



STAFF REPORT ACTION REQUIRED

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

Date:	May 9, 2016
To:	Economic Development Committee
From:	Deputy City Manager, Cluster "A" Deputy City Manager, Cluster "B" Deputy City Manager and Chief Financial Officer
Wards:	All
Reference Number:	AFS: 22925

SUMMARY

The Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentive Program provides incentives to support the renovation or construction of buildings in targeted employment sectors and uses throughout the City. This report provides an overview of the economic and financial impacts of the IMIT Program and proposes the Terms of Reference for the upcoming review of the Program.

Since the Program commenced in 2008, twenty-eight (28) IMIT agreements have been entered into for development projects in a wide range of sectors, representing almost \$2 billion in total construction investment, 9.6 million square feet of commercial/industrial space and the creation or retention of 30,000 jobs.

In total, these new developments are expected to result in about \$485 million in new municipal taxes during the period in which they receive grants. Of those, about \$291 million will be returned to the property owners and tenants in the form of development grants, while about \$194 million will be retained by the City. After the grant back period, the City will realize approximately \$49 million in new taxes annually.

The Community Improvement Plans (CIP's) approved by Council in 2012, require a review no later than four years after the Program came into full force and effect (November 9, 2012). Due to the mandate of this Program to support new economic activity and to the amounts of grant money being expended, it is critical to review the parameters to ensure that it meets its objectives as effectively and efficiently as possible.

RECOMMENDATIONS

The Deputy City Manager, Cluster "A", Deputy City Manager, Cluster "B", and Deputy City Manager and Chief Financial Officer recommend that:

1. City Council direct the General Manager, Economic Development and Culture, in consultation with the Deputy City Manager and Chief Financial Officer, 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 2016, based on the Terms of Reference as set out in Appendix A.
2. City Council direct staff to report back to the Economic Development Committee on the results of the IMIT Program Review and any recommended changes for the program in the fourth quarter of 2016.
3. City Council direct staff to report to Budget Committee annually on the current and expected future costs of the IMIT Program

Financial Impact

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

Since 2008, twenty-eight IMIT agreements have been entered into. Appendix A summarizes all current IMIT grant applications with annual committed and estimated grants for the period 2011-2020 and total amounts to 2031. Table 1 summarizes the expenditures and additional tax revenue that has or will accrue to the City as a result of these IMIT approved developments.

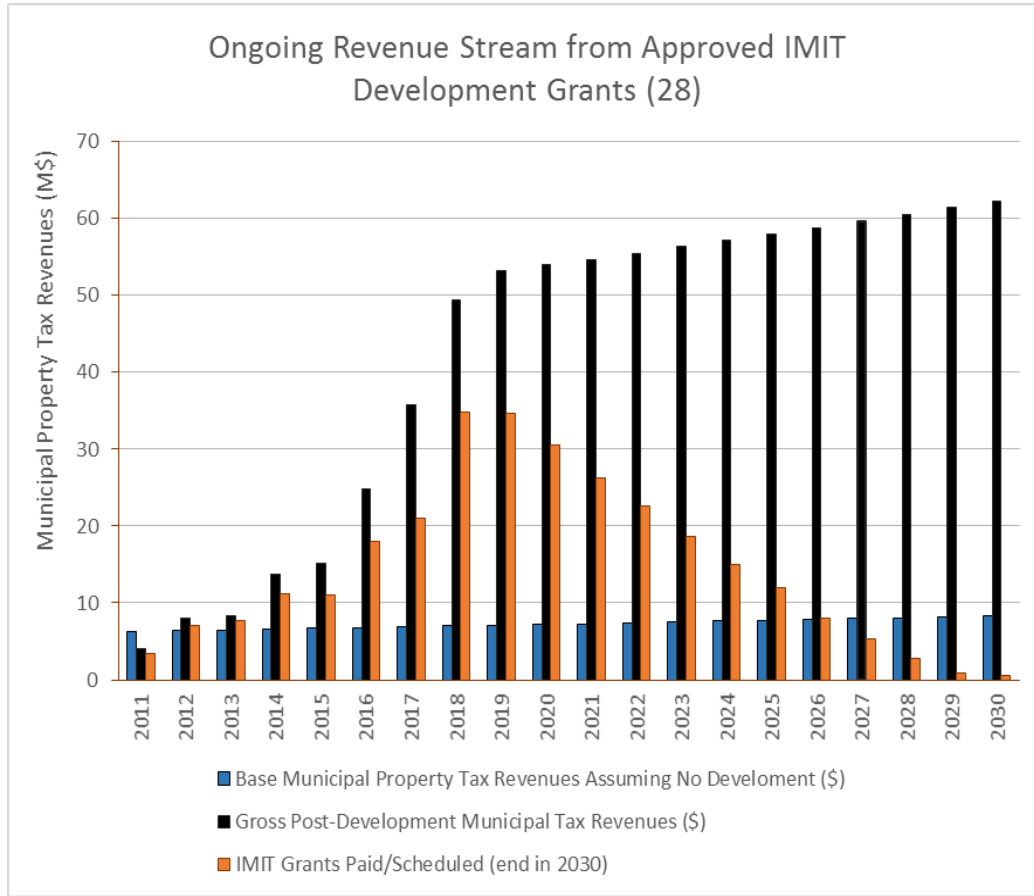
Table 1 IMIT Grants and New Taxes Paid to the City (2011-2031)

	<u># Applications</u>	<u>Estimated Total IMIT Grants paid to applicant, \$M's</u>	<u>Estimated Total Net New City Revenues (after Grant Payments) \$M's</u>
IMIT Applications - Construction Completed and Grant Payment Amounts Known	9	66	44
IMIT Applications Approved, Projects underway, but Grant Payment Amounts Estimated	19	226	151
Sub-Total	28	291	194
IMIT Applications Under Consideration, Grant Payment Amounts Estimated and Not Committed	7	32	21
Transformative Project Application to be reviewed by Council	1	152	101
Total (as at February 24, 2016)	36	475	317

Nine developments have been completed and are currently receiving IMIT grants. The total grant amount payable to these applicants will be \$65.6 million. The remaining 19 applications have been approved and the developments are under construction or awaiting planning approval progress. They will be entitled to receive grants upon reassessment and return of the rolls for the completed developments, subject to confirmation of eligible use at that time in accordance with their respective financial incentives agreements. The total grants payable to these applicants is estimated to be in the order of \$226 million. The total new taxes paid to the City for these 28 properties while they are receiving grants is estimated at \$485 million. The grants payable to the applicants are estimated at \$291 million. The total estimated net new revenue to the City is \$194 million over the term of the 28 agreements.

Tables 1 and 2 shows that after all currently approved grants have been paid, the net new revenue for the City resulting from the developments will be about \$49 million per year.

Figure 1 IMIT Development Revenues and Annual Grants



Eight other IMIT applications are under consideration. One of these is for a very large 'Transformative' project, the subject of a separate report to Economic Development Committee in June 2016, for which the potential IMIT grant payable is estimated at \$152 million over 10 years. The total grants payable to the other seven applications could be up to \$32 million over the same time period, bringing the total grants payable for all approved and currently under consideration applications to about \$475 million. The total estimated net new revenue to the City after the grant payments are made will be \$317 million over the same period. Each year, thereafter, the increased revenue to the City is estimated at \$79 million per year.

IMIT grants are funded through the City's Non-Program Operating Budget. Staff recommend an annual report on TIEGs aligned with the Budget cycle in a format similar to the one presented in Appendix B.

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

DECISION HISTORY

At its October 2-4, 2012 meeting, City Council adopted changes 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. These changes were the result of a Program review that was called for when the original CIPs were adopted in 2008. The 2012 review directed that the next Program review take place in 2016. This decision can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2012.PG17.5>

At its meeting of September 21, 2015, the Executive Committee directed: the Chief Planner and Executive Director, City Planning, to report to the Planning and Growth Committee as soon as possible, regarding the merit of amendments to the existing Imagination, Manufacturing, Innovation and Technology (IMIT) Community Improvement Plans (CIPs) that address increasing eligibility for industrial and commercial condominiums in a way that efficiently manages staff resources to administer the Program.

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2015.EX8.40>

At its meeting of February 17, 2016, during consideration of the City's 2016 Operating Budget, City Council directed:

- "2v. the Deputy City Manager and Chief Financial Officer, in consultation with the General Manager, Economic Development, and Culture, to report back to Budget Committee in the second quarter of 2016 on the current and expected future cost of the Tax Increment Equivalent Grant (TIEG) Program, the estimated benefit to the City, a plan for regular reporting of the collective budget cost of Tax Increment Equivalent Grant Program agreements, and appropriate options for optimizing the Program cost, such report to include the number of TIEGs currently enacted, the phase out year of each TIEG agreement and the total forgone revenue from all TIEG agreements for 2016, 2017, 2018, 2019 and 2020." This direction can be viewed at:

<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.EX12.2>

ISSUE BACKGROUND

The Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentive Program was first approved by Council in 2008. It is provided through three Community Improvement Plans (CIPs): the City-wide CIP, the Waterfront CIP and the South of Eastern CIP. These CIPs are adopted pursuant to the Planning Act, as the only avenue available to the City to provide financial incentives to commercial businesses.

COMMENTS

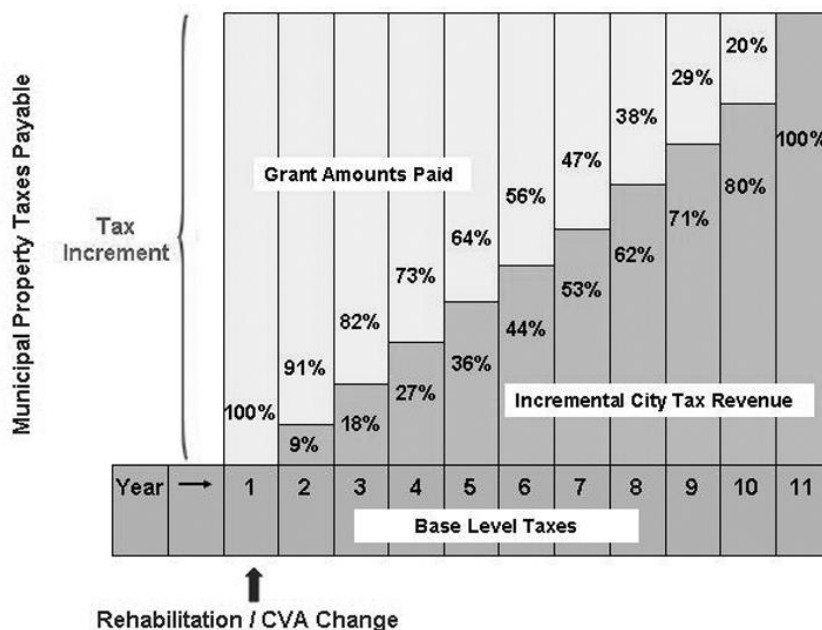
How the program works

The IMIT Program provides for annual development grants for new construction or major renovation and a municipal property tax cancellation for remediation projects in targeted employment sectors and uses. These sectors and uses include office, information technology, creative industries, manufacturing, biomedical, food processing and others. The Program was designed to address both regional and international competitive disadvantages for locating in Toronto.

The Program provides an annual grant back over a 10 year period to the property owner based on the increase in assessed value directly attributable to the new eligible construction. These Tax Increment Equivalent Grants (TIEGs) are equivalent to, over 10 years, 60% (70% in designated employment areas) of the increased municipal property tax revenue; the other 40% (30% in designated employment areas) are retained by the City. The payment schedule is shown in Figure 1. The IMIT Program provides a further incentive to support the remediation of contaminated soil required to allow for the development of the property through the Brownfield Remediation Tax Assistance Program (BRTA).

Program participants sign a Financial Incentives Agreement with the City that sets out the terms and conditions for the incentives. The agreement is registered against the land to which it applies.

Figure 2 IMIT Payment Example



Why TIEG's are Offered

For some kinds of desirable investment in Toronto's economy, the costs of new development and a reasonable return on investment exceed the potential income generated by the development. Costs include land costs, construction costs and ongoing operating costs including property taxes. TIEGs address this 'gap' by supplementing the income stream for the owner, developer or tenant especially in the early life of the building. The increased revenue and/or rentability enables some projects to proceed that would not otherwise have proceeded 'but for' the financial assistance from the municipality.

Much of the development risk for new office buildings is tied to attracting tenants. In most cases the developer turns over the IMIT grant to the leaseholder. Thus, IMIT is an incentive to lease by lowering costs for the tenants and becomes an inducement to locate in the City versus locating elsewhere.

The basis of the financial assistance is that the municipality will benefit from an increased tax base and more jobs, which benefits the local economy in the long-run.

TIEG's reduce costs of leasing for tenants thereby increasing the potential revenue stream for a development by attracting tenants. By reducing the cost to the developer, or by attracting more tenants, some projects will proceed that would not otherwise have proceeded 'but for' the financial assistance from the municipality.

Cost and Benefits of the Program

IMIT approved developments have supported employment in new office buildings and a wide range of desirable sectors including manufacturing, food processing, information technology, film studios, creative industries and small business incubators. These developments represent almost \$2 billion in construction investment, 9.6 million square feet of new or renovated commercial/industrial space and the creation or retention of 30,000 jobs. This construction also creates significant temporary construction employment. The Program has also provided critical support for the resurgence of the downtown office market.

All IMIT approved developments, including building renovations, meet Tier 1 of the Toronto Green Standard. Users of IMIT approved buildings work with Toronto Employment and Social Services (TESS) to develop a Local Employment Plan that provides employment opportunities to City of Toronto residents.

As described in the financial impact statement, based on current applications (approved and under consideration), applicants will potentially pay \$791 million in new taxes while they are receiving grants and will be eligible to receive \$475 million back in grants, and the City will realize \$317 million in revenue over the period of the agreements.

Program Review

This report proposes the Terms of Reference for the review of the IMIT Program as set out in Appendix A attached to this report. The three Community Improvement Plans (CIP's) passed by Council in 2012 require a review of the IMIT Program no later than four years after the Program came into full force and effect (November 9, 2012). The review will identify the process to analyze the success of the Program. A methodology to gather and analyze Program data will also be determined. The City will hire an independent consultant to conduct the review and address the following:

1. What are the results and impacts of the program?
2. Is it achieving objectives identified in the three CIP's?
3. What are the benefits and costs of the program? Do the benefits outweigh the costs?
3. Examine the adequacy of the "but for" argument and criteria.
4. Is the program still needed? If so, what changes, if any, should be made?

Key elements of the scope of the review will include:

- evaluating large downtown office projects and the extent to which they need incentives to be successful;
- evaluating the program's requirements for supporting local employment and meeting the Tier 1 Toronto Green Standard;
- the use of property tax increment to support both Tax Increment Financing (TIF) for transit infrastructure and Tax Increment Equivalent Grants (TIEGS) for economic development;
- evaluating eligible sectors and uses, geographic location as well as minimum required investment and development size;
- eligibility of industrial and commercial condominiums to receive IMIT grants;
- evaluating the Brownfield Remediation Tax Assistance (BRTA) Program;
- best practices and experience of other jurisdictions with 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 analyze the 'but for' assumption as it applies to the IMIT Program. The Program is based on the assumption that the incentives make the development occur, and if that assumption is correct, the grants are paid from tax revenue that would otherwise not have occurred. 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.

Validating the 'but for' assumption in the Toronto context is crucial to answering the question of whether financial incentives is a wise use of public funds and whether the public benefits of proposed developments justify the public costs.

Most office or industrial condominiums are not presently eligible to receive IMIT grants because the costs of administering the grants are significant compared to the size of the grant for small condominium units. The role of office and industrial condominiums in the

industrial-commercial real estate market is not well understood, especially in terms of the opportunities they provide for small-scale investors, and how that may relate to the need for incentives to support job growth. It would be appropriate to consider the condominium eligibility question as part of this larger review.

An Advisory Panel will be established for the review and will seek to include members from the City's business, real estate, labour, academic and development community, IMIT recipients' and Build Toronto.

Other Divisions Consulted

Legal Services and City Planning in addition to Finance staff have been consulted in the preparation of this report.

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Appendix A

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

Background:

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

Objective:

To undertake a comprehensive review of the IMIT Program. The review will evaluate the Program effectiveness in meeting its objectives, assess the need for the Program in the future, recommend possible changes that would improve the Program effectiveness and cost efficiency; as well as identify the high priority areas where the Program is most needed.

Mandate/Authority:

At its meeting of October 2-4, 2012 City Council adopted amendments to the IMIT Program. That report required that the Program be reviewed four years after the Community Improvement Plans (CIP's) amendments came into full force and effect.

Scope of Work:

Establish an advisory panel and process for stakeholder and community consultation;

Hire a consultant to assess the economic benefits of the Program, analyse the 'but for' factor, and recommend options to optimize the cost and effectiveness of the Program;

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

Review the scope of the Program and evaluate options for optimizing the Program cost such as reduced TIEG amounts and/or more restricted eligibility criteria, including whether the Program should continue at all;

Review eligibility criteria including eligible sectors and uses, geographic location as well as minimum required investment and development size;

Review office eligibility criteria, including location and ownership status;

Review impact of the Tier 1 Green Development Standard requirement and Local Employment Plan requirement;

Evaluate the 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 IMIT Program;

Evaluate the use of the property tax increment for both Tax Increment Financing (TIF) and Tax Increment Equivalent Grants (TIEGS);

Review best practices and comparative analysis of other jurisdictions that offer similar incentive programs;

Recommend whether the Program should continue and if so, identify Program improvements and future direction;

Panel Recommendations and Report Back

It is expected that City staff will report back to Economic Development Committee in the fourth quarter of 2016 with the results of the review and any Program recommendations that result from this review. Subsequently it is probable that reports will also need to go to Planning and Growth Management and proposed changes to the Community Improvement Plans.

Appendix B-IMIT Applications

Applicant	Address	GRANTS										Total 2011-2031 Grants	Taxes to be retained by the City	Total New Taxes
		2011	2012	2013	2014	2015	2016	2017	2018	2019	2020			
IMIT Applications - Construction Completed and Grant Payment Amounts Known														
bcIMC Realty-GWL Realty Advisors	18 York Street	0	3,644,998	3,644,998	3,316,948	2,988,898	2,660,848	2,332,798	2,041,199	1,713,149	926,150	23,269,986	15,513,324	38,783,310
Build Toronto One Holdings Inc	281 Commissioners St.	496,875	496,875	496,875	452,156	407,438	362,719	318,000	278,250	233,531	188,813	3,975,001	2,650,001	6,625,002
CQ 25 Dockside Drive Property Inc	25 Dockside Drive	2,993,648	2,993,648	2,993,648	2,724,220	2,454,791	2,185,363	1,915,935	1,676,443	1,407,015	1,137,586	23,949,185	15,966,123	39,915,308
Fifty-Five Developments	1 Apollo Place	0	0	456,023	414,981	373,939	332,896	291,854	255,373	214,331	173,289	2,736,138	1,824,092	4,560,229
Chesswood Holdings Inc	4420-4460 Chesswood Drive	0	0	83,863	76,315	68,767	61,220	53,672	46,963	39,415	31,878	503,186	335,457	838,643
Canada Lands Company CLC Limited	280 Bremner Blvd	0	0	0	1,025,636	1,025,636	1,025,636	933,329	841,021	748,715	656,407	8,205,090	5,470,060	13,675,150
First Gulf King Street Inc	333 King St E	0	0	0	313,864	285,616	257,368	229,121	200,873	175,764	147,516	1,883,184	1,255,456	3,138,640
Centre for Social Innovation	720 Bathurst Street	0	4,406	4,010	3,613	3,217	2,820	2,468	2,071	1,674	1,278	26,438	17,625	44,063
Toronto Artscape Inc & 19 Condo Unit Owners	180 Shaw Street	0	0	0	0	179,968	163,771	147,575	131,377	115,179	100,783	1,100,930	733,953	1,834,883
Sub-Total Confirmed Grant Payment Amounts		3,490,523	7,139,927	7,679,417	8,327,733	7,788,270	7,052,641	6,224,752	5,473,570	4,648,773	3,363,700	65,649,137	43,766,091	109,415,228
IMIT Applications Approved but Grant Payment Amounts Estimated														
901 King St W Nominee Inc	901 King St W	-	-	-	-	32,000	29,120	26,240	23,360	20,480	17,920	192,000	128,000	320,000
271 Front Inc	43A Parliament St	-	-	-	-	-	841,000	765,310,000	689,620,000	613,930,000	538,240,000	5,046,000	3,364,000	8,410,000
Weston Foods (Canada) Inc.	514 Carlingview Drive	-	-	-	-	128,000	116,480	104,960	93,440	81,920	71,680	782,080	521,387	1,303,467
Parliament And Gerrard Development Corporation	588 Dundas St E	-	-	-	-	288,000	262,080	236,160	210,240	184,320	161,280	1,728,000	1,152,000	2,880,000
Parliament And Gerrard Development Corporation	591 Dundas St E (Block 24N)	-	-	-	-	48,000	43,680	39,360	35,040	30,720	26,880	288,000	192,000	480,000
Tradition Fine Foods Ltd	663 Warden Road	-	-	-	-	48,000	43,680	39,360	35,040	30,720	26,880	288,000	192,000	480,000
MaRS Phase II	661 University Ave	-	-	-	2,880,000	2,620,800	2,361,600	2,102,400	1,843,200	1,612,800	1,353,600	17,280,000	11,520,000	28,800,000
85 Harbour St Holdings Inc/PPP Investment Board Real Estate	85 Harbour Street	-	-	-	-	-	-	4,756,000	4,327,960	3,899,920	3,471,880	28,536,000	19,024,000	47,560,000
bcIMC Realty-GWL Realty Advisors	120 Bremner Blvd	-	-	-	-	-	3,183,794	2,897,253	2,610,711	2,324,170	2,037,628	19,102,764	12,735,176	31,837,940
Bay Adelaide East & 6537626 Canada Inc.	20 Adelaide Street W	-	-	-	-	-	-	-	4,243,744	3,861,807	3,479,870	25,462,464	16,974,976	42,437,440
1302207 Ontario Ltd	134 Peter Street	-	-	-	-	-	1,860,437	1,692,998	1,525,558	1,358,119	1,190,680	11,162,622	7,441,748	18,604,370
One York St Inc	1 York Street	-	-	-	-	-	-	-	8,324,218	8,324,218	7,575,039	58,269,528	38,846,352	97,115,879
Oxford Properties Group Inc/OREC (RAC) Holdings Inc	100 Adelaide St W	-	-	-	-	-	-	-	3,424,504	3,116,298	2,808,093	20,547,022	13,698,015	34,245,037
First Gulf KEC Development Ltd	351 King St East	-	-	-	-	-	2,076,451	1,889,570	1,702,690	1,515,809	1,328,928	12,458,705	8,305,803	20,764,508
Byron Nelson Holdings Inc	95 Commander Boulevard	-	-	-	-	-	41,613	37,868	34,122	30,377	26,632	249,677	166,451	416,128
8710015 Canada inc (Hymopack)	55 Medulla Avenue	-	-	-	-	-	26,512	24,126	21,740	19,354	16,968	159,075	106,050	265,125
1879304 Ontario Inc (Proper TV)	772 Dovercourt Road	-	-	-	-	-	-	91,200	82,992	74,784	66,576	547,200	364,800	912,000
Daniels Waterfront Corporation	130-132 Queens Quay East	-	-	-	-	-	-	-	-	2,853,312	2,853,312	22,826,496	15,217,664	38,044,160
2391372 Ontario Inc (Adgar Dev)	2 Fraser Avenue	-	-	-	-	-	129,043	129,043	121,300	112,267	101,944	903,301	602,201	1,505,502
Sub-Total Estimated Grant Payment Amounts		-	-	-	2,880,000	3,164,800	11,015,490	14,831,847	29,349,480	30,065,326	27,154,030	225,828,933	150,552,622	376,381,555
TOTAL - IMIT GRANT PAYMENTS COMMITTED/ESTIMATED		3,490,523	7,139,927	7,679,417	11,207,733	10,953,070	18,068,131	21,056,599	34,823,050	34,714,099	30,517,730	291,478,070	194,318,713	485,796,783
IMIT Applications Under Consideration, Grant Payment Amounts Estimated and Not Committed														
Manufacturing	Ward 8	-	-	-	-	-	-	-	55,100	50,141	45,182	330,600	220,400	551,000
Transformative	Ward 28	-	-	-	-	-	-	-	-	-	-	152,250,000	87,000,000	239,250,000
Office Building	Ward 28	-	-	-	-	-	-	-	-	2,887,500	2,627,625	17,325,000	11,550,000	28,875,000
Office Building	Ward 20	-	-	-	-	-	-	-	380,881	346,601.71	312,322.42	2,285,286	1,523,524	3,808,810
Manufacturing	Ward 42	-	-	-	-	-	-	-	638,573	581,101.43	523,629.86	3,831,438	2,554,292	6,385,730
Office Building	Ward 14	-	-	-	-	-	-	-	-	57,000	51,870	342,000	228,000	570,000
Office Building	Ward 18	-	-	-	-	-	-	-	50,670	46,109.70	41,549.40	304,020	202,680	506,700
Office Building	Ward 20	-	-	-	-	-	-	-	-	1,276,000	1,161,160.00	7,656,000	5,104,000	12,760,000
Sub-Total IMIT Applications Under Consideration		-	-	-	-	-	-	-	1,125,224	5,244,454	4,763,339	184,324,344	122,882,896	307,207,240
TOTAL - IMIT GRANTS APPROVED AND UNDER CONSIDERATION		3,490,523	7,139,927	7,679,417	11,207,733	10,953,070	18,068,131	21,056,599	35,948,274	39,958,553	35,281,069	475,802,414	317,201,609	793,004,023