Intelligence MEMOS

From: William B.P. Robson

To: Toronto transit planners

Date: July 25, 2019

Re: **Sidewalk Lab LRT Financing Plan Is Worth Embracing**

The Draft Master Innovation and Development Plan released by Sidewalk Labs in late June could breathe life into Toronto's comatose plans for a light rail line to the city's eastern waterfront.

Waterfront Toronto's 2017 request for proposals, which brought Sidewalk Labs onto the local scene as the developer of the eastern waterfront property, sought help in planning and funding an LRT from Union Station along Queens Quay East. Sidewalk Lab's draft plan proposes to invest $100 million in the project, to be repaid from higher property tax revenues that the LRT will help create.

If Waterfront Toronto and the city can agree on the terms, a growth-spurring LRT could be an early and critical benefit from the entire project.

As Torontonians know well, urban rail projects are hard. Build where many people already live and work, and you disrupt lives and livelihoods. Build where few people live and work, and you risk getting a line to nowhere. An LRT to the eastern waterfront might cost $1.2 billion. So the stakes – and the risk to the TTC and Toronto taxpayers – are high.

Dedicating part of future property tax revenues – revenues that would not exist without the transit investment – to cover an up-front investment can help address this. As Adam Found points out in a C.D. Howe Institute report, Tax Increment Financing (TIF), as it is usually called in Ontario, captures some of the increases in land values – the "uplift" – resulting from an infrastructure project in a dedicated revenue stream. A typical approach is to define the relevant area – the "TIF district" – and freeze the city's share of property taxes at the existing rate reflecting then-current land values for the period of time – say 25 years – relevant to the construction and amortization of the project. During that period, the incremental "uplift" property tax goes to pay off the up-front investment. TIF can support transit to currently less developed areas, better matching benefits and costs geographically and over time.

TIF is widely used outside Canada, and in several provinces. However, notwithstanding 2006 legislation introducing it in Ontario, and some discussion of its applicability to transit in the 2014 mayoralty race, Toronto has not yet tried it.

This could be the time. US experience suggests that TIF for infrastructure works best in underperforming areas that would not advance without the investment. Much of Toronto's eastern waterfront has been derelict for decades, and yields little or no revenue. If the Sidewalk Labs plan for Quayside – which includes not just the LRT, but new housing, mixed-use development, and "smart city" technologies – goes ahead, and spurs development elsewhere in the area, the incremental revenues estimated in the draft plan would far exceed the amounts needed to cover the initial investment in the LRT.

If is, of course, a big word in this context. The details of the contract, including who bears the risks of revenue shortfalls and cost over-runs, will matter. One hundred million dollars is a lot of money, but will not, by itself, kickstart a project of this size. And the LRT and Sidewalk Labs's role in launching it are not the only elements – nor the most important elements – in the draft plan. The gathering, use and ownership of the data needed for smart-city infrastructure are still open questions.

Torontonians, and their representatives in Waterfront Toronto and the city government, need to be comfortable with the wider development of the eastern waterfront Sidewalk Labs says is critical to the viability of the Quayside project itself – and is central to the property tax calculations that would make TIF a viable approach to the LRT.

While we are working all that out, however, we should actively pursue the proposal for an up-front investment in the transit project. A properly structured deal would work for Sidewalk Labs and for the city. It could launch an LRT that would spur development in an area of Toronto that has vast – and so far almost completely unrealized – potential. It is a key opportunity – part of the Quayside plan we should welcome.

William B.P. Robson is President and CEO of the C.D. Howe Institute and a member (unpaid) of the Sidewalk Labs Toronto Advisory Council.

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