

ED31.7.9 and PG31.5.4

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Subject: Submission for City Council July 23-25 re: ED31.7 and PG31.5
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Attachments: [IMIT Submission by TYRLC July 2018 - City Council re ED31-7 & PG31.5.pdf](#)

To the City Clerk,

Attached please find our submission for City Council's meeting next week regarding two files about the Imagination, Manufacturing, Innovation and Technology (IMIT) Program and applications.

Please let us know if you have any questions.

Best,

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SUBMISSION TO THE CITY OF TORONTO

City Council Meeting – July 23-25, 2018

Regarding:

- ED31.7 Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program - Applications; and
- PG31.5 Community Improvement Plan to Implement Changes to the Imagination, Manufacturing, Innovation and Technology (IMIT) Program.

Note: Due to their interlinked nature, Labour Council comments on both files in this submission.

July 20, 2018

Among the decisions Toronto City Council will make at its final meeting is whether to commit future City governments to spend over \$400 million on another round of grants, primarily paid to large downtown office developments. If the grants are approved, a total of more than \$1 billion will be paid out through the IMIT Program.

This decision comes at a time when the City of Toronto has experienced significant chronic underfunding of programs and services, and every year during the budget cycle community organizations, recreation centres, child care programs and workers feel the pinch.

Toronto & York Region Labour Council supports staff's recommendation to approve one of the applications and reject others, and recommends additional changes to the IMIT Program. These measures will save the City more than \$400 million while supporting core concepts of the IMIT Program.

Background

Toronto & York Region Labour Council represents over 208,000 women and men who work in every sector of Toronto's economy and is proud to work on issues that are vital to working people in Toronto. Labour Council has been keenly interested in the development of the Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive Program since it was initially presented to the City's Economic Development Committee over a decade ago. In the last year and a half, we have participated in the overall review of the IMIT program and also commented on the eight large projects being considered for Tax Increment Equivalent Grants (TIEGs).

IMIT offers an opportunity for businesses in key but challenged Toronto industrial sectors to receive support that drives positive economic and jobs growth. The program offers substantial property tax grants – TIEGs – to accomplish this outcome. IMIT's primary concept is that absent the City's grants, a project would not get off the ground ("but for").

To date, the City is already committed to spending more than \$618 million on approved projects.

The IMIT Program

With the understanding that the “but for” concept is foundational, Labour Council has made submissions and deputations to Committees and Council and has discussed the program with staff in multiple City divisions, always seeking improvements to the IMIT program along the following lines:

- the program should be focused on key sectors that need development support (i.e. sectors that are important to the City but which struggle in the current economic environment, e.g., manufacturing),
- the emphasis should be on the creation of good jobs,
- decision making processes should be transparent and accountable, and
- the amount of grants paid out should be curtailed to leave revenue room for the City to fund other essential programs and services.

Eight TIEGs Applications

Regarding the eight proposals before City Council, we are pleased that these applications are being reviewed by City Council before any final approvals are made. Given the millions of dollars at stake, we continue to recommend that all IMIT projects be reviewed by Council during the decision making process to ensure an open and accountable process, as is the case with small community grants.

We support **approval** of the application by Sanofi Pasteur manufacturing project at Steeles West. This project is a prime example of the reason for establishing IMIT and TIEGs in the first place – it supports manufacturing which is an important but challenged sector in Toronto, the new jobs that will be created are good jobs relatively speaking, and the approval process is transparent and accountable given that City Council is reviewing the project.

We are concerned, however, that the TIEGs grant formula is still too high, and we request that a lower TIEGs formula be applied. Comparator jurisdictions, such as Vaughan and Hamilton, have lower grants. We recommend a 30% payout over ten years (prorated for brownfields and employment areas). The payout to Sanofi Pasteur would still be considerable, amounting to an estimated \$7.5 million.

We support **rejection** of the applications by the six projects in the proposed “expanded financial district”. All six office developments are situated in an area where development is fully expected to proceed without any TIEGs from the City. Toronto will save an estimated \$364 million by not awarding TIEGs to these projects.

Finally, we recommend **rejection** of the application by The Well office development project at the former Globe and Mail site at Spadina and Front for two reasons. First, Labour Council opposes eligibility for Office projects, particularly in the booming downtown area (not just in the financial district).

Secondly, the project does not satisfy the “but for” test. Hemson Consulting Ltd., tasked with evaluating the projects for eligibility, says The Well “**may** contribute to achieving a balance between residential and non-residential development in King-Spadina.” There is no evidence that TIEGs funding is **essential**. A recent Globe and Mail article – *Toronto megaproject to bring ‘King Street feel’ to Front* – indicates that the project is proceeding and describes all the reasons why the office building is being erected. The article makes no mention of IMIT or TIEGs. This office-retail-residential complex is clearly being built in

downtown Toronto because that is a location where office space is a sought after commodity. It would be irresponsible for City Council to spend \$40 million on a gamble that the project might not proceed otherwise.

Call for Additional Research and Analysis

We recommend that research be undertaken to determine the impact of TIEGs on office rental costs. The development companies made the point in their oral presentations to the Economic Development Committee that their companies do not receive the grants, but pass them along to their future tenants, implying that the development company does not benefit from TIEGs. It is not clear whether any research has been done to determine if the process of passing along TIEGs to tenants distorts office rental prices in the downtown core, e.g., causing inflation of rental rates with a subsequent grant to some tenants as a way of offsetting the higher cost, at taxpayers' expense.

Additional Advice Regarding the Applications and IMIT Program

According to the correspondence received by the Economic Development Committee earlier this month, several of the six downtown office project applicants that were recommended for rejection believe they do not need to demonstrate that their projects will not proceed absent TIEGs; instead, they essentially argue they are *entitled* to TIEGs because others have also received them.

- They attempt to make the case that the “but for” rule does not apply to their projects
- They make no case that their projects will not proceed if they do not receive TIEGs
- They feel entitled to receive TIEGs simply because they have met basic criteria and no other applicants have been rejected
- These positions clearly demonstrate to the people of Toronto a shocking sense of entitlement of these wealthy development corporations

To address their positions, first, the City consistently communicates that the “but for” rule applies to all projects. Time after time the point is made that TIEGs “are intended to be funded from new incremental tax revenues that, but for the provision of financial incentives, the City would not otherwise realize.” In other words, the City always makes the case that it brings in net new revenues through the IMIT Program. [See April 22, 2008 City of Toronto, Staff Report – Stimulating Economic Growth: Toronto’s Imagination, Manufacturing, Innovation and Technology (IMIT) Financial Incentives Program; January 16, 2018 City of Toronto, EX30.6 Review of the Imagination, Manufacturing, Innovation and Technology Property Tax Incentive Program.] If the “but for” rule does not apply, the City will incur a net expenditure rather than net revenue, entirely negating the underlying principle of the IMIT Program.

Second, since the developers agree they have not demonstrated that they require TIEGs in order for their projects to proceed, their applications should not be approved.

Third, Labour Council agrees that 440 Front Street West (The Well) should not receive TIEGs. Rejecting that application would go some way to resolving the issues raised by some of the other six downtown office projects (e.g., unfair competitive environment).

However, if City Council is alarmed by the legal language and veiled threats of these developers, and considers funding all the projects in order to avoid the risk of legal suits, we recommend instead that the whole IMIT Program be shut down.

Committing to spend over \$400 million in order to avoid legal wrangling would be seriously irresponsible and imprudent. Such a decision would raise questions about priorities of our elected representatives.

This decision epitomizes the concerns that Labour Council has raised over the years. While in favour of the concept of assisting struggling sectors to thrive and create good jobs, we have always opposed giving tax dollars to development companies for office space.

Recommendations:

- Approve Sanofi Pasteur application, at a reduced grant rate if possible
- Reject the other seven applications
- Approve the proposed by-law and at the earliest possible opportunity amend IMIT/TIEGs criteria as follows:
 - Eliminate eligibility by Office projects
 - Add eligibility by Green Enterprise projects
 - Reduce grants to a 30% payout over ten years (prorated for brownfields and employment areas)
 - Require that all applications be reviewed by City Council
 - Clarify that the “but for” principle applies to all applications
 - Clarify that eligibility criteria establish a minimum threshold but do not automatically entitle an applicant to receive TIEGs
- Research and analyze impact of TIEGs on downtown office rents
- If necessary to prevent spending of an additional \$400 million terminate the IMIT Program at the earliest possible opportunity

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