

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

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| Date: | June 16, 2011 |
| To: | Economic Development Committee |
| From: | General Manager, Economic Development and Culture |
| Wards: | All |
| Reference Number: | |

SUMMARY

The Imagination, Manufacturing, Innovation and Technology (IMIT) financial incentive program provides incentives to encourage the renovation or construction of buildings in targeted sectors throughout the City by way of development grants or tax cancellation based on a percentage of the increase in municipal property taxes from the development. To date, eighteen Imagination, Manufacturing, Innovation and Technology (IMIT) program applications have been received for development projects in a wide range of sectors, representing almost \$ 1 billion in total construction investment, 5 million square feet of commercial/industrial space and over 10,000 jobs.

This report proposes the Terms of Reference and the composition of an Advisory Panel to review the Imagination, Manufacturing, Innovation and Technology (IMIT) program. This review was called for in the three Community Improvement Plans (CIP's) passed by Council in 2008 requiring a review no later than four years after the program came into full force and effect (September 17, 2008). This report also provides a brief overview of the first three years of the Imagination, Manufacturing, Innovation and Technology (IMIT) program sometimes known as the TIEG (tax increment equivalent grant) program. The Advisory Panel will assist staff in a review of the program effectiveness to date and will report back with a recommendation as to whether the Program should continue past its expiry date of September 17, 2013. The Panel will be comprised of representatives from the City's business, real estate, labour, academic and development community. Economic Development and Culture staff will seek support from related organizations in recruiting Panel members.

RECOMMENDATIONS

The General Manager, Economic Development and Culture recommends that:

1. City Council authorize Economic Development and Culture staff, in consultation with the Deputy City Manager and Chief Financial Officer, the Chief Planner and the City Solicitor to initiate a review of the Imagination, Manufacturing, Innovation and Technology (IMIT) financial incentive program.
2. City Council approve the Terms of Reference and the composition of the Advisory Panel that will inform the program review as set out in Attachment No. 1, attached to the report dated June 16, 2011 from the General Manager, Economic Development and Culture.
3. City Council request Economic Development and Culture staff to report back to Economic Development Committee and City Council on the results of this review and any recommended changes for the program in the second quarter of 2012.

Financial Impact

There are no direct financial implications associated from adoption of the recommendations in this Report.

No grant payments have been issued to date, as applications to this program are in various stages of development. It is likely that several applicants with completed eligible developments will receive development grants commencing this year. The development grants are funded entirely from new incremental tax revenues that, but for the provision of financial incentives, the City might not have otherwise realized, with no direct impact on the City's operating budget. The Deputy City Manager and Chief Financial Officer has reviewed this report and concurs with the financial impact statement.

DECISION HISTORY

Toronto has long been known as a more costly industrial and commercial property tax environment than the surrounding GTA region. 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'. In the earlier report it was noted that, "Additional strategies and incentives, including those recommended in the 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>

On June 11, 2007, Council considered the Long Term Employment Land Strategy, and directed staff to develop a financial incentive program for all of the Employment Districts to stimulate 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/cc/decisions/2007-06-11-cc09-dd.pdf>),

See item ED4.2 and the background reports at (<http://www.toronto.ca/legdocs/mmis/2007/ed/bgrd/backgroundfile-3361.pdf>) and (<http://www.toronto.ca/legdocs/mmis/2007/ed/bgrd/backgroundfile-3482.pdf>)

At its meeting of December 11, 12 and 13, 2007, City Council adopted the report entitled "Stimulating Economic Growth: Toronto's Approach to Financial Incentives." In addition to the IMIT program, a Brownfield Remediation Tax Assistance (BRTA) program has also been incorporated as a complementary program providing City leadership in the realm of contaminated land remediation as per Council direction. (<http://www.toronto.ca/legdocs/mmis/2007/ed/bgrd/backgroundfile-8924.pdf>)

Following the laying of these foundations, at its meeting on May 26 and 27, 2008, City Council adopted the City-wide, Waterfront and South of Eastern Community Improvement Plans. These CIP's came into full force and effect on September 17, 2008. The program is set to expire five years from that date unless renewed as part of this Program review.

In approving this program, Council directed, amongst other things, that "the General Manager of Economic Development Culture and Tourism to initiate a review of the CIPs and Financial Incentive Program no later than 4 years after this plan comes into effect or when the total financial commitment through the proposed CIPs exceeds \$50 million, whichever is earlier," Council further directed the General Manager of Economic Development and Culture to report on establishing an Advisory Panel to assist with the program review. The links to the Council decisions culminating in the last report can be viewed at:

2008.PG15.2 - Stimulating Economic Growth – Toronto's Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentives Program
(<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2008.PG15.2>)

Stimulating Economic Growth: Toronto's Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentives Program
(<http://www.toronto.ca/legdocs/mmis/2008/pg/bgrd/backgroundfile-12573.pdf>)

Stimulating Economic Growth: Toronto's Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentives Program-Supplemental Report
(<http://www.toronto.ca/legdocs/mmis/2008/cc/bgrd/backgroundfile-13186.pdf>)

The IMIT program adopted in May 2008 was many years in the making. This history is outlined in PG15.2 listed above.

ISSUE BACKGROUND

The City's IMIT program, adopted by Council in 2008, provides financial incentives through the use of Tax Increment Equivalent Grants (TIEG's) to support key employment sectors of the City's economy. Other concurrent initiatives such as Enhancing Toronto's Business Climate that aims to reduce the industrial/commercial property taxes are intended as a concerted effort to increase job growth and new development in the City of Toronto.

The IMIT program is the City's premier business incentive program and is designed to encourage either new construction or the substantial renovation of existing structures for employment uses. It is also a key component of the City's business attraction marketing efforts as the opening to a greater discussion on the advantages of locating a business in Toronto.

Many of our global competitors offer financial incentives, and in this light, it is critically important that Toronto have programs that allow it to compete within that global marketplace and to attract new jobs and investment into the City. The IMIT program supports the policy objectives of intensifying new development, encouraging the adaptive reuse of existing building stock and promoting the remediation of contaminated employment lands, regeneration and mixed use areas throughout the City.

The IMIT program was also implemented to address a decade's long level of minimal job growth in comparison to the region surrounding Toronto. This can be partially attributed to lower commercial and industrial property tax rates in the surrounding municipalities and a low market interest in construction for employment uses as opposed to the higher profitability of residential construction. The three enabling CIPs (City-wide, Waterfront and South of Eastern) were passed unanimously by Council in May of 2008 as part of an effort to address these issues.

The incentive is determined by the incremental change in the property tax assessment that is created by new development or renovation of a property. Full tax continues to be paid on the pre-development assessment and any subsequent tax increases after the increment is determined. The IMIT program provides total of a 60% rebate on municipal taxes over a ten year period on a sliding scale, from the municipal property tax increase directly attributable to the new development. As such, a portion of the property tax on the newly assessed value is returned to the property owner on an annual basis while the balance of the new tax is retained by the City.

| IMIT PROGRAM PAYMENT SCHEDULE | | |
|--------------------------------------|---|---|
| Year | Grant to Owner (as % of MTI) | Tax Retained by City (as % of MTI) |
| Year 1 | 100 | 0 |
| Year 2 | 91 | 9 |
| Year 3 | 82 | 18 |
| Year 4 | 73 | 27 |
| Year 5 | 64 | 36 |
| Year 6 | 56 | 44 |
| Year 7 | 47 | 53 |
| Year 8 | 38 | 62 |
| Year 9 | 29 | 71 |
| Year 10 | 20 | 80 |
| Year 11 | 0 | 100 |

MTI- Municipal Tax Increment

Eligibility is restricted to targeted sectors throughout the City where there is significant growth potential, a competitive advantage and an alignment with existing City policy. Eligible sectors are knowledge based, provide added value and are shown to be responsive to incentives. These sectors include bio medical, screen based industries, software development, information and communications technology, manufacturing, food and beverage wholesaling, creative industries, transformative projects, scientific research and development and tourism. These sectors produce the goods and services that can be sold not only locally but to the world. Selling outside of the region brings in new wealth and long term sustainable growth. Targeting those sectors where Toronto already has an advantage and stimulating further growth assists in "locking in" the advantage Toronto already has in the face of intense global competition.

COMMENTS

IMIT Support for Business

The IMIT program is designed to be used as a tool to attract or retain businesses that would locate elsewhere outside of the City "but for" the incentive program. Program applicants have explored locating in areas outside of Toronto, and may require an incentive to make the project financially viable within Toronto for cost comparison reasons. The IMIT program incentives are designed to work in conjunction with other municipal benefits for new development. These are:

- “Gold Star” program provides enhanced service for industrial and commercial office and institutional development applications. This service provides assistance with municipal approvals, mediation of conflicts, and support for business.
- Enhancing Toronto's Business Climate initiative to reduce business tax rates over a period of 15 years
- Tax rebates for eligible property owners if a commercial or industrial building is vacant, even partially, during the taxation year.
- Tax rebates for designated heritage properties.
- Policy support to encourage the development and revitalization of our Employment Areas
- No Municipal Development Charge for industrial properties, above ground floor commercial properties, and eligible IMIT program applicants.

How the IMIT Program Works

The Program is administered by Economic Development and Culture Division staff with ongoing support from Corporate Finance, City Planning and Legal Services.

Applications are typically accepted as part of a larger business attraction effort that also incorporates the types of initiatives outlined above. Applications must be submitted prior to issuance of the first above grade building permit and are reviewed for eligibility. After eligibility is determined the property owner and the City enter into a Financial Incentive Agreement committing both parties to the terms and conditions of the program. At the time the agreement is signed a base Current Value Assessment (CVA) municipal tax level is established that reflects the unimproved value of the property.

Once the new development is complete, the Municipal Property Assessment Corporation (MPAC) reassesses the property and a new destination CVA municipal tax level is established. The base tax is subtracted from the new destination tax to determine the municipal tax increment. It is this municipal increment that establishes the level of the annual grant over the ten year period based on the declining scale described in the table above. Since no grant payments are made until the first full calendar year after the new property is reassessed by MPAC, the gap between the time of initial application and the first payment is likely to be several years depending on the type of development.

Eligible applicants are monitored by Economic Development and Culture staff on an annual basis throughout the life of the grant to ensure compliance with all program requirements as established in the Financial Incentive Agreement.

Need for Incentives

The IMIT program is designed to be used as a tool to attract or retain businesses that would locate elsewhere outside of the City "but for" the incentives provided. These applicants have explored locating in areas outside of Toronto or require an incentive to make the project financially viable within Toronto for cost comparison reasons discussed elsewhere in this report.

The additional property tax revenue and subsequent employment would not have occurred without the incentive program.

IMIT Marketing

To maximize the impact of this program the City has engaged in a multi-pronged marketing strategy to promote the program to a targeted business audience. To date promotional activities have included direct mail and print/online advertising campaigns; and a significant on-line presence including all marketing materials, an application form and a benefits calculator. Staff representation at industry-related events, presentations and speaking engagements has fostered relationships with key stakeholders.

IMIT Program Results

| APPLICATIONS RECEIVED SEPTEMBER 2008-JUNE 2011 | | | | |
|--|-------------------|----------------------|-------------------------------------|-----------------------|
| Sector/Use | # of Applications | Square Feet (approx) | Construction Investment \$ (approx) | Employment (estimate) |
| Office-Headquarters | 5 | 2,400,000 | 452,000,000 | 5,700 |
| Biomedical Scientific | 1 | 770,000 | 180,000,000 | 2,500 |
| Food Processing | 4 | 559,000 | 53,000,000 | 935 |
| Tourism | 1 | 101,000 | 107,000,000 | 300 |
| Film Studio | 1 | 260,500 | 50,000,000 | 350 |
| Manufacturing | 2 | 496,000 | 28,500,000 | 500 |
| Convergence | 1 | 58,000 | 18,000,000 | 50 |
| IT-Data Processing | 1 | 42,000 | 6,000,000 | 50 |
| Incubator | 2 | 54,000 | 7,500,000 | 100 |
| TOTAL | 18 | 4,740,500 | \$902,000,000 | 10,485 |

This chart shows 3 years of IMIT program activity from applications received in a wide variety of sector/uses. This activity is consistent with results anticipated when the program was adopted by Council in 2008.

In 2008, a fourth Community Improvement Plan (CIP) specific to the Woodbine Live! was passed by Council for a “Transformative Project”, along with financial incentives to support this development. The CIP requires a minimum investment of \$250 million, a minimum construction of 75,000 square metres, and the creation of 2,500 jobs. The project is in the pre-development stage.

The Office Headquarters category reflects the recent trend of new office development in the downtown core. By sector, the highest number of applications received is in Food Processing. This sector has been identified (see City of Toronto-2010 Toronto Food Sector Update) as a high

growth, high investment sector for the City.

These applications represent thousands of retained and new jobs with additional positive economic impact from temporary construction-related employment and activity. Further economic impact is expected from purchase of related goods and services from construction activity and through establishing the eligible sector at the new location.

It is expected that the City will receive applications at a greater rate in the future than in the initial years as the real estate, business and development community become more familiar with the program. This will be dependent on the general state of the economy and the investment profiles for individual sectors.

Eligibility Requirements

Applicants to the IMIT program are required to invest a minimum of \$1 million in construction value, provide employment in an eligible sector and in certain circumstances meet location requirements. They must also agree to meet the Toronto Green Standard (TGS) criteria and the Employment Requirement as discussed in further detail below.

Local Employment Support

The IMIT program has the following requirement as stated in the three CIPs:

Local Employment: the applicant or user of the property must agree to participate in at least one of the City endorsed local hiring employment programs such as Partnerships to Advance Youth Employment (PAYE) or Youth Employment Partnerships (YEP), or their successors.

Toronto Employment and Social Services (TESS) staff in cooperation with EDC, leverage employer connections created by the IMIT program by developing joint strategies for connecting local residents to employment with businesses that have applied for an IMIT program grant. The Employment Requirement participation component is led by TESS and often involves working collaboratively with inter-divisional colleagues and community partners.

An introductory meeting between EDC, the employer and TESS to discuss the local employment requirement is typically scheduled once an IMIT application has received approval. Subsequently, TESS engages with the employer to determine where employment opportunities may exist and the best method for linking residents to these opportunities. Planning appropriate approaches to making such connections includes a variety of components including conducting an employer needs assessment, developing a recruitment strategy, supporting residents to prepare and compete for the opportunities, tracking progress and evaluating outcomes. Where appropriate, some employers may be linked directly into existing City employment initiatives.

The employer engagement process began in the first quarter of 2010 and to date TESS has been in discussions with eight employers through IMIT referrals, who have committed to working with TESS to bring employment opportunities to Toronto residents.

Green Standard Requirements

IMIT program goals include improving air quality, energy efficiency and reducing water consumption of eligible developments through adherence to the minimum Tier 1 requirements of the Toronto Green Standard (TGS). Applicants must meet the minimum requirements of TGS as a condition of eligibility. This compliance with the TGS has brought significant building improvements that would not have otherwise occurred. These include cool roofs, improved onsite storm water retention, additional tree planting and adherence to City of Toronto Bird Friendly Guidelines. This requirement has created some additional benefits and expense for successful applicants.

Brownfield Remediation Tax Assistance

The IMIT program also provides an incentive to support the remediation of contaminated land that occurs in conjunction with a building development project for employment uses as allowed by the City of Toronto Act (Section 333). Brownfield Remediation Tax assistance (BRTA) provides up to three years of property tax cancellation capped at either 100% of the total increment over three years or the total cost of remediation. In addition, the City may apply on the applicant's behalf to the Province for matching assistance through the Provincial Brownfield Tax Incentive Program (BFTIP). The property owner must show the need for remediation through Phase II Environmental studies and follow the Provincial Ministry of the Environment process and regulations to document that remediation process. Once remediated, new construction or renovation must take place for allowable employment uses. To date the program has received five (5) combined brownfield development grant IMIT applications.

Program Review

This report proposes Terms of Reference for an Advisory Panel to review the IMIT program. This review was called for in the three Community Improvement Plans (CIP's) passed by Council in 2008 requiring a review no later than four years after the program came into full force and effect (September 17, 2008). The IMIT program review will include an analysis of current program eligibility requirements. An update and review of the sectoral analysis that was completed in 2007- 2008 will be used to consider if there has been an impact on investment activity in these targeted sectors/uses.

Further review will analyze the level of construction investment compared to previous years with no incentive program. The program review will include an analysis of the impact of the community benefit requirements (Toronto Green Standard and Employment Requirement). The program review will evaluate whether or not the incentives are needed to attract the development

they have supported. That is, would the development have occurred in the absence of the incentives?

Program Aspects for Review

The following questions will be answered as part of the program review:

- Is the program successful at attracting new assessment and new jobs?
- What adjustments could be made to increase its effectiveness?
- Are there technical adjustments that could be made to improve the administrative process?
- Is there is a need to amend eligible sectors to ensure we are incenting those sectors that provide the greatest economic impact?
- Is there a need to review the office use eligibility criteria to ensure that it is meeting its intended targets? There has been a changing office market in the downtown core since the initial reports were completed in 2008. The program has not been successful to date in supporting new office development in the Centres (Etobicoke, Scarborough and North York).Are there additional measures available to support this?
- The IMIT program is generally available City-wide but there are some sector/use location requirements. Is there a need to remove or adjust these requirements to reflect a changing economy?
- For eligible sectors that are relocating from one area of the City to another are there additional eligibility requirements that should be met?
- Are there additional community benefit efforts that can be included without burdening the program or reducing the value of the benefit? Should the City consider additional incentives to support new development in the thirteen priority neighbourhoods?
- Does the minimum threshold construction investment of \$1 million need to be revised to reflect only larger projects with a more singular impact on the local economy?

CONCLUSION

The IMIT program has, as intended, provided financial incentives for new construction activity in targeted sectors throughout the City. These projects have created nearly \$1 billion in new construction investment and supported thousands of jobs. This investment would not have taken place without the incentives made available by this program. Due to the importance of this program in supporting new economic activity it is critical to review the parameters to ensure that it meets its objectives as effectively and efficiently as possible.

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SIGNATURE

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ATTACHMENTS

Attachment No. 1: Terms of Reference of External Advisory Panel

Proposed Terms of Reference Imagination, Manufacturing, Innovation and Technology Financial Incentives (IMIT) Program Review

Background:

The Imagination, Manufacturing, Innovation and Technology Financial Incentives (IMIT) program is designed as a tool to attract or retain business businesses in key economic sectors and eligible locations that would locate elsewhere outside of the City "but for" the incentives offered by the program.

Program Review Objective:

To undertake a comprehensive review of the Imagination, Manufacturing, Innovation and Technology Financial Incentives (IMIT) program. The review will evaluate the program effectiveness in meeting its objectives, consider what changes may be necessary to improve the program to date and recommend whether the program should be extended past its proposed expiry date of September 2013,

Mandate/Authority:

At its meeting of May 26, 2008 City Council adopted recommendations to implement the IMIT incentive program. That report recommended that the program be reviewed either four years after the enabling Community Improvement Plans (CIP's) come into effect or when the total financial commitment of the program exceeds \$50 million. Council further directed that an Advisory Panel be established to assist with the program review.

Scope of Work:

Review the application process; report on number and type of applications, and program delivery methods

Review eligibility criteria including eligible sectors, geographic based eligibility criteria, construction investment minimums and the impact of the Green Development Standard and Employment Requirement.

Evaluate program impact on tax revenue, tax expenditure, jobs retained, jobs created, level of construction investment, level of overall investment, sector/use breakout, and level of Brownfield remediation.

Review best practices in other jurisdictions

Recommend program improvements and future direction.

Questions to be answered through this review will include:

Are we incenting the right type of investment?

Are there additional measures to attract office development in the Centres (Etobicoke, Scarborough and North York)?

Do minimum investment thresholds need to be revised?

Are there additional community benefits that can be included without burdening the program or reducing the value of the benefit?

How can the IMIT program be leveraged more effectively to attract development to the City's priority neighbourhoods?

Panel Recommendations and Report Back

It is expected that EDC staff will report back in the second quarter of 2012 with the results of the review and any program recommendations that result from this review.

Membership:

An Advisory Panel of 10 to 14 persons will be assembled and is expected to include representatives from the City's business, real estate, labour, academic and development community; IMIT applicants; and Invest Toronto. This group will meet a minimum of three times during the review period and will provide advice and guidance to the internal working group. This internal working group will be chaired by the General Manager of Economic Development and Culture and will include City staff from the following Divisions: Corporate Finance, City Planning, Toronto Employment and Social Services and Legal Services.

Key Deliverables:

- Report findings and recommendations to Economic Development Committee in 2012.
- Recommend what action might be taken to improve outcomes.
- Make recommendations on the value of extending the program past 2013.

The review will be completed in the second quarter of 2012. Following completion of the review, staff will report back on the recommendations developed by the Advisory Panel.