STAFF REPORT
ACTION REQUIRED

Stimulating Economic Growth: Toronto's Approach to Financial Incentives

Date:	November 13, 2007
To:	Economic Development Committee
From:	Sue Corke, Deputy City Manager Joseph Pennachetti, Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	P:\2007\Cluster A\EDCT\ECON DEV\ed071129-044

SUMMARY

Toronto's economy continues to evolve. It has managed to be a leader in the creation and attraction of talented people. It has done so through its high quality institutions, welcoming open culture and previous investment in infrastructure. Many of these elements are becoming stretched and Toronto's business development potential needs to be reinvigorated.

It is estimated that Toronto still has 54,000 fewer jobs than 17 years ago while the 905 Region has added over 700,000 new jobs. There continues to be a low market interest in building new industrial and smaller scale office projects in the City when it is easier and more profitable to build residential developments in a hot market or lower risk smaller buildings in the suburbs.

Most if not all of Toronto's global competitors embrace financial incentives as an economic development tool designed to attract as well as retain investment. It is important for Toronto not to lag in this regard if the City is to sustain and support a diversified economic base, as well as being capable of capturing future growth opportunities.

The purpose of this report is to communicate back the directions for implementing a consolidated financial incentives program for the City of Toronto that invests in its long-term fiscal sustainability.

RECOMMENDATIONS

The Deputy City Manager and the Deputy City Manager and Chief Financial Officer recommend that:

1. City Council approve in principle the creation of a City-wide tax increment incentive program to stimulate economic growth based on the following:

    i. the utilization of a tax increment equivalent grant (TIEG) program through the creation of a City-wide Community Improvement Project Area and the preparation of a City-wide Community Improvement Plan (CIP);
    ii. the TIEG be linked to the development of key economic sectors;
    iii. the TIEG program be in addition to:
        (a) previous Council directions to bring forward community improvement plans incorporating financial incentives; and
        (b) brownfield remediation programs across the city which support sites that are used or reused for industrial/commercial office purposes, and
    iv. the program be implemented and enrolment limited for a period of 5 years.

2. The General Manager, Economic Development, Culture and Tourism, along with the Chief Planner and the Deputy City Manager and Chief Financial Officer be directed to consult generally with the business community on Recommendation 1 and staff report back with a Community Improvement Plan by Autumn 2008 that addresses the results of the consultation, timing, necessary implementation details, costs, monitoring of the program and, in particular with respect to the following:

    i. the specific economic sectors to be linked to the TIEG,
    ii. the level of any TIEG to be applied to increased assessment and the time frame over which the TIEG would be applicable,
    iii. the provision of incentives for brownfields remediation, including the availability of Provincial matching education property tax assistance under the Brownfields Financial Tax Incentive Program

3. The General Manager, EDCT and the Deputy City Manager and Chief Financial Officer explore additional financial incentive mechanisms, such as targeted grant/loan programs (environmental), investments in strategic infrastructure and net new employment non-tax incentives to further advance the growth of key sectors of the City's economy and report back on their feasibility, as part of the consultation report directed by Recommendation 2.

4. The Deputy City Manager, and the Deputy City Manager and Chief Financial Officer be directed to consult with the business community and report on the feasibility of amending the new construction lower tax rate policy, that provides for a municipal tax rate of 3.0 times the residential rate for new office and hotel construction, and expansions of 50% or more in gross floor area, to be (i) inclusive of all developments of the commercial class; and (ii) based on the lower tax rate of 2.5 times the residential rate.

5. Request that the Community Improvement Plan for the Sterling Road/Junction area be prepared and ready for Council review by its meetings in March 2008 in recognition of the time sensitive development opportunities in the area and that the CIP respond to the foregoing recommendations ensuring that screen-based and related industries qualify for the full extent of all existing incentives and future adopted City incentives.

6. The existing South Etobicoke TIEG be continued until such time as the City-wide program is before Council for final decision.

Financial Impact

There are no direct financial implications associated with this report. The intent of the proposed action plan is to implement incentives and initiatives to attract new businesses consistent within the City's key economic sectors, expanding the City's property assessment base and property tax revenues with a net positive impact on the City over the long term. Tax Increment Equivalent Grants (TIEG's), made under the provisions of a Community Improvement Plan (CIP), are funded entirely from new incremental tax revenues that, but for the provision of financial incentives, the City may not otherwise have realized. A budgetary account will be established to direct a portion of incremental tax revenues in each year of the program's operation in an amount sufficient to fund annual grants provided. The balance of new tax revenues will contribute to the City's overall tax revenues arising from new assessment growth. The subsequent Community Improvement Plans developed and presented to Council will contain the results of the financial analyses and document any impacts.

Staff will report back to Executive Committee at its meeting of October 6, 2008, on the outcome of further stakeholder consultation in this regard, and recommend specific longer-term policies for consideration of Council and the City's approach to Provincial involvement.

The Deputy City Manager and Chief Financial Officer has reviewed this report and concur with the financial impact information.

DECISION HISTORY

Economic Development, Culture & Tourism (EDCT), City Planning and TEDCO recognizing the need to better understand the condition of Toronto's employment lands and to stimulate investment, undertook a joint study to answer these issues. The purpose of this strategy was to retain and more effectively stimulate investment into the City's Employment Districts as identified within the Official Plan. At the June 11, 2007 meeting of City Council the staff report highlighting the findings of the Long-Term Employment Strategy Phase 2 report, was adopted.

Council adopted a major recommendation requesting: " the General Manager of Economic Development, Culture and Tourism, the Deputy City Manager and Chief Financial Officer, Chief Planner and Executive Director, City Planning Division and the President and CEO of the Toronto Economic Development Corporation, develop a financial incentive program for all of the Employment Districts to stimulated new investment and job growth, ensure Toronto's competitive position within the region, and encourage best environmental and green building practices…".

http://www.toronto.ca/legdocs/mmis/2007/ed/bgrd/backgroundfile-3361.pdf
http://www.toronto.ca/legdocs/mmis/2007/ed/bgrd/backgroundfile-3482.pdf
http://www.toronto.ca/legdocs/mmis/2007/ed/reports/2007-05-09-ed04-cc-dit2.pdf

At its meeting of July 25, 26, and 27, 2006, Council approved Community Improvement Project Areas in the Waterfront, and directed staff to prepare Community Improvement Plans for the areas. The Plans will include financial incentives. Staff intend bringing them forward for Council approval by Spring 2008.

http://www.toronto.ca/legdocs/2006/agendas/council/cc060725/plt5rpt/cl014.pdf

Toronto has long been known as a more expensive tax environment than its 905 competitors. To address this disparity, Council at its October 26, 27, 28 and 31, 2005 meeting adopted the 'Enhancing Toronto's Business Climate – It's Everybody's Business' report and on October 27, 2007 its companion report entitled 'Enhancing Toronto's Business Climate – Update'. Both reports are aimed at assisting the industrial and commercial sectors in Toronto. In the earlier report it was noted that, "Additional strategies and incentives, including those recommended in this report, will be required to retain and attract jobs within the City and achieve our Official Plan employment targets."

http://www.toronto.ca/legdocs/mmis/2007/ex/bgrd/backgroundfile-5039.pdf

At its meeting of April 23 and 24, 2007, Council approved Community Improvement Project Areas for the Etobicoke, North York, Scarborough and Yonge-Eglinton Centres. Council also directed staff to prepare Community Improvement Plans for the Centres, with the intention of using financial incentives to support office development in these areas.

http://www.toronto.ca/legdocs/mmis/2007/pg/bgrd/backgroundfile-2400.pdf

The purpose of this staff report is to communicate back the directions for implementing a consolidated financial incentives program for the City of Toronto.

ISSUE BACKGROUND

There are a number of recently produced policy documents that support an expanded use of incentives across the city to both improve our competitiveness and to achieve specific public objectives. These are summarized below.

- Mayor Miller has included in his platform the use of financial incentives to "strengthen key economic clusters through the creation of tax incremental funding districts in areas such as Toronto's Discovery District, East Bayfront and the Portlands".

- Waterfront Studies note the need to provide incentives to level the playing field with competing residential development and attract the pioneer companies to the area.

- The Council approved "Business Climate" report approved lower tax rates for new office and industrial construction and supported the further use of incentive programs.

- The Strategic Plan for the Screen-based Industries concluded that to return the industry to health, "Toronto must use its planning tools and incentives to develop infrastructure…".

- The Council approved Employment Lands Study documents the need for incentives to create the supply of industrial/commercial space needed to meet our growth objectives and Council directed staff to develop an incentive program. The new Official Plan target suggests that 112,000 new jobs can be achieved in the Employment Districts by 2031. This will be accommodated by supporting the existing base level of activity and the future reuse and intensification of existing employment lands. These lands will need to accommodate 6.7 million sq. m. (72 million sq. ft.) of new space in order to meet this target.

- Provincial "Places to Grow" legislation has designated underdeveloped office centres as Urban Growth Centres in Etobicoke, Scarborough, North York and Yonge-Eglinton.

- The development of the City new "Prosperity Agenda" is noting the need for the city to make catalytic investments in order to stimulate growth. The city must adopt a perspective that an up-front incentive is seen as an investment that will increase the tax base, albeit at a slower rate in the short term.

COMMENTS

Toronto Has Made Steps Toward Improving Its Competitive Position

In adopting the “Enhancing Toronto’s Business Climate – It’s Everybody’s Business” initiative in October 2005, Council affirmed its intent and commitment to reduce Toronto’s business tax ratios over a 15-year plan. The position Council adopted was that a non-residential tax rate of 2.5 times that of the residential tax rate was a fair and appropriate longer-term target for all businesses. Over the long-term, the tax ratio correction should largely avoid the need to benefit one property type over another, and in doing so, acknowledging that property taxes are not the ideal vehicle for promoting or bonusing one business verses another.

In order to enhance Toronto’s competitiveness specifically with the surrounding 905 municipalities, Council considered and adopted a City-wide financial base incentive package as identified in the Enhancing Toronto’s Business Climate Report at the October 23, 2007 City Council meeting.

The incentive recognizes the difficulties attracting new commercial and industrial development in the City of Toronto. The Council adopted policy provides a lower tax ratio for new office, hotel, and industrial developments, and major expansions of 50% or more in gross floor area. The tax ratio target was set at 2.5-times residential for new industrial development, and 3.0 for any new office and hotel development constructed through to the year 2012 (a five-year municipal tax advantage). The reasons the tax advantage was limited for new office and hotel was to not encourage simply the displacement of existing business. For example, tenants would move to new offices and new hotels would have a competitive advantage in their rates over existing ones. This initiative still requires Provincial Regulation to be implemented.

Since then, partly through the City’s efforts, the Province announced a similar initiative on the business education side to reduce the high business education tax rates imposed on businesses in Toronto (and other municipalities whose rate are above the new provincial target) over a seven year period. In addition, mirroring Toronto’s initiative, any new commercial or industrial development would immediately be eligible for the lower target rate.

The Province will be required to create a new tax class of new commercial and new industrial, to be eligible for the reduced business education tax rate. Accordingly, for consistency and to expedite this initiative, this report recommends the Deputy City Manager and Chief Financial Officer be directed to report on the feasibility of amending the new construction lower tax rate policy, that provides for a municipal tax rate of 3.0 times the residential rate for new office and hotel construction, and expansions of 50% or more in gross floor area, to be (i) inclusive of all developments of the commercial class (non-retail); and (ii) based on the City’s lower tax rate target at 2.5 times the residential rate.

In addition to new construction incentives, staff is recommending the development of additional tax increment incentive across the City for specific economic activities linked to key sectors of the City's economy, and for brownfield remediation related to public policy objectives. The targeted sectors will provide the future opportunities Toronto will require to provide value added jobs, assessment growth and additional access to corporate decision makers. Developing additional incentives to support these sector development initiatives as well as employment growth, will jointly support multiple City objectives related to employment intensification, environmental leadership, export development, attraction of global mandates and economic and community development.

Additional Investment in Economic Growth is Required

Toronto is at another crossroads in its economy. It has managed to be a leader in the creation and attraction of talented people. It has done so through its high quality institutions, welcoming open culture and previous investment in infrastructure. Many of these elements are becoming stretched and Toronto's business development potential needs to be reinvigorated.

Constant improvement to the City's competitive position is needed in today's global market place where the competition for people, ideas and products is more intense than ever before. Toronto has rightfully called on its government and private sector partners to make the necessary investment in the City's infrastructure and its citizens. Council has made initial strides through the "Enhancing Toronto's Business Climate" report to provide additional competitiveness to our local environment. This, however, in the face of the dramatic rise in the Canadian dollar, continued interregional cost disparities and the international attractiveness for a diminishing pool of opportunities will not be enough to attract and secure the new investment we need. The incentives approved to-date may not provide enough support to address development and/or competitiveness issues for facilities needed to accommodate the growth of the key sectors of the economy and the City's ability to meet its employment objectives. The final CIP report will contain an analysis of the level support needed and if required recommend incentives greater than used in other programs.

Sector Growth Will Drive Future Prosperity

Toronto's future prosperity will be dependent on the growth of its key economic sectors and the expansion of our existing head office base. Fortunately, the city does have a clear public policy sector approach towards growth. The city has a diverse economy composed of significant concentrations of business activity in well-defined sectors.

Making strategic municipal investments in specific sectors will generate long term benefits with respect to maintaining the diversity of the economy and employment opportunities as well as establishing the City's international reputation. Developing additional incentives to support sector development initiatives will also jointly support multiple city objectives related to:

- Implementing the Official Plan's employment targets and intensification objectives.
- Advancing the development of environmental businesses to meet the growing demand for green products and services.
- Supporting the further development of goods and services that can be traded regionally and internationally.
- Creating opportunities to link community development activities to growing sectors of the economy.

Staff is recommending that the City create additional tax increment incentives across the city to support specific economic activities linked to key sectors of the city economy and related public policy objectives. A city-wide sectoral approach, versus a simple incentive program for targeted geographies, has some advantages. It allows the City to focus on economic activities linked either to the creation of knowledge based/valued added jobs or those that address the specific needs of a sector. It also provides the City additional access to decision makers and enhanced opportunity to bid for global mandates. A study released this month, *Global links: Multinationals in Canada: An Overview of Research at Statistics Canada*, concludes, "Foreign-controlled businesses operating in Canada make large investments in knowledge creation via investments in innovation, advanced technology and skilled labour…". A city-wide approach also avoids issues related to inadvertently dis-advantaging a company just because it is outside of a geographic boundary and would discourage companies to move within the city to gain a tax advantage.

The challenge is to identify and adequately define those activities that should benefit from an enhanced incentive program. Staff will work to develop clear and objective criteria and is recommending that a number of filters be used with respect to developing a financial support program. First, a sector development strategy should be undertaken that identifies the issues and opportunities affecting the future growth of the sector. Generally, a strategy will outline the sector's growth objectives and priority activities/projects that are necessary for it to succeed locally and internationally. Municipal incentives should be linked to advancing the strategy.

Second, performance criteria for the type of development to be supported should be established. These types of criteria usually focus on establishing a threshold size of development, investment or a number of jobs to be created. Finally, consideration should be given to those projects that by their nature will have a transformative impact on the City's economy and the revitalization of its neighbourhoods, and employment districts. The development of the Canpar facility in South Etobicoke is a good example of transformative project that successfully altered the investment climate in the district.

The City has already established public policy objectives with respect to a number of its key sectors. Sector development strategies have been undertaken for Financial Services, Aerospace, Film/Screen-Based Industries, Food and Beverage, Environmental, Information

Technology and Communications (ICT), Culture and Tourism. The strategies have identified activities and/or cost issues that could be addressed with financial incentives.

For example, the strategy adopted by Council for the film/screen-based sector notes the need for new investment in studio facilities as a crucial piece of sector infrastructure that is needed for the industry to be competitive internationally. The film strategy also identified the synergies created within the industry by having film operations and services locate in close proximity of each other. The City's food and beverage sector strategy identified the potential to double the size of the industry provided that the supply of the food grade facilities is maintained and increased. The cost premium for building a food grade facility, compared to other industrial buildings, is significantly higher.

The City has invested significant time and effort in sector development activities. This work will inform the development of a financial incentive program that will address, among others, the needs of the following sectors.

- Screen based industries (film studios, broadcasting, production and support services)
- Aerospace, pharmaceutical, electronic equipment manufacturing
- Food and Beverage manufacturing
- Environmental product production and research
- Information Technology/New Media industries
- Tourism
- Life science industries and research

In addition to focusing on key sectors of the economy, a company would also be required to meet specific criteria related to the nature of the development. The city has no interest in providing financial support for operations that provide little employment such as warehousing operations or big box retail activities that provide lower value jobs with no potential to be traded. Staff is recommending that development based criteria be established as a condition of the incentive program. Consideration should be given to the following possible criteria: size of development, amount of investment, level of innovation/creative activity, corporate size and prestige, value and number of the jobs created, export opportunities created, level of integration with community development activities.

It is being recommended that Council approve in principle the creation of a City-wide tax increment incentive program to stimulate economic growth based on the following: the utilization of a tax incentive equivalent grant (TIEG) program through a city-wide community improvement plan (CIP), and the linkage of the TIEG program to the economic development of key economic sectors.

A City-wide Incentive Program

Council has established an approximately 20% tax reduction for new office, industrial and hotel construction. Ideally, this will encourage Toronto companies to “grow-in-place”. However, Economic Development, Culture and Tourism and Planning Division research has indicated that the amount of support that a company will receive from this construction incentive will likely be inadequate to sway a major company investment decision our way.

It is estimated that Toronto still has 54,000 fewer jobs than 17 years ago while the 905 region has added over 700,000 new jobs. In the past 13 years the level of expenditure on buildings in the Region has outstripped the City an average of 32.6%. There are a number of major factors that are limiting the level of new construction in Toronto compared to the suburban jurisdictions. Property tax inequities have often been sited and while still of concern, the differential between Toronto and 905 ICI taxes has been closing thanks to Council policy directions. Equally important however, is the lack of market interest in building new industrial and smaller scale office projects in the City when it is easier and more profitable to build residential developments in a hot market. This trend is also fuelling a destructive speculative industrial and commercial property strategy by some which adopts a wait and see attitude looking for the opportunity to rezone the City’s employment lands.

Another factor limiting the supply of new development within specific sectors is the cost of development or financing concerns. For example, the MaRs complex would not likely have been built given the high cost premium for building wet lab space. Government assistance in the project allowed it to proceed and meet the proven demand for the space. The construction of food grade space faces a similar high cost of construction given the level of building finishing that is required to meet government exporting requirements. Film studios have a double problem of high cost construction due to sound and vibration proofing as well as very difficult time arranging for financing given that they cannot predict a firm revenue stream from their operations.

It should also be noted that the use of incentives to attract investment around the world is a common and accepted practice. Our experience has shown that the availability of incentives will keep Toronto on the list of potential international site for a new facility. The Province recently recognized this fact is creating its AIMS program aimed at advanced manufacturing. To quote, “having the program gave us a check mark in the incentive box on the list of criteria used to make the first cut on a site selection decision.” It should also be realized that Toronto companies are solicited annually by other jurisdictions to move their operations and the availability of incentives is used as a key part of these pitches.

It is being recommended staff report back with a Community Improvement Plan by Autumn 2008 that addresses the results of the consultation, timing, necessary implementation details, costs, monitoring of the program and, in particular with respect to the following: the specific economic sectors to be linked to the TIEG, the level of any TIEG to be applied to increased assessment and the time frame over which the TIEG would be applicable, the applicability of the TIEG to education taxes, and the provision of incentives for brownfield remediation including the availability of Provincial matching education property tax assistance under the Brownfields Financial Tax Incentive Program.

The art of using incentives to attract and secure local and international investment requires that the City find an incentive value that is adequate to garner the attention of an investor and has a meaningful impact on a company's proforma. Discussions over the last few years with the development industry are illustrative. In a number of cases a complete 100% tax freeze was noted as a requirement to overcome indifference to developing in Toronto.

The Economic Development, Culture and Tourism Division and TEDCO have reviewed a number of proforma analyses and believe that an incentive that totals approximately 80% of the new tax increment over a ten year period would be high enough to have a positive impact on an investment decision. This would include the City's construction incentive of 20% plus and an enhancement of an additional 60% of the tax increment. Generally, these types of incentives are provided on a declining payment schedule with more of the incentive paid in the early years and stepped down over the program duration.

By way of example, consider a proposed film studio development. Redeveloping an existing city site and adding new sound stages, associated production offices and film support services would increase the taxes owed to the City by about $300,000 per year. Over a ten year period, with the application of the 20% "business Climate" reduction and, for example if a TIEG totalling approximately 60%, a benefit of $2,400,000 would be provided in support to the company. During the ten year period the City would receive $600,000 plus continuation of the base taxes the City received prior to the development. While this level of support may seem generous, in comparison the Bridge Studio in Vancouver's renovation was fully funded by the Government of British Columbia. In Victoria, Australia almost half of the $47 million costs of their studio project was funded through incentives. The governments of Poland and European Union made contributions greater than $100 million dollars to the development of "Movie City" and in Wales to Rhonndda Cynon Taf respectively.

It is being proposed that the City use a minimum tax increment incentive grant (TIEG) of approximately 60% of the total increased tax increment related to new construction, or significant building rehabilitation, over a ten year period for the purpose of consulting with the business community. The level of any TIEG to be applied to the increased assessment and timing of any TIEG program will be considered as part of the consultation process.

Brownfield Remediation Incentives

In addition to the incentives noted above, the city should take advantage of the brownfield remediation provisions in the City of Toronto Act (Section 333) that allow the City to provide tax relief to encourage the clean up of industrial sites for continued employment purposes. This should be available to all industrial sites across the City regardless of their

sector. About 15% percent of the City's land base is composed of industrial lands. Not all of this land is contaminated and as such not every development will be interested in a brownfield tax incentive grant. An incentive will improve a company's financial viability for investing in its site and improve the quality of the surrounding environment.
The City of Toronto Act requires that brownfield incentives be provided through a Community Improvement Plan (CIP). The act allows the City to request the Province to match the municipal incentive on a site-by-site basis. This would increase its effectiveness in encouraging the remediation of dirty sites. A City-wide Community Improvement Plan that provides for financial assistance for brownfield remediation will also be considered as part of the consultation process.

Immediate Action Is Needed

The need for a dramatic step forward and the investment in the future fiscal health of the City is immediate. In addition to signalling the City's intent to actively pursue its employment intensification and sector development objectives, there are a number of specific projects that have requested financial assistance from the city. Early implementation of this report will be necessary to allow the proponents to finalize their investment decisions. It is being recommended that City Council direct staff to consult with the business community and prepare a City wide community improvement plan for Council consideration by the Autumn of 2008.

Staff is currently preparing and documenting an incentive program specific to the Sterling Road/Junction area. This program should proceed independently of this report given the amount of work that has already been undertaken and the need to address a number of time sensitive development opportunities. Staff is recommending that the Community Improvement Plan for the Sterling Road/Junction area be prepared and ready for Council review by its meetings in March and that the CIP respond to the foregoing recommendations ensuring that screen-based and related industries qualify for the full extent of all existing incentives and future adopted City incentives in Spring 2008.

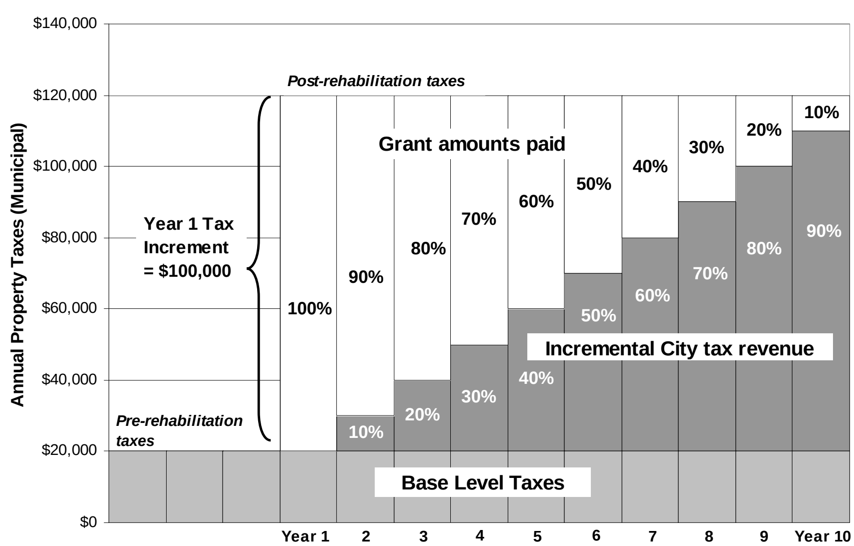
The use of tax increment equivalence grants (TEIGs) is only one financial tool that can be used to provide financial support to initiatives aimed at achieving the City's public policy objectives. It has the advantage of having been already tested within the City and is generally easy to explain and administer. However, there are additional tools that could be used and deserve further consideration. It is being recommended that Council request staff to explore additional financial incentive mechanisms, such as targeted grants/loan programs (environmental), net new employment incentives and to advance the growth of key sectors of the City's economy. The major and perhaps only challenge to the adoption of these incentives is the cash flow during the first few years. In New York City this issue would be dealt with through the issuance of a special municipal bond. Or, in Turin, we learned from their Mayor November 5, 2007, that the Bank Foundations contribute approximately 20% of the capital budget to that City.

Extending the South Etobicoke TIEG Program

The City of Toronto has expertise in administering a financial incentives program. Currently a pilot project has been utilized in South Etobicoke known as the Tax Incremental Equivalent Grant program or TIEG. This program, initiated 3 years ago, has assisted over half a dozen new industrial projects in this brownfield area. The New Toronto (South Etobicoke) CIP incentive program consists of two components (i) a rehabilitation grant; and (ii) a remediation grant.

Rehabilitation Grants are payable over a 10-year period following rehabilitation and reassessment. Annual grants are based on the total increase in the municipal portion of property taxes following rehabilitation, over a predetermined "base level" municipal tax (the pre-rehabilitation municipal taxes). This difference is referred to as the municipal tax increment. The total potential grant available is established on a site-specific basis and is a function of the total increase in assessed value arising from a rehabilitation project. A minimum threshold investment of $500,000 (based on Building Permit value) is required. The grant is calculated and paid each year as a declining percentage of the municipal tax increment, starting at 100 percent of the tax increment in the first year, decreasing to 90 percent in year 2, 80 percent in year 3, and so on until year 10 where the grant amount is calculated at 10 percent of the municipal tax increment. Thereafter, 100 percent of all tax revenues from the development will flow to the City. An illustration of a tax increment equivalent grant is shown in Chart 1.

Chart 1
Illustration of the City's Pilot TIEG



Over the 10 years of the program, 55% of the total incremental taxes are returned to the property owner as grants, while the City receives 45% of the total incremental taxes as new tax revenue.   Rehabilitation Grants may not exceed the total cost of the rehabilitation as evidenced by the primary building permit associated with the rehabilitation.

An additional Remediation Grant may also be available to eligible properties where environmental remediation is undertaken in conjunction with rehabilitation to address contamination. To qualify, property owners must have completed a Phase II Environmental Site Assessment that identifies contaminants exceeding allowable Ministry of Environment limits.

The Remediation component is calculated as 100 percent of the municipal tax increment, and is available for up to two years preceding the term of Rehabilitation Grants. The Remediation component is not available as a stand-alone grant, as it is only payable if new construction/reconstruction of the property occurs following remediation and an increase in assessed value occurs. The total Remediation component may not exceed the property owner’s total actual remediation costs. By adding up to two years of 100% grant of the municipal tax increment to the ten year tax increment, the benefit to the developer is extended to 12 years and 62.5% of the total incremental taxes are returned to the property owner as grants, while the City receives 37.5% of the total incremental taxes as new tax revenue.

The program has been the catalyst to new employment generating investment in an area. The City was at risk of losing the entire employment district that was experiencing immense pressures to convert to residential uses. Prohibiting residential uses and the introduction of the tax program achieved land use stability and supported the employment objectives of the Official Plan. Perhaps the greatest achievement of the program has been its ability to overhaul the perception of the district. The City has moved from seeing South Etobicoke as an area in decline with large vacant sites, to seeing it as area with an excellent mid-town location for business operations and in demand for new economic investment.

The city is currently processing two new incentive applications and it is the recommendation of this report that Council extend this successful program until such time as a new program of incentives supersedes the existing pilot project.

Conclusion

This report concludes that it is time, for a defined period of time, for Toronto to invest in its future in a new way. It advises that it is time to look to the window of opportunity and view any delayed tax earnings as a down payment on our future prosperity. To maintain the status quo risks achieving the desired tax grants. It recommends that it is time to develop a set of financial incentives that will encourage companies to locate in Toronto through an open and strategic program that will provide incentives to facilitate the construction of new facilities or the significant renovation and expansion of existing buildings for companies engaged in advanced manufacturing and the knowledge based and creative industries including: information and communications technology, life sciences, film, new media, advanced manufacturing, energy and environment technologies, tourism and research and development.

CONTACT

Kyle Benham, Director
Business Development & Retention
Economic Development, Culture & Tourism
Tel: 416 397 5309
Fax: 416 392 3374
Email: kbenham@toronto.ca

Peter Finestone, Acting Film Commissioner
and Director, Investment Marketing
Economic Development, Culture & Tourism
Tel: 416 392-3376
Fax: 416 397 5332
Email: pfinesto@toronto.ca

SIGNATURE

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Sue Corke
Deputy City Manager

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Joseph Pennachetti
Deputy City Manager & Chief Financial Officer