



## STAFF REPORT ACTION REQUIRED

### Startup Toronto Business Incubation Strategy: Establishing Toronto as a Global Startup Community

<b>Date:</b>	March 31, 2015
<b>To:</b>	Economic Development Committee
<b>From:</b>	General Manager, Economic Development and Culture
<b>Wards:</b>	All
<b>Reference Number:</b>	

#### SUMMARY

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*From Concept to Commercialization: A Startup Eco-system Strategy for the City of Toronto (Attachment No.1)* sets forth an ambitious vision and strategic framework to enable the sustained growth of small businesses in Toronto, aiming to make Toronto's startup eco-system the preferred global location to start and grow a business. The purpose of this report is to provide an overview of key components of the Strategy, as well as, some immediate implementation opportunities.

The City of Toronto's Economic Development & Culture division recognizes the need to establish a strong and competitive entrepreneurial environment. The City's Economic Development Strategy, *Collaborating for Competitiveness*, identifies small business growth as an important strategy for advancing job creation across Toronto's communities and neighbourhoods. The purpose of this Strategy is to identify a vision and collaborative initiatives the City can implement to support the startup eco-system and identify roles for the City in business incubation across Toronto by addressing key sectoral and community economic development gaps. This Strategy will set the course for how Economic Development & Culture engages with partners to build local entrepreneurial capacity, support regional economic development opportunities and catalyze Toronto's startup eco-system so that it is recognized as a global leader.

Toronto's startup eco-system has an immense amount of activity already underway and the City is best positioned to place its resources in areas where the most impact can be made. This Strategy identifies collaborative opportunities to strengthen Toronto's position as a leading startup capital through an actionable approach to leveraging resources that will grow Toronto's diverse economic sectors and entrepreneurial capacity across neighbourhoods.

## RECOMMENDATIONS

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**The General Manager, Economic Development and Culture, recommends that:**

1. City Council endorse Attachment 1, *From Concept to Commercialization: A Startup Eco-system Strategy for the City of Toronto*, and direct the General Manager of Economic Development & Culture to report back in the 2016 budget cycle with an implementation plan, including financial impacts.
2. City Council direct the General Manager, Economic Development & Culture to request the Toronto Port Lands Authority to increase the contribution to Economic Development & Culture in 2015 by \$500,000 to support the expansion of the Toronto Food Business Incubator.
3. City Council direct the General Manager, Economic Development & Culture to request the Toronto Port Lands Authority to consider an annual increase in the contribution to Economic Development & Culture to support the proposed Business Incubator Grant Fund.

### Financial Impact

Currently the Toronto Port Lands Authority (TPLC) provides all of the funding for Economic Development & Culture's business incubation programming. In 2015, this funding amounts to \$1,390,293. This funding is used to fund the City's business incubation programming, including operating grants to the Toronto Fashion Incubator, Toronto Business Development Centre and the Toronto Food Business Incubator, as well as special projects and initiatives with a range of business incubators within the startup eco-system.

If the proposed recommendation identified is approved and TPLC's contribution increases by \$500,000 for 2015, the budget would be \$1,890,293. This additional funding would be used to support the capital requirements of expanding the Toronto Food Business Incubator into a new facility. An in-year budget adjustment will be required if these funds are received.

This report proposes several additional financial tools – a Business Incubator Loan Fund (which could take the form of loan guarantees), a Business Incubator and Accelerator Grant Fund, and a Permanent Property Tax Break for Business Incubators. These tools, requiring additional financial resources, will be brought forward in subsequent reports once further detailed plans can be developed and resources identified.

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

### DECISION HISTORY

At its meeting on April 1, 2014 City Council requested the General Manager, Economic Development & Culture, in consultation with the Deputy City Manager and Chief Financial

Officer to identify a recommended funding approach for the Business Incubation & Commercialization program for consideration in the 2015 budget cycle; and directed the General Manager of Economic Development and Culture to report back in the 2015 budget cycle on a strategic vision for business incubation activities across the City.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2014.ED29.10>

At its meeting on April 3 and 4, 2013 City Council supported the growth and expansion of the Toronto Food Business Incubator and directed the General Manager, Economic Development and Culture to consult with the Deputy City Manager and Chief Financial Officer on possible financial approaches to support the development of the Toronto Food Business Incubator and report to Executive Committee.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2013.ED20.4>

## ISSUE BACKGROUND

The genesis of Economic Development & Culture's business incubation program dates back to the late 1980's when the Toronto Port Lands Company (TPLC), then known as Toronto Economic Development Corporation (TEDCO), was directed by its shareholder (City of Toronto) to oversee and fund business incubation activity. In October 2008, Council approved a New Model to Enhance Toronto's Economic Competitiveness. Among other matters, the new model amended the mandate for the Economic Development & Culture (EDC) division by transferring the business incubation program from TPLC/TEDCO to EDC, effective January 1, 2009, to support the development of business incubation in Toronto. This new model included a provision for the program to continue to be funded by TPLC, pursuant to an Assumption and Services Agreement. In 2015, TPLC has committed to providing \$1,390,293million to support the business incubation programming.

EDC has supported business incubation activity in Toronto through focused support on three incubators: The Toronto Fashion Incubator (TFI), The Toronto Business Development Centre (TBDC) and the Toronto Food Business Incubator (TFBI) -- all of which have earned a place as best practices and leading models for business incubation at national and international scales. While continued support for existing incubator partners is important, broadening the reach and impact of EDC's business incubation program across the startup eco-system is integral to achieving the vision and goals set out in the City's Economic Development Strategy, *Collaborating for Competitiveness*.

*From Concept to Commercialization: A Startup Eco-system Strategy for the City of Toronto* has been created to directly support achieving the vision set forth in *Collaborating for Competitiveness* by seeking to realize increased job creation, business formation and investment growth by aligning with key recommendations in the areas of:

- Encourage Business Investment and Formation
  - Help small businesses establish and prosper
  - Attract companies and investment to Toronto
- Boost Business Growth
  - Strengthen high-value sectors

In addition, some of the proposed actions in this Strategy, particularly under Goals 2 and 3 are aligned to City Council approved initiatives contained in *Creative Capital Gains* in support of entrepreneurs in the creative industries.

Toronto is a regional driver of entrepreneurial activity, with approximately 98 per cent of all businesses being small (having fewer than 100 employees). While small businesses dominate the composition of business types in Toronto, about 30 per cent fail within the first 3 years and about 50 per cent do not survive to year five. These are the most critical years in the growth of early-stage businesses. Specific policy and program interventions, such as supporting innovation infrastructure and programming (i.e.: business incubators and accelerators), can reduce these barriers and facilitate the sustainable growth of startups.

Toronto's startup eco-system stands at the intersection of a diverse set of people, places, and programs that act together to facilitate an entrepreneur's ability to commercialize and grow their business. In the Toronto context, a startup has been reframed to include both traditional and high-growth small businesses. This is an important point of departure from other municipal jurisdictions that take an exclusive focus on high-growth firms. EDC recognizes that small businesses in Toronto's neighbourhoods and main streets are a core part of the urban and social fabric of the city and stand in equal importance to high-growth firms.

The City of Toronto is well-positioned to take a leadership role in building an environment for entrepreneurs to grow by supporting startup eco-system partners. Though there are many stakeholders in Toronto's eco-system, this Strategy intends to be a rallying point. EDC's business incubation program plays an essential role in supporting local and regional economic growth. Through its programming delivery, technical expertise, networks, tools and support of incubator infrastructure, the business incubation program helps dramatically enhance the success of entrepreneurs as they work to move their ideas into viable, successful new businesses that create jobs and commercialize new products, services and technologies that grow Toronto's economy.

## COMMENTS

### Strategic Framework

This Strategy does not seek to replicate other startup communities across the globe, but to reflect and grow what is unique about Toronto. The strategic vision was developed by examining the strengths of Toronto's eco-system and mirrors the ambitions of stakeholders for Toronto to become a global startup community.

**Vision: Toronto is the startup capital of the world, the ideal place to start and grow a business.**

This vision is supported by 31 actions guided by the following goals:

**Goal 1: Strengthen the infrastructure that supports a sustainable startup eco-system.**

This goal focuses on the foundational aspects of the startup eco-system and actions required to support its vibrancy and sustainability. Actions related to funding, collaboration and communications are set forth under this goal.

**Goal 2: Support regional economic growth by focusing on sectoral convergence opportunities and gaps in the eco-system.**

This goal identifies actions to support startups and small businesses through a sectoral approach. A focus on specific sectors does not negate the opportunity for the City to address sectoral needs and opportunities that may arise during the implementation of this Strategy. In addition, some actions are regional in scope and require collaboration with partners from across the Greater Toronto Area. The proposed Business Incubator Grant Fund (Action 8) will support the implementation of the actions identified under this goal.

**Goal 3: Support community economic development across Toronto's neighbourhoods through entrepreneurial capacity building and business incubation.**

Examining Toronto's neighbourhoods is equally as important as a regional approach to economic development. Building local entrepreneurial capacity and supporting an enabling environment for entrepreneurs to grow is a strategy that targets community sustainability and self-sufficiency to grow strong neighbourhoods.

The goals and actions outlined in this Strategy are supported by specific roles that the City could take upon implementation, which are discussed in further detail in the attached report.

**Strategy Implementation: Proposed New Financial Tools**

*From Concept to Commercialization: A Startup Eco-system Strategy for the City of Toronto* proposes new financial tools that the City can implement to support business incubation. This report recommends that staff be directed to investigate sources of funding and the approaches to implementing such financial schemes with a staff report back to City Council as part of the 2016 budget process. The attached Strategy sets the context and approach to the proposed actions in further detail, with a brief summary of the proposed Business Incubator Loan Fund, Business Incubator and Accelerator Grant Fund and the Permanent Tax Break for Business Incubators discussed below.

**Business Incubator Loan Fund**

Business incubators and accelerators are recognized innovation infrastructure that directly support entrepreneurship. This type of infrastructure can advance new business formation, sustain small business growth, commercialize technologies, and accelerate the delivery of new products and services to a global marketplace.

Toronto is home to over 50 business incubators and accelerators that traverse various economic sectors. These organizations are either not-for-profits, privately held/investor-driven, or associated with a post-secondary institution. The Strategy identifies sectoral and geographic business incubation gaps to address through the development and growth of business incubator infrastructure and programming. However, some of the key issues in supporting business incubators and accelerators are the capital and operating costs involved in starting and sustaining this infrastructure. Action 7 in the Strategy proposes a Business Incubator Loan Fund to support capital and equipment costs incurred by business incubators.

For certain sectors, physical incubation/acceleration space is critical to closing the gap between research and development and commercialization. For example, entrepreneurs in the food and

beverage sector in Toronto require access to food grade commercial space and specialized equipment to achieve commercialization. However, the high capital cost of space and equipment is a barrier to enabling the growth of small and medium enterprises in this sector. In addition, this loan fund offers an alternative lending option for existing incubators looking to expand by applying for a capital/equipment loan that will enable a broader range of commercialization opportunities. City investments through the Business Incubator Loan Fund can assist further commercialization in various sectors of the economy, leading to broader economic returns. Such City investments may be structured as loan guarantees.

### **Business Incubator and Accelerator Grant Fund**

While physical space matters, support for program development and delivery is equally as important, as the training, mentoring and advisory services provided by business incubators and accelerators is core to helping new businesses grow and become successful. The opportunity exists to take a more significant role in making a funding pipeline available to eco-system partners on an annual basis to create the environment necessary for entrepreneurs to receive the training required to move a concept through to commercialization.

The City could take a staged approach to funding, which could provide sponsorship, seed and growth funding, as proposed in Action 8. The proposed fund would start at \$1 million in 2016 and grow to \$5 million by 2021. This would provide a comprehensive range of financial support to business incubators and accelerators to support programming, events and special projects.

This grant program will serve business incubators and accelerators more broadly than the proposed loan fund. The actions proposed in this Strategy under Goal 2: *Support regional economic growth by focusing on sectoral convergence opportunities and gaps in the eco-system*, will be implemented based on the administration of grants to eco-system partners from this proposed fund. Actions 17 through to 27 identify a range of incubation opportunities to be supported in various key sectors ranging from the creative industries, construction trades, advanced manufacturing, and green building to financial technology. Making strategic investments into developing and growing innovation infrastructure could have significant returns for the city.

### **Permanent Property Tax Break for Business Incubators**

Physical space to support innovation and entrepreneurship across Toronto is an important part of the startup eco-system. Identifying new development opportunities, adaptive re-uses of industrial and commercial buildings, vacant storefronts and upper floor space on main streets, as well as, leveraging existing real estate in public institutions such as libraries or civic centres are all potential opportunities to create more space for innovation.

Leveraging financial tools to make bricks and mortar incubators an attractive opportunity can assist in creating additional square footage of space and retaining startups to the city. While the proposed Business Incubator Loan Fund would address the capital and equipment costs that could act as a barrier to creating new space, Action 9 in the Strategy proposes to investigate the feasibility of a permanent property tax break for business incubators. The proposal is to examine the potential for a scheme that enables a 100 per cent break for not-for-profit incubators and a 40 per cent break for for-profit incubators. One of the benefits of this proposed tax break is that the savings accrued by the business incubator/accelerator through paying reduced taxes can be re-

invested into the incubator's programming to provide a higher-impact environment for startups to thrive.

## **An Immediate Opportunity: Toronto Food Business Incubator Expansion**

Toronto is at the heart of the GTA's \$18 billion food processing industry. Within the City of Toronto, the sector employs more than 50,000 people within 920 plus firms, 75 per cent of which are small and medium sized manufacturers. To assist food entrepreneurs in growing this important sector, the City of Toronto worked to establish the Toronto Food Business Incubator (TFBI) in 2008 in a 2,000 sq. ft. pilot facility. During its time in that facility, the TFBI graduated 28 companies, brought over 50 food products to market and generated over 125 jobs. An immediate action contained in this Strategy is the expansion of the Toronto Food Business Incubator (TFBI). In January 2014, the TFBI closed its 2,000 sq. ft. pilot facility that was unable to meet client demands given its lack of space and inability to grow its programming offering. Working with EDC, the TFBI reviewed over 15 facilities and has located a 20,000 plus sq. ft. facility that can meet its needs and is pursuing the purchase of the building.

A new and expanded TFBI would satisfy the high demand for commercial food grade space and equipment, provide onsite business support for food entrepreneurs, reduce capital costs for food startups and provide the required infrastructure to support innovation and commercialization in this sector. To assist with the expanded TFBI, the Province of Ontario through the Growing Forward 2 fund has agreed to provide \$760,000 towards the programming and staffing at the new facility. In 2015 Economic Development & Culture will require an additional \$500,000 from the Toronto Port Lands Authority to support the capital costs associated with the expansion of the TFBI.

Based upon past successes, it is projected that the TFBI will:

- Accelerate the growth of approximately 40 food companies per year
- Create 2,300 jobs (over a 10-year period)
- Produce GDP output in excess of \$110M (over a 10-year period)
- Generate revenue through program user fees

## **Business Incubation Program Impact**

Key performance indicators for 2013 revealed a return on investment ratio of 1:6 in business incubation. For every City dollar leveraged, another 6 dollars was yielded from other sources for innovation, commercialization, company formation and job creation.

When aggregate measures are examined for the years 2011, 2012, 2013, and 2014 against the business incubation program budget, an increase in the number of client companies in City-supported incubators and employment is seen. These measures demonstrate the direct benefits of the City's investment in business incubators; therefore, increasing the range of financial tools/supports for incubators could potentially increase new business formation and employment.

**Table 1: Business Incubation Program Measures and City Investment**

Year	Number of Onsite Client Companies	Number of Onsite Jobs	Business Incubation Program Budget	Cost per Job
2011	379	620	\$1,548,000	\$2,160
2012	389	883	\$1,346,027	\$1,524
2013	485	990	\$1,355,449	\$1,369
2014	454	1018	\$1,367,196	\$1,343

(Source: City of Toronto, Key Performance Metrics, 2011-2014)

The Strategy identifies a range of collaborative incubator development projects for the City to support across Toronto in various sectors (under Goal 2). To support these projects, the Strategy proposes the Business Incubator and Accelerator Grant Fund for consideration, which annually increases the amount of available funding from 2016-2020. Taking the need for this grant fund into consideration, a projection of the employment that could be generated as a result of increased investment in various business incubators is modelled in Table 2.

The number of jobs projected in Table 2 for the years 2016-2020 is derived from an enlarged business incubation program budget which includes the Business Incubator and Accelerator Grant Fund, increasing from \$1 million in 2016 to \$5 million by 2020 and an average cost per job. The increased investment into business incubators across the city could generate a steady rise in employment over the 5 year period. This projection does not take into the account the fiscal and employment impacts resultant from the proposed Business Incubator Loan Fund or the permanent tax break for business incubators. The feasibility of these two financial tools and the employment impacts generated will be examined separately during the implementation phase of the Strategy.

**Table 2: Increased Business Incubation Program Budget and Projected Number of Jobs**

Year	Increased Business Incubation Program Budget	Average Cost Per Job*	Number of Jobs Projected
2016	\$2,367,196	\$1599	1480
2017	\$2,867,196	\$1599	1793
2018	\$3,867,196	\$1599	2418
2019	\$5,867,196	\$1599	3669
2020	\$6,367,196	\$1599	3982

\*Assumes the cost per job based on the average from 2011-2014

## Collaboration with Stakeholders

The Strategy contains an ambitious set of actions to achieve an aspirational vision for Toronto's startup eco-system. Successful implementation of the actions identified in this Strategy will require resources and leadership from the City of Toronto, along with ongoing collaboration with stakeholders across the startup eco-system.



The General Manager, Economic Development and Culture will establish a Startup Eco-System Program Advisory Body to advise him on the implementation of the Startup Eco-system Strategy. The Program Advisory Body will be comprised of stakeholders from the startup support community, including business incubators, accelerators, entrepreneurs, post-secondary institutions and investors.

In addition, driving the implementation of the Strategy are project teams. Each project team will have a team leader, and will include the required stakeholders to implement the initiative – whether or not they are part of the Program Advisory Body. Three initial project teams have been identified and include: Startup Eco-System branding, the organization of a Startup Festival and the development of a Startup Eco-System Portal. These initial project teams will be activated in mid-2015.

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## **SIGNATURE**

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## **ATTACHMENTS**

Attachment No. 1: From Concept to Commercialization: A Startup Eco-system Strategy for the City of Toronto