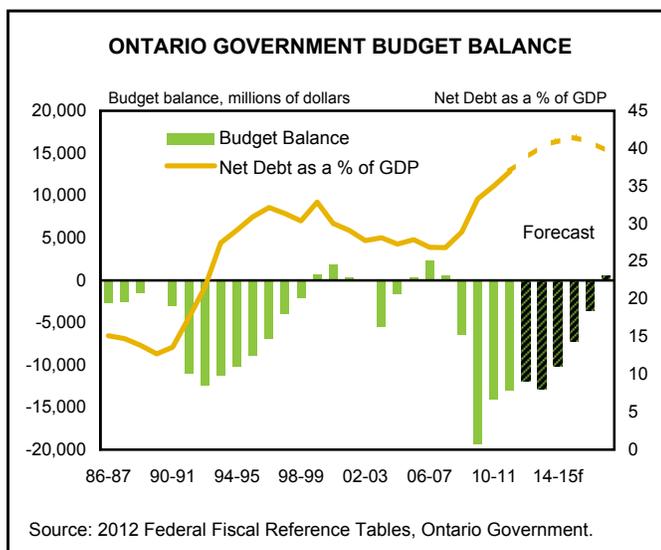
Although the economy in the Toronto region has held up relatively well, the expansion has come at the cost of some increasing imbalances, which are likely to constrain

real economic growth to a modest rate of around 2% over the next few years:

An over-valued housing market – the extent of excesses in the Toronto region’s housing market does not appear to be on par with that of the United States, where prices collapsed by some 35% since peaking in 2006. However, housing still appears to be overvalued by some 10%. Since mid-2012, sales across the region have started to retreat from their highs, dampened in large part by a tightening in mortgage insurance rules by the federal government in July 2012. And looking ahead to next few years, TD Economics anticipates a further cooling in market activity – especially in the robust Toronto condominium sector – although prospects for continued low interest rates will help to cushion the downside. The market for new construction is likely to experience a more front-end loaded moderation relative to the resale market given the surge in projects already shovel-ready and in the construction phase.

Excessive household debt – largely reflecting the run up in home prices and borrowing related to home investment, Ontario households have racked up significant debt. Indeed, according to the Ipsos Reid Financial Monitor Survey, the average household debt-to-income ratio in the province has increased from 118% in 2007 to 134% in early 2012. Recent data on credit suggest that households have begun to constrain their rate of borrowing and are more hesitant to make unnecessary purchases. A continuation of these trends appears likely over the medium term, especially as interest rates rise off their lows towards the end of 2014.

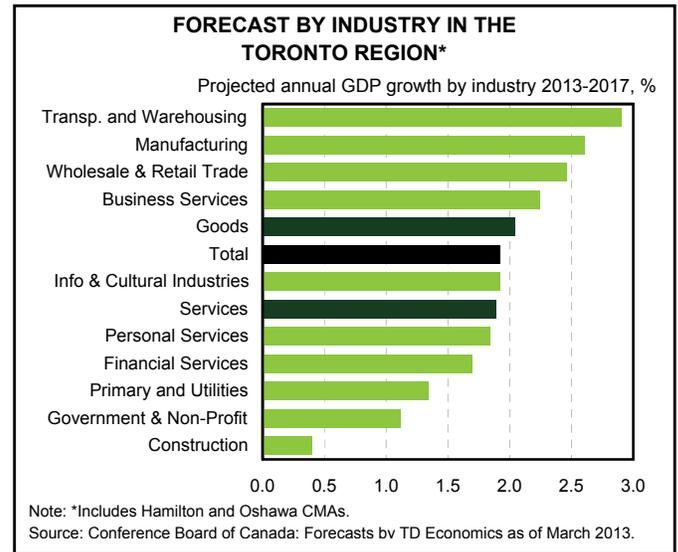
Swollen government deficits – despite some shrinkage in federal and provincial budget deficits since their peak in



fiscal 2009-10, shortfalls remain sizeable. The **federal** budget shortfall stands at \$25.9 billion (1.4% of GDP) in fiscal 2012-13, with the government targeting deficit elimination in fiscal 2015-16. An even larger deficit challenge (\$11.8 billion or roughly 2% of GDP) exists at the **provincial** level, where the government is projecting a return to balance in fiscal 2017-18. More strikingly, the Ontario government's debt ratio has jumped from 27% just prior to the recession to around 40%, catching the attention of credit rating agencies, some of which recently downgraded the Province's debt rating. In order to put their fiscal houses on a more sustainable footing, both the federal and provincial governments are expected to hold annual program spending growth to a modest 1-1.5% per year over the medium term, or equivalent to an annual decline in after inflation terms. This compares with growth of 6-7% per year during the run-up to the recession and its recent aftermath. Meanwhile, **municipal governments** in the Toronto region are required to balance their budgets by law. However, municipalities will continue to feel the squeeze from their overreliance on property tax revenues, downward pressure on federal and provincial grants, and pressure to take up the slack in areas where other levels of government have reduced support.

Non-residential investment prospects still bright

While necessary adjustments, the double-whammy of a "shift to thrift" among households and an extended period of government restraint is poised to put a significant damper on activity in domestic-oriented sectors over the next few years. In particular, the swing in the housing sector from a large net contributor to growth to a modest net drag will

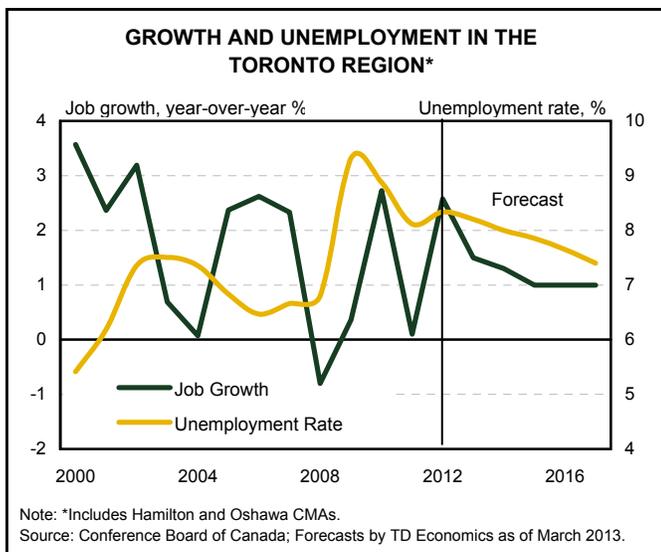


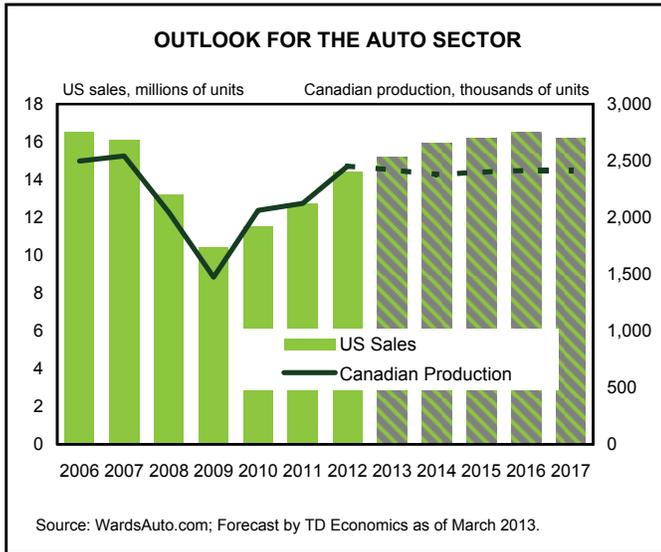
be noticeable. Increasingly-cautious consumers will likely lead to more fierce competition in the retail, finance and insurance and accommodation and food industries. And while the region's bio-tech sector continues to enjoy solid long-term prospects, the reduction in government outlays on health will pose a near-term challenge to activity in that area.

The slowdown in household and government spending will put the onus on other areas of the economy to carry the load in order to record further expansion. In the non-residential construction sector, recent momentum in commercial office development is expected to carry forward, given the number of projects currently in the pipeline.⁴ Government funding for transportation and other facilities being constructed for Toronto's hosting of the Pan/Parapan American Games in 2015 will flow over the next few years and provide a boost to capital spending. More generally, private sector investment in non-residential structures – as well as machinery and equipment – will benefit in part from the relatively strong financial health of corporations, which have been reducing leverage and increasing liquidity in recent years. With heightened uncertainty likely to continue to hold back businesses in the near term, a pickup in investment is likely to be more of a story for the 2014-15 period rather than this year.

Rotation of economic growth to the export sector

The outlook for investment is in no small part tied to the fortunes of the region's exporters. And, in this vein, the improving condition of the U.S. economy, which is the market for around three quarters of regional exports,





vehicle production in the Toronto region and surrounding areas to remain relatively stable at 2.4 million units over the next few years.

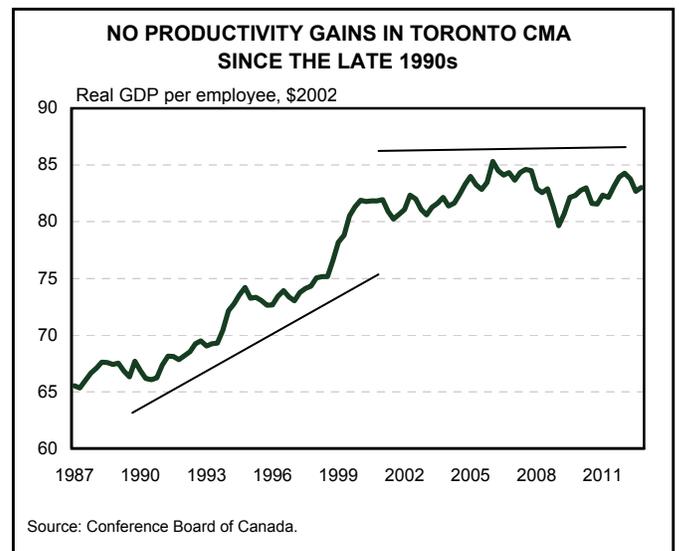
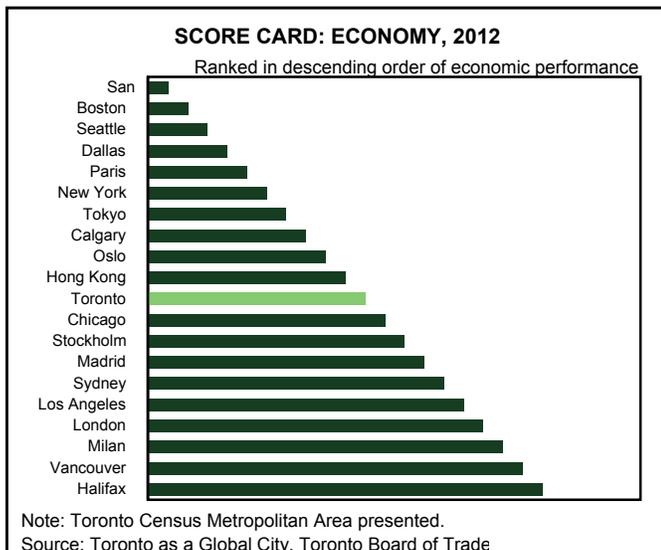
Other areas which are likely to record growth are machinery and equipment, and transportation and logistics, the latter area benefitting from improved trade flows. The food and beverage cluster, which has bucked the trend and increased its heft in Toronto’s economy in recent years – in part reflecting the stability of global food demand during recessions – should record steady, but modest, expansion.

A brightening U.S. outlook will also provide a lift to the Toronto region’s tourism sector. Over the past few years, tourism activity has managed to grow on the back of rising visitors from Asia, South America and the rest of Canada. Looking ahead, rising incomes south of the border are likely to prompt more Americans to visit the Toronto region. Tourism activity will be enhanced by recent investments in key facilities such as the Royal Ontario Museum (ROM), the Art Gallery of Ontario (AGO) as well as a number of large-scale events in 2015 (International Children’s Games, World Pride 2014, and the Pan/Parapan American Games).

Despite the improving outlook, the ability of exporters and tourist operators in the region to benefit from the improving demand and spending picture Stateside will be constrained by a lofty Canadian dollar. The currency is likely to remain close to parity with the greenback over the next few years. Increased cross-border shopping by residents of the Toronto region will also remain a challenge for retailers close to the border. And in the manufacturing sector, the levels of activity are expected to remain well below those that prevailed a decade ago.

comes as particularly good news. Still, the outlook for U.S. demand remains decidedly mixed, as deepening fiscal austerity by the U.S. federal government is counter-balanced by improved private sector spending. On a net basis, U.S. real GDP growth is likely to accelerate gradually from 2% this year to a still-moderate 3% in 2014-15.

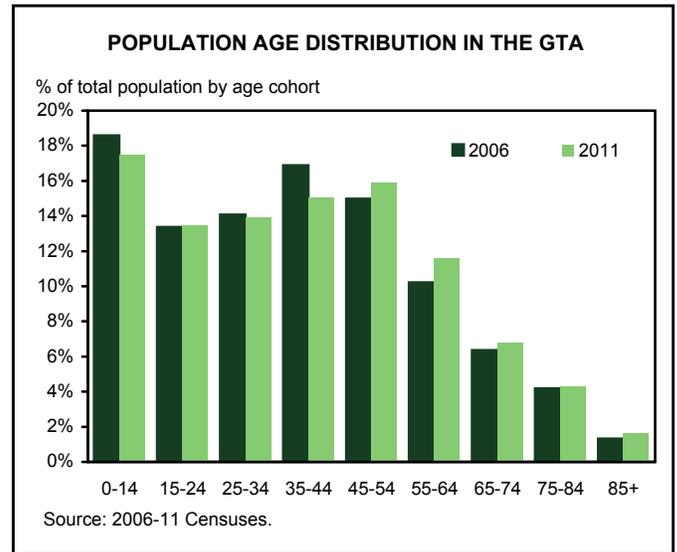
Importantly, the spending areas first out of the U.S. recovery gate are those that will deliver significant near-to-medium term benefits for the Toronto region’s key export clusters. U.S. auto sales are likely to rise further over the next few years – to more than 16 million annually – providing a good shot in the arm to the auto and parts sector. The bigger upside potential in the short term appears to rest with the parts sector, given the negative impact on auto production from the closure of a General Motors line in Oshawa later this year and in 2014. On balance, we expect light



Economic and income gains to face an uphill battle

The key implications underlying the modest economic growth outlook for the Toronto region are:

- The rotation in economic drivers from household and government to the export industries will not be lost on the labour market. Export industries tend to be less labour intensive – and more capital intensive – than other areas of the economy. As such, medium-term job creation and wage gains are likely to be held in check. What’s more, the unemployment rate is expected to continue to hover at roughly 8% over the next few years – or well above both its pre-recession peak of 6.5% and the national average of 7%. Wage gains will remain muted, especially in the public sector.
- Governments will face increased headwinds in their deficit reduction efforts, since much of the low-hanging fruit (i.e., impact on deficit reduction of the end of temporary stimulus programs) has already been exhausted. In addition, the mix of modest economic growth and fiscal restraint tends to disproportionately impact the region’s most vulnerable citizens and can impede efforts to improve the environment.
- While the recent momentum in Toronto’s downtown urban core appears to have some staying power, a likely slowdown in condo development and the shift in growth engines to manufacturing are likely to ultimately translate into some tilt in economic growth back towards the outlying suburbs over the next five years.

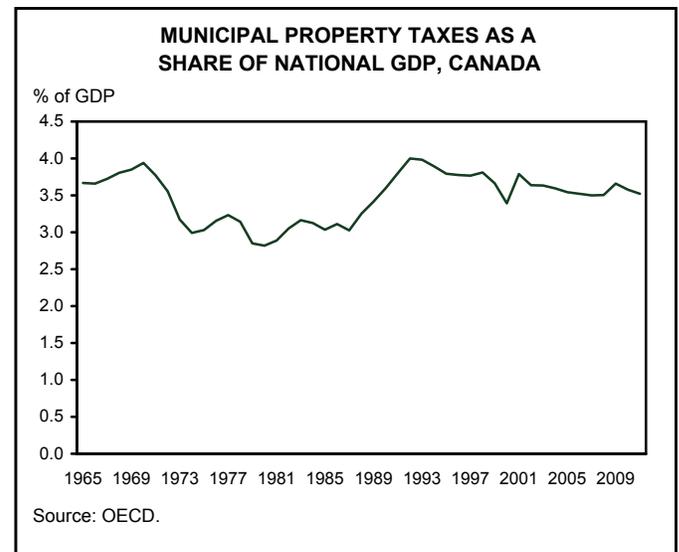
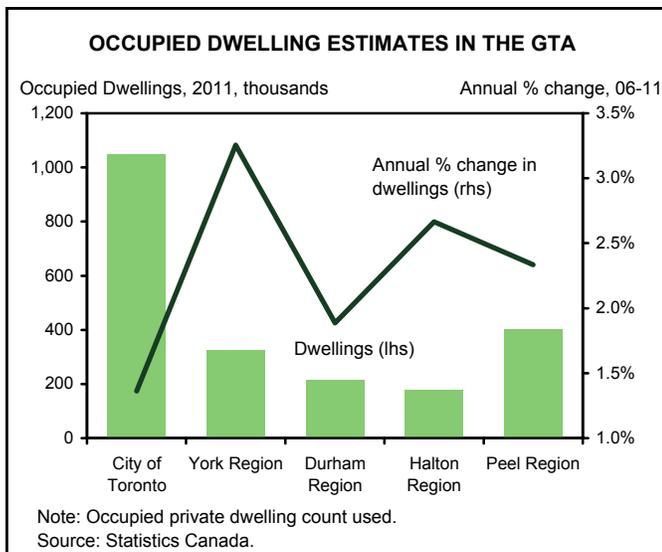


Longer-term issues cloud the outlook beyond 2015

Looking out beyond 2015, there is further reason for pause. This is because recent dramatic cyclical developments have taken the spotlight off a number of underlying structural challenges that could complicate the region’s ability to secure solid long-term gains in economic and social prosperity.

1) Population is greying and growth slowing

The Toronto region is expected to grow to nine million by 2036, representing over half of Ontario’s population. Beneath the headline, the makeup of the population is set to undergo a gradual transformation. As the demographic bulge of the baby boom generation works its way through

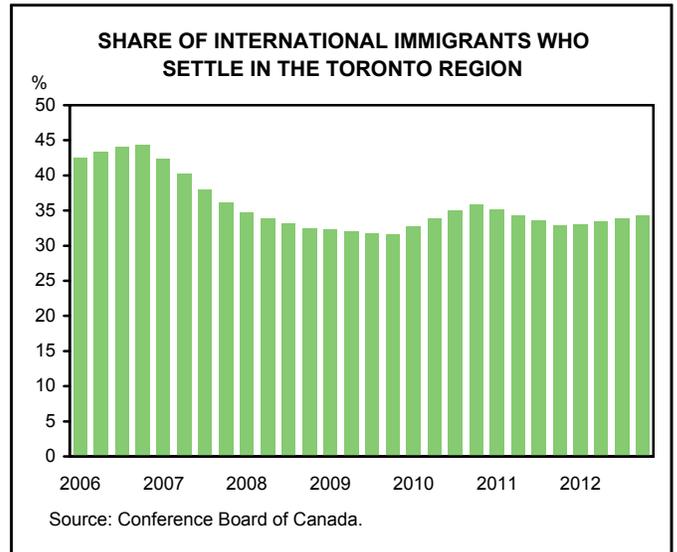


the system, an increasing number of seniors will call the region home. The change in demographic composition of residents will have various impacts on economic growth. For example, with baby boomers retiring, there will be lower labour force participation, all else equal. Unless productivity accelerates concurrently, diminishing labour force gains will lead to a softening trend in regional economic (and income) growth over the next decade.

Other elements related to the ageing population base are likely to put downward pressure on incomes in the region. As individuals enter retirement, they typically experience a drop in income as they begin drawing on retirement income support programs like pensions as well as their retirement savings. Many residents will struggle with inadequate retirement nest eggs. Furthermore, weaker overall economic performance will knock on to business performance, as the two are intricately related. In the absence of productivity-boosting enhancements, gains in corporate profits would be negatively affected by reduced growth in the economy and top-line revenue performances.

An ageing population is also likely to drive up health-related spending, thus intensifying fiscal pressures, particularly at the provincial level. Locally, property tax revenues are not particularly sensitive to economic fluctuations. However, an increasing share of municipal revenue is derived from consumption and user fees. It is this latter municipal revenue source which could become squeezed. Meanwhile, there will probably be an increasing need and demand for social service support such as community health programs and property tax relief programs for seniors. These two events happening simultaneously mean that both sides of the government ledger will be pressured. Hard choices for policy leaders at the regional level will be required given that local governments in Canada must balance their books every year.

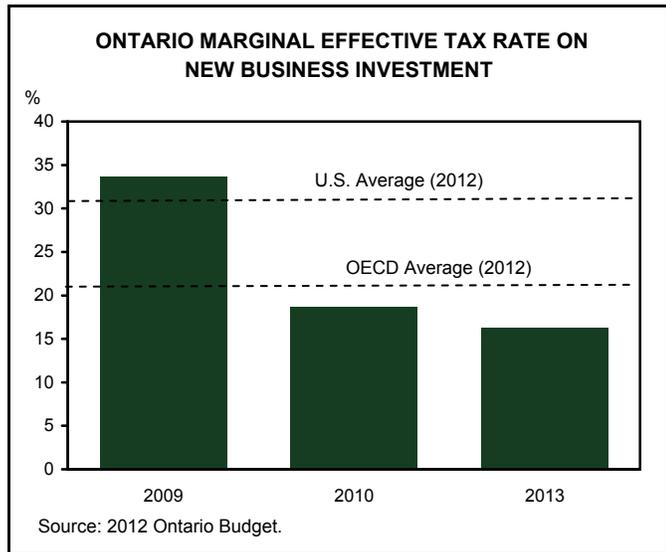
Municipal structures and services will need to adapt to meet the needs of seniors.⁵ The World Health Organization has put together a checklist for cities to become age-friendly and more accommodating for the elderly with their varying needs and capabilities.⁵ This could mean wider sidewalks to allow for walkers and/or motorized vehicles, fewer steps in high traffic locations, and more affordable housing units. The number of licensed drivers decreases with age. In turn, user-friendly, accessible and convenient transit near housing developments is important for age-friendly urban planning.⁶ There might also be a decreased need for parking spaces and



attendants, leading to lower compliance costs, but fewer parking fine revenues. Proponents argue that such tweaks will enhance quality of life, while increasing senior participation and social engagement in the community as a whole.

Even with the greying of the regional populace, international immigration will continue to be an important driver of population growth. At present, roughly one in two residents is foreign born, making Toronto the top ranking region in North America on this statistic. However, immigrants are increasingly choosing other places in Canada to reside, perhaps because of family connections and/or better economic prospects. It could also be a result of other provinces stepping up their efforts to lure international immigrants. Manitoba's effort with its Provincial Nominee Program is a good example. In 2006, the Toronto region accepted 44% of all new permanent residents to Canada. This number has since dwindled to 34% – other regions have proven more successful at luring and encouraging new Canadians to settle down in their neck of the woods.

In spite of the smaller share, nearly all labour market growth in the Toronto area will be driven by immigration over the longer haul. Economic growth could be snuffed out if the region is unable to attract and integrate skilled talent from around the world. As the ageing population phenomenon is not unique to the Canadian setting, nations and sub-regions will have to compete for a relatively small pool of skilled labour. Furthermore, integration challenges for new immigrants persist: the unemployment rate for new Canadians is disproportionately high. Some immigrants are working in positions they are over-qualified for because of foreign credential recognition issues. On a positive note,



a number of recent immigration reforms by the federal government – including changes to the Federal Skilled Worker program – offer potential to improve immigrant socio-economic outcomes through better matching skills with labour market demands.

2) Growing competitiveness challenges from abroad

A competitive cost environment will be crucial to ensuring that the Toronto region economy has success in attracting jobs and investment as well as expanding in foreign markets. Businesses in the region will likely face increased competition over the next five years, as the federal government moves to increase trade ties with Europe and Asian markets. Indeed, the Canada-Europe Comprehensive Economic and Trade Agreement (CETA) could be in place by as early as next year.

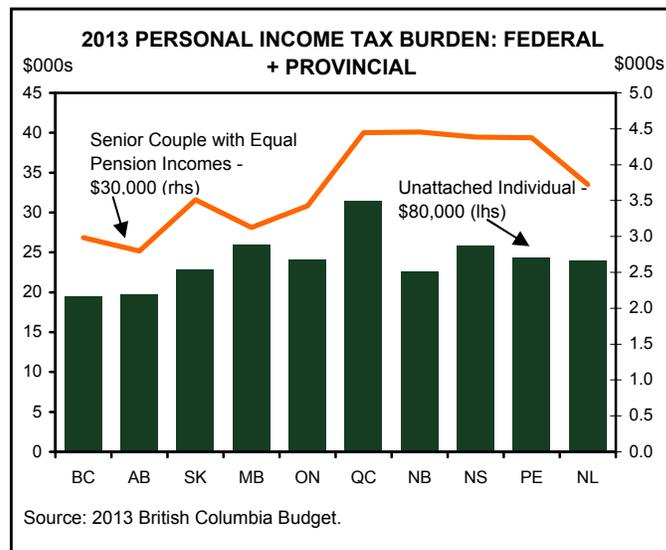
In recent years, the region's record on competitiveness is decidedly mixed. On the plus side, the federal and Ontario governments have made several moves which have improved the business tax climate. Examples include: implementing the Harmonized Sales Tax in Ontario, coordinated efforts to lower general corporate tax rates across the country, a reduction in provincial business education tax rates, and moves to eliminate taxes on capital. With these tax policy changes, and a host of other public policy moves, the marginal tax rate on new business investment in Ontario has been cut in half, from 33.7% in 2009 to 16.3% in 2013.⁷ This rate comes in well below the 20% average for OECD countries, and the 35% rate which prevails in the U.S.⁸

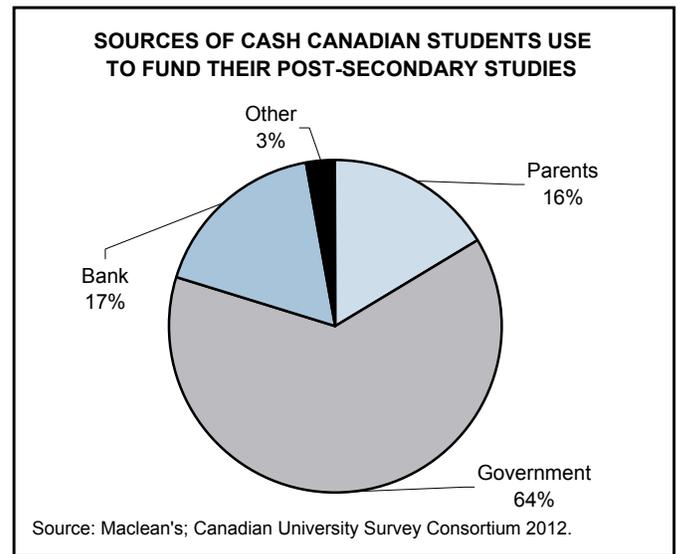
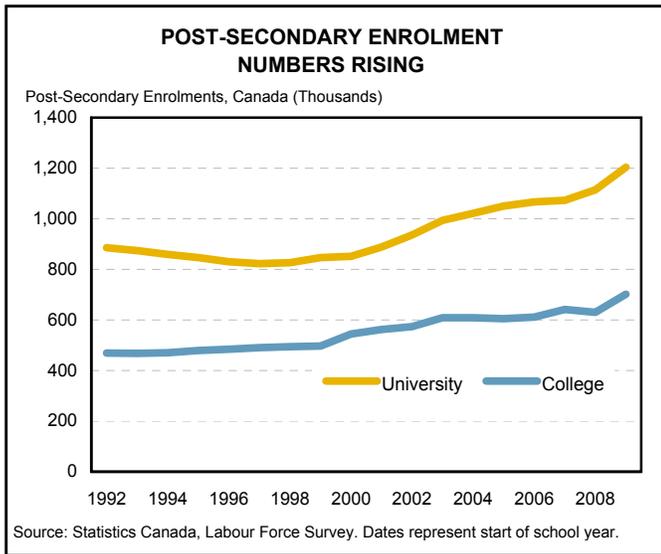
The commercialization of research and development (R&D) has also been a priority for Canadian governments.

In its 2012 and 2013 budgets, the federal government announced a series of measures to reform incentives surrounding R&D. It also strived to reduce the amount of bureaucratic red tape small and medium-sized enterprises encounter.⁹ Canada now has one of the most generous tax incentive programs for R&D among Organisation for Economic Co-operation and Development (OECD) member countries. While recent public sector initiatives have not been targeted to the Toronto region specifically, the geographical area should benefit thanks to its sound research system of universities and public research organizations. In turn, research clusters like the MaRS Discovery District have probably disproportionately benefited from the heightened focus and emphasis placed on R&D in recent years.

Notwithstanding these moves and the significant cash held on corporate balance sheets, business investment in the region has turned in a relatively subdued rebound since the recession. What's more, much of the growth has been concentrated in non-residential structures rather than productivity-enhancing machinery and equipment, where investment intensity still remains well below that of key U.S. competitors. The challenge of tax policy changes is that the economic benefits are not usually seen right away. Instead, it can often take years for the initiatives to trickle down into growing business investment and productivity growth.

In the meantime, the Toronto region's relative cost advantage with competing U.S. jurisdictions has eroded. Despite a 50% surge in the value of the Canadian dollar since 2002, unit labour costs in Ontario have been growing in line with the U.S. in own-currency terms. As a result, currency-adjusted labour costs have deteriorated dramatically. Right-to





work legislation – which govern the extent to which a union can require employees’ membership or fees as a condition of employment – has been implemented in many competing U.S. jurisdictions and could have important implications for the Toronto region, particularly its auto parts and supplier sector.¹⁰ Michigan will become the twenty-fourth state to enact right-to-work legislation. One U.S. research study found that cumulative growth in employment and manufacturing is significantly less for those regions which border right-to-work jurisdictions.¹¹ Companies have been adjusting to the higher currency, but attracting and retaining business and capital investment will not be easy.

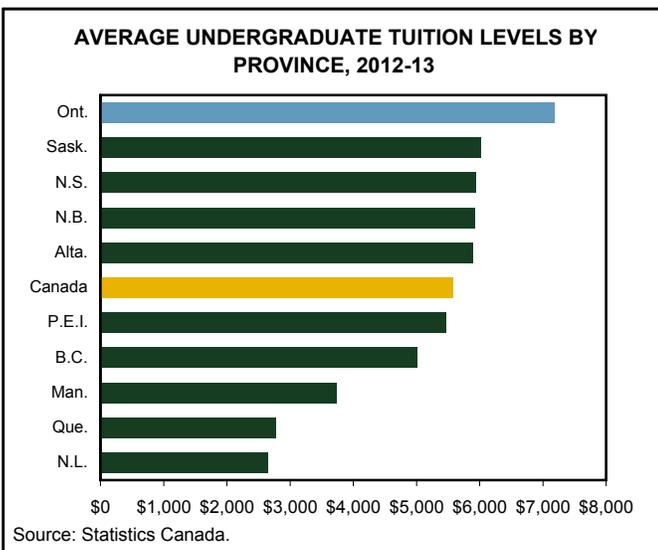
With the federal and Ontario governments expecting deficits over the next several years, there is a real risk that some of the recent progress in improving tax competitiveness could be reversed as policy leaders re-evaluate their tax

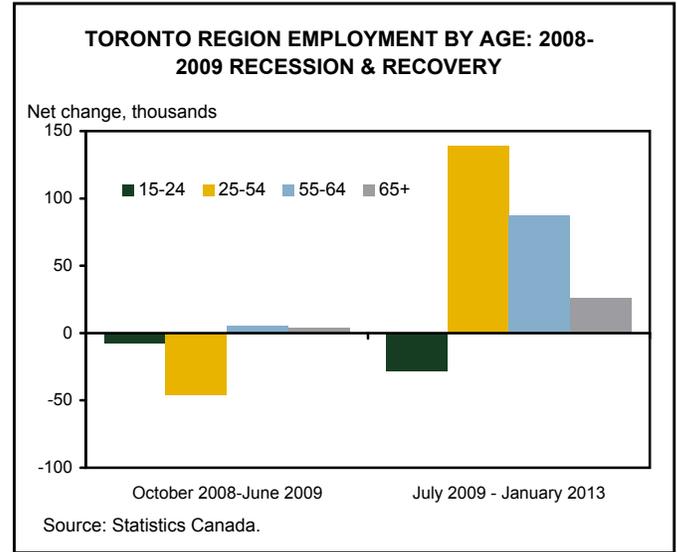
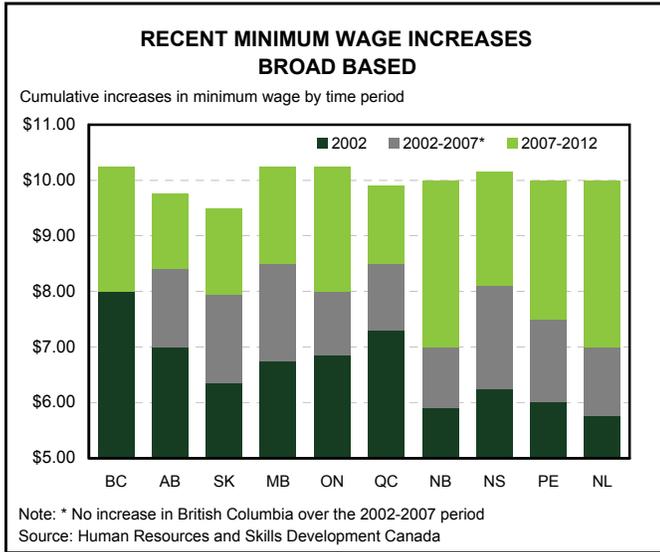
and spending priorities. Cuts to municipal transfers either through block grants or indirect sources like the gas tax have yet to be announced. Other decisions will have sizeable impacts for the Toronto region. In 2012, the Ontario government put on hold its plan to reduce business education tax rates across the province.¹² The timing is unfortunate, as the region, particularly the City of Toronto, had been making strides to reduce the tax burden within the commercial property tax class. Realty and occupancy costs are just some of the factors businesses look at when deciding where to establish locations and/or target growth.

3) Human capital: too few opportunities for youth

Ontario’s post-secondary attainment rate is higher than any other OECD member country. In 2013, roughly two-thirds of Ontarians possessed a post-secondary education credential. Post-secondary numbers have also been rising across Canada at both the university and college level over the past several decades. The Ontario government has made an undergraduate degree less expensive with a 30% tuition grant for eligible students – there are roughly 300,000 students expected to benefit each year.¹³ This grant helps alleviate some of the tuition burden for students, which remains the highest in the country for full-time university students. Nearly 60% of students report some form of student debt, with the average debt burden ringing in at almost \$14,500.¹⁴

While more people are adding to their resumes, the higher education system in Canada is not integrated with employer needs like is the case in Switzerland. In turn, some Canadians find themselves in a situation of a growing disparity between knowledge and entry-level jobs. Canadian



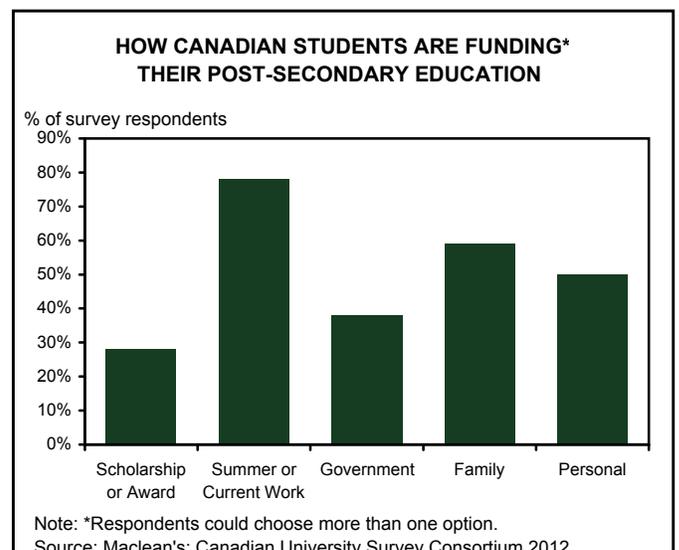
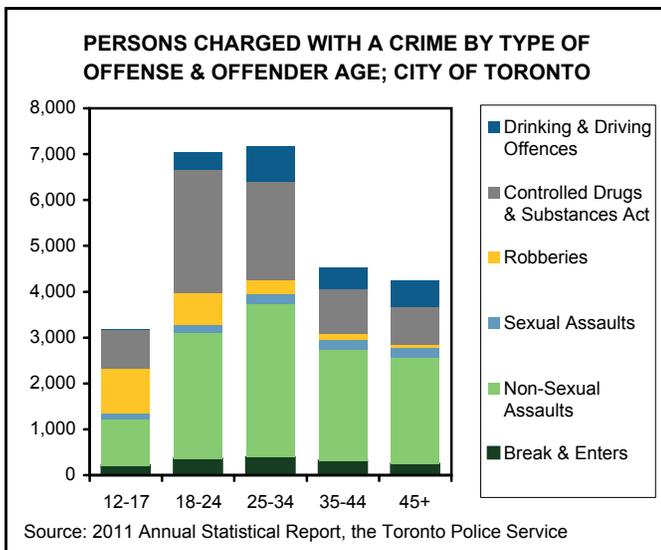


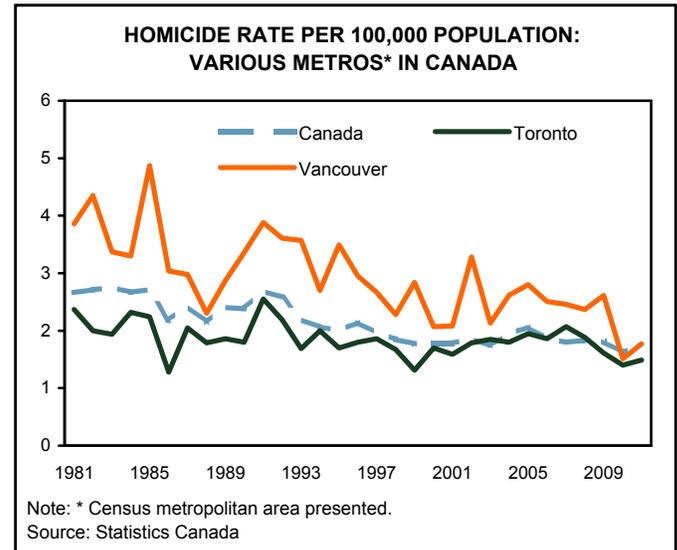
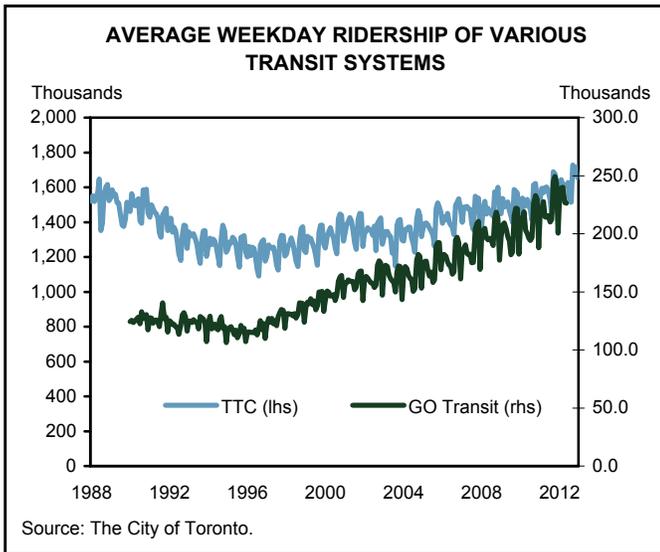
students leave higher education with a degree, certification or diploma, but there is no guarantee that a job is waiting for them at the other end. In fact, there is little assurance that the skills being learned and taught in the classroom are the same skills needed by employers. The post-secondary system must be more aligned with job market demands. It is for this reason that salary returns to higher education are decent, but the return is greatest when skills-mismatch between employee and employer is not present.

The current labour market climate for young Canadians is also a significant challenge. Youth (those aged 15-24) in the Toronto region experienced a difficult recession in 2008-09 with 7,800 positions lost. While Canada and Ontario quickly returned to pre-recession employment levels, the same cannot be said for this age cohort in the Toronto region.

Another 28,000 net positions held by youth have been lost since July 2009. The scarring effect of youth unemployment and under-employment can be costly, as they can negatively affect an individual's long-term career prospects, threatening Ontario's economic prosperity for generations to come. In a recent TD Economics' report, we calculated the combined earnings foregone due to wage losses and longer-term "scarring effects" resulting from the significant decline in youth employment since 2008 at approximately \$23 billion over the next two decades.¹⁵

The lack of job prospects for many youth is a contributing factor to other less-than-desirable social outcomes. Civic disengagement and crime are just two examples. In a Review of the Roots of Youth Violence report to the Ontario Government in 2008, the most pervasive reasons for youth





violence are poverty, racism, community design, issues in the education system, family issues, poor health, and a lack of a youth voice.¹⁶ A lack of economic opportunity for youth was also stressed, as many youth feel frustrated that they are not able to financially or emotionally support themselves.

Doubts about real job prospects may be just one reason why youth turn to criminal behaviour. Community-based programs like Pathways to Education have been extremely successful at boosting high school graduation rates and post-secondary attendance among participants.¹⁷ One estimate from the Boston Consulting Group calculated that the program generates a \$24 social return for every \$1 invested.¹⁷ Private sector and community leadership are also important to build awareness surrounding entrepreneurship, internships and other opportunities which might appeal to young residents. Participation in summer placement programs for high school and post-secondary students are another way to improve social participation while building resumes and student work experience.

On the bright side, the homicide rate per 100,000 people in the Toronto Census Metropolitan Area is no higher than the national average and has remained relatively flat over the past two decades. Using Statistics Canada data, we see that 1.5 people were killed per 100,000 Torontonians in 2011, the latest data available. The statistic is much lower than in other large metropolitan areas in the United States. That being said, violence and crime by young offenders continues to be a concern for the Toronto region. Statistics are difficult to track and with the changing nature of the crimes committed, it is hard to stipulate whether the crimes committed today are worse in severity than before. According to the Toronto

Police Services, the largest share of crimes committed by those in the 18-24 age cohort are non-sexual assaults and violations of the *Controlled Drug and Substances Act*.¹⁸

Moving over to adult workers, Canada lags behind the U.S. when it comes to management and workplace learning – less than 30% of workers participate in job-related training versus the 45% in the United States.¹⁹ Minimal on-the-job training makes it more difficult to transfer to another business unit and/or re-adjust in the event of an unexpected downsizing or a dramatic shift in technology. This could exacerbate the prevalence of longer-tenured unemployment, while increasing the need and demand for public sector programs like the Ontario government's Second Career. The Ontario government's Jobs and Prosperity Council was asked to recommend a comprehensive human capital development strategy to recommend solutions to some of these barriers to success.⁷

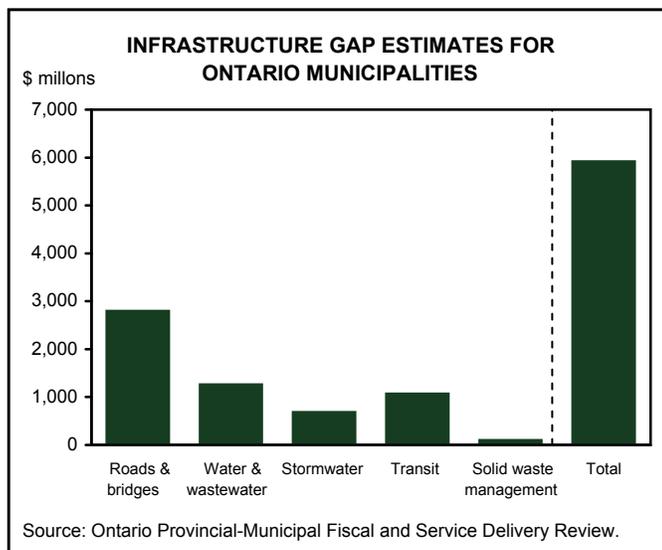
4) Gridlock a growing problem

It is expected that 70% of the world's population will live in urban areas by 2050.²⁰ The greater degree of urbanization has been visible in the Toronto region over the past thirty years. The intensification rate (i.e., development in a specifically designated built-up area as a per cent of total new development) in the GTA is 36%, helped in part by the City of Toronto's high rate of 95%.²¹ The surrounding suburbs of Durham, Halton and Peel have much lower rates of intensification.²¹ The population density within the Toronto region contributes to some growing pains such as urban sprawl. Landscapes can become gridlocked or car-dependent. This type of daily congestion can lead to

ill-effects on human health from smog days. Farmlands and public green space also become at risk, as urban planners are asked to accommodate economic progress and the demands of a growing population.

The Greater Toronto Area passed a milestone recently with 200 million square feet of office space, making it one of four such regions in North America to carry this distinction.²² Thirty years ago, roughly two-thirds of office space was located in the Financial District of the City of Toronto. This geographical area is directly near or close to subway lines. In 2010, more than half of all office space was beyond the reach of higher-order transit. In their report, the Canadian Urban Institute stated that the shift in geographical clustering of office space was the most significant change to the region since the mid-1970s, when several major institutions relocated from Montréal to Toronto.

To improve land planning and municipal development, the Ontario government established intensification targets in its 25-year Growth Plan for the Greater Golden Horseshoe.²³ By 2015 and each year thereafter, a minimum of 40% of all residential development will be undertaken in certain areas. The Ontario government also implemented the *Places to Grow Act*, which works in tandem with the Greater Golden Horseshoe initiative.²³ The legislation requires most new development to occur in established urban sites, but targets vary according to the characteristics and needs of individual communities and sub-regions. Developers work closely with municipal governments on construction proposals. Governments also have a vested interest to ensure that appropriate development fees are levied to ensure adequate and reliable services (e.g., hydro, sewage) can be rendered.



These moves have contributed to increased intensification through a shift to multi-residential development.

In spite of the progress recorded towards more effective land-use planning, congestion plagues the region on a daily basis. More than two million automobile trips are made daily during the peak morning rush hour.²⁴ This number is set to increase to three million by 2031. Congestion and gridlock on the roads have a negative impact on the regional economy in the form of productivity loss, more vehicle collisions, but also greater social costs like pollution and unpredictable travel.

According to the Toronto Region Board of Trade, traffic gridlock costs the Toronto region roughly \$6 billion in lost productivity annually.²⁵ That number is expected to balloon to \$15 billion by 2031 if nothing is done in the meantime. Property tax inequities between the City of Toronto and outlying areas for the commercial property tax class are also an important contributor to greater suburbanization. The rent differential between locations adds to the occupancy costs for tenants wanting to set up shop in urban, centrally-located areas. These factors also add to car dependency and traffic congestion – the majority of pollution and external costs of congestion stem from sites which are not accessible by transit.

The Toronto region does not leverage behaviour change and demand management mechanisms within its transit systems.²⁶ For instance, fares do not vary by distance travelled with the exception of GO Transit. In turn, the system encourages urban sprawl as people living far away and close to their place of work pay identical fares. Next, the fare is not dependent upon the time of travel. Many other transit systems in the world charge a premium for rush-hour travel because without the price discrimination, peak hour travel is over-used. With low income individuals and families more reliant on transit than others, tax credits or other income redistribution systems are sometimes used to reduce the degree of regressivity across income levels. Last, transit is run for the most part at the municipal level, once again with the exception of GO Transit, making it harder to oversee and tweak according to regional needs.

In 2007, the Ontario government established a regional transportation authority, now known as Metrolinx, to review transit needs from a regional perspective, as opposed to the municipal level. Metrolinx published a ‘Big Move’ transportation plan in November 2008. The plan identifies mobility hubs which are major station areas and places of

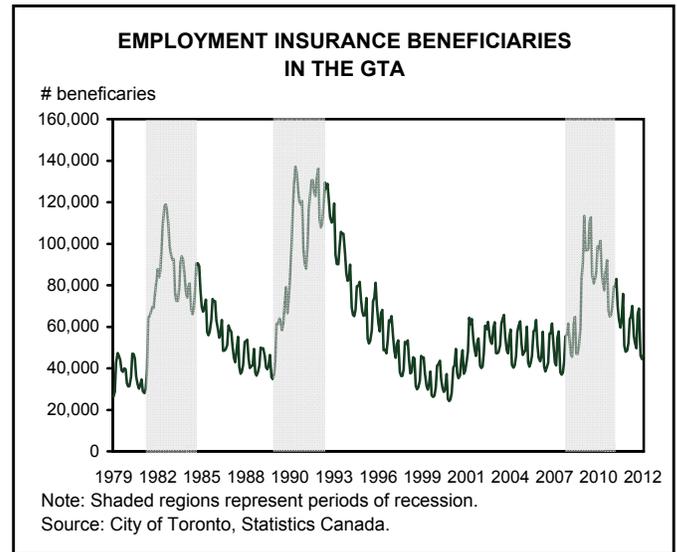
connectivity. By 2020, the goal is to ensure that 81% of the population in the Toronto region will be living within two kilometres of rapid transit. A 2011 Conference Board of Canada report estimated that the transportation strategy would produce an additional 430,000 direct and indirect positions in Ontario.²⁷ It could also spur demand for transit vehicles and trains such as those manufactured at Bombardier’s plant in Thunder Bay.

It has been estimated that the transportation improvements under the plan could save residents an average of 32 minutes per day in their daily commute. This led to CivicAction’s much-publicized survey asking residents what they would do with these extra 32 minutes.²⁸

At present, only \$16 billion of the Big Move \$50 billion transportation strategy is funded.²⁹ Therefore, it is not a guarantee that Toronto region will be able to fully reap the benefits from the transit efforts unless the money to fund the initiative is secured over the long haul. As we discuss in the final section, Metrolinx has been carrying out public consultations across the region and will soon recommend a number of revenue-raising options to the Ontario government. Proposals currently under consideration include dedicated funding for transportation through the implementation of a regional or provincial sales tax, road tolls, a parking levy among other tools.

5) A still-sizeable infrastructure deficit

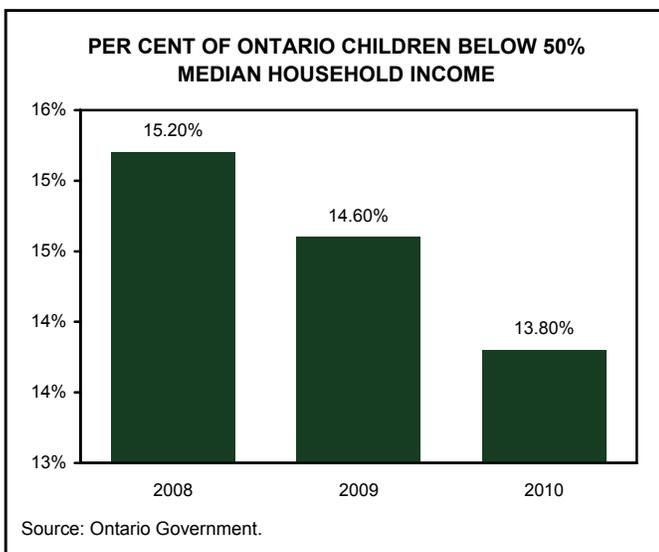
Although much of the focus has been on the region’s inadequate transit system, other infrastructure is also critical to generate sustained prosperity gains. Infrastructure plays an important role in attracting top talent – in a survey of

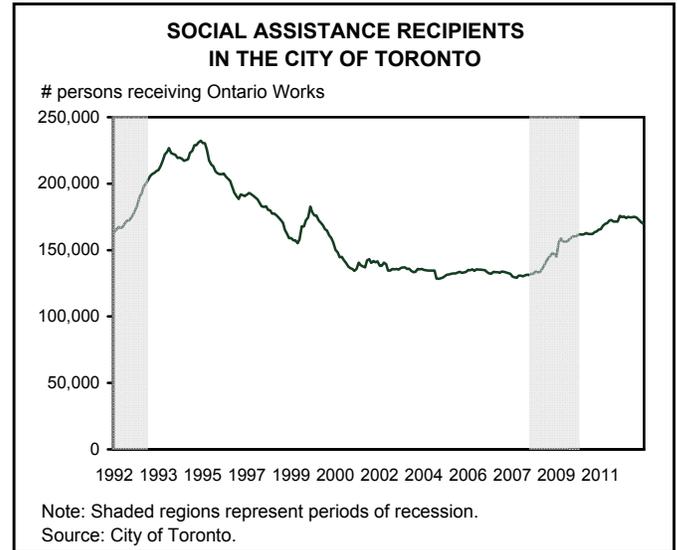
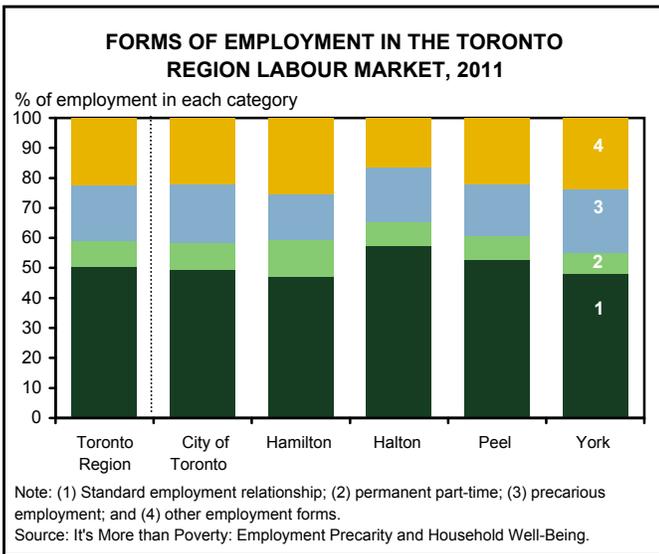


C-level executives, 90% of respondents stated that the availability of high-quality infrastructure and the ease and access to amenities affect where they locate and expand their business.³⁰ In a liveability study commissioned by Philips, transportation was the second highest factor for an attractive place to live and work. While there appears to be consensus about the importance of infrastructure, there is equal consensus about the Toronto region’s infrastructure challenges. For example, a study of global cities by PricewaterhouseCoopers put Toronto in the bottom half of cities on transportation infrastructure. In addition, the Organisation for Economic Co-operation and Development (OECD) stated that Toronto’s transportation infrastructure was a leading drag on global competitiveness.

Infrastructure is a basic requirement to the effective functioning of society. New projects as well as rebuilding of old infrastructure are needed more than ever.³¹ First, we need to play catch up after decades of under-funding. Second, the climate is changing and infrastructure that was previously built for one climate is no longer suitable for another. Therefore, projects of the future will need to be adaptable to a changing environment. Third, as populations increase in size, the need for infrastructure often exponentially grows. With the Toronto region expected to be home to nine million people by 2036, demand for high-quality infrastructure will undoubtedly and rapidly ramp up from current levels.

In the Provincial-Municipal Fiscal and Service Delivery Review, a \$6 billion investment gap was estimated across all types of infrastructure: roads and bridges, water and wastewater, storm water, transit, conservation authorities, and solid waste management.³² The infrastructure stimulus



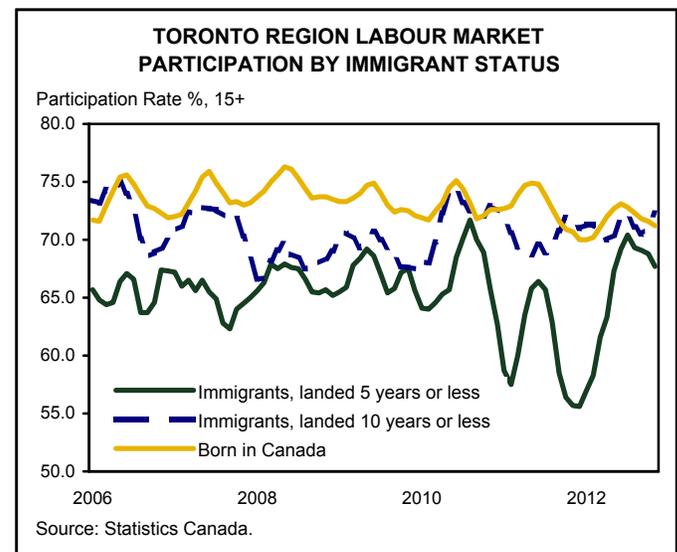
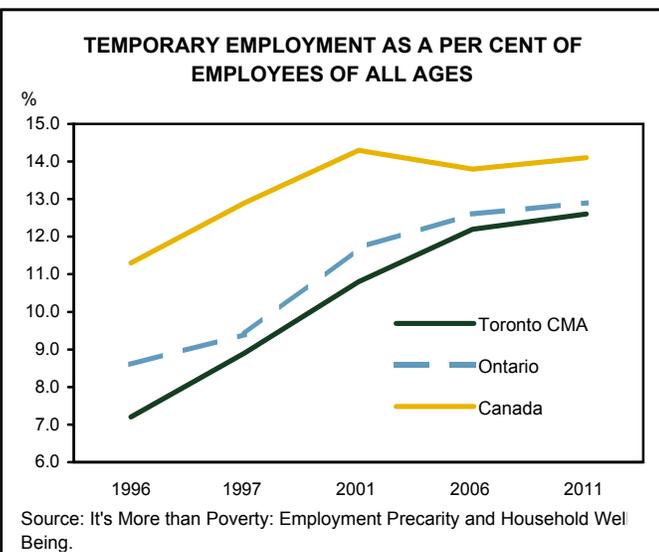


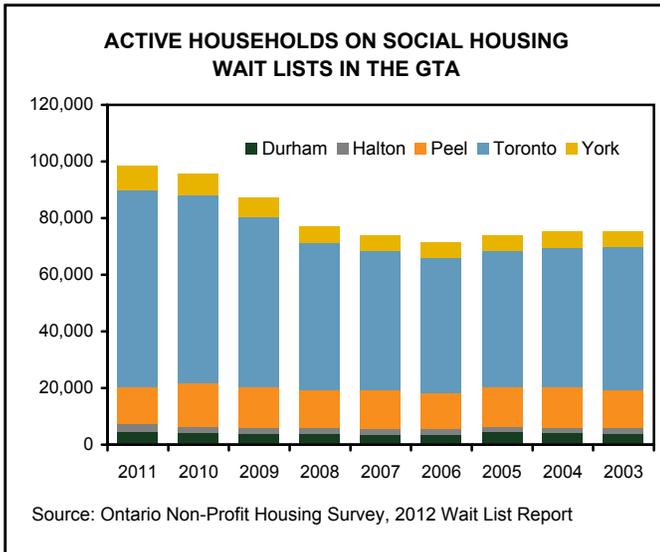
funds dispersed shortly after the 2008-09 economic downturn likely decreased this gap, but did not eliminate it.

While demand is heightened, there is less public sector money available for these large projects, as government budgets are constrained. There could be more volatile resource costs. Additional costs from environmental impact assessments and building infrastructure that can withstand climate change may be required, although retrofitting old equipment could reduce the cost burden. Financing infrastructure needs and meeting demand will require creative thinking and new partnerships. This is because society's needs far outstrip government's ability to pay. The Toronto region will have to secure more high-quality infrastructure but at less cost. Where the private sector cannot provide for needed infrastructure, the government may ultimately

have to provide. However, where the private sector is in a position to lend capital to a specific project, the government will need to facilitate.³¹

Much of the tab for infrastructure falls on the doorstep of Toronto region's municipalities. Yet these jurisdictions have lacked fiscal and administrative flexibility to adequately tackle these challenges. Notably, they remain highly reliant on funding growing capital and operating needs through the use of the property tax, a revenue instrument that does not tend to grow over time at the same pace as the cost of service delivery. Worse still, the infrastructure challenge has been exacerbated by inefficient use of municipalities of their existing tools and powers. This includes a less-than-stellar job of maintaining and rehabilitating public assets and setting user fees below the cost of service delivery.





Happily, calls to address the problem have not fallen on deaf ears, as the federal and provincial governments have taken positive steps to ameliorate the situation in response to key recommendations from groups such as CivicAction. The federal gas tax fund distributed to all municipalities provides predictable and long-run transit money of up to \$2 billion per year, although the money goes into existing transit as opposed to new capital needs such as Metrolinx’s Big Move. The 2013 federal budget announced a plan to make the gas tax fund more flexible. It also will index increases to the fund to 2% per year, or roughly the pace of inflation. Moreover, the federal government renewed its Building Canada Plan and in doing so, presented a long-term infrastructure plan in its 2013 budget. This was welcome news. According to the Federation of Canadian Municipalities, in the absence of a new commitment from the federal government, 40% of federal investments in Canada’s municipal infrastructure were set to expire in 2014.³³

There have been positive moves taken at the provincial level. In addition to gradually uploading about \$1.5 billion in the cost of social services from all of the region’s municipalities, the Ontario government has provided the City of Toronto with an expanded list of revenue tools and provided them with two cents per litre of revenue from the gas tax.

While these moves have represented good steps, cities in the Toronto region still do not enjoy the array of revenue tools and fiscal flexibility as competing U.S. regions. If underlying drivers of infrastructure need and demand are not addressed, there will not be a long-term sustainable solution to the infrastructure challenges confronting the Toronto region today. Furthermore, existing municipal fiscal capacity

will not likely be able to absorb capital expansion projects. If this is the case, inaction could lead to infrastructure deteriorating such that repair is no longer a viable solution.

6) Improvement needed in socio-economic outcomes

Automatic stabilizers during the 2008-09 recession helped mitigate the downside impacts for many regional residents. Employment insurance and social assistance caseloads spiked, but have since come down, albeit to levels above where they were prior to the recession. If we step away from the economic cycle, we take note of the changes in the labour market over the past twenty years. There is an increased prevalence of temporary and part-time jobs without stability or health benefits.³⁴ In a joint effort by McMaster University and the United Way Toronto, researchers found that the number of GTA residents with temporary jobs has increased by 40% since 1997.³⁵ The report also found that individuals with precarious employment³⁶ earn 46% less and report incomes that are 34% lower than others with more stable and predictable labour market attachment.

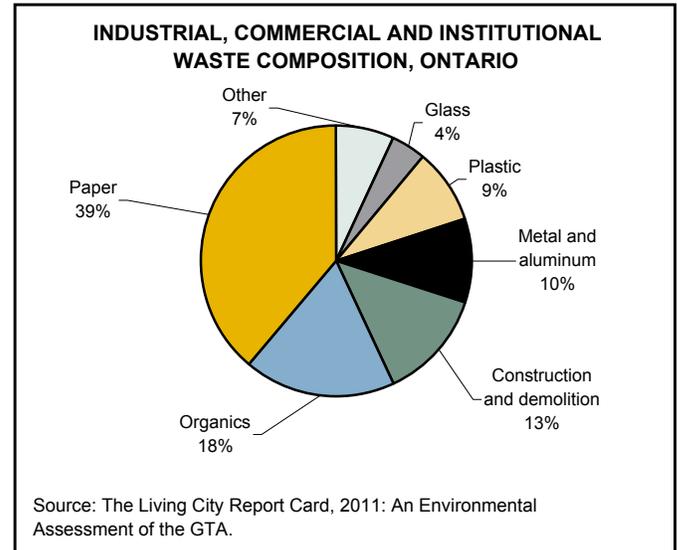
Social assistance is an integral part of ensuring a social safety net is present in a person or family’s time of need. The Commission on Social Assistance Reform tabled its final report to the Ontario government last year.³⁴ CivicAction and United Way Toronto convened a Business Advisory Panel to provide strategic insights and advice on the Commission’s approach and direction.³⁷ TD contributed to, and had representation on, this Panel.

The Commissioners concluded that the social assistance system must be simple and effective in providing income support while helping people move into employment. At present, stringent asset rules erect a welfare wall, effectively trapping individuals and generations in a never-ending poverty cycle. While helpful to reduce the incidence of program misuse, tighter eligibility criteria result in many individuals falling through the cracks of a fragmented income security support system governed by multiple jurisdictions and administrators. In her 2013 Speech from the Throne, Premier Kathleen Wynne stated that the Ontario government will work to help the unemployed find a job and enable those on social assistance to keep more of what they earn.³⁸ Municipal governments will be financially responsible for administering social assistance until the province takes over in 2018.³² If a more generous social assistance was implemented across the province based on the Commission’s report, fiscal pressures for local governments might arise

due to higher administration costs. However, the improved socio-economic outcomes for the Toronto region would likely outweigh the added costs.

Purpose-built rental housing plays an important role in social outcomes, but also the housing market and the economy. New rental housing increases the choices of housing available; they can renew beaten-down neighbourhoods, and help meet some housing demand in a rapidly growing city. The private sector has shown creativity in the GTA by using vacant sites and under-utilized areas to build rental units – roughly 40% of residents live in the rental housing sector.³⁹ However, the least expensive rental units are fewer in number today than a decade ago. From 2000 to 2008, nearly 17,000 rental units were lost to demolition or conversion, the majority of which were at the lower end of the market rent spectrum (\$600-\$900).⁴⁰ Recent stimulus investments by the federal, provincial and municipal governments aimed at boosting the supply of affordable housing. As evidenced by the wait lists for affordable housing⁴¹, this construction activity only represents a drop in the bucket of the demand present. The slowdown cast for the Toronto region housing market might make condo units more affordable.⁴² If condo units are absorbed by lower-middle income tenants, more space in multi-residential apartment buildings might become available. However, if the condo market continues to be expensive for those wanting primary rental units, housing supply pressures will undoubtedly mount.

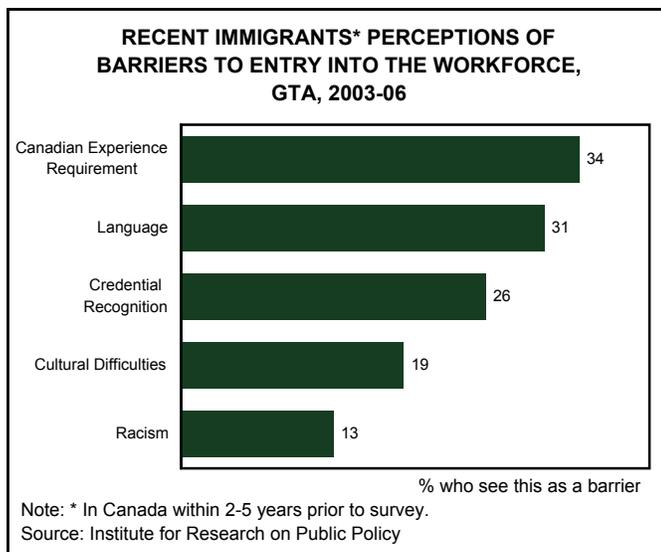
Immigration settlement and more broadly, social inclusion, remains a top public priority. The Greater Toronto Area is the destination of about one-in-three new immigrants to Canada. This high degree of cultural and language diversity

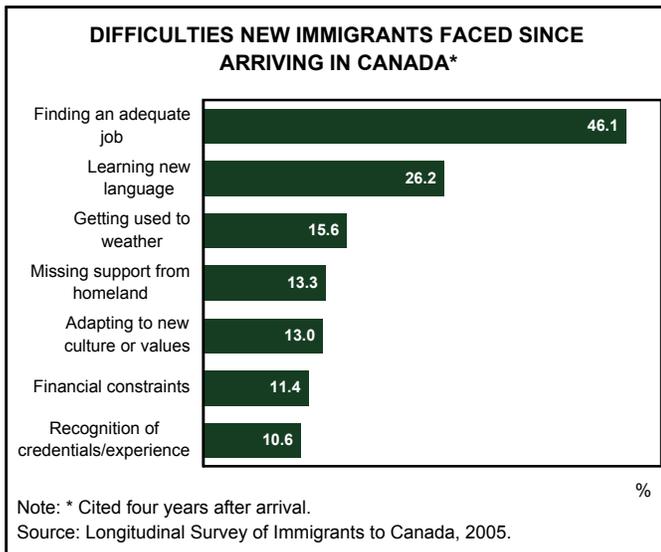


is economically beneficial, but also places heightened demand for community services.⁴³ At present, there are over 300 agencies and organizations, publicly- and privately-funded, which help immigrants settle in the region.⁴³ These groups render a variety of services such as finding affordable housing, providing counselling to victims of torture, and employment support.

The Toronto Region Immigrant Employment Council (TRIEC) is a good example. It is one of the first public-private partnerships that recognized the value of connecting private sector employers with newcomers who could fill skill gaps. TRIEC helps to provide the tools newcomers need to get hired and integrate within the community. Program offerings include having executives from large companies mentor immigrant professionals, internship arrangements and other temporary employment opportunities. Through these novel approaches, TRIEC has demonstrated that the perceived risk of hiring immigrants can be mitigated through communication.⁴³ This organization has proven to be so successful that similar regional employment councils are now being adopted from coast-to-coast in Canada in cities and provinces such as Vancouver, Calgary, Saskatchewan, New Brunswick, and Halifax.⁴³ It is being copied even as far as New Zealand.

The rapid growth of settlement agencies within the Toronto region has also created a challenge. While many are successful in helping newcomers, competition for public funding and a lack of coordination among them has led to pockets of success. Many among Toronto's immigrant community fall through the cracks and will continue to do so





without a broad strategy for service delivery.⁴³ In addition, the federal government has recently gone to a per capita settlement funding allocation mechanism across Canada. As a consequence, a greater share of total funding is now distributed to western Canada than was the case just a few years ago. Settlement agencies in the Toronto region could face funding shortfalls over the near future unless new money is found.

Many of the issues that weaken the region’s social cohesion are relevant to the business community in that they have implications for regional economic growth. Socially cohesive communities make the region attractive for skilled labour and investment. However, sources of immigration have shifted towards countries where neither French nor English are a mother tongue or taught in schools. In addition to a lack of proficiency in one of the official languages of Canada, employment barriers stem from the failure of Canadian employers to recognize non-Canadian work experience and certifications. The Toronto Region Board of Trade estimates that the Toronto region loses \$1.5-2.5 billion every year by not recognizing the qualifications and experience of immigrants.⁴⁴ Individuals who become disconnected from professional opportunities often feel removed from their communities. What’s more, new and recent immigrants often have family and business ties back home. The failure to integrate these individuals into the community means that the wealth of diversity is not being fully exploited.

Close-knit cultural communities are one way to improve social cohesion among new immigrants.⁴⁵ Markham and Brampton are two areas which have a high degree of visible minorities. People choose to reside close to people with

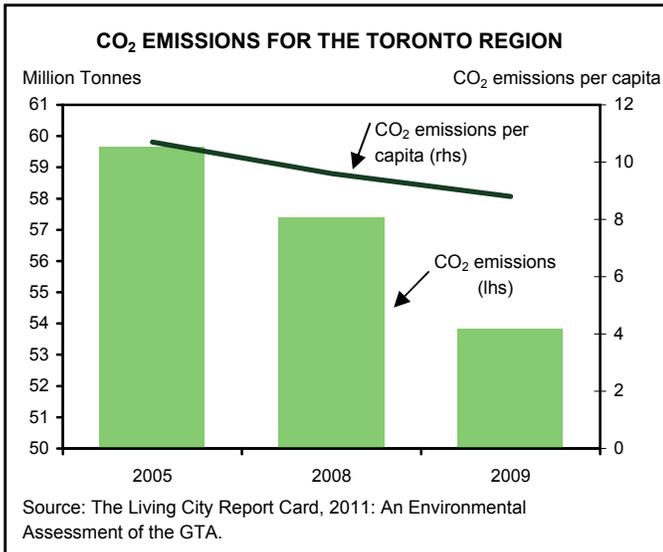
shared cultural backgrounds – this is generally positive. Armed with a common language and similar cultural beliefs, information can flow about job prospects and program offerings such as language training and child care. However, many residents in these ethnically dense areas can feel isolated or separate from the broader regional community when it comes to finding a job and/or interacting with people outside of their community.

Within the Toronto region there is an affluent core in the downtown core, surrounded by a middle ring of marginalized, socially vulnerable residents, encircled by an outer layer of affluent suburbs.⁴⁴ The provision of government and commercial services is typically lower in this middle ring than in other parts of the region. As a result, the sense of community among residents is typically sub-standard. Public transit is also the primary mode of transportation in lower-income areas, but there is often a lack of reliable and consistent service in these geographies. The inability to physically get around limits job prospects and the income-generating potential for many residents in these community hubs.

7) The environment has fallen down the priority list

There has been much progress on the environmental front in recent years. Toronto region residents are breathing cleaner air thanks to fewer smog days.⁴⁶ The Ontario government’s decision to replace coal-powered electricity with cleaner sources has helped improve air quality. Sulphur dioxide emissions are down 44% since 2005. At the same time, carbon emissions from electricity generation have decreased by nearly 50% over this same period. Municipal water conservation efforts have proven successful – per capital consumption is down 9% since 2006. Residential waste is also being diverted away from landfills and more progress could be in store as programs are put in place for multi-unit residential buildings. There have been local efforts to work with the private sector to green commercial office space. CivicAction’s Greening Greater Toronto – Commercial Building Energy Initiative is one such an example where tenants and owners collectively and voluntarily agree to energy reduction targets.

A regional focus to climate change also seems to be the prevailing consensus.⁴⁷ Many would argue that local actions lead to financial savings, cleaner air and greater business development. Effective and sustainable solutions also depend on globalization – global initiatives but tailored to meet the



needs of local circumstances. This is not surprising as local governments exert some form of control and influence for more than half of total carbon emissions in Canada.

The data on environmental progress from the Toronto Region Conservation Authority has not been publicly updated since 2011. We suspect that progress on the environment has slowed since in recent years: when economic times sour, priorities tend to shift away from the environment. One poll found that fewer people worldwide consider pollution concerns to be serious.⁴⁸ In turn, complacency may result in inaction. There might also be a heightened risk of losing some of the environmental gains recorded over the past decade. As the Toronto region economic picture ameliorates, increased fuel consumption and electricity demand will also add to the challenge at hand.

Southern Ontario is already beginning to experience an array of climatic changes ranging from increasing temperatures to erratic precipitation. Due to its geography and the policy measures already in place, the Toronto region should witness less of an impact than other large metropolitan areas around the world. That being said, Southern Ontario will still witness an increase in annual temperature of 2-6 degrees Celsius. Water quantity and quality will be impacted by changing temperatures and the intensity of precipitation. Healthy air quality is also in jeopardy as the climate becomes warmer, increasing human health risks. Electricity demand may also surge as more air conditioners and heaters are left on, potentially leading to a greater frequency of brownouts. As the climate becomes warmer, biodiversity may also increase. However, greater biodiversity could come at the

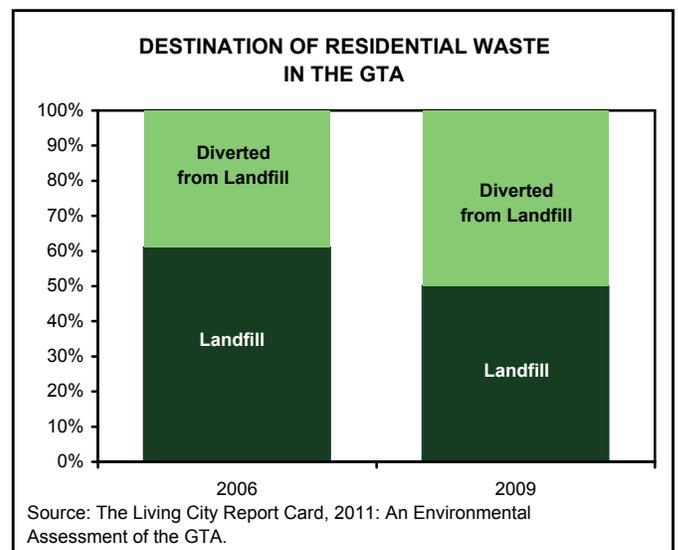
expense of native species which must migrate north or are confronted by non-native species.

Other environmental challenges remain for the Toronto region. As coal is phased out from electricity generation in the province, natural gas will become a greater contributor to carbon emissions. Next, as the regional population grows, landfills will slowly approach their capacity limits. At present, the GTA sends over three million tonnes of waste to landfills every year. Increased diversion of materials away from landfills could save money while helping reduce the environmental burden. At present, residential waste makes up 35% of landfill waste. More attention will be required for industrial, commercial and institutional waste which contributes 65% towards total landfill matter. Also, climate change concerns have to date largely fallen on the public sector's table. Increasingly, the private sector will need to be part of the discussion and the solution to address longer-term issues coming from climate change.

Considerations surrounding future action

The upcoming CivicAction forum on April 17, 2013 will bring together many of the key leaders from the public, private and not-for-profit sectors. The objective of the gathering is to have a frank, but honest, discussion on the best ways to move the region forward amid many short- and longer-term challenges. We conclude this context-setting report by touching on some of the key general themes that we believe will help to further frame the deliberations.

- *Regional economic environment could be an impediment to progress* – recognizing that there is little that can be



done to prevent an ageing population, a slowing housing market and other medium-term cyclical developments, leaders need to focus their efforts on addressing the longer-term barriers to growth and social prosperity. At the same time, the combination of a cyclical slowdown in the economy and a difficult fiscal environment is arguably the most difficult mix in which to address longer-term challenges. In this scenario, there are insufficient resources to invest in key economic and social reforms. At the same time, a catalyst spurring immediate change such as a recession or other crisis is absent.

- *Discussion should be regional in focus, not municipal* – business and economic challenges permeate on a regional basis, as opposed to a specific municipality within the Toronto region. Similarities in the barriers faced could lead to better co-operation and a more cohesive governance approach. At present, fragmented governance often makes it difficult for businesses to realize efficiencies. This red tape leads to lost economic potential. Residents are also forced to navigate what is often a complex system. Other large metropolitan areas in North America have jumped on the regional economic coordination band wagon. The Toronto region must follow suit at the risk of losing pace with the competition.
- *Prioritizing agenda items key, but certain initiatives could achieve multiple objectives* – many economists used to believe that lowering taxes and cutting government debt would pave the way for long-term growth in living standards. Today, there is widespread recognition that success is driven by many economic and social ingredients, given their mutually-reinforcing nature. Nonetheless, setting priorities is unavoidable. Policy actions that help to achieve multiple aims should be added to the to-do list. Implementation challenges could be minimized as well if there is already broad consensus across the community.
- *Critical that reforms considered through a productivity lens* – while we have highlighted a number of economic, social and environmental impediments to long-term growth and prosperity, one overarching theme that needs to carry significant weight in deciding policy actions is addressing the Toronto region's weak productivity performance. This is because productivity lays the foundation of higher incomes over the long run. And, historically speaking, this is an area of real weakness in the Toronto region. Indeed, according to the Toronto Region Board of Trade's 2012 Scorecard on Prosperity, the gap between the region's performance and U.S. leaders on productivity growth has been widening. The report argues that the gap can be chalked up to under-investment in capital and machinery and equipment. On the overall economic scorecard, the GTA scores a 'C' grade, and trails San Francisco, Boston, Seattle and Calgary among others. A rising tide does not lift all boats, but it is certainly preferable to a scenario where all boats are sinking.
- *Beware of unintended consequences of policy reforms* – just as the policy options that tackle multiple challenges offer great potential, those that create unintended negative consequences should be avoided, or at the very least, minimized. For instance, the growing precarious nature of employment in the Toronto region has become evident. Yet, reforms that may cultivate a more secure work environment might lead to a reduction in competitiveness which could be self-defeating. Another illustration is the recent efforts undertaken by Canadian governments to improve the income security system. A program-approach versus a systems-approach often leads to a complex array of access points. In addition to the difficulties inherent in navigating social welfare programs, system effectiveness is nearly impossible to measure. As a consequence, there is a heightened risk that certain policy changes could lead to negative consequences in another part of the income security system.
- *Price tag is a limiting factor in the current fiscally-constrained environment* – choosing priority areas for action is just part of the battle. Even more important is the need to secure funding for new policy actions. This challenge is likely to grow going forward, as government revenue intake is constrained by modest economic growth. At the same time, spending pressures are set to intensify as demand for social programs increase. There is scope to undertake a number of key reforms – from knocking down inter-provincial trade barriers to immigration reforms – with little net negative impact to government treasuries. Efficiency savings, such as increased co-operation across municipalities

in administering services or alternative approaches to service delivery, can free up fiscal room. The savings could then be deployed to other higher priority areas. However, there are limits to how much efficiency savings can be secured. Furthermore, efficiencies are seldom sustainable over the long-run in the absence of structural reform.

- *Need to raise revenues efficiently* – to the extent that new revenue-raising measures are required, consideration should be given to those sources that impose less damage on productivity growth and competitiveness. In our view, the tax mix in the Toronto region is too heavily reliant on taxes on income and savings – key drivers of long-term economic prosperity – and not enough on consumption and the principle of user pay. And, while there are equity concerns surrounding consumption taxation, these can be mitigated through the income tax system. An example would be the sales tax credits given to low-income individuals and families by both the provincial and federal governments.
- *Increased private-sector engagement critical* – with governments increasingly having to focus their support and services based on some measure of need, the private sector will have to step up in the community and show greater involvement and leadership. These efforts would include not only direct financial support, but increased civic involvement and engagement. There has been much progress in the region in recent years, but more will have to be done.
- *The competition does not stand still* – the Toronto region does not operate in isolation, but instead competes with other large metropolitan regions in North America and around the world for labour, exports and capital investment. U.S. metropolitan regions in particular have gone through a difficult ride over the past five years and are now showing signs of revival. Toronto regional leaders need to be mindful of any growing competitive threat posed by city-regions that may have emerged from the crisis leaner and meaner. For example, several U.S. city-regions have been making significant investments in their transportation infrastructure in recent years, supported in part by new federal programs.

In light of these many considerations, efforts to move the region forward will thus require bold new approaches

in areas that provide the largest net economic and social benefits and where broad support across the region can be galvanized. While there are many potential candidates that would meet the bulk of these criteria, we provide a few illustrations of areas that appear to pass the test and deserve attention: investing in a regional public transit system and revitalizing the region's public spaces. The latter is highlighted in the accompanying box. These pieces represent key building blocks to the region's economy and quality of life, but where reliable and long-term funding remain key risks.

Building a transit system for the 21st century – it's time to move on the Big Move

As discussed earlier, the Toronto region faces several challenges in providing a first-class public transit and road system. One is to determine how to fulfill the region's plans for the required investments in infrastructure. The other is to run the enhanced system so that it delivers high-quality service to users over the long term. At the end of the day, financing is required to build new infrastructure, whereas sustainable funding is required to operate and maintain it.²⁷

After many years of highlighting gridlock as a key regional economic and social problem, the time appears to be ripe for forging ahead with an ambitious regional transportation plan as outlined by Metrolinx. As we mentioned earlier in the report, the plan will need some \$50 billion in capital over 25 years and \$1.5-2 billion in annual operation and maintenance costs in order to make it a reality. After a series of public consultations, Metrolinx will present its financing strategy to provincial and municipal governments by June 1, 2013. In this report, it will propose its strategy to raise the necessary dollars to fund its transit expansion plan. Under consideration are a series of dedicated revenue tools, including a property tax, parking levy, retail sales tax among a host of others. In making recommendations, Metrolinx will be considering the experiences of other jurisdictions who have implemented these measures.

A number of recent reports have come out in favour of specific set of revenue tools based on their relative merits.

- The Residential and Civil Construction Alliance of Ontario pointed out, "additional investments will not guarantee a high-quality transit system unless the system is appropriately used."²⁷ Achieving this end will require more efficient pricing of public transit and roads in order to affect behaviour. The report recommends the introduction of road tolls, new parking fees, and argues

Pressure on Region’s Shared Spaces Starting to Lead to Talk of Innovative New Funding and Governance Approaches

Libraries and parks in a large metropolitan area provide enormous economic benefits in that they are a medium for transferring knowledge, support literacy and offer places to gather and share ideas.¹ Yet, similar to other major North American cities, funding for these key assets is being crowded out by competing spending pressures like police and fire services. At a recent lecture at the Institute for Municipal Finance and Governance, co-sponsored by the TD Bank Group, speakers reviewed and considered longer-term solutions to the funding problems. Getting rid of libraries and parks on expenditure grounds would be akin to getting rid of the baby with the bathwater. In addition to discussing recent empirical studies commissioned across North America that have shown the direct and indirect benefits associated with parks and libraries, some of the key takeaways from the lectures were as follows:

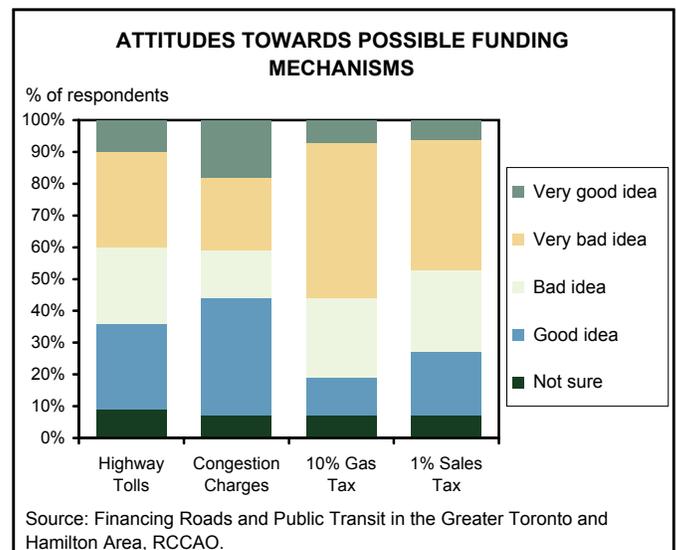
- There was consensus among speakers and participants that a stable municipal funding base is critical to ensure the sustainability of library and park assets.
- Strong leadership, philanthropic support and innovative financing were vital success factors in several U.S. projects, including Millennium Park in Chicago.
- Private philanthropy and corporate sponsorships can be appropriate sources of funding for enhanced features, such as public art and specialized programming.
- Earned income through concessions and events helped to cover a growing percentage of operating costs for libraries and parks. Self-sufficiency makes these public services less dependent on municipal the property tax revenue stream.
- New collaborative approaches are currently being used to much success among different levels of government as well as the private and non-profit players to expand and maintain parks and open space in North America.

¹ Shared Spaces: Funding and Managing Libraries and Parks in Tough Times,” (2012) Institute on Municipal Finance and Governance, Munk School of Global Affairs, University of Toronto, No. 2/2012.

that a regional fuel tax, sales tax or vehicle levy be considered.

- Another report issued by the Toronto Region Board of Trade in March 2013 concurred with the need for a regional sales tax as well as parking fees to finance infrastructure investments.³⁰ The organization put forth two other measures including a regional fuel tax and high occupancy tolls to help fund the \$2 billion annual operating costs of Metrolinx’s Big Move.²⁹ All policy instruments would apply to the Toronto region and the report argues that each tax measure has been successfully implemented in other regional jurisdictions across North America. In a 2012 survey of member organizations to the Toronto Region Board of Trade, two-thirds agreed that new revenue sources are required to fund expanded regional transportation.
- These proposals are consistent with recommendations made in past TD Economics’ reports.^{51,52} We have built the case that if the region is put into a position of having to raise revenues for areas such as transportation, then

road pricing and/or a new sales tax spread out over the entire commuting area should top the list of potential revenue tools. These revenue-raising options would help fund the necessary services and would not result in a loss of competitiveness for businesses and residents in the region.



In noteworthy fashion, the Toronto Region Board report pointed to a growing consensus among the business community that both the province and municipalities do not currently have the fiscal capacity to fund such large-scale projects and that new revenue sources need to be tapped. In order to put the Big Move price tag in perspective, the City of Toronto had an operating and capital budget of \$14 billion in 2013. Funding just the annual operation and maintenance costs associated with the Big Move plan, would represent nearly 10% of the City's entire budget. Moreover, there are limits to how much can be raised through higher transit fares and leveraging the potential efficiency benefits of public-private partnerships. At the same time, however, the \$2 billion revenue-raising target is relatively small when stacked up against a \$300 billion economy. In turn, the additional hit in the form of higher taxes or levies on residents and businesses would not present a significant near-term risk to growth.

Despite the growing recognition within the business community that immediate action is now required, a significant challenge for a push to raise new revenues is prevailing public attitude. In a poll conducted by Environics in 2011, 70% of respondents stated that governments had enough

money for roads and public transit and were against imposing additional user fees or taxes.²⁷ Other surveys were more mixed, with some showing majority support for other revenues and some showing indecision. In a separate analysis on one survey taken by Environics and the Pembina Institute in April 2012, the authors concluded that "it is possible that presenting a vision for the region that benefits everyone, and includes a new network of transit lines rather than upgrades, might generate a more positive response."⁵³

Bottom line

Notwithstanding financial problems globally, the Toronto region has recorded solid gains in living standards since the Great Recession. Still, building on this relative success over the next five years in what is likely to be a slow growth, fiscally-constrained environment will not be easy. The best chance of success is likely to revolve around finding areas of common challenge across the region and where residents perceive a significant payback in terms of economic benefits and improved quality of life. After years of talk, developing a world-class transportation system of the 21st century could be one major initiative that finally sees its day in the sun.

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