

Review of the Imagination, Manufacturing, Innovation, Technology (IMIT) Financial Incentive Program

Date: March 10, 2022

To: Economic and Community Development Committee

From: Interim General Manager, Economic Development and Culture; Chief Planner and Executive Director, City Planning; and Controller, Finance and Treasury Services

Wards: All

SUMMARY

The Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentive Program (the "IMIT Program") provides incentives in the form of property tax increment grants ("TIEGs") to support the renovation or construction of buildings in targeted employment sectors and uses throughout Toronto. This report provides an overview of the economic and financial impacts of the IMIT Program and proposed Terms of Reference for the upcoming review of the IMIT Program.

Since the IMIT Program commenced in 2008, there have been 63 IMIT applications approved in a wide range of employment sectors, representing almost \$5.8 billion in total construction investment, 14.5 million square feet of new commercial/industrial space and the creation or retention of 70,000 jobs. In total, these new developments are expected to result in about \$1.1 billion in new municipal taxes during the period in which the successful applicants receive grants. Of this amount, about \$664 million will be returned to the property owners and tenants in the form of development grants, while about \$436 million will be retained by the City. After each ten year payment term is complete the City then receives the full municipal tax on the property.

The Community Improvement Plans (CIP) that implement the IMIT Program are reviewed periodically, typically four years after the by-law comes into full force and effect. In 2018, the previous review of the IMIT Program resulted in a new CIP by-law that consolidated the three previous CIPs into a single city-wide by-law (By-law 1207-2018). The 2018 by-law remains under appeal and as such, the three previously adopted CIP by-laws remain in effect. The City continues to receive and review IMIT applications under the 2012 IMIT by-laws on a regular basis.

Despite the appeal of the 2018 by-law, it is recommended that a new review be initiated to ensure the mandate and objectives of the IMIT Program are being achieved in an efficient manner given the magnitude of the grant money being expended, and an altered investment and city-building context shaped by the COVID-19 pandemic, emergent markets and technology, and provincial policy changes among other factors.

The review will result in recommendations for Council regarding whether the IMIT Development Grant and related Brownfield Remediation Tax Assistance Grant programs should continue, be modified or terminated.

RECOMMENDATIONS

The Interim General Manager, Economic Development and Culture; Chief Planner and Executive Director City Planning, and Controller recommend that:

1. City Council direct the General Manager, Economic Development and Culture, in consultation with the Chief Financial Officer and Treasurer, the Chief Planner and Executive Director City Planning, and the City Solicitor, to initiate a review of the Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentive Program in 2022, based on the Terms of Reference as set out in Attachment 1.
2. City Council direct staff to report back to the Economic and Community Development Committee on the results of the IMIT Program Review and any recommended changes to the IMIT Program in the first quarter of 2023.

FINANCIAL IMPACT

The currently applicable Community Improvement Plan (CIP) that enables the provision of financial incentives for economic development through the IMIT Program are By-Laws No.1323-2012, 1324-2012 and 1325-2012. By-law No.1207-2018 adopted by City Council in July 2018, remains under appeal to the Ontario Land Tribunal (OLT). Under the IMIT by-laws, the IMIT Program as a whole is required to be reviewed every four years.

As of the end of 2021, the IMIT Program has provided \$207 million in grants since its inception. In addition, the estimated amount of grants that the IMIT Program is committed to provide until 2036 is \$457 million. The total cumulative estimated value of IMIT grants approved to date is therefore \$664 million. Annual funding to provide incentives in the form of grants is included in the Non-Program Expenditure Operating Budget.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial impact information.

DECISION HISTORY

At its October 2-4, 2012 meeting, City Council adopted amendments to the City-wide, Waterfront and South of Eastern Community Improvement Plans (CIPs) that enable the provision of financial incentives for economic development through the IMIT Program. <http://aptoronto.ca/tmmis/ViewAgendaItemHistory.do?item=2012.PG17.5>

At its April 2018 meeting, City Council adopted a new Community Improvement Plan to modify the IMIT Program. This CIP is currently under appeal and not in force.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX30.6>

At its October 27, 2020 meeting, City Council adopted a staff recommendation to continue the IMIT Employment Requirement Pilot Program.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EC16.3>

COMMENTS

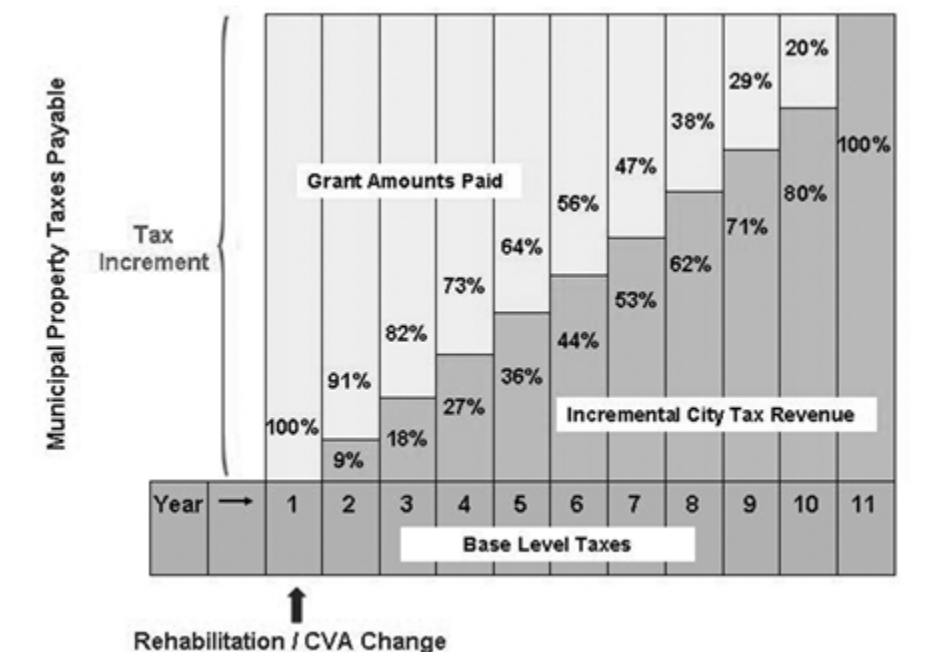
Background

The Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentive Program (the "IMIT Program") provides incentives in the form of grants to support the new construction or major renovation of buildings in targeted employment sectors and for certain uses throughout the city. Targeted employment sectors include film, information technology, food processing and others. The IMIT Program also includes an added grant element for brownfield remediation (Brownfield Remediation Tax Assistance or BRTA). The IMIT Program provides grants to approved applicants relative to the incremental property taxes that are paid due to the new development. Generally speaking, the total grants are equal to 60 percent of the increased municipal property taxes over the first ten years following construction and reassessment. Thereafter, the City collects the entire municipal property tax.

Section 28 of the *Planning Act* authorizes municipalities to designate by by-law a Community Improvement Project Area (CIPA) where there is an official plan in effect that contains provisions relating to community improvement in the municipality. Through this Community Improvement Plan, development grants are designed to provide assistance through a series of annual grants to eligible owners who undertake development for targeted employment uses. The development grants are intended to stimulate building construction and expansion within key sectors of the economy along with supporting job growth across Toronto.

The IMIT Program provides a property tax incentive to qualified employment generating developments based on the incremental or new increased assessment value created by that development. A portion of the municipal property tax that is applied to that value is returned to the qualified applicant over a ten year period (up to twelve years if brownfield remediation occurs).

Table 1: IMIT Payment Example



Economic Development and Culture staff review the applications received and request additional information where clarifications are required. All applications are assessed by staff for adherence to IMIT Program intent and eligibility.

IMIT Program Review

This report proposes the Terms of Reference for a review of the IMIT Program as set out in Appendix A attached to this report.

The City will hire an independent consultant to conduct the review and address the following:

- What are the results and impacts of the IMIT Program?
- Is the IMIT Program achieving its mandate and the objectives identified in the three CIPs?
- What are the benefits and costs of the IMIT Program? Do the benefits outweigh the costs? Examine the adequacy of the "but for" argument and criteria, considering among other factors recent changes in Toronto's investment and city-building context attributed to the COVID-19 pandemic, emergent markets and technology, and provincial policy.
- Is the IMIT Program still needed? If so, what changes, if any, should be made?

More specific elements of the review will include:

- evaluating the downtown office market and the extent to which incentives are required;
- evaluating the IMIT Program's requirements for the Toronto Green Standard;

- applying an equity lens to analyze how the IMIT Program could be enhanced to better support equity deserving residents and more inclusive economic recovery and growth throughout the City;
- evaluating eligible sectors, uses, and geographic location, along with minimum required investment and development size;
- evaluating the Brownfield Remediation Tax Assistance (BRTA) Program;
- an assessment of the City of Toronto's competitive position in relation to other municipalities within the GTA and beyond, including a comparison of CIPs, development charges, commercial property tax rates, and community benefit charges (CBCs);
- best practices and experiences from other jurisdictions offering incentives for economic development; and
- the level of TIEG grants to be rebated in the future.

An important component of the review will be to appropriately contextualize, analyze and, if warranted, re-validate the 'but for' assumption upon which the IMIT Program is based. Simply put: "but for" the provision of the IMIT incentive grant, would the desired development and investment occur? If this assumption is valid, IMIT grants are paid from tax revenue that would otherwise not be available to the City. The key question is whether or not the development could go ahead without the grants, in which case the City would be paying for growth that would occur in any event, with or without the grants. Reviewing the 'but for' assumption in Toronto's current investment and city-building context is crucial to determining whether financial incentives of this kind and magnitude are a wise and necessary use of public funds.

Staff are also required to report to Council with an assessment of the IMIT Program's Employment Requirement and a pilot initiative developed to improve outcomes. The existing employment related requirement for IMIT grant recipients is as follows:

"The applicant or user of the property must agree to collaborate with the City to promote local employment. This will include a local employment plan that will identify opportunities for local hiring and/or training and document how the applicant or property user will utilize City-endorsed or sponsored employment programs. It is expected that the employment plan will span the term of the incentive and that outcomes will be tracked and documented."

Findings from the assessment of the employment requirement and pilot will be reported to Council as part of the broader IMIT Program review.

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ATTACHMENT

Attachment 1: Proposed Terms of Reference Imagination, Manufacturing, Innovation and Technology Financial Incentive (IMIT) Program Review

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Background:

The Imagination, Manufacturing, Innovation and Technology Financial Incentive Program (the "IMIT Program" or "Program") is a tool to attract and/or retain businesses in key economic sectors and eligible locations that would locate elsewhere outside Toronto "but for" the incentives offered by the IMIT Program.

Objective:

To undertake a comprehensive review of the IMIT Program. The review will evaluate the IMIT Program's effectiveness in meeting its objectives, consider relevant recent changes in Toronto's investment and city-building context, assess the on-going need for the IMIT Program, recommend changes to improve its cost-effectiveness and efficiency, and identify priority areas and/or sectors that would most benefit the most from the IMIT Program.

Scope of Work:

- Establish a process for stakeholder and community consultation;
- Hire a consultant to assess the economic benefits of the IMIT Program, contextualize and assess the 'but for' assumption, and recommend options to optimize the cost and effectiveness of the IMIT Program;
- Review the application process and summary statistics (including the number, type and location of approved / in-progress applications); and consider alternative IMIT Program delivery options and conditions, including any administrative changes or fees;
- Apply an equity lens to analyze how the IMIT Program could better serve equity deserving residents and support more inclusive economic recovery and growth;
- Review the scope of the IMIT Program and evaluate options to optimize costs such as reduced or variable TIEG amounts, and/or more restricted eligibility criteria, including whether the IMIT Program should continue at all;
- Review core IMIT Program criteria including eligible sectors, uses, and geographic locations, as well as minimum required investment and development size;
- Review office eligibility criteria, including location and ownership status;
- Review the impact of the Green Development Standard requirement and Local Employment Plan requirement;

- Identify and evaluate the IMIT Program's financial impacts (new assessed value, tax benefits and budget pressures);
- Review jobs retained and created and overall level of construction investment and temporary employment associated with developments receiving TIEGs;
- Review the Brownfield Remediation Tax Assistance (BRTA) component of the IMIT Program;
- Evaluate the use of the property tax increment in relation to higher order transit investment;
- Evaluate the City of Toronto's competitive position in relation to other municipalities within the GTA and beyond, including a comparison of CIPs, DCs, commercial property tax rates, CBCs, etc.
- Review best practices and lessons learned from other jurisdictions that offer similar incentive IMIT Programs;
- Recommend whether the IMIT Program should continue and if so, identify IMIT Program improvements and future direction;

It is expected that City staff will report back to the Economic and Community Development Committee in the first quarter of 2023 on the results of this review.