EX30.6

IMIT Program Review: Findings and Recommendations

TORONTO

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I Executive Summary

The City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Property Tax Incentive program was established in 2008 in response to slow employment growth in the City compared to other Greater Toronto Area municipalities. It was designed to support Toronto's key industry sectors, to promote employment growth and economic development, and to help unlock the development potential of the City's many contaminated sites. Over the past nine years, 31 IMIT applications have been approved and which account for an estimated $3.8 billion in private investment.

Program eligibility is based on targeted employment sectors and land uses. The incentive program provides an annual Tax Increment Equivalent Grant (TIEG), typically capped at 60 per cent of the cumulative municipal tax increment increase for the new development over a 10-year period. The IMIT program also includes the Brownfield Remediation Tax Assistance (BRTA) program, which provides an incentive to support the remediation of contaminated land associated with development projects for employment uses (excluding retail uses).

Nearly a decade following implementation of the IMIT Program, the City of Toronto's economic climate has undergone significant changes and the City's core has become a focal point for office development. The 2017 IMIT Program Review evaluates the program's performance to date and recommends refinements to ensure that the program is meeting its objectives within the current market context. The study aimed to address the following key questions:

- Is the program still needed? If so, what changes, if any, should be made to make it more effective and cost efficient?
- What are the results and impacts of the program? Is it achieving the objectives as identified in the three Community Improvement Plans (CIPs)?
- What are the benefits and costs of the program? Do the benefits outweigh the costs?
- Are incentives needed to support the targeted development, and how extensive should they be?

A. Study Process

The study was initiated in March 2017. Central to the study was an extensive consultation process involving:

- Ongoing meetings and discussions with representatives from the City's Economic Development & Culture, Corporate Finance, and City Planning departments;
- Meetings with an Advisory Panel which engaged representatives of the City's business, real estate, labour, academic, and development communities;
- Telephone surveys with program stakeholders including landowners or developers of approved IMIT projects, tenants of buildings receiving IMIT grants, other consultants involved in the process, and owners of pre-existing office buildings which have not received grants under the IMIT Program; and
- A public and stakeholder consultation event, held in June 2017.

This consultation process was supplemented with extensive financial and market analysis as well as research. This included:

- A comparison of employment growth trends in Toronto versus surrounding municipalities, particularly related to office development;
- Cost comparisons of select GTA office developments, with and without IMIT grants;
- Analysis of the potential impacts of the IMIT grant payments on overall City tax rates;
- High level pro forma analyses measuring the impacts of IMIT grants on the internal rate of return for a series of hypothetical office and manufacturing developments;
- An overview of comparative property tax incentive programs in other North American municipalities; and
- A review of academic literature related to property tax incentives and their effectiveness in promoting economic development.

B. Approved Projects To Date

To date, 31 projects have been approved for grants under the IMIT Program. These development projects are expected to total 11 million square feet and will accommodate the addition or retention of over 47,000 jobs. The financial benefits of these projects are substantial: it is estimated that the 31 approved projects will yield $889 million in new taxes over the 10- to 12-year grant payment period while they will be eligible to receive $566 million in grants. On an annual basis, the City can expect to receive an average of $29 million in net new tax revenue from these developments during the grant payment period. Following this, the developments will generate $79 million in annual new tax revenue (in 2016$).

IMIT Applications Approved to Date (2008-2017)					
Sector/Use	**Projects**	**GFA**	**Employment**	**Total Grant Amount**	**Total New Annual Tax Revenue**
Office	12	5,646,000	28,800	$266,356,000	$15,330,000
Manufacturing / Wholesaling	8	1,125,000	1,500	$18,550,000	$808,000
Information Services & Data Processing	1	220,000	100	$10,922,000	$340,000
Incubator / Convergence	5	960,000	3,400	$34,779,000	$2,625,000
Creative Industry / Film Studio	3	355,000	800	$6,092,000	$389,000
Tourism	1	101,000	300	$8,205,000	$238,000
Transformative Project	1	2,700,000	12,500	$221,396,000	$9,087,000
Total	**31**	**11,107,000**	**47,400**	**$566,300,000**	**$28,817,000**

These estimates exclude budgetary tax increases, which will add to the tax revenue being collected from the developments, given that grant payments are fixed.

C. Key Findings

In the 1990s and 2000s, the bulk of GTA employment growth was gravitating to developments in surrounding municipalities. The IMIT Program, among other economic development initiatives, was introduced to address these challenges and incentivize employment growth and retention in targeted sectors. Since that time, employment growth in Toronto has been significant. While this trend has been influenced by a number of market factors, the IMIT Program has importantly enabled many developers and landowners to offer more competitive rents, resulting in greater affordability for tenants. As a result the program has improved the viability of new development, and in turn has helped to retain and attract employment and development within the City. Specifically, it has been a catalyst in the transformation of the South Core and Waterfront.

In recent years, Toronto's non-residential real estate market has evolved considerably and its economic development needs have changed, thus meriting a review of the IMIT Program. Key findings from the IMIT Program Review are summarized below.

1. The Office Market in Toronto's Core is Very Strong

Over the past several years, there has been a shift in GTA employment growth trends and once again Toronto, and specifically its downtown core, has become a focal point for growth. Downtown office vacancy rates are at a historical low, despite large amounts of office space supply being added to the market over recent years. The South Core area, located immediately south of the current boundaries of the Financial District, has been transformed from a largely vacant area cut off from the City by the railway tracks, to a vibrant mixed use community anchored by many large office developments and well-connected to Union Station, PATH, and many other important amenities. Again, it is likely that the IMIT Program has played a role in catalyzing this transformation, particularly during its early stages.

Like many major cities, Toronto has seen increasing demand for new, centrally located office buildings which offer flexible work spaces, efficient design features, and other amenities which contribute to significant cost efficiencies while helping to attract talented workers. At the same time, the City is planning a number of major transit projects which will further improve connectivity to the core and make this area increasingly attractive for office development.

There are many market factors contributing to strong office demand in the Financial District and South Core. While grants are valued by landowners and tenants, it is unlikely that the IMIT Program serves as a deciding factor in most site selection processes within the current context of these areas.

2. Office Development Outside of the Core Continues to Face Market Challenges

Office development toward the periphery of the City's Downtown faces unique challenges. With strong residential development pressures, the City is struggling to achieve a balance of non-residential development in areas such as King-Spadina and King-Parliament. Further, without direct access to Union Station and subway routes, securing tenants can be more of a challenge than in the Financial District. IMIT grants may help to encourage a healthy mix of land uses and office building typologies in these areas.

Areas outside of the Downtown, such as North York, Scarborough, and Etobicoke, face significant barriers to office development. Toronto's commercial tax rates are higher than other GTA municipalities, average rents are much lower in these areas as compared with central areas of the City, and more cost effective surface parking opportunities are limited. As a result, office development in these areas faces significant competition from neighbouring municipalities. In this regard, there has been no uptake of suburban office IMIT grants to date. Despite the lack of investment, market conditions may change over time with continued transit improvments, low Downtown vacancy rates, and declining commercial tax ratios. In the future, IMIT grants may play a greater role in tipping the scales toward office development outside of the core.

3. Grants are Valued for Other Targeted Sectors

Non-office sectors and uses represent a relatively small percentage of committed IMIT grants to date. However, sectors such as manufacturing, creative industries, incubators, and information technology are valued components of Toronto's economy. The manufacturing sector has experienced a downward employment trend over the past decade. Other sectors similarly face financial challenges, as many neighbouring municipalities offer lower tax rates and land costs. The IMIT Program continues to be helpful in retaining employment and encouraging job growth in these sectors.

4. The IMIT Program is Complex, and Should be Streamlined

The IMIT Program operates under three Community Improvement Plan (CIP) by-laws, and its eligibility requirements and geographical variations are difficult for many applicants to understand. For example, the City-wide CIP includes three distinct definitions and sets of eligibility requirements related to office development. Many of the program's conditions, such as its local employment requirements, are not well understood by applicants. Following years of program implementation, the IMIT Program Review presents a valuable opportunity to identify inefficiencies and administrative issues, simplify the CIP by-laws, and streamline administrative processes.

D. Program Recommendations

The outcome of the IMIT Program Review is an overall recommendation for the program to be revised and streamlined. Recommended program refinements are summarized below. It is noted that as the City is currently undertaking a number of initiatives impacting non-residential development, any refinements to the IMIT Program should be viewed within the context of the ongoing development charges study, cash-in-lieu of parkland policy review, commercial and industrial tax ratio reductions, and any other related planning initiatives.

1. **Simplify the program:** Consolidate the three Community Improvement Plans (CIPs) into a single CIP by-law to simplify the program and provide greater clarity for applicants. Where feasible, simplify wording around eligible sectors and uses and their definitions.

2. **Restrict Office Eligibility in the Financial District:** While the IMIT Program has played an important role in a number of office development projects in the City's core, due to the currently very strong office market in this area, the need for financial incentives has diminished. It is recommended that office eligibility be eliminated within the City's proposed expanded Financial District boundaries. However, the City may wish to consider a phased approach to eliminating office eligibility in the Financial District.

3. **Maintain and Simplify Office Eligibility Outside of the Core:** Outside of the expanded Financial District, office eligibility should be maintained. Office eligibility should also be simplified by replacing the current by-law's office categories with a single office building category.

4. **Maintain or Enhance Grants for Other Sectors and Uses:** Grants should be maintained for non-office sectors and uses which are currently eligible under the City-wide CIP. Enhanced grants may be appropriate for certain sectors and uses which face particular barriers to locating in Toronto, such as manufacturing, wholesaling, creative industries, film studios, convergence centres, and incubators.

5. **Strengthen Eligibility Criteria for Transformative Projects:** Eligibility under the Transformative Project category should continue to apply throughout the City, including within the Financial District. Grants under this category should remain discretionary and subject to Council approval. It is recommended that the by-law definition for Transformative Projects be strengthened.

6. **Enhance the Brownfield Remediation Tax Assistance Program:** The BRTA program has generally been successful in meeting its objectives. Along with environmental testing costs, costs incurred for remediation within 12 months

prior to the submission of an application for the BRTA program should be eligible for assistance.

7. **Allow for IMIT Grants within Tax Increment Financing (TIF) Zones:** The City is considering Tax Increment Financing (TIF) as a funding mechanism for SmartTrack / Regional Express Rail transit infrastructure. Should the City move forward with the TIF strategy, IMIT grants should continue to be offered to eligible development projects in these areas.

8. **Refine the Administrative Processes for Commercial and Industrial Condominiums:** The current CIP by-laws place restrictions on commercial and industrial condominium eligibility due to administratively onerous grant processing requirements. The City may wish to consider requiring that these applicants engage a third party "facilitator" to allow IMIT grant eligibility for commercial and industrial condominiums, where all other requirements of the CIP by-law are met.

9. **Offer Financial Incentives for the Replacement of Office Space in New Mixed Use Developments:** The City is in the process of implementing planning incentives to support the replacement and retention of office space in new mixed use development. This initiative should be supported by IMIT grants for eligible office replacement projects.

10. **Strengthen the Program's Requirements and Conditions:** The program should be strengthened with a review of its minimum construction investment requirements, local employment requirements, and Toronto Green Standard requirements.

11. **Consider Development Charges Exemption Wording within the CIP By-law:** The City's current development charges by-law provides full exemptions for non-residential, non-ground floor uses, and additionally exempts projects approved for IMIT grants from development charges. The City is currently undertaking a development charges background study which will review these policies. Should the City choose to maintain full development charges exemptions for projects receiving IMIT grants, it is recommended that this wording be included within the CIP by-law rather than the development charges by-law.

12. **Consider a Cap on Grant Approvals:** The City should consider introducing a cap on total committed grant amounts to allow for improved financial planning and control over the impacts of the program.

13. **Take Measures to Improve Future Grant Estimates:** For larger office projects, the City should consider requiring IMIT applicants to obtain a property tax

forecast from a qualified expert in order to assist in annual budgeting processes related to the overall program.

14. **Consider a Program Administration Fee:** The City may wish to consider introducing a program administration fee to help fund the significant staff time devoted to program administration. Should the City move forward with introducing a fee, it is recommended that it be scaled according to the GFA of the development project. For example, a fee of 10 cents per square foot of proposed eligible GFA could be applied.

15. **Focus on Ongoing Marketing and Promotion:** While the IMIT Program is well known among the office development community, awareness of the program within the manufacturing industry, creative industries, and among representatives of other non-office eligible sectors and uses may be lacking. It is recommended that the City place greater focus on marketing, promotion, and outreach to these groups.

I Introduction

Nearly a decade following implementation of the City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Property Tax Incentive program, the City of Toronto's economic climate has undergone significant changes. The 2017 IMIT Program Review evaluates the program's performance to date and recommends refinements to ensure that the program is meeting its objectives within the current market context, and recognizing changes that have been made to the City's tax policies.

This report is organized as follows:

Section II provides an overview of the IMIT Program including grant payment structure, program eligibility, and program administration. It also summarizes outcomes of the 2012 IMIT Program Review and introduces the study objectives and process behind the 2017 IMIT Program Review.

Section III summarizes the program's performance to date, with a snapshot of approved projects, submitted applications which have not yet been approved, and inactive, ineligible, and withdrawn applications.

Section IV details the findings resulting from the research, analysis, and consultation processes undertaken over the course of the IMIT Program Review.

Section V provides a set of recommendations for amending the IMIT Program to better address the City's current context.

Section VI concludes the report and identifies next steps in the IMIT Program Review process.

II Overview Of The IMIT Program

The City of Toronto's Imagination, Manufacturing, Innovation, Technology (IMIT) Property Tax Incentive program was established in 2008 under the provisions of three Community Improvement Plans (CIPs): City-wide, Waterfront, and South of Eastern, as permitted under Section 28 of Ontario's *Planning Act*.

The program was initially developed in response to slow employment growth in the City compared to other Greater Toronto Area municipalities through much of the 1990s and 2000s. It was designed to support Toronto's key industry sectors, to promote employment growth and economic development, and to help unlock the development potential of the City's many contaminated sites. Over the past nine years, 31 IMIT applications have been approved which account for an estimated $3.7 billion in private investment.

This section describes key elements of the IMIT Program, outcomes of the last review of the program, undertaken in 2012, and the objectives and processes behind the 2017 IMIT Program Review.

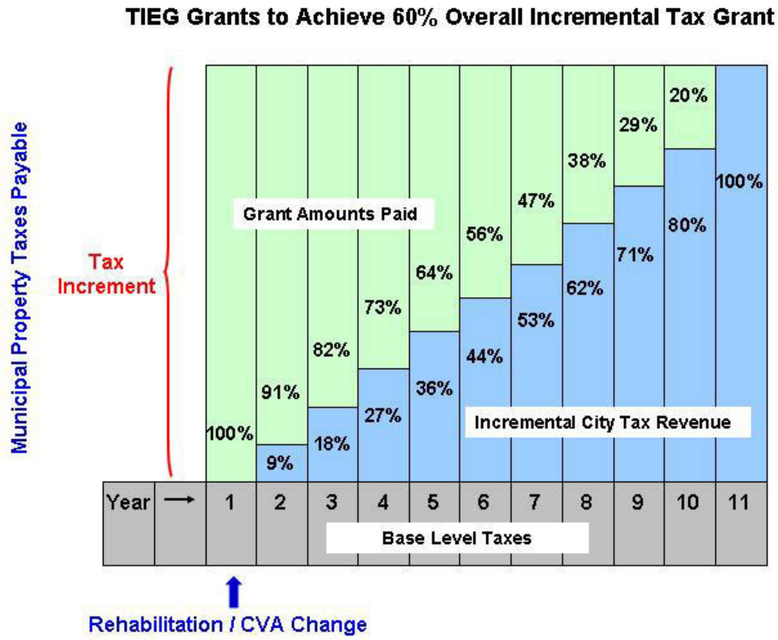
A. Key Elements Of The Current Program

The incentive program provides an annual Tax Increment Equivalent Grant (TIEG) of 60 per cent of the cumulative municipal tax increment increase for the new development over a 10-year period. Since the grant payments are fixed at the time of approval, after taking into account budgetary increases over the 10-year period the grant payments are likely to be closer to 55 per cent of the increment.

As demonstrated by Figure 1, the annual grant amounts are paid on a declining basis over this period. The front ended nature of the grant structure is intended to help mitigate development risks associated with attracting tenants.

Figure 1

City of Toronto IMIT Program: Tax Increment Equivalent Grant Structure



The IMIT program also includes the Brownfield Remediation Tax Assistance (BRTA) program, which provides an incentive to support the remediation of contaminated land associated with development projects for employment uses (excluding retail uses). The BRTA program provides for the cancellation up to three years of property taxes. It is capped at the lesser of 100 per cent of the total increment over the three years or the total cost of remediation. In combination, the TIEG and BRTA grants may be equal to up to 67 per cent of the municipal tax increment increase over a period of up to 12 years. To date, the City has approved eight combined BRTA and TIEG applications under the IMIT program.

Central to most CIP incentive programs is the "but for" test, being the assumption that in the absence of the incentive, development would not have occurred to the same extent. Hence, the grants are notionally being paid from tax revenue that the City would otherwise not receive.

While not specifically part of the IMIT program, it should be noted the City of Toronto has also exempt most non-residential development from paying Development Charges. Industrial development is entirely exempt while other forms of non-residential development only pay Development Charges on the ground (first) floor of the project.

B. Program Eligibility

IMIT Program eligibility is based on specific employment sectors and land uses. TIEGs are available for buildings that are wholly occupied by an eligible sector or use, or the gross floor area (GFA) they occupy in buildings with multiple tenants. Eligible sectors and uses under the City-wide CIP are listed below:

Biomedical uses

Call Centres

Computer Systems Design and Services

Convergence Centres (for eligible uses as listed)

Corporate Headquarters (in the Downtown)

Creative Industries

Film Studio Complexes

Food and Beverage Wholesaling

Incubators

Information Services and Data Processing

Manufacturing (Manufacturing operation must occupy 35% of building's GFA)

Scientific Research and Development

Software Development

Tourism Attractions

Transformative Projects (subject to approval by City Council)

Corporate Office Buildings (certain sectors only; not within Financial District)

Office Building (sites in Transit Corridors only; excluding Financial District)

Of note, office development within the City's Financial District (as identified within Map 6 of the City's Official Plan) are not eligible for the TIEGs, with the exception of national and international corporate headquarters developments with a minimum gross floor area (GFA) of 10,000 square meters.

While the Waterfront and South of Eastern CIPs are structured similarly to the City-wide CIP, they contain several key differences. For example, the Waterfront CIP includes the defined "Focus Areas" of the East Bayfront, West Don Lands, and Port Lands, and sets out a clear vision and set of objectives for each area. The eligibility of manufacturing and film studio uses is restricted to the Port Lands, while uses such as offices, colleges, and tourism attractions are restricted to the West Don Lands and East Bayfront. Eligible uses within the South of Eastern CIP have many similarities with City-wide CIP eligibility, with one notable exception being tourism attractions.

Grant applications are subject to a number of additional program conditions. Notable conditions include the following:

- The development must result in a minimum investment of $1 million in building construction costs for eligible uses.

- The development must increase the amount of GFA for eligible uses by at least 500 square metres.
- For industrial or commercial condominium developments, each condominium unit is treated as a standalone development. In order to be eligible the condominium unit must comprise a minimum eligible GFA of 5,000 square metres and minimum construction value of $5 million.
- The development must conform to the Tier 1 requirements of the Toronto Green Standard.
- The applicant or user of the property must agree to collaborate with the City to promote local employment, including development of a local employment plan identifying opportunities for local hiring and how the applicant or user will utilized available employment programs in the City.

C. Program Administration

The IMIT Program is administered primarily by Economic Development and Culture Division staff. The process often begins with an informal pre-consultation or pre-screening process to assist potential applicants to determine whether a project would be eligible for the program. Should an application move forward, it must be submitted prior to issuance of the first above grade building permit.

Applications are then reviewed for eligibility. It is noted that for projects where the estimated construction value exceeds $150 million, grants are subject to City Council approval. Once eligibility has been determined, the property owner and the City enter into a Financial Incentive Agreement (FIA) committing both parties to the terms and conditions of the program.

Using the date when the FIA is signed, the base current value assessment (CVA) municipal tax level is established to reflect the unimproved value of the property. Once the development is complete and the property has been reassessed the new CVA municipal tax level is established. The municipal tax increment, or the difference between the base tax level and the post-development tax level, establishes the annual grant amounts over the 10-year period. The grant amounts are fixed using the tax rate in-force at the time of the agreement. No grant payments are made until the first full calendar year after the new property has been reassessed by MPAC.

D. Outcomes Of The 2012 IMIT Program Review

The City undertook its first review of the IMIT Program in 2012. The review focused on an analysis of program eligibility requirements. It also provided a comparison of the level of construction investment in the years before and after introduction of the program. The review involved an interdepartmental City staff working group and an external Advisory Panel made up of representatives from the City's business, real estate, academic and development communities, as well as IMIT applicants.

The review found that many of the applications approved between 2008 and 2012 (e.g. Coca-Cola Canada Headquarters, Ripley's Aquarium) would not have proceeded without the incentives and therefore the "but for" assumption had been met. Over this time period the IMIT Program also served as an important catalyst for the transformation of the South Core (e.g. PwC Tower, RBC WaterPark Place) and the Waterfront (e.g. Corus Quay, Pinewood Toronto Studios).

Conversely, the program had not been successful in helping to attract new office development to Etobicoke, Scarborough, and North York Centres. Staff suggested that while incentives were not required to support office development in the Financial District other than for corporate headquarters facilities, expansion of this criterion for office development might help to attract office developments elsewhere in the city.

Overall, the program was considered to have helped achieve a number of significant results including additional construction investment (estimated at $1 billion), increased tax revenues, and new and retained employment. Staff recommended that the program continue with some improvements to eligibility criteria and administration. Notable 2012 program improvements included:

- Increased eligibility for office projects to include all office developments with GFA of over 5,000 square metres and located within 800 metres of a transit station, but not within the Financial District;
- An increase in the incentive level for eligible developments in Employment Districts and other Official Plan-designated Employment Areas to 70% of the tax increment over the 10-year period. When combined with a Brownfield Remediation Tax Assistance (BRTA) application the incentive increases to 77%;
- Several eligible sector, use, and location additions including film studio complexes City-wide (previously restricted to certain locations), financial

services uses in corporate office buildings, and call centres City-wide with the exception of the Waterfront CIP area;

- Introduction of the eligibility requirement of a minimum 500 square metres of new sector based employment GFA, in order to address redevelopments and renovations; and

- Introduction of the restrictions on commercial and industrial condominium unit eligibility, to address administrative issues associated with processing these applications.

E. 2017 IMIT Program Review: Background And Process

The 2012 CIP by-law amendments required a review of the IMIT Program four years after the by-laws came into full force and effect (November 2012). Since that time, Toronto's economic climate, and particularly the downtown office market, has evolved significantly and City staff wish to re-evaluate the need for the program. The study objectives and process undertaken are described below.

1. Key Study Objectives

The 2017 IMIT Program Review aimed to address the following key questions:

- Is the program still needed? If so, what changes, if any, should be made to make it more effective and cost efficient?

- What are the results and impacts of the program? Is it achieving the objectives as identified in the three CIPs?

- What are the benefits and costs of the program? Do the benefits outweigh the costs?

- Are incentives needed to support the targeted development, and how extensive should they be?

2. Study Process

The IMIT Program Review was initiated in March 2017. Central to the study was an extensive consultation process involving staff from various City departments, program stakeholders, industry and academic experts, and interested members of the public. This consultation process was supplemented with extensive financial and market analysis as well as research. The study process is described across the following pages, and key findings resulting from this process are detailed in Section IV.

a. Coordination with City Departments

Meetings were held at all stages of the study process with representatives from the City's Economic Development & Culture, Corporate Finance, and City Planning departments. In addition to regular meetings and communication, meetings were held with staff and consultants involved in a number of related City projects and initiatives with implications for office and other non-residential development. These include:

- The TOcore initiative to prepare a Secondary Plan for Toronto's Downtown, and in particular, initiatives related to Downtown employment and non-residential development;
- The ongoing Development Charges Background Study, which will re-evaluate the City's current development charge exemptions for above ground floor non-residential space;
- Proposed planning incentives to support the replacement of office space in new mixed use developments; and
- A review of the City's cash-in-lieu of parkland policies as permitted under Section 42 of the *Planning Act*.

b. Advisory Panel

Similar to the 2012 review, an Advisory Panel was established consisting of the City's business, real estate, labour, academic and development communities. Three Advisory Panel meetings were held over the course of the study:

- The first meeting provided an introduction to the study;
- The second meeting was an interactive workshop and brainstorming session geared toward tackling key issues and considerations related to the IMIT Program; and
- The third meeting involved discussion around draft program refinement options.

A full list of Advisory Panel members involved in the 2017 IMIT Program Review is provided in Appendix A.

c. Stakeholder and Public Consultation

Another key component of the IMIT Program Review was a series of telephone surveys with program stakeholders. A total of 14 surveys were completed involving landowners or developers of approved IMIT projects, tenants of buildings receiving grants under the IMIT Program, other consultants involved in the process, and owners of pre-existing office buildings which have not received grants under the IMIT Program. The telephone surveys aimed to gather perspectives on the following topics:

- The impacts of the IMIT grants on site selection and related decision-making processes;
- Other key driving factors involved in decision-making processes;
- The impact of the grants on rental rates;
- Perspectives on the program's eligibility requirements and administrative processes; and
- Any other comments on the impact of the IMIT Program and the need for grants to support various sectors and uses.

In addition to the telephone surveys, a public and stakeholder consultation event was held on June 13, 2017. The event provided an opportunity for stakeholders and interested members of the public to review work to date, ask questions and discuss the study with members of the project team, and offer their input on the study's key issues and considerations through verbal or written comments. The event attracted approximately 25 attendees, who were primarily representatives of the development industry.

d. Analysis and Research

Financial and market analysis undertaken as part of this study included:

- A comparison of employment growth trends in Toronto versus surrounding municipalities, particularly related to office development;
- Cost comparisons of select GTA office developments, with and without IMIT grants;
- Analysis of the potential impacts of the IMIT grant payments on overall City tax rates; and
- High level pro forma analyses measuring the impacts of IMIT grants on the internal rate of return for a series of hypothetical office and manufacturing developments.

Research undertaken included:

- An overview of comparative property tax incentive programs in other North American municipalities;
- A review of academic literature related to property tax incentives and their effectiveness in promoting economic development; and
- A review of all relevant City staff reports, policies, and other documents as necessary.

e. TIEGs and TIF

A key consideration of the IMIT Program Review is how it relates to the City's proposed Tax Increment Financing (TIF) plan. The City is considering TIF as a funding mechanism for the planned SmartTrack / Regional Express Rail transit infrastructure. This strategy would capture the increase in incremental tax revenues resulting from future development that is believed to be catalyzed by the transit investment itself.

A 2016 City staff report indicated over the next 25 years, 31 per cent of future commercial growth within a defined SmartTrack corridor "TIF Zone" is expected to be attributable to the transit infrastructure. Therefore, the City could allocate up to 31 per cent of the new incremental tax revenues within the TIF Zone toward funding debt charges associated with the SmartTrack Project. The report's recommendation was to allocate 50 per cent of this amount, or 15.5 per cent of the actual observed growth in tax revenue from new commercial development in the TIF Zone, to the SmartTrack project. A percentage of incremental tax revenues from future residential development in the TIF Zone would be similarly allocated.

There is some concern over whether it would be appropriate to offer IMIT grants within the proposed TIF Zone, as both programs impact incremental tax revenues and both operate under the assumption that "but for" the financial assistance or infrastructure investments, the development would not occur. The IMIT Program Review gave consideration to this issue.

III Program Performance To Date

The amount of non-residential investment that occurred in Toronto over the past decade has been very significant. IMIT-approved industrial and commercial developments to date are expected to total nearly 11 million square feet and will accommodate the addition or retention of over 47,000 jobs. The financial benefits of these development projects are substantial: it is estimated that the 31 approved projects will yield $889 million in new taxes over the 10- to 12-year grant payment period while they will be eligible to receive $566 million in grants. On an annual basis, the City can expect to receive an average of $29 million in net new tax revenue from these developments during the grant payment period. After grant payments end, the developments will generate approximately $79 million in annual new tax revenue (in 2016$). These estimates exclude budgetary tax increases, which will add to the tax revenue being collected from the developments, given that grant payments are fixed.

While a significant amount of employment growth has been linked to the introduction of the IMIT Program, it is difficult to isolate the impact of the IMIT grants in relation to other market factors. These factors include the general health of the national economy; the greater propensity of young workers to live and work in downtown Toronto; and changes in City property tax policies favouring non-residential classes. These considerations are discussed in further detail elsewhere in this report.

A. Approved Projects

Table 1 provides a breakdown of applications to date (September 2008 to July 2017) for which a Financial Incentive Agreement has been signed. The table includes sector/use and estimated eligible GFA, estimated construction value, and employment associated with the projects, as well as estimated average annual grants and new tax revenues.

It is estimated that approximately 75 to 80 per cent of the employment associated with the approved projects represents jobs that have been retained within the City of Toronto. Jobs that are new to the City, due to a business relocation or expansion, are estimated to make up the remaining 20 to 25 per cent.

Figure 2 and Figure 3 show the locations of the 31 approved projects. It is noted that to date, no office developments outside of Toronto's Downtown have been approved for IMIT grants, with the exception of one office development in the Liberty Village neighbourhood. As was the case at the time of the previous review, no IMIT applications have been processed for office developments in either Etobicoke, Scarborough or North York Centres.

It is noted that four of the approved office projects are located within the Financial District and have qualified for grants under the Corporate Headquarters category. Grants to these projects are limited to the GFA occupied by the Corporate Headquarters use. Typically, large portions of these office buildings are occupied by other types of tenants, and therefore these components were constructed without the assistance of the IMIT grant.

The known tenants of buildings receiving IMIT grants within the Financial District and South Core areas represent businesses which were previously located in Toronto. While it is likely that the majority of these tenants would have remained in Toronto's core without the grants, the IMIT grants may have played a role in their retention as new buildings provide flexible spaces and opportunities for future expansion. Relocations also have the indirect benefit of freeing up space within existing, often centrally located, office buildings. This provides the City with a broad range of space options, including more affordable alternatives to new Class AAA office buildings and in turn, new opportunities for businesses to grow within the City or relocate to Toronto.

Table 1

IMIT Applications Approved To Date (Signed Financial Incentive Agreements)

Sector/Use	Projects	Estimated Eligible GFA (sq.ft.)	Estimated Eligible Construction Investment(1)	Estimated Employment (Retained + New)	Estimated Average Annual Grant Total(2,3)	Estimated Annual New Tax Revenue Before Grants(4)	Estimated Annual New Tax Revenue Net of Grants
Office	12	$5,646,000	$1,973,160,000	28,800	$24,063,000	$39,393,000	$15,330,000
Manufacturing / Food & Beverage Wholesaling	8	1,125,000	$281,144,000	1,500	$1,854,000	$2,662,000	$808,000
Information Services & Data Processing	1	220,000	$80,124,000	100	$910,000	$1,250,000	$340,000
Incubator / Convergence	5	960,000	$239,904,000	3,400	$3,478,000	$6,103,000	$2,625,000
Creative Industry / Film Studio	3	355,000	$118,477,000	800	$543,000	$932,000	$389,000
Tourism	1	101,000	$107,000,000	300	$684,000	$922,000	$238,000
Transformative Project	1	2,700,000	$985,500,000	12,500	$18,450,000	$27,537,000	$9,087,000
Total	**31**	**11,107,000**	**$3,785,309,000**	**47,400**	**$49,982,000**	**$78,799,000**	**$28,817,000**

Note (1): Construction costs estimated by Hemson based on Altus Group's 2017 Construction Cost Guide.
Note (2): For approved projects which are incomplete or had not yet been reassessed following construction, post-construction or "destination" assessment value was estimated based on City staff assessment assumptions per square foot (office) and estimated construction value (other uses).
Note (3): All grant $ amounts in year of first grant payment.
Note (4): All tax revenue amounts in 2016$.

Figure 2

IMIT Program Approved Office Projects to Date (by eligible GFA)

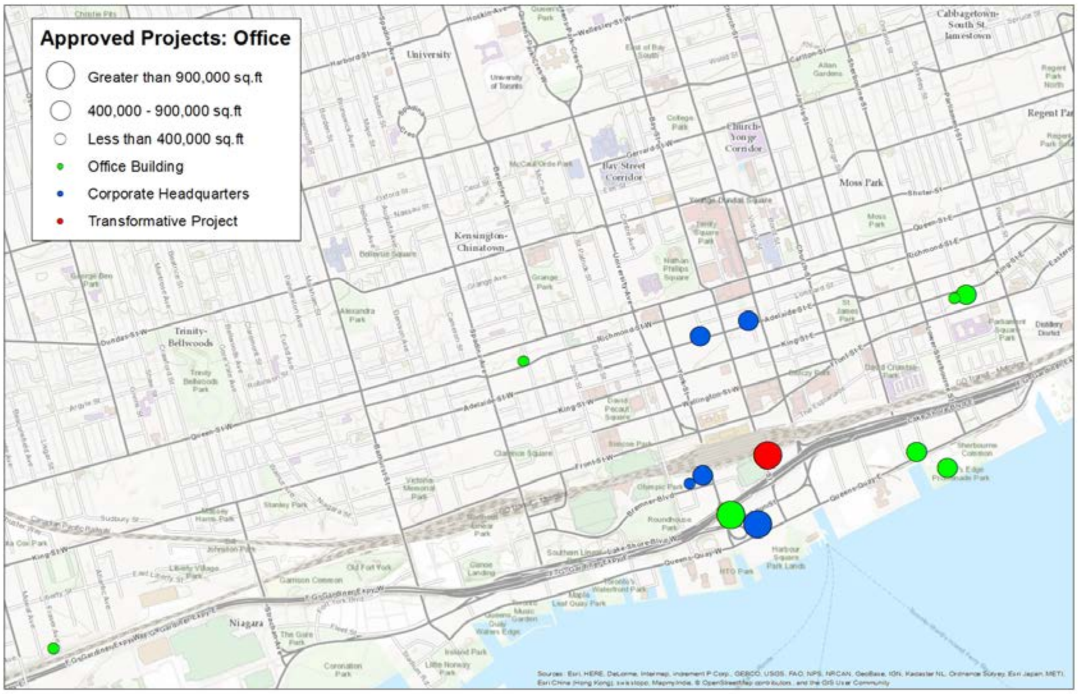
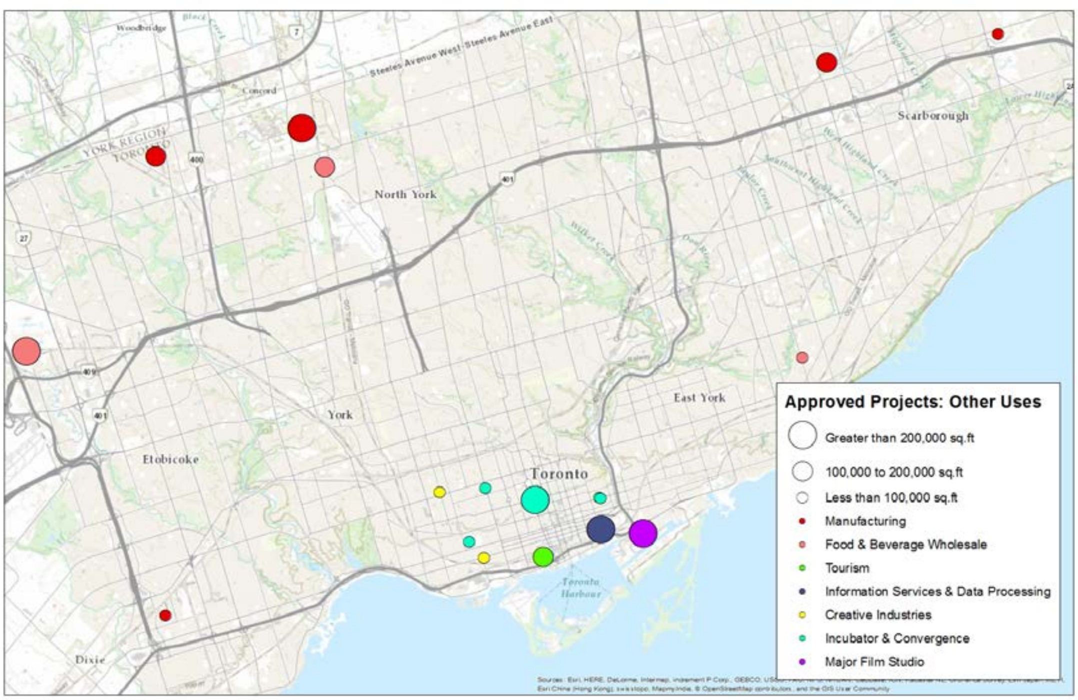


Figure 3

IMIT Program Approved Non-Office Projects to Date (by eligible GFA)



B. Submitted Applications

In addition to the approved developments, 14 applications remain under review. They include 11 office building projects and three manufacturing and food processing plants. Should these applications be approved for TIEGs under the IMIT program, their associated grants would total an estimated $119 million, or an average of nearly $11 million per year. Following the grant payment period, these projects would result in an additional $16 million in new tax revenue for the City (in $2016).

C. Inactive, Withdrawn, And Ineligible Applications

To date, approximately 20 applications for IMIT grants have not gone through to final approval. In most of these cases, this was due to one of the following scenarios:

- The proposed development project did not meet the minimum construction value or GFA requirements to qualify for the grants;
- The development project did not proceed; or
- Some program requirements (e.g. the Toronto Green Standard requirement) were determined by the applicant to be too onerous, in relation to the scale of development and anticipated grant amounts. In some cases, the development project was undertaken without the IMIT grants.

IV Analysis And Findings

This section provides detailed results of each component of the IMIT Program Review. The findings presented across the following pages informed the program refinement recommendations listed in Section V.

A. Market Analysis

The following pages present findings related to the City's overall employment growth and economic development, office development and employment, and industrial employment. Over the initial years of the IMIT Program, Toronto's employment market was relatively stagnant; the IMIT Program was helpful in stimulating development despite unfavourable market conditions at this time. However, the analyses presented in this section point to a dramatic strengthening of Toronto's economic conditions, and particularly its downtown office market, in recent years. There is also some indication of industrial employment strengthening in recent years, although the City's manufacturing sector continues to face significant challenges.

1. Measures in Place to Support Employment Growth in Toronto

In the 1990s and 2000s, GTA employment growth was largely contained in suburban developments. In response to increased competition and a loss of employment to surrounding municipalities, the City introduced a number of measures to support employment growth in Toronto. First, the *Enhancing Toronto's Business Climate* initiative led to significant reductions in non-residential property tax ratios. This has made Toronto's non-residential tax rates increasingly comparable with surrounding municipalities. This was followed by the introduction of the IMIT Program in 2008 to further incentivize employment growth in targeted sectors.

Additional measures to support non-residential development that are available in the City of Toronto include:

- The "Gold Star" program which provides assistance with municipal approvals, mediation of conflicts, and support for industrial, commercial office, and institutional development applications;

- Development charge exemptions for industrial properties, above ground floor commercial/office properties, and eligible IMIT program applicants;

- A recent planning initiative to support the replacement of office space in new mixed-use developments;

- Provincially mandated tax rebates for eligible property owners of vacant commercial or industrial buildings. It is noted that the City is in the process of requesting that the Province exempt Toronto from providing this program; and

- Stabilizing of the Provincial education component of non-residential property taxes.

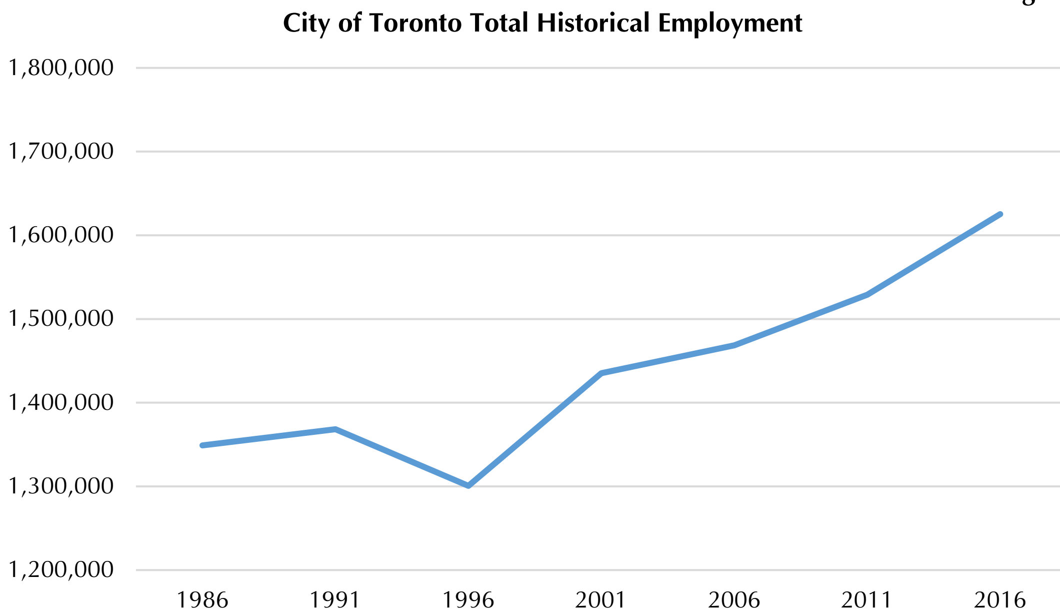
Further, the City is currently investing in a number of major rapid transit projects. Current and planned transit projects include SmartTrack / Regional Express Rail, the Relief Line subway route, and LRT routes along Eglinton, Finch, and Sheppard. These projects will change Toronto's landscape and are expected to further enhance economic development. It is noted that the City is considering the use of tax increment financing (TIF) to capture anticipated increased tax revenues resulting from development around future SmartTrack stations, which would then serve as a funding source for the infrastructure.

2. City-wide Employment Growth Trends

Over the past several years, there has been a shift in GTA employment growth trends and once again Toronto, and specifically its downtown core, has become a focal point for growth. Figure 4 illustrates how recent employment growth has compared with historical trends, including those leading up to the 2008 introduction of the IMIT Program, based on Statistics Canada Census information. Total employment in 2016 exceeded 1.6 million, representing an increase of over 6 per cent over the preceding five-year period.

The City's annual Toronto Employment Survey similarly found a 2.7 per cent increase in Toronto's total employment base in 2016. Tied with 2015, this represents the highest growth rate over the past decade.

Figure 4



Source: Statistics Canada Census information

3. GTA Office Market

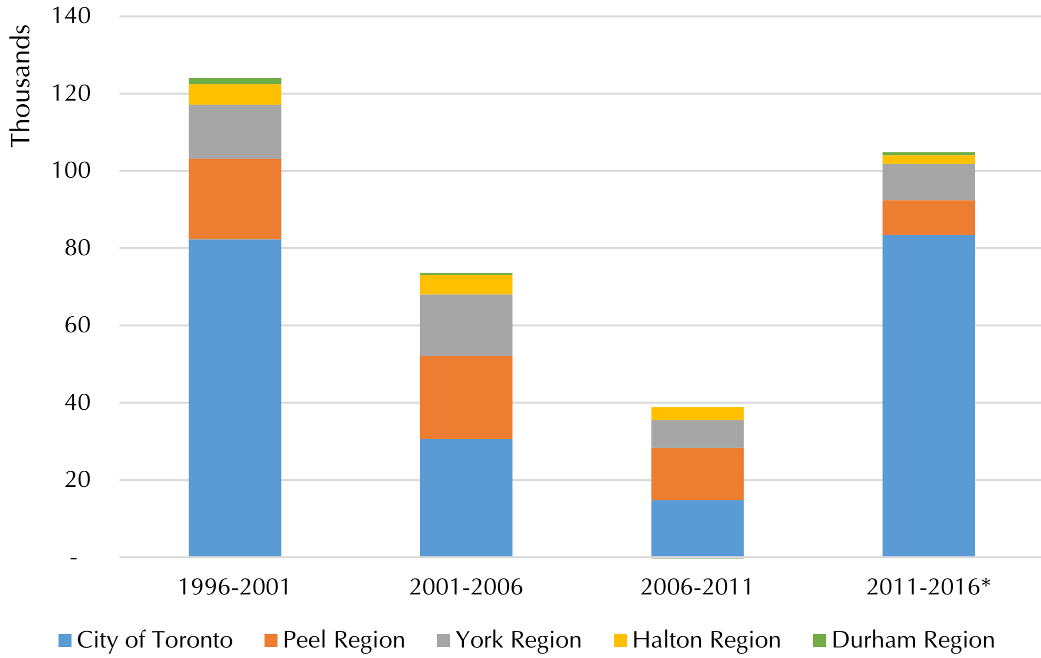
a. Major Office Employment Growth

Figure 5 shows total major office employment growth from 1996 to 2016 across the GTA, including the City of Toronto and surrounding upper-tier municipalities. For the purpose of this analysis, "major office" is defined as any office building over 20,000 square metres (215,300 square feet).

From 2001 to 2011, the City of Toronto accounted for roughly 40 per cent of all major office employment growth across the GTA, down from 66 per cent over the previous five year period. The City's share of employment growth increased significantly to nearly 80 per cent over the 2011-2016 period. It is noted that while major office employment growth in the City of Toronto was relatively high over the 1996-2001 period, the majority of this growth was related to previously existing, but vacant, office space.

Figure 5

Major Office Employment Growth in the GTA, 1996-2016

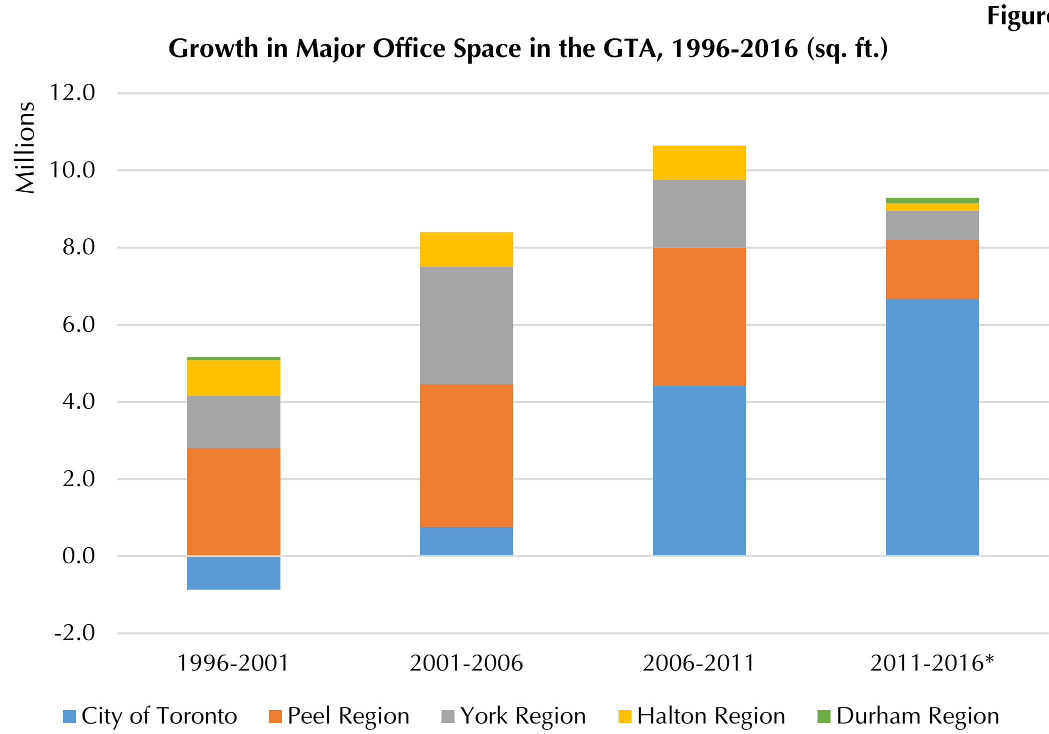


*2016 data based on estimated by Hemson Consulting Ltd. Previous years represent Statistics Canada Census information.

b. Major Office Space Growth

Figure 6 shows growth in major office space over the same period. The City of Toronto's share of GTA major office space growth has grown drastically over the past decade. Following negative growth over the 1996-2001 period and a nine per cent share of GTA growth over the 2001-2006 period, Toronto accounted for a 41 per cent share of major office space growth in the GTA from 2006 to 2011, and a 72 per cent share over the 2011-2016 period. By comparison, Peel Region's share of major office space growth has steadily declined from 64 per cent over the 1996-2001 period to less than 17 per cent over the 2011-2016 period.

Figure 6

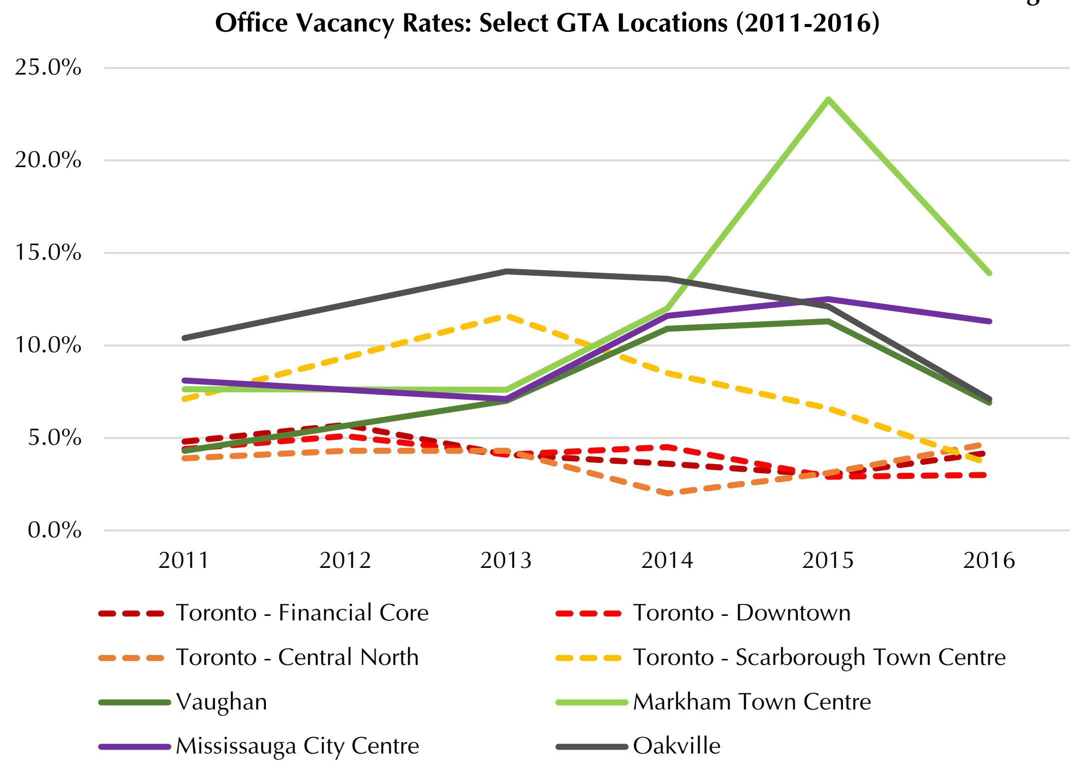


*2016 data based on estimates by Hemson Consulting Ltd. Previous years represent Statistics Canada Census information.

c. Office Vacancy Rates

Figure 7 shows recent office vacancy rate trends within four Toronto locations along with four GTA locations. Over the past five years, office vacancy rates in Toronto's Financial District, Downtown, and Central North areas have remained near or below 5%. The 2016 Toronto Employment survey cites the City's downtown office vacancy rate as the lowest of all major office markets in North America; this is despite large amounts of office space supply being added to the market over recent years. Toronto's vacancy rates have also generally remained lower than that of suburban locations, a trend that became more pronounced after 2013.

Figure 7



Source: GTA Office Statistics, Colliers International
Note: 2012 data unavailable for Scarborough, Vaughan, Markham, Mississauga, and Oakville; average between 2011 and 2013 assumed.

d. The Outlook for Downtown Office Growth

Preliminary results of analyses undertaken by Hemson Consulting as part of the City's TOcore planning initiative indicate that office development and employment growth in the City's Downtown is anticipated to remain very strong through the coming years. However, rates of growth are expected to vary across the Downtown:

- The Financial District is expected to continued to accommodate most of the Downtown office growth, due to superior transportation access and proximity to existing Financial District enterprises;

- Continued growth is expected to be limited in north of Queen Street, in the Waterfront/Distillery area, and in Liberty Village. This is due to lack of market interest, a lack of suitable development sites, and/or limited access to higher order transit; and

- The King-Spadina and King-Parliament areas are able to accommodate significant growth; however, there is significant residential development pressure in these areas. The City is considering introducing policy measures to increase the share of non-residential growth at these locations.

With strong employment growth expected to continue, historically low office vacancy rates, and a number of major transit investments and other measures in place to support employment growth and retention, incentives offered for office development through the IMIT Program are operating in a very different context than in 2008.

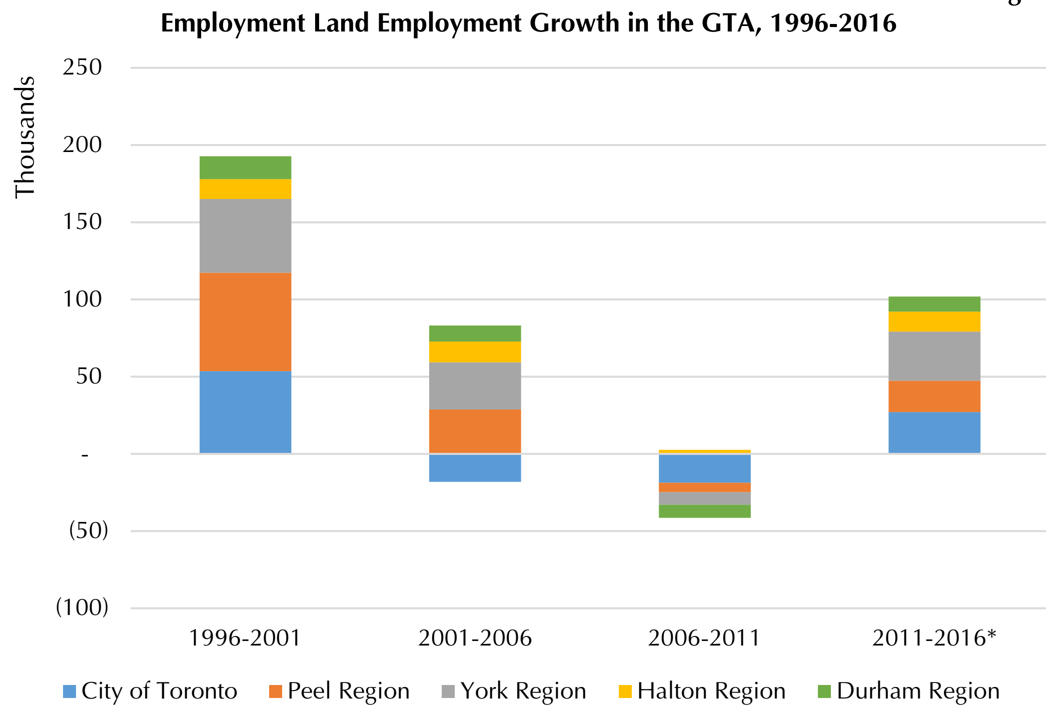
4. GTA Industrial Market

Figure 8 shows total employment land employment growth across the GTA from 1996 to 2016. Employment land employment refers to employment accommodated primarily in low-rise industrial-type buildings, the vast majority of which are located within industrial areas and business parks.

Employment land employment growth in Toronto, and across the GTA, was relatively strong in the late 1990s. Nearly 54,000 employment land jobs were added to the City from 1996 to 2001; a 27 per cent share of the total GTA employment land growth of roughly 196,000 jobs. However, from 2001 to 2011, the City lost nearly 37,000 of jobs in this category. While municipalities across the GTA faced challenges in retaining and attracting industrial employment over this period, particularly during the recession of the late 2000s, Toronto experienced the most significant job losses. There is some evidence that Toronto's industrial sector has strengthened over the past five years, along with surrounding municipalities.

Despite recent growth in overall employment land employment, the 2016 Toronto Employment Survey cites a decline in manufacturing establishments over the past decade. In 2016, the City lost an estimated 110 manufacturing establishments, representing a decline of 2.2 per cent.

Figure 8



*2016 data based on estimates by Hemson Consulting Ltd. Previous years represent Statistics Canada Census information.

B. Financial Factors

A number of financial factors affecting development costs and rents were analyzed, along with the potential municipal finance impacts of the IMIT Program. Results of these analyses are summarized below.

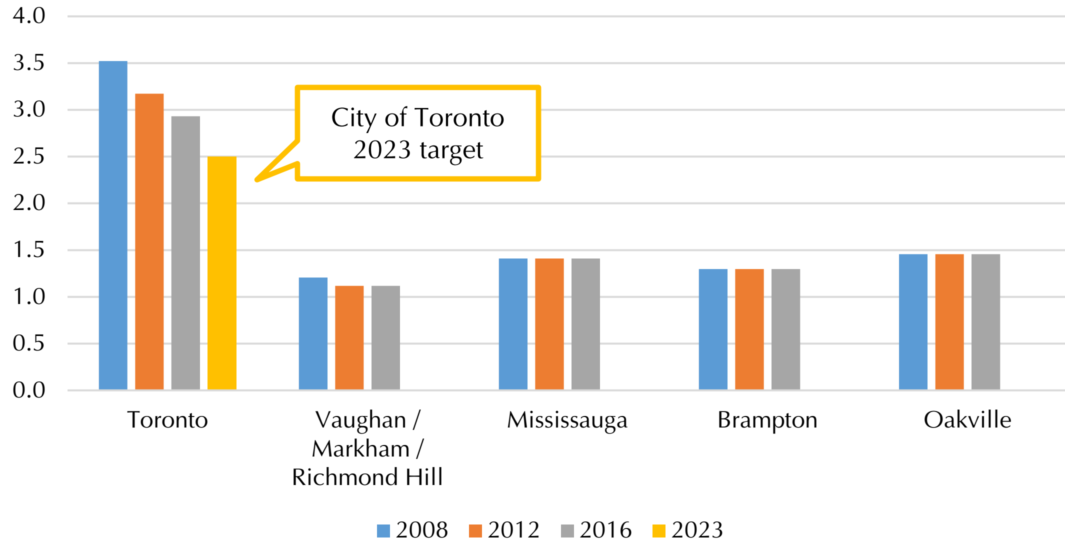
1. GTA Office Development: Cost Comparison

a. Property Taxes

Property taxes are key component of a tenant's occupancy costs and are the heart of the IMIT Program. For many years non-residential properties in Toronto have been taxed at a much higher rate than in surrounding municipalities. Figure 9 provides a comparison of tax ratios for office uses across the GTA. As mentioned previously, the City has actively been working to reduce its commercial tax ratio with a goal of 2.5 times the residential rate by 2023 – by comparison, the ratio in 2008 was over 3.5. While the gap is becoming less pronounced over time the ratio is still roughly twice the level of 905 municipalities.

Figure 9

Office Tax Ratios: Select GTA Locations (2008-2016)

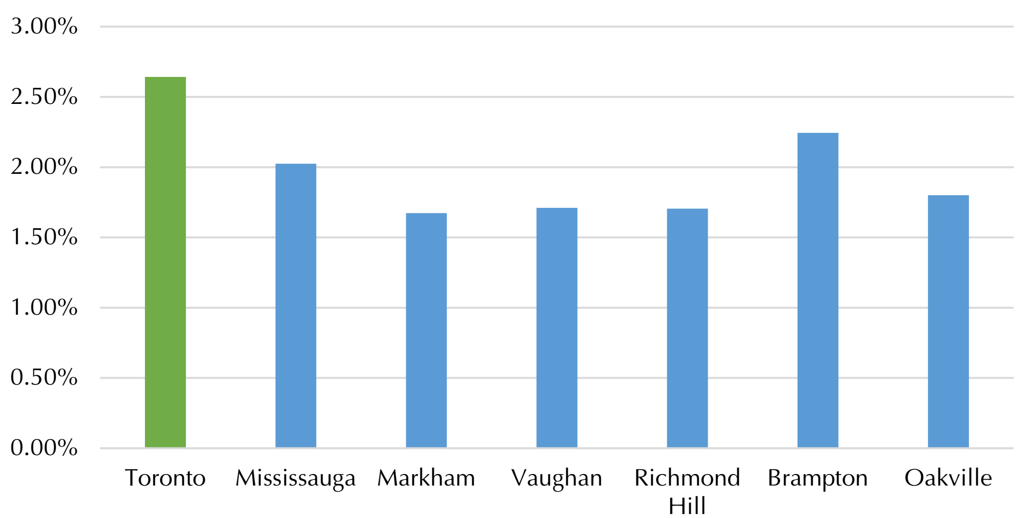


Note: Upper and lower tier property taxes included. Education taxes excluded.

Notwithstanding its high commercial tax ratio, the City of Toronto performs more competitively when comparing commercial/office tax rates, as shown in Figure 10. The effect is moderated by the City's comparatively low residential tax rates on calculated commercial tax ratios. Toronto's total 2016 tax rate of 2.64 per cent for office uses is only 18 per cent higher than Brampton's office tax rate and 30 per cent higher than Mississauga's office tax rate.

Figure 10

Office Tax Rates: Select GTA Locations (2016)



Note: Includes all applicable upper tier, lower tier, education, and transit property tax rates.

b. Development Charges

In most municipalities in the GTA, development charges are a significant component of the overall costs of development. Accordingly, like other cost elements, they are factored into rent rates.

In contrast to property taxes, development charges for office uses in Toronto are dramatically lower than other GTA municipalities (Table 2). Excepting the ground floor, the City does not impose development charges for any non-residential uses. Only a small amount of $1.07 per square foot applies for Education Development Charges (EDCs). By contrast, other GTA municipalities reviewed charge a total of between $22 and $30 per square foot for office development.

Considering the minimum IMIT Program requirement of 500 sq. m. (nearly 5,400 sq. ft.) of new eligible uses, an above-ground floor addition of this scale would pay less than $5,800 in development charges in Toronto, while a similar development in Mississauga would be charged a total of $160,000. It is noted, however, that Toronto's development charges exemptions for non-residential development are currently under review.

Because development charges are a one-time fee and form part of the capital cost of a development, they are difficult to isolate as a component a tenant's annual rents, operating costs and taxes. However due to their significance it is important that the impact of development charges be accounted for in the analysis. To do so, development charges for key GTA municipalities were annualized based on a 40-year term and a 7.0 per cent interest rate. The 40-year term corresponds with the typical useful life of a building. The resulting amounts are a reasonable estimate of the component of a new building's base that is attributable to DCs. The results are shown in Table 2 below.

Table 2 Current Development Charges per sq. ft. Office Space Select GTA Municipalities (2017)		
Municipality	**Total Development Charges per sq. ft. Office Space (2017)**	**Annualized Development Charges per sq. ft. Office Space (2017)**
Toronto	$1.07	$0.08
Markham*	$23.39	$1.75
Vaughan*	$26.57	$1.99
Richmond Hill	$27.20	$2.04
Mississauga*	$29.69	$2.23
Brampton	$24.69	$1.85
Oakville	$22.32	$1.67

*Area-specific development charges may apply.

c. Combined Impacts of Development Charges and Taxes

Figure 11 provides a comparison of annualized development charges and property taxes per square foot across a number of office developments at various locations in the GTA. The development charges component is calculated using 2016 rates, annualized over a 40-year period to reflect the typical useful life of a building. For two Toronto office developments, the analysis considers two scenarios; one without IMIT grants and a second with IMIT grants (also annualized over 40 years). The scenarios assume 2016 as project completion and the start of grant payments. It is noted that IMIT grants for 5000 Yonge St. are notional as this development pre-dated the IMIT program.

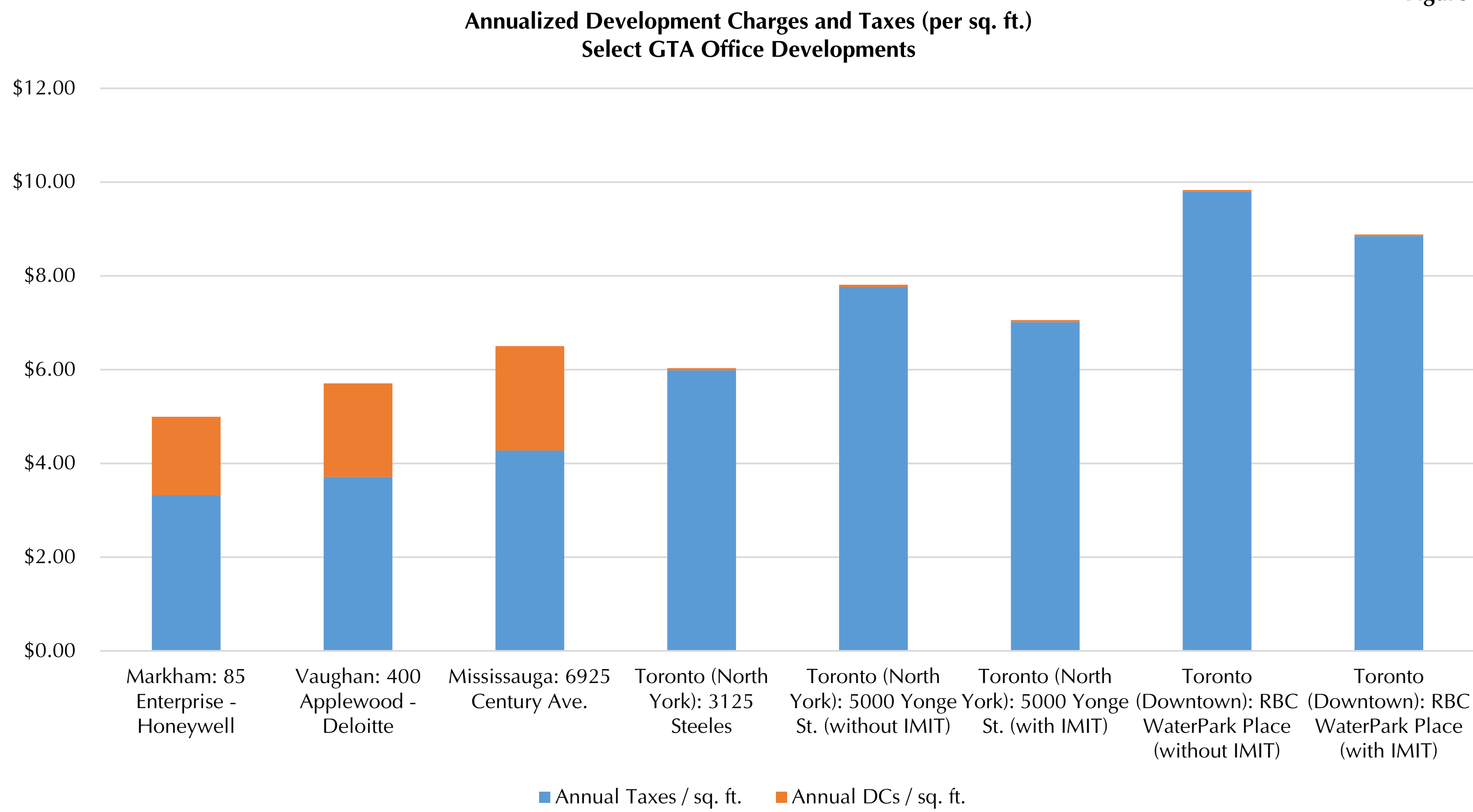
For two of the three Toronto development scenarios (5000 Yonge St. and RBC WaterPark Place), the combined annualized development charges and taxes are notably higher than those of developments in neighbouring municipalities. After factoring in IMIT grants, the costs become more comparable. While costs associated with RBC WaterPark Place remain higher than all other developments that were examined, this is expected due to the high assessed value of centrally located properties within the Financial District and South Core.

Interestingly, estimated costs associated with the office development at 3125 Steeles Ave. in North York appear to be comparable with office developments in neighbouring municipalities. In this case, Toronto's non-residential development charges exemptions appear to counteract the impacts of City's relatively high commercial property taxes. However, as discussed below the viability of office development is impacted by low average rents at this location.

Figure 12 shows annual tax payments as a percentage of annual rent for the same developments. Once again, in the case of RBC WaterPark Place the IMIT grants appear to bring costs in line with other municipalities, although it remains unclear whether this difference would be enough to serve as a deciding factor in the site selection process.

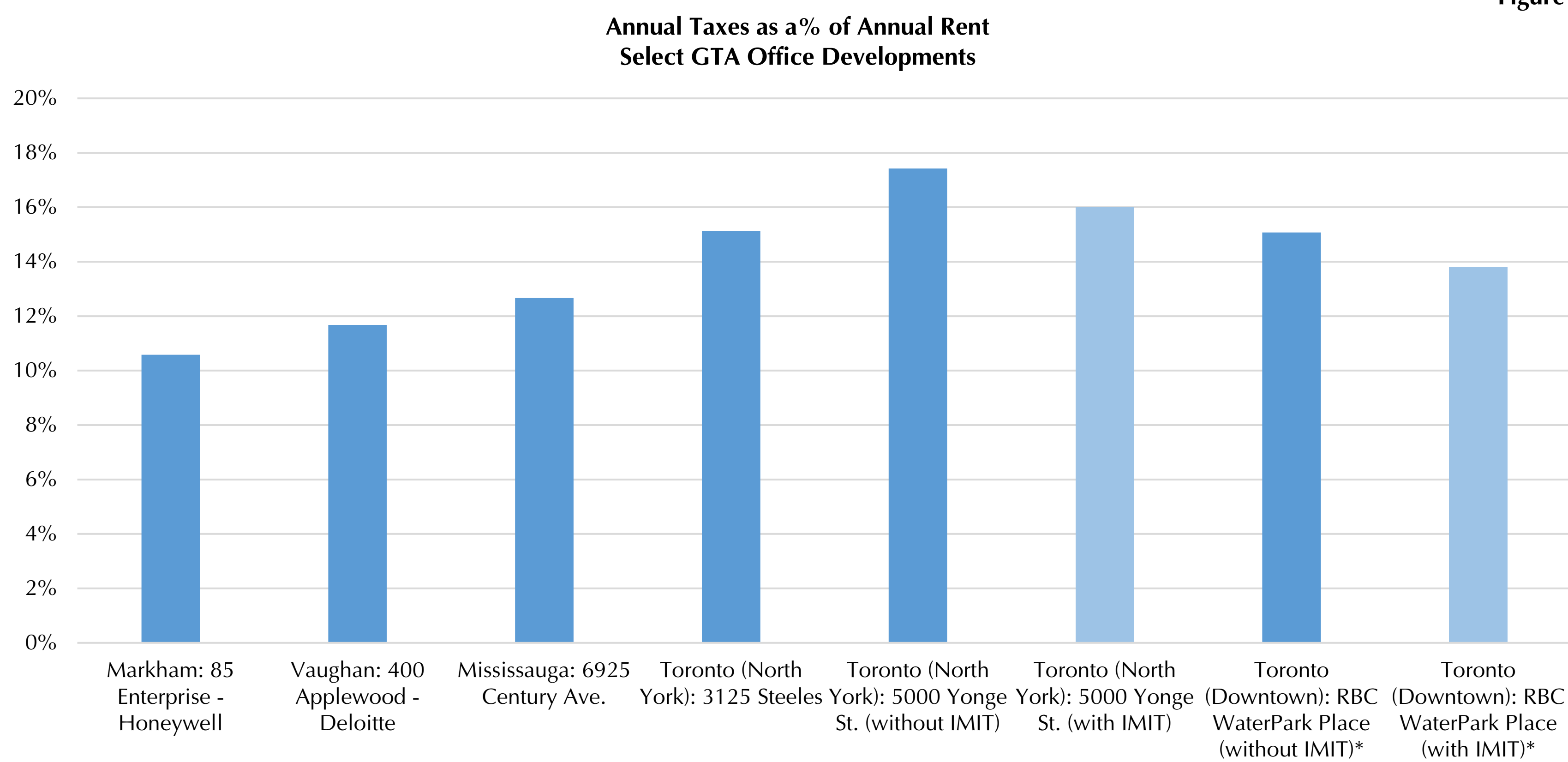
It is noted that in suburban locations in Toronto (5000 Yonge St. and 3125 Steeles Ave.), taxes as a percentage of rents appear to be relatively high even when factoring in the annualized IMIT grants for 5000 Yonge St.. Lower tax-to-rent ratios in nearby municipalities such as Markham and Vaughan may be a contributor to the lack of recent office development (and uptake of IMIT grants) in Toronto's suburban areas.

Figure 11



Notes: Development charges and tax forecasts annualized based on 40-year timeframe; based on $2016. Present value assumed at 7%.

Figure 12



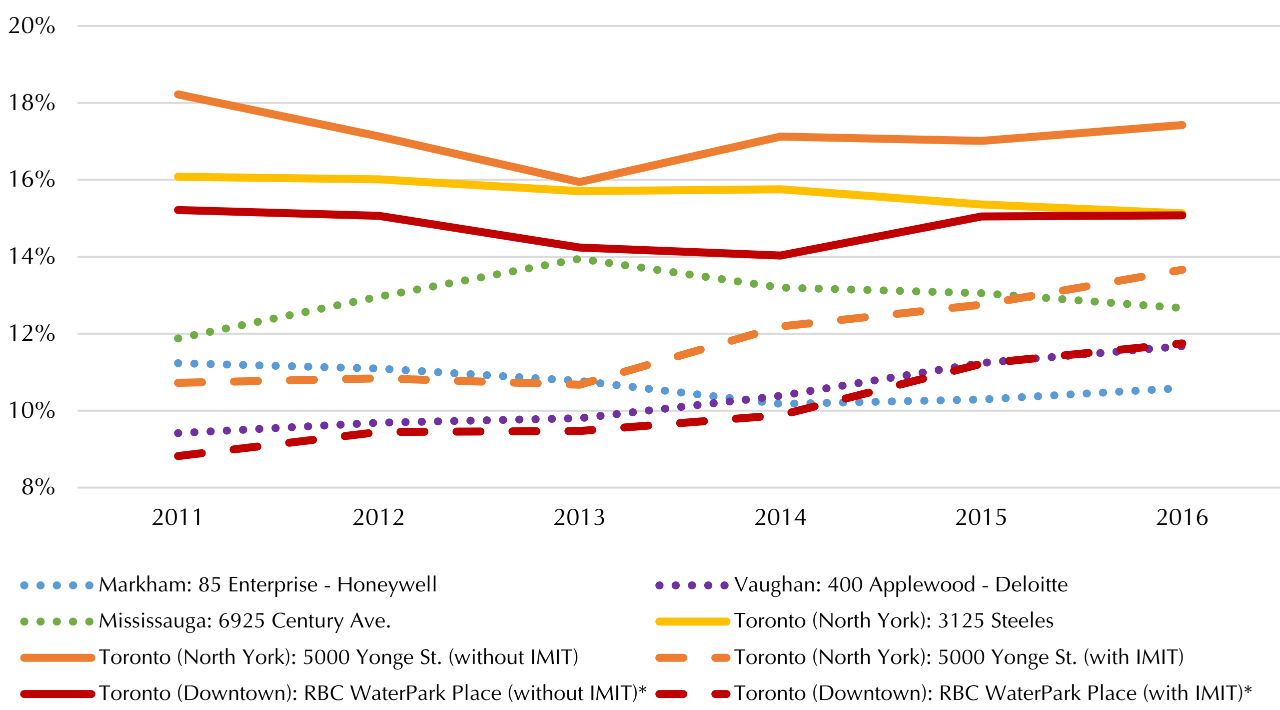
Notes: Tax forecasts annualized based on 40-year timeframe; based on $2016.
*Gross rent of $65 per sq. ft. assumed for RBC WaterPark Place based on comparable office buildings.

Figure 13 also shows a time series of annual taxes as a percentage of annual rent for the same developments using historical estimates for the 2011-2016 period. Annual rent and tax estimates consider historical average annual rent increases (by submarket area) and average annual commercial tax payment increases (by municipality). For the purposes of this comparison, each of the IMIT grant scenarios assumes the first grant payment year to have occurred in 2011.

The analysis illustrates the significance IMIT grants over the first few years of grant payments, when the amounts are highest. This is particularly apparent in the case of 5000 Yonge St. in North York: without IMIT grants, this development appears to be the least viable of all developments based on its relatively low rental revenues (as compared with more central Toronto locations) and high property taxes (as compared with surrounding municipalities). However, after accounting for IMIT grants costs and revenues are much more balanced. In the longer term, as grant amounts decline the impacts of high property taxes become apparent again.

Figure 13

Annual Taxes as a % of Annual Rent (2011-2016 historical estimates)
Select GTA Office Developments



Notes: Historical annual rent increase assumptions based on Colliers GTA Office Statistics reports. Historical annual tax payment increase assumptions based on average annual MPAC valuation increases and historical commercial tax rates within each of the municipalities. Where applicable, IMIT grant payments are assumed to begin in 2011.
*Gross rent assumed for RBC WaterPark Place based on comparable office buildings.

2. Pro Forma Analyses: Hypothetical IMIT Projects

As a way of evaluating the impact of IMIT grants in the overall context of a development, high-level pro forma analyses were undertaken for hypothetical office buildings in three different Toronto locations, with and without IMIT grants. The metric used for comparison in the analysis was Internal Rate of Return (IRR). This metric takes into consideration both the amount of the return on investment and their variations over time. The characteristics of the hypothetical projects are generally representative of office projects that have been approved for IMIT grants to date. Results of the analyses are displayed in Table 3.

Each of the hypothetical scenarios considers a 15-year period beginning in 2017. A four-year construction period is followed by the ten-year IMIT grant payment period. In year 15, the residual property value is calculated using a capitalization rate of 5.0 per cent.

Table 3

Hypothetical Pro Forma Analyses

Location	Financial District	King-Spadina	Yonge & Sheppard
Land Purchase Price	$100 million	$43 million	$26 million
Construction Investment	$365 million	$150 million	$120 million
Gross Floor Area	1.0 million square feet	500,000 square feet	400,000 square feet
Base Assessment	$40 million	$20 million	$12 million
Destination Assessment	$640 million	$220 million	$132 million
Net Rent Rate (2017)	$45 per square foot	$34 per square foot	$22 per square foot
IRR without IMIT Grant	10.2%	9.3%	6.7%
IRR with IMIT Grant	10.7%	9.7%	7.2%
IRR Differential	0.5%	0.4%	0.5%

The IRR differentials with and without the IMIT grants are similar across all three scenarios tested. The calculated IRR for a large office building within the Financial District is roughly 0.5 percentage points higher when factoring in IMIT grants than without the grants. This compares with a differential of 0.4 percentage points for the King-Spadina example, located near the periphery of the City's Downtown, and 0.5 percentage points for an office building in North York along the Yonge Street subway corridor.

In each of these scenarios the IRR differential with and without the grants is not insignificant, although alone it is not likely to serve as a deciding factor in whether to move forward with the development project. However, as discussed later in this report, IMIT grants are considered by developers, leasing agents, and tenants to be influential in leasing decisions.

Also of note is the higher calculated IRR values for development projects located within more central areas of the City. Of the three scenarios, the Financial District development results in the highest calculated IRR by a significant margin both with and without the IMIT grants. This is a function of the markedly higher average asking rents, while land costs and construction costs per square foot of development do not vary to the same extent. As a result, office development within the Financial District is profitable and not likely to be reliant on financial assistance within the current market.

Development in locations such as North York may not be as attractive as compared with nearby municipalities that offer similar rents, lower tax rates, lower land costs and greater parking availability. While peripheral areas of the City's Downtown do not face these challenges to the same extent, average rents are lower than in the Financial District in part due to limited access to higher order transit and other key amenities. As a result, it may be more difficult to attract tenants to areas outside of the City's core. It is possible that through improving rent affordability, the IMIT grants would help in attracting tenants and factor into the site selection process to a greater extent.

3. IMIT Program Municipal Finance Impacts

The 45 development projects which have been approved or submitted under the IMIT Program to date are estimated to result in total grant payments of nearly $685 million, in current dollars over the 10- to 12-year terms of the grants. On an annual basis grant payments associated with these projects average out to $26 million per year but will fluctuate over the coming 20-year period, from the 2016 grant payment amount of just over $18 million to a peak of approximately $47 million in 2022. Following 2022, the total annual grant payments associated with these projects would gradually decline and be completed by 2037.

Potential impacts of these annual grant payments on the City's overall tax revenues are indicated in Table 4. It is noted that the analysis assumes that the projects, which bring significant new tax revenues to the City, would have been completed without the grants. The 2016 total grant payments of $20 million would represent 0.5 per cent of the City's total 2016 tax levy of nearly $4.0 billion. As such, assuming that the grants are not a factor in site selection decisions, by discontinuing the IMIT Program the City's overall tax revenue needs could be reduced by 0.5 percent, and accordingly all property owners would owe 0.5 per cent less in annual City taxes. Similarly, an annual grant payment of $20 million would have the potential for a 1.3 per cent impact on the City's overall commercial and industrial tax revenue needs ($1.5 billion in 2016).

The 20-year average annual grant payment of $32 million would represent a 0.8 per cent share of the City's overall 2016 tax levy, and a 2.1 per cent share of the 2016 commercial and industrial tax levy. Therefore were the IMIT program to be discontinued, commercial and industrial landowners could owe 2.1 per cent less in annual City taxes.

The anticipated peak annual grant payment of $55 million would represent a 1.4 per cent share of the City's overall 2016 tax levy, and a 3.7 per cent share of the commercial and industrial tax levy.

Table 4
IMIT Program Potential Tax Levy Impacts

Total Annual IMIT Grant Payment	Proportion of Overall 2016 City Tax Levy	Proportion of 2016 City-wide Commercial and Industrial Tax Levy
$20 million (2016 actual)	0.5%	1.3%
$32 million (average)	0.8%	2.1%
$55 million (2022 peak)	1.4%	3.7%

The average development project approved under the IMIT program owes nearly $2.5 million in annual City taxes (in 2016$). A 3.7 per cent reduction in property taxes would represent over $90,000 in annual tax savings for such a property.

C. Consultation Results

Consultation with a range of stakeholders was an important element of the IMIT program review. The process involved 14 stakeholder telephone interviews, a public and stakeholder consultation event which attracted 25 attendees, three Advisory Panel meetings, and a number of meetings with City of Toronto Economic Development, Corporate Finance, and Planning staff. The following presents a summary of input heard throughout the study process. The summary is organized according to specific aspects of the IMIT program and the projects which have been approved.

1. Office Development within the Financial District and Inner Downtown

- All telephone survey participants indicated that IMIT grants translate directly to reductions in gross rents for tenants. Brokers and large tenants are very aware of the program, and the grants are generally highly valued by tenants. The grants help offset costs associated with moving and the higher rents typically associated with new office buildings. For some tenants, the grants can serve as a tipping point in the decision to move or consolidate into a new building.

- Comments regarding the applicability of the program's "but for" assumption were varied:

  - In most cases, IMIT grants were not the deciding factor in the site selection process. For large office tenants and landowners in the downtown area, the most important factors driving decision-making are access to Union Station, higher order transit, and the underground PATH. Other important factors include the ability to attract talent (e.g. millennials) and opportunities for more efficient, flexible, and collaborative workspace offered by new buildings.

  - Others believe that the IMIT Program can be a significant factor in decision-making and has served as a catalyst for office development, particularly in the South Core.

- Many comments were made regarding the changing context of the South Core area. Whereas in years past the South Core was seen as remote, today given the significant amount of development that has occurred over the past several years, it is now viewed by large businesses and their employees as one of the most attractive and vibrant areas in the City. This, combined with its now excellent access to Union Station and PATH, is negating the need for tax incentives in this area.

- The new major office buildings in the City's core enable much more efficient use of space than previous designs. This in turn can result in cost savings and greater flexibility for tenants. For this reason, many of Toronto's large businesses are relocating and consolidating their offices into newer buildings notwithstanding higher base rents which in early years may be partly offset by IMIT grants.

- The CIP definitions and eligibility requirements for the various office typologies are viewed by many stakeholders as overly complicated. Several participants suggested simplifying the program's eligibility requirements for office uses.

2. Office Development in Other Areas of the City

- In areas around the periphery of the City's downtown, IMIT grants are seen as an important factor in decision-making and can significantly offset the viability of office development.

- As it is difficult to attract office tenants to areas that do not have direct GO Transit or subway access, IMIT grants help to level the playing field.

- Most office tenants are aware of the IMIT Program and factor in reduced property taxes when evaluating whether to relocate. Some tenants will not consider a building unless an IMIT grant, or equivalent amount, is provided.

- For more peripheral auto-oriented parts of the City (e.g. North York, Scarborough), IMIT grants are in most cases not enough to overcome other negative market factors relative to surrounding municipalities. These factors include commercial tax rates that are significantly lower rents and free or inexpensive parking.

3. Other Sectors and Uses

- Other sectors and uses such as manufacturing, film, and information technology were originally viewed as being the most appropriate targets for the IMIT Program, but in practice account for only a small percentage of the total grant payments under the program. Some stakeholders suggested that the program should place greater emphasis to these core sectors.

- Many believe that the eligible sectors and uses should be simplified within the CIP.

- There is overall support for maintaining or enhancing grants for the manufacturing sector particularly given the decline in employment that has occurred and the aging of the building inventory. There was also support for wholesaling uses.

- Most GTA municipalities offer incentives for manufacturing and wholesaling uses, and there is significant tax competition in the US. The IMIT Program is considered an important contribution to Toronto's effort to remain competitive with these areas.

- Grants are perceived as essential to the viability of many non-profit and creative industry projects.

- There is a sense that many smaller businesses, particularly within the creative industries and manufacturing sector, may not be aware of the IMIT Program. Accordingly, the program may benefit from enhanced marketing and promotion efforts.

4. Brownfield Remediation Tax Assistance Program

- Overall, the BRTA program is viewed as an effective program which serves its purpose in promoting the remediation and use of contaminated sites.

- Currently, costs incurred for environmental testing and related studies up to 12 months prior to submission of a BRTA application are eligible for grants. However, remediation costs are only eligible if they are incurred after grant approval. As project timelines often make it difficult to wait for grant approval before beginning remediation work, it was suggested that remediation costs incurred one year prior to BRTA approval should be eligible for grants.

- In the case of designated heritage properties the program should be expanded to provide for grants related to the clean-up of buildings (e.g. removal of asbestos and lead).

5. Grant Amounts and Payment Schedules

- In making leasing decisions, most tenants consider grant amounts in their totality over the 10- or 12-year period. For this reason the declining grant payment structure, with higher annual grants over the first several years of the period, is not necessarily perceived as being of greater benefits than a fixed annual amount.

- Several participants suggested moving away from the declining grant payment structure and toward a "flat" structure. For example, a constant annual grant amount equal to 60 per cent of the municipal tax increment may be offered over the 10-year payment period.

- Few comments were made regarding overall grant amounts. There was a suggestion that the overall grant amounts be lowered as many surrounding municipalities, such as the Cities of Vaughan and Hamilton, offer tax increment equivalent grants at lower amounts (e.g. 40 per cent of the municipal tax increment over the 10-year period, or 60 per cent over a five-year period).

6. Other Program Requirements

- Several participants suggested introducing minimum employment requirements. There was a view that the program places too much focus on construction value and gross floor area, and not enough on the number of jobs associated with the eligible projects.

- Several comments were received regarding the local employment aspect of the program. Many beneficiaries of the program considered that this requirement should be clarified further within the CIP by-laws. Some participants also suggested strengthening this requirement.

- Some participants suggested strengthening the program's Toronto Green Standard requirement to encourage more sustainable design features. However it is of note that this requirement was a key reason for applications being withdrawn.

7. Administrative and Legal Issues

- It was suggested that a requirement that Council approve all IMIT grants would improve accountability and transparency.

- All grants under the IMIT Program are administered as rebates. This can be a burden for smaller businesses, creative industries, and non-profit groups. It would be preferable if grants were provided in the form of partial tax cancellations.

- Often because of administrative practices, the development charge exemption that IMIT projects are granted are often not applied to eligible non-retail ground floor uses.

8. General Comments and Related Issues

- Several concerns were raised regarding the City's current Development Charges review as well as the City's ongoing plans for reducing the commercial and industrial tax ratios:

  - The possibility that the current non-residential development charge exemptions be reduced or eliminated combined with a potential scaling back of IMIT grants is giving rise to higher levels of uncertainty and risk.

  - Many stakeholders raised concerns over the City's overall commercial and industrial tax rates being significantly higher than those of surrounding municipalities. Generally, commercial and industrial tax rates were believed to have a greater impact on site selection and location decisions than the IMIT grants.

  - While the IMIT Program may not in itself be a deciding factor in development decisions it is important within the context of the other factors that play a role. A holistic approach to economic development is needed which addresses development charges, tax rates, and investment in transit and other services.

The consultation process was helpful in developing an understanding of the various perceptions around the IMIT Program, its impacts on site selection and development decisions, and how these perceptions have evolved over time. Perhaps the key takeaway from these discussions was the degree to which office development trends have changed over the past five years within the City's core. While the IMIT Program is valued and is likely to have served as an important catalyst for many of the new major downtown office developments, and in particular, development within the South Core area, there are now many market factors which make these areas highly attractive to developers and tenants. Conversely, it appears that due to relatively high tax rates and other costs, market challenges remain for office development outside of the City's downtown, as well as for growth in other targeted sectors and uses.

D. Literature Review

A review of academic literature on the topic of property tax incentives was undertaken and is summarized within Appendix B. Generally, the available literature points to a lack of evidence that tax incentives significantly impact site selection and development decisions as property taxes represent a relatively small component of total business operating costs (e.g. labour, utilities, corporate taxes). The impacts of tax incentives can be improved with refined eligibility criteria, transparent and discretionary grant approval processes, and through the use of sunset provisions and caps on total grant payments.

E. Comparative Programs

A review of comparable tax incentives in Ontario and the US was undertaken to develop an understanding of common practices, successes, and challenges faced by other municipalities in administering similar grant programs. One key finding of the review is the success many programs have had with awarding grants on a discretionary basis. For example, Niagara Region's Tax Increment Based Grant Program determines eligibility and grant amounts through a points-based evaluation system. Regional staff have indicated that this method functions well in practice, and has not been administratively onerous. Further detail on comparative programs is provided within Appendix C.

V KEY FINDINGS AND RECOMMENDATIONS

Nearly a decade following the introduction of Toronto's IMIT property tax incentive program, 2017 IMIT Program Review examined:

- The impacts of the program to date, and how it may have influenced non-residential development patterns across the City;
- Whether the IMIT Program is still necessary within the City's current context; and
- To what extent the program is still needed, and how it may be improved to better meet its objectives.

This section presents a summary of key findings, followed by a set of program refinement recommendations. The findings and recommendations were the result of the extensive stakeholder consultation, research, and market and financial analyses described throughout this report. A summary of key findings and recommendations is provided in Table 5.

A. Summary Of Key Findings

The IMIT Program, among other economic development initiatives, was introduced in 2008 to address market challenges at the time and incentivize employment growth and retention in targeted sectors. Since that time, employment growth in Toronto has been significant. While this trend has been influenced by a number a market factors, the IMIT Program has importantly enabled many developers and landowners to offer more competitive rents, resulting in greater affordability for tenants. As a result the program has improved the viability of new development, and in turn has helped to retain and attract employment and development within the City. Specifically, it has been a catalyst in the transformation of the South Core and Waterfront.

In recent years, Toronto's non-residential real estate market has evolved considerably and its economic development needs have changed, thus meriting a review of the IMIT Program. Key findings from the IMIT Program Review are summarized below.

1. The Office Market in Toronto's Core is Very Strong

Over the past several years, there has been a shift in GTA employment growth trends and once again Toronto, and specifically its downtown core, has become a focal point for growth. Downtown office vacancy rates are at a historical low, despite large amounts of office space supply being added to the market over recent years. The

South Core area, located immediately south of the current boundaries of the Financial

District, has been transformed from a largely vacant area cut off from the City by the railway tracks, to a vibrant mixed use community anchored by many large office developments and well-connected to Union Station, PATH, and many other important amenities. Again, it is likely that the IMIT Program has played a role in catalyzing this transformation, particularly during its early stages.

Like many major cities, Toronto has seen increasing demand for new, centrally located office buildings which offer flexible work spaces, efficient design features, and other amenities which contribute to significant cost efficiencies while helping to attract talented workers. At the same time, the City is planning a number of major transit projects which will further improve connectivity to the core and make this area increasingly attractive for office development.

There are many market factors contributing to strong office demand in the Financial District and South Core. While grants are valued by landowners and tenants, it is unlikely that the IMIT Program serves as a deciding factor in most site selection processes within the current context of these areas.

2. Office Development Outside of the Core Continues to Face Market Challenges

Office development toward the periphery of the City's Downtown faces unique challenges. With strong residential development pressures, the City is struggling to achieve a balance of non-residential development in areas such as King-Spadina and King-Parliament. Further, without direct access to Union Station and subway routes, securing tenants can be more of a challenge than in the Financial District. IMIT grants may help to encourage a healthy mix of land uses and office building typologies in these areas.

Areas outside of the Downtown, such as North York, Scarborough, and Etobicoke, face significant barriers to office development. Toronto's commercial tax rates are higher than other GTA municipalities, average rents are much lower in these areas as compared with central areas of the City, and more cost effective surface parking opportunities are limited. As a result, office development in these areas faces significant competition from neighbouring municipalities. In this regard, there has been no uptake of suburban office IMIT grants to date. Despite the lack of investment, market conditions may change over time with continued transit improvments, low Downtown vacancy rates, and declining commercial tax ratios. In the future, IMIT grants may play a greater role in tipping the scales toward office development outside of the core.

3. Grants are Valued for Other Targeted Sectors

Non-office sectors and uses represent a relatively small percentage of committed IMIT grants to date. However, sectors such as manufacturing, creative industries, incubators, and information technology are valued components of Toronto's economy. The manufacturing sector has experienced a downward employment trend over the past decade. Other sectors similarly face financial challenges, as many neighbouring municipalities offer lower tax rates and land costs. The IMIT Program continues to be helpful in retaining employment and encouraging job growth in these sectors.

4. The IMIT Program is Complex, and Should be Streamlined

The IMIT Program operates under three Community Improvement Plan (CIP) bylaws, and its eligibility requirements and geographical variations are difficult for many applicants to understand. For example, the City-wide CIP includes three distinct definitions and sets of eligibility requirements related to office development. Many of the program's conditions, such as its local employment requirements, are not well understood by applicants. Following years of program implementation, the IMIT Program Review presents a valuable opportunity to identify inefficiencies and administrative issues, simplify the CIP by-laws, and streamline administrative processes.

B. Program Recommendations

The outcome of the IMIT Program Review is an overall recommendation for the program to be continued, but revised and streamlined to better target the sectors, uses, and geographic locations which are most influenced by the grants. A set of 15 program refinement recommendations are detailed across the following pages.

1. Simplify the Program

The IMIT Program applies City-wide, but currently operates under three distinct Community Improvement Plans. Each of these CIPs is similarly structured, and there are few variations in project eligibility. Consolidating These CIPs into a single by-law would help to simplify the program and provide greater clarity around project eligibility for potential applicants. As is currently provided within the Waterfront CIP, the City should define Focus Areas (e.g. Financial District Focus Area), as needed, to introduce area-specific eligibility requirements.

Generally, the sectors and uses which are eligible under the current City-wide CIP should continue to be eligible under a single amended CIP by-law. However, the City is encouraged to simplify the wording around eligible sectors and uses and their definitions within the CIP by-law. Particularly, there are opportunities to simplify IMIT office eligibility. This is discussed in further detail across the following pages.

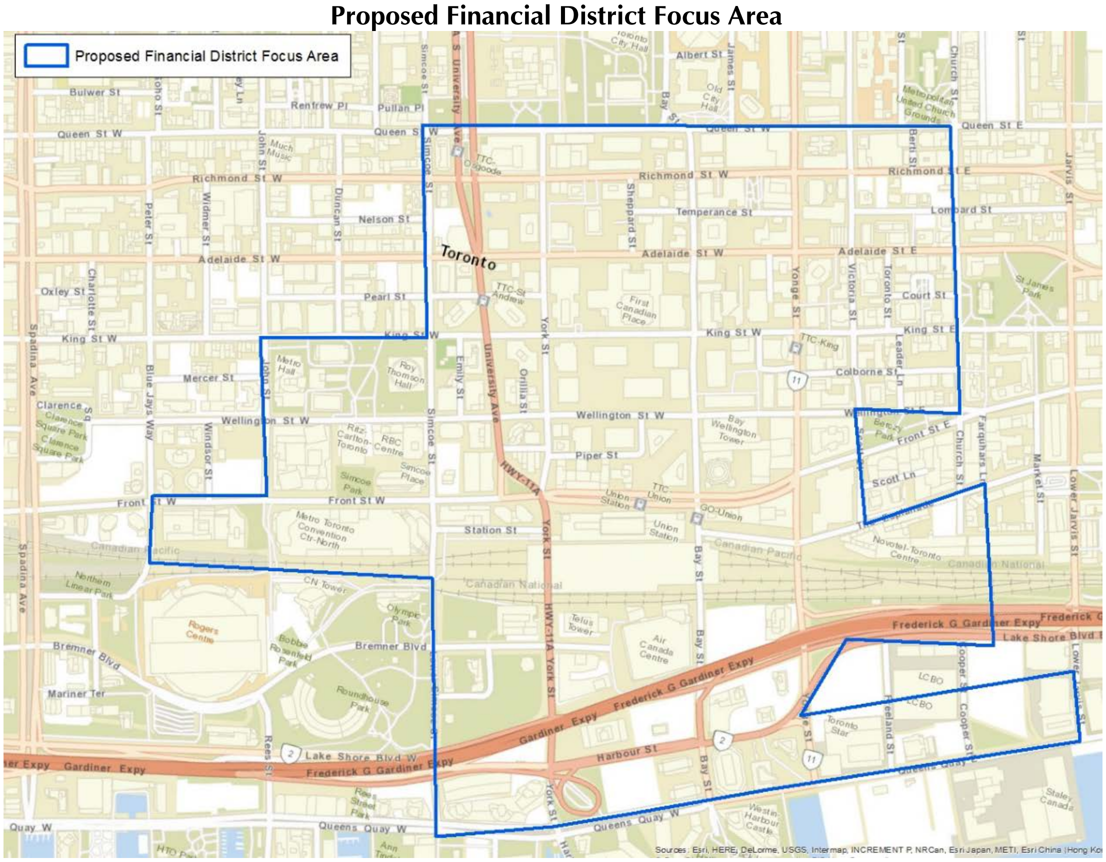
2. Restrict Office Eligibility in the Financial District

Toronto's Financial District and South Core benefit from direct access to Union Station and PATH. The office market in these areas is currently very strong, and growth in this market would likely continue without the IMIT grants. As such, it is recommended that office eligibility be restricted in this area.

As part of the TOcore planning initiative for the City's Downtown area, an expansion of the Financial District boundaries is currently under consideration. This expansion would include the South Core along with expansions to Church Street in the east and John Street in the west. It is recommended that a Financial District Focus Area be created under the CIP by-law, consistent with the City's planned expansion to the Financial District boundaries, as shown in Figure 14. All IMIT Program eligibility for office projects within this area should be removed, with the exception of projects which qualify under the Transformative Project category. It is noted the refined eligibility criteria for Transformative Projects is suggested later in this section.

Figure 14

Proposed Financial District Focus Area



A decision to remove IMIT Program eligibility for office developments should be weighed carefully with related City initiatives impacting office development such as the ongoing development charges review. The City may also wish to consider a phased approach to eliminating office eligibility in the Financial District to reduce the risk of any sudden shocks to the local office market. For example, for a period of time the TIEGs may be capped at 30 per cent of the municipal tax increment over the 10-year grant payment period.

3. Maintain and Simplify Office Eligibility Outside of the Core

For office development outside of the Financial District, the IMIT Program has many merits. It helps to address barriers associated with high commercial tax rates, encourage employment growth, and support a greater mix of uses in areas that face significant residential development pressures.

In certain ways, it would be appropriate to allow for more permissive office eligibility criteria outside of the expanded Financial District. Currently, the CIP by-laws include three distinct office categories: Corporate Office Building, Corporate Headquarters, and Other Office Building. It is recommended that these definitions and eligibility requirements within the current by-laws be removed and replaced with a single definition for Office Building. A suggested by-law definition for Office Building is as follows:

> Office Building: A building with a minimum GFA of 5,000 square metres in which at least 80% of the GFA is used for offices, and which is not located within the Downtown.

This proposed definition would allow for more permissive office eligibility outside of the core. Currently, for sites which are not located within 800 metres of a rapid transit station, office eligibility is limited to certain sectors. Conversely, under the proposed Office Building definition any office building which meets the stated GFA requirements, and is located outside of the expanded Financial District, could be eligible for the grants. While it is likely that uptake of the IMIT grants in areas not served by rapid transit will remain limited in the near term, these simplified requirements will help to clarify the program for many applicants.

4. Maintain or Enhance Grants for Other Sectors and Uses

Together, approved IMIT grants to date for manufacturing, wholesaling, convergence, incubator, information services and data processing, film studios, creative industries, and tourism combined represent only 14 per cent of the IMIT Program's committed grants. However, these represent key industry sectors which are valuable components of Toronto's economy. It is recommended that the IMIT grants be maintained City-wide for the program's non-office targeted sectors and uses.

Currently, the IMIT Program allows for enhanced grants for eligible uses within designated Employment Districts and Employment Areas. It is recommended that this provision be removed and eligibility for enhanced grants be determined based on sectors and uses rather than geographical requirements, as described below.

Enhanced grants are appropriate for certain sectors and uses which face particular barriers to locating in Toronto. It is recommended that the following sectors be eligible for grants totalling up to 70 per cent of the municipal tax increment over the 10-year grant payment period (or 77 per cent over a 12-year period when combined with BRTA grants):

- Manufacturing;
- Food and Beverage Wholesaling;
- Creative Industries;
- Film Studio Complexes;
- Convergence Centres; and
- Incubators.

Many of the City's business incubators and accelerators, and specifically its non-for-profit incubators, are being financially challenged because of recent large increases in property tax payments resulting from changes in assessments. The City may wish to consider providing additional assistance for these uses, such as property tax rebates for existing incubators and accelerators. It is noted that as per the *Planning Act* existing developments are not eligible for grants under a Community Improvement Plan; as such, these grants would need to be provided separately from the IMIT Program.

5. Strengthen Eligibility Criteria for Transformative Projects

Eligibility under the Transformative Project category should continue to apply throughout the City, including within the Financial District. Grants under this category should remain discretionary and subject to Council approval. It is recommended that the by-law definition for Transformative Projects be strengthened as follows:

> Transformative Project: A large development that must demonstrate the following attributes by way of a business plan:
>
> - A minimum investment of $400 million;
> - A minimum of 100,000 square metres of new space that will be constructed and occupied within a 5 year time period;
> - The creation of over 3,000 jobs;
> - The ability to link the project to regional transit initiatives;
> - The provision of significant amenities that will be accessible to the public and transform the character of the area;

- The ability to act as an anchor within its district and stimulate collateral new investment;
- The co-location of activities that will have a regional (GTA) impact creating new wealth in the community; and
- Its need for financial incentives in order for the development to be economically viable.

6. Enhance the Brownfield Remediation Tax Assistance Program

The BRTA program has generally been successful in addressing some of the barriers to brownfield remediation and development. It is recommended that along with environmental testing costs, costs incurred for remediation within 12 months prior to the submission of an application for the BRTA program be eligible for assistance.

While the stakeholder consultation process raised the issue of potentially providing BRTA grants for the clean-up of designated heritage buildings, the BRTA program may not be the appropriate tool for this type of assistance. It is recommended that the City explore this opportunity through other avenues such as the Toronto Heritage Grant Program.

7. Allow for IMIT Grants within TIF Zones

The City's proposed Tax Increment Financing (TIF) strategy to support the planned SmartTrack / Regional Express Rail project would capture the increase in incremental tax revenues resulting from future development that is believed to be catalyzed by the transit investment itself. Over the course of the IMIT Program Review, concerns were raised over whether it would be appropriate to offer IMIT grants within the "TIF Zone", as both programs impact incremental tax revenues and both operate under the assumption that "but for" the financial assistance or infrastructure investments, the development would not occur.

Should the City move forward with the TIF strategy, it is recommended that IMIT grants continue to be offered to eligible development projects in these areas due to the following reasons:

- It is not possible to determine with certainty whether a particular development would have proceeded without the grants, or without the transit investment;

- The TIF program would capture an overall proportion of incremental tax revenues from both commercial and non-residential development, while IMIT grants would likely be awarded to few development projects; and

- The TIF program operates on a 25-year timeframe, whereas the IMIT grants are administered over a 10- to 12-year period.

8. Refine the Administrative Processes for Commercial and Industrial Condominiums

The 2012 CIP by-laws place restrictions on commercial and industrial condominium eligibility. These restrictions were primarily a result of the administratively onerous processes associated with grant approvals and annual payments for these projects. Recently, an IMIT applicant has come forward with a proposal for an alternative process to assist the City in processing these grants. This process would require he applicant to engage a third party "facilitator" to assist in administering the grants on an annual basis, to hold grant amounts in trust, and to issue the annual cheques to participating unit owners. Full cooperation from unit owners would be required. The City may wish to formally adopt this process to allow IMIT grant eligibility for commercial and industrial condominiums, where all other requirements of the CIP by-law are met.

9. Offer Financial Incentives for the Replacement of Office Space in New Mixed Use Developments

The City is in the process of implementing planning incentives to support the replacement and retention of office space in new mixed use development. These planning incentives would provide parking reductions, floor area exemptions and priority application processing for office sites proposed to be redeveloped with residential uses in the Downtown and Central Waterfront, the Centres, and other locations within 500 metres of a rapid transit station.

To further support this initiative, is it recommended that enhanced IMIT grants be made available for eligible projects under the planning incentive program. Under this enhanced program, IMIT grants would be available for the replacement portion of office space in addition to any other grants that may be awarded for components of the project that are otherwise eligible for IMIT grants.

For example, if a 10-storey office building is replaced with a 12-storey office building and is deemed eligible for the planning incentives, TIEGs could be offered for the 10 replacement storeys as a portion of the new building. In this case, the tax increment would be calculated by taking the base assessment value following demolition of the existing building, and measuring the destination assessment value based only on the 10-storey replacement portion.

It is noted that the planning incentives are proposed to be offered for the replacement of office in the Downtown, Central Waterfront, Centres, and other locations within 500 metres of a rapid transit station. As it is recommended that IMIT grants for office development no longer be offered within the City's proposed new Financial District boundaries, it is also recommended that this area be exempt from office replacement incentives under the IMIT Program.

10. Strengthen the Program's Requirements and Conditions

The current CIP by-laws identify a range of conditions that must be met in determining program eligibility. It is recommended that these conditions be strengthened as follows:

- **Minimum Construction Investment:** As construction costs have increased significantly over the past decade, it may be appropriate to increase the current minimum estimated construction investment of $1 million to an amount of $3 million. The majority of approved projects to date have met this threshold.

- **Local Employment:** The program's local employment requirement is not well understood by many applicants. Wording should be added to the CIP by-law to clarify this requirement. Further, the City may work with Toronto Employment & Social Services to find opportunities to strengthen the local employment requirement.

- **Toronto Green Standard:** Currently, projects must conform with the Tier 1 requirements of the Toronto Green Standard in order to be considered eligible for IMIT grants. It is recommended that the City require eligible office projects to meet Tier 2 Toronto Green Standard requirements. However, as certain applicants may struggle with meeting the Toronto Green Standard, City staff should continue to consult with applicants to offer some flexibility where appropriate.

11. Consider Development Charges Exemption Wording within the CIP By-law

The City's current development charges by-law provides full exemptions for non-residential, non-ground floor uses, and additionally exempts projects approved for IMIT grants from development charges. The City is currently undertaking a development charges background study which will review these policies. Should the City choose to maintain full development charges exemptions for projects receiving IMIT grants, it is recommended that this wording be included within the CIP by-law rather than the development charges by-law. This would provide potential applicants and City staff with greater certainty and clarity in light of any implications of the ongoing development charges review.

12. Consider a Cap on Grant Approvals

The City may wish to consider introducing a cap on grant approvals to allow for improved financial planning and control over the impacts of the program. For example, the City of Vaughan's CIP by-law will expire once 1.5 million square feet of office space has qualified for the grants. A cap related to total committed grant amounts could also be applied.

It may not be appropriate to extend a cap on grant approvals to projects under the Transformative Project category, as these will typically be large-scale projects where grants are subject to Council approval.

13. Improve Future Grant Estimates

Grant estimates for IMIT applications require estimates both of the future assessed value of the project as well as projections of future City tax rates. Assessed value estimates and tax rates can change significantly from year to year especially when a reassessment occurs during the period between approval and project completion. Because of factors such as this, the City has struggled with to develop multi-year projections for IMIT Program budgeting purposes. Particularly for larger office projects, the City should therefore consider requiring IMIT applicants to obtain well researched property tax forecasts from a qualified expert.

14. Consider a Program Administration Fee

The City may wish to consider introducing a program administration fee to help fund the significant staff time devoted to program administration. Financial incentive program administration fees are imposed by a number of other jurisdictions, including the City of Hamilton, New York City, and Cook County, Illinois. Should the City move forward with introducing a fee, it is recommended that it be scaled according to the GFA of the development project. For example, a fee of 10 cents per square foot of proposed eligible GFA could be applied.

15. Focus on Ongoing Marketing and Promotion

While the IMIT Program is well known among the office development community, awareness of the program within the manufacturing industry, creative industries, and among representatives of other non-office eligible sectors and uses may be lacking. It is recommended that the City place greater focus on marketing, promotion, and outreach to these groups.

C. Academic Review

Following completion of the IMIT Program Review, an academic opinion on the conclusions of the Draft Report was obtained. This academic review was undertaken by Almos Tassonyi, Ph. D.. Mr. Tassonyi is a recognized tax expert and an Executive Fellow and Director of the Urban Policy Program at the University of Calgary's School of Public Policy. He also serves as a Research Associate with the International Property Tax Institute, and is an Adjunct Lecturer at the University of Toronto's Department of Geography and Planning.

Mr. Tassonyi's review was supportive of the study approach taken as well as this report's findings and recommendations. The review is included as Appendix D.

Table 5

Summary of Key Findings and Recommendations

	Office Uses within the Financial District and South Core	Office Uses within the Downtown	Office Uses outside of Downtown	Manufacturing and Wholesaling	Other Sectors and Uses
Recent development activity and employment growth	Very high; many recent large-scale office developments.	Moderately high; although developments are smaller in scale.	Low; limited uptake of IMIT grants.	Low; City has experienced a decline in manufacturing establishments over the past decade.	Relatively low; limited uptake of IMIT grants.
Vacancy rates and rental rate trends	Historically low vacancy rates and rapidly increasing rents for new buildings.	Historically low vacancy rates and rapidly increasing rents for new buildings.	Relatively low vacancy rates as compared with surrounding municipalities. Rents are much lower than Downtown and generally comparable with other GTA municipalities.	Overall industrial vacancy rates have been declining in Toronto.	Variable
Competition with other municipalities	Very low; direct access to Union Station, PATH, and existing Financial District enterprises are top priorities for tenants.	Relatively low; some evidence of competition due to lower rents in surrounding municipalities.	High; due to high property taxes as compared with other GTA municipalities, and low average rents.	High levels of competition with municipalities where property taxes are significantly lower.	Competition exists due to relatively high land costs and tax rates in Toronto.
Competition with residential development	Some residential development pressure within the South Core.	Significant residential development pressure, particularly within King-Spadina, King-Parliament and Yonge/Bay north of Financial District.	Residential development is much more viable than office development in many areas of the City, where average office rents are relatively low.	Relatively low; City land use policies generally restrict residential in locations targeted for industrial uses.	Variable
Other barriers to development	• High land costs • High rents for tenants • High cost of below grade parking	• Lack of direct access to Union Station • High cost of below grade parking	• Lack of access to higher order transit in many areas • Structured parking requirements in certain areas	• Relatively high land costs and tax rates	• Relatively high land costs and tax rates
Recommendation	Limit grant eligibility as the current market is generally highly supportive of office development in the City's core.	Continue to allow for grants to support a balance between residential and non-residential development.	While uptake of IMIT grants may continue to be limited in the near term, grants should continue to be offered should market factors evolve.	Enhanced grants should be offered to assist in retaining employment in these sectors.	Continue IMIT eligibility. For some sectors and uses (e.g. creative industries, incubators, convergence centres) enhanced grants may be appropriate.

Appendix A

Advisory Panel Members

Appendix A

Advisory Panel Members

The 2017 IMIT Program Review engaged an Advisory Panel consisting of business, real estate, labour, academic, and development communities. A list of the Advisory Panel Members is provided in the table below.

Advisory Panel Members	
Organization	**Name**
University of Toronto – Institute on Municipal Finance and Governance	Enid Slack
OCAD / Ryerson University	Kevin Stolarick
Urban Land Institute	Richard Joy
Toronto Global	Terrie O'Leary
Metcalf Foundation	Adriana Beemans
NAIOP Commercial Real Estate Development Association	Joel Pearlman Bob Langlois
Waterfront Toronto	Scott Loudon
Toronto Industry Network	Paul Scrivner
RealPac	Brooks Barnett
Toronto Board of Trade	Douglas Goold

Appendix B

Literature Review

Appendix B

Literature Review

A review of academic literature on the topic of property tax incentives was undertaken and is summarized below. While much of the literature on tax incentives comes from American sources, where tax competition among jurisdictions is very common, it provides valuable insight into their potential to stimulate economic development, common shortcomings and challenges, and other considerations and alternatives.

Much of the literature points to a lack of evidence that tax incentives significantly impact site selection and development decisions. Kenyon, Langley, and Paquin (2012) compare the various operating costs faced by businesses and conclude that as property taxes account for only a small component of these costs, property tax incentives are unlikely to have significant impacts on a business's overall profitability. Other costs such as labour, utilities, corporate taxes, and transportation can be more critical factors in a typical site selection process. Peter and Fisher (2004) similarly bring attention to the small percentage of total operating costs accounted for by property taxes, and suggest that comparatively, small differentials in average wages can influence the site selection process and outweigh larger variations in property tax rates and available incentives.

Kenyon, Langley, and Paquin (2012), Peter and Fisher (2004), and Russ (2001) all highlight the difficulty of proving the "but for" assumption, and indicate that in many cases grants are provided where the recipient would have chosen the same location without the grants. This raises the issue of depleting the overall tax base without any significant long-term economic development benefits.

One of the primary issues associated with tax incentives is competition between jurisdictions. When many jurisdictions offer similar incentives, their effectiveness is depleted. Particularly where municipalities within a metropolitan area use tax incentives to compete with one another, the incentives typically do not promote economic benefits to the area as a whole and instead can leave the region with a depleted tax base (Kenyon, Langley, and Paquin 2012). Peter and Fisher (2004) recognize that while incentives work best when they are targeted toward areas of particular need, it can be politically contentious to maintain a focused program. Competitive incentives often emerge and targeted programs are often relaxed and weakened over time.

Tax incentives appear to be valuable in certain targeted scenarios, such as in encouraging remediation and development of brownfield sites. De Sousa (2015) asked developers to rate a variety of "facilitation mechanisms", or tools that were intended to facilitate remediation and redevelopment. Each mechanism was assigned a score out of five. Tax increment equivalent grants received a relatively high score of 4.0, while development charge reductions or exemptions received a score of 4.1. Other mechanisms that scored highly in facilitating brownfield development included protections from future or third party liability, municipal rezoning of the property to more desirable uses, government reduction of land acquisition costs, and streamlining of planning and approvals, among others.

Kenyon, Langley, and Paquin (2012) recommend limited use of property tax incentives due to their high costs and limited evidence of their effectiveness. The authors suggest the use of more cost-effective economic development tools which focus on improving employment opportunities, such as job training programs, business support services, and labour market intermediaries. They recommend overall business property tax rate reductions in lieu of tax incentives, in order to reduce administrative costs and the inequities that often arise in offering selective grants. Peter and Fisher (2004) also suggest moving away from the use of tax incentives and instead building a "foundation for growth" with "sound fiscal practices, quality public infrastructure, and good education systems".

The literature points to some ways in which property tax incentives can be improved to better meet their objectives. Some examples are listed as follows:

- Use eligibility criteria to restrict incentives to projects that meet certain standards, such as percentage of full time jobs or hiring of local residents and vulnerable populations (Kenyon, Langley, and Paquin 2012).
- Limit incentives to businesses that export goods or services nationally or internationally, as the site selection process for these businesses is more likely to be influenced by costs that vary by location (Kenyon, Langley, and Paquin 2012).
- Grants should be available for diverse industrial sectors, and not limited to the manufacturing sector (Rust 2001).
- Avoid using tax incentives to compete with neighbouring communities; economic development initiatives should aim to benefit the region as a whole (Kenyon, Langley, and Paquin 2012).

- The grant approval process should be transparent, with opportunities for the public to provide input and assist in weighing the potential economic development benefits with the impacts of tax revenues losses (Rust 2001).
- Place caps on the total value of incentives to encourage officials to be more selective in approving the grants (Kenyon, Langley, and Paquin 2012).
- Incentive legislation should include sunset provisions. Programs should be reviewed periodically and terminated if they are not performing as intended (Rust 2001).

References

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APPENDIX C

COMPARATIVE PROGRAMS

APPENDIX C

COMPARATIVE PROGRAMS

A number of comparable tax incentive programs were reviewed across Ontario and the US. Some of the key findings and observations from the comparative programs review are highlighted below, with further detail provided within the attached table.

1. Discretionary Grants

Many of the programs reviewed establish grant eligibility, amounts, and other terms and conditions on a case-by-case, rather than as-of-right, basis. For example:

- Under the City of Mississauga's proposed Downtown Community Improvement Plan, TIEG amounts would be determined after an application has been submitted and evaluated.

- Niagara Region's Tax Increment Based Grant (TIBG) Program determines eligibility and grant amounts through a points-based evaluation system which assesses economic and environmental design performance. Annual TIBG amounts vary between 40% and 100% depending on the number of points scored, and projects that receive an "exceptional" score are additionally eligible for a Development Charge Grant Program. Regional staff have indicated that this method functions well in practice, and has not been administratively onerous.

- New York City's Commercial Tax Incentives are awarded on a discretionary basis. The applicant must demonstrate a need for the benefits, substantial capital investment and employment growth and retention, and significant commitments to the City. Staff then undertake a detailed quantitative and qualitative analysis in determining the level of incentive to provide, treating the benefits as a last resort to encourage a desired project. It is noted that the City previously provided as-of-right incentives, and has found the discretionary approach to be more appropriate in recent years.

- Massachusetts' TIF-based incentive program, the Infrastructure Investment Incentive Project (I-Cubed), is made available to "certified economic development projects" as determined by the municipality and the state. The process also includes an independent feasibility analysis of the developer's proposal and of the new state tax revenues likely to result from the proposal. This analysis considers personal income taxes on wages, sales taxes on sale of property, and hotel occupancy taxes, but does not include replaced, relocated, or displaced state tax revenues. It may be appropriate to include a similar comprehensive analysis of tax revenue potential for IMIT applicants.

2. But-For Requirement

In Windsor, Chicago, and New York City, certain grant programs require the applicant to reasonably demonstrate that the development would not be feasible without the grant. Massechusetts' I-Cubed program requires that the project would not be undertaken to the same extent without the incentives, as determined by the state.

Niagara Region employs a less formal approach wherein applicants are asked to provide a business case for the grants. Staff additional assess the applicant's site selection efforts, and engage in a pre-consultation process, to assess whether the grants are needed.

3. Geography of Eligibility

A number of the incentive programs focused on key geographic locations. In Vaughan and Mississauga, office development incentives are offered only within specific employment nodes. The Hamilton Tax Increment Grant Program specifies a number of eligible locations including downtown areas, Business Improvement Areas, and designated heritage properties.

New York City's Industrial and Commercial Abatement Program offers increased commercial incentive amounts within any designated "High Needs Neighbourhood". This designation occurs separately from the grant program, offering flexibility in establishing evolving geographic areas of focus for the program over time.

4. Development Charge Exemptions

In Ontario, it is common for development charges exemption incentives to be offered through a Community Improvement Plan, rather than through the municipality's development charges by-law itself. This practice was found in the City of Windsor, Niagara Region, and the City of Vaughan.

5. Program Application Fees

While it appears to be less common among the Ontario programs reviewed, the City of Hamilton charges an administration fee for its tax incentive program. The fee varies according to the estimated grant amount: a fee of roughly $255 is charged for grants of less than $12,500, and a fee of $870 is charged for grants valued at over $12,500.

New York City and Chicago also charge fees to help recover administrative costs associated with the programs. New York City's incentive program application fees range from approximately $100 to $500. Applications for Chicago's range of financial incentive programs must be accompanied by a Filing Fee of $500.

6. Grant Limits

Vaughan's CIP by-law specifies that it will expire once 1.5 million square feet of office space has qualified for the incentives, or five years have passed since its enactment. This approach helps to mitigate the municipal finance impacts of the program, and allows for a more rigorous selection process in administering the grants.

	Ontario		
	City of Toronto	**City of Hamilton**	**Niagara Region**
Program	Imagination, Manufacturing, Innovation and Technology (IMIT) Program	Hamilton Tax Increment Grant Program offered under the Downtown and Community Renewal CIP	Two programs offered through Niagara Gateway Zone and Centre CIP: -Tax Increment Based Grant Program (TIBG) -Regional Development Charge Grant Program
Year	2008	Introduced in 2004; updated in 2016	2012
Eligible Locations	City-wide	Downtown areas, Business Improvement Areas (BIAs), Mount Hope / Airport Gateway, any designated heritage property.	Designated employment lands within Fort Erie, Niagara Falls, Port Colborne, Thorold, and Welland
Eligible Uses	Eligible Sectors: Biomedical Operations, Creative Industries, Financial Services, Information and Communications Technology, Manufacturing, Tourism Attractions Eligible Uses: Broadcasting, Call Centres, Computer Systems Design and Services, Convergence Centres, Corporate Office, Corporate Headquarters, Film Studio Complex, Food and Beverage Wholesaling, Office Building, Incubators, Information Services and Data Processing, Scientific Research and Development, Software Development, Transformative Project	Residential or commercial uses within eligible locations.	Eligibility and grant amount is determined through a points-based evaluation system which assesses Economic Performance and Environmental Design Performance. Economic Performance (max. 15 points): -Construction value -Full time jobs creation/retained Environmental Design Performance (max. 5 points): -Level of LEED certification -Confirmity with Region's Smart Growth Design Criteria
Incentive	Development Grants: -Tax Increment Equivalent Grant (TIEG) offered over a 10-year period on a declining basis -Maximum total amount of 60% of the total municipal tax increment, or 70% if located within an Employment District / Area as designated by the Official Plan Brownfield Remediation Tax Assistance (BRTA): -Up to 3 years of property tax cancellation capped at 100% of the total increment over 3 years or the total cost of remediation -When Development Grants and BRTA are combined, total grant amount may be up to 67% of the municipal tax increment, or 77% if located within an Employment District or Employment Area	Five year tax increment grant to a maximum annual amount of: -100% in year 1 -80% in year 2 -60% in year 3 -40% in year 4 -20% in year 5	Annual TIBG amount is between 40% to 100% of the tax increment, depending on the number of points scored. Payments cease when total provided equals the eligible cost of improvements under all applicable CIP programs, or after a period iof time as follows: -10 years for projects within the defined Strategic Locations for Investment -5 years for projects within the Gateway CIP Project Area, but outside of the Strategic Locations for Investment Development Charge Grant Program is only available to approved TIBG applications that qualify as "exceptional" projects (score of at least 14 out of 20), and is only applied to Regional DCs.
Other Conditions	-Conformity with Toronto Green Standard -Minimum construction investment of $1 million -Development must increase the amount of GFA for eligible uses by at least 500 sq. m. -Applicant/user of the property must agree to collaborate with the City to promote local employment	Grants are subject to Council approval	
Application Fee	N/A	$254.25 for grants valued at $12,500 or less; $870.10 for grants of more than $12,500	N/A

	Ontario		
	City of Windsor	**City of Vaughan**	**City of Mississauga**
Program	Four grant programs offered through Economic Revitalization CIP: -Business Development Grant Program -Business Retention and Expansion Grant Program -Small Business Investment Grant Program -Development Charges Grant Program	Several Programs under the CIP for the Vaughan Metropolitan Centre and other Intensification Areas -Tax Increment Equivalent Grant -Development Charge Reduction -Development Charge Deferral	Programs to be offered under the new Downtown CIP: -Tax Increment Equivalent Grant -Development Processing Fees Grant
Year	2011	2015	2017 (by-law in progress)
Eligible Locations	City-wide	Vaughan Metropolitan Centre and Weston Road and Highway 7	Exchange District within the City's Downtown Core Character Area
Eligible Uses	Eligible Sectors: Professional Services, Renewable and Alternative Energy, Creative Industries, Health & Life Sciences, Management, Manufacturing, Tourism, Warehousing/ Logistics Eligible Uses: Business Incubator, Computer Programming Services, Computer Systems Design Services, Industrial Design Services, Research & Development, Testing Laboratories, Manufacturing, Cogeneration Facilities, Renewable Energy Power Generation, Performing Arts Facilities, Museums, Computer Software Developer Digital and Media Studios, Corporate Office, Head Office, Tourist Attraction, Warehouse	Office development: Minimum 7,000 sq. m. of new office space	Office development
Incentive	Grant equivalent up to 100% of the municipal property tax increase created by the project for up to 10 years after project completion. Recipients of any of the three business grant programs are additionally eligible to receive a grant to offset up to 100% of the development charges paid for the project.	Tax Increment Equivalent Grant: Annual grant payments over 10-year period, decreasing from 70% of tax increment in Year 1 to 7% in year 10. Development Charge Reduction: Reduction in City-wide DCs applied to the total GFA of an eligible office use. Development Charge Deferral: Up to 18 month deferral for eligible development in the Vaughan Metropolitan Centre only.	Tax Increment Equivalent Grant: Amount to be determined after an application has been evaluated. Development Processing Fees Grant: One-time grant may be offered equivalent to planning application fees. Municipal Property Acquisition and Disposition: City may acquire key properties to be redeveloped with office buildings. City may issue RFP for private development, participate in P3s for development that achieves CIP objectives, or dispose of City-owned land for the purpose of attracting new office.
Other Conditions	-Must create or retain a minimum of 50 jobs within the manufacturing sector or create more than 20 jobs or retain a minimum of 35 jobs within any other targeted sector(s). -Must demonstrate that a grant is necessary in order for the project to be viable. -Grants are subject to Council approval.		Developments with office GFA of over 500,000 sq. ft. (46,452 sq. m.) would require Council approval.
Application Fee	N/A	N/A	N/A

	United States		
	New York City, New York	**Boston, Massachusetts**	**Chicago, Illinois (Cook County)**
Program	Commercial Tax Incentives - various programs offered	Commonwealth of Massachusetts: Infrastructure Investment Incentive Project (I-Cubed)	A number of business assistance and financial incentive programs are offered: -Class 6B Property Tax Incentive -Class 7A and 7B Tax Incentive -Class C Tax Incentive
Year		2005	
Eligible Locations	City-wide	State-wide	City-wide, subject to program-specific restrictions
Eligible Uses	Basic requirements that must be satisfied include demonstration of the need for benefits, substantial capital investment together with likely retention and growth of employment as a result of the project, significant enforceable commitments to the City in return for benefits.	Certified economic development projects as approved by the municipality, the Secretary of Administration and Finance, and MassDevelopment. Not more than one other economic development project in the municipality may have been approved for financing under I-Cubed. Priority is given to projects in economically distressed municipalities.	All projects must involve new construction, substantial rehabilitation, or the re-occupancy of abandoned property. **Class 6B**:Property used for industrial purposes **Class 7A and 7B**: Property used for commercial purposes and located within an area designated within the last 10 years as one in need of commercial development by a federal, state, or local governing body or agency. **Class C**: Industrial or commercial uses which have undergone environmental testing and remediation
Incentive	Benefits are discretionary. Decision to provide benefits is made after a series of rigorous quantitative and qualitative analyses. Benefits may include: -Sales and use tax exemptions -Mortgage recording tax waivers -Real estate tax exemptions Benefits are viewed by the City as a last resort to encourage a desired project.	Tax increment financing-based incentive program wherein public infrastructure improvements needed to cupport a certified economic development project are financed with bonds issued by MassDevelopment. Once a commercial component of the project is occupied and generating new state tax revenue, the debt service onthe bonds related to that commercial component are payable by the state. If the new state tax revenues are insufficient to cover the related debt service, the municipality will be required to reimburse the state for the amount of the shortfall.	Properties are assessed at 10% of market value for the first 10 years, 15% in the 11th year and 20% in the 12th year. In the absence of this incentive, commercial and industrial uses would normally be assessed at 25% of their market value. Therefore the incentive results in a total 55% reduction in property taxes over the 12-year period.
Other Conditions		-Secretary must find that the project would not happen without the public infrastructure improvements -Projected annual new state tax revenues must be at least 1.5 times greater than the projected annual debt service on the related bonds -Financial feasibility must be demonstrated -Consistency with sustainable development principles	**Class 6B:** Compliance with the Cook County Living Wage Ordinance. **Class 7A and 7B:** Must include pro forma financial statements demonstrating economic viability and need for the incentive. **Class C:** Present owner must demostrate that they were not responsible for the contamination which was remediated.
Application Fee	Fees vary; commonly $100 to $500.	N/A	Filing fee of $500

Appendix D

Academic Review

Review of the

IMIT Program Review: Findings and Recommendations

Draft Report

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Introduction

The Report provides a comprehensive and thoughtful review of the IMIT program using appropriate methodologies, empirical evidence and qualitative information from the review process. It merits careful consideration by Council as part of the review process. A few minor suggestions are made in what follows.

IMIT Report

This Report consists of five sections and provides a comprehensive overview of the existing program.

Section II provides an overview of the program.

- Key elements
- Eligibility
- Outcomes of the 2012 review and
- The objectives and study process of the 2017 review

The key questions addressed in the review are:

- Is the program still needed? If so, what changes, if any, should be made to make it more effective and cost efficient?
- What are the results and impacts of the program? Is it achieving the dobjectives as identified in the three CIPs?
- What are the benefits and costs of the program? Do the benefits outweigh the costs?
- Are incentives needed to support the targeted development, and how extensive should they be?

The study process reflected an awareness of other City initiatives that bear on the IMIT program. These included the ongoing preparation of the Secondary Plan for Toronto Downtown, the ongoing Development Charges Background Study, planning initiatives to retain office space in mixed-use developments and a review of the cash-in-lieu of parkland policies of the City as permitted by Section 42 of the *Planning Act*. The Report also addresses the relationship of the IMIT program to other grant programs used to facilitate development as well as the probable establishment of a Tax Increment Finance (TIF) program.

IMIT programs operate under the umbrella of three Community Improvement Plans as prescribed by legislation. However, as the report notes, this results in complexity that results in confusion for potential applicants.

Program to Date

Section III reviews the performance of the program to date.

A set of useful maps and a table are provided to summarize the existing program's locations and aspects of their financing. I would suggest consideration be given to another table showing the data either on a per job or per square foot basis. The comparison, I think, would be helpful.

Analysis and Summary

Section IV provides analysis and a summary of the findings. This section reviews market analysis, financial factors and consultation. The empirical work includes:

- Employment growth trends in Toronto and surrounding municipalities, especially that related to office development;
- Cost comparisons including estimates of the implication of IMIT grants;
- Implications of IMIT grants on tax rates in the City;
- Estimates of the impact of IMIT grants on the internal rate of return of hypothetical office and manufacturing developments.

The report notes the development charges exemption for industrial properties, above ground floor commercial/office properties and eligible IMIT program applicants. While it is appropriate for the report to note this as City policy, from an academic perspective, it is not clear as to why these properties should be given preferential treatment, assuming that these properties benefit from the infrastructure being financed.

This section provides useful information on employment growth in the City over the past thirty years. The downward trend during the nineties in employment that motivated the programs under consideration is clearly visible in figure 4.[1] Other charts also show both the diversification of the location of office employment growth within the GTA as well as the more recent resurgence in the City as well as the growth in major office space. The impact of the recent recession on industrial employment growth is also clearly revealed. An interesting analytical point is made with respect to the competitiveness of commercial tax rates as shown on figure 10 despite the significant differences in tax ratios that measure the relative burden of taxation within a taxing jurisdiction.

The comparison of development charges per square foot in a sample of GTA municipalities is important and the Report makes the point that it is likely that the city's policy of exempting non-residential property probably offsets the impact of the commercial tax rate differences. (p.34) and Figure 11. However, it begs the question as to whether the City can afford to maintain this exemption in the face of the financing pressures to build new infrastructure or conversely whether the other GTA municipalities are over-estimating the non-residential share of growth costs. [2] The report also notes lower tax-to-rent ratios in neighbouring municipalities.

The report also provides comparative estimates of the implication of IMIT grants on the internal rate of return (IRR) of hypothetical projects in various locations of the City. These comparisons provide a useful additional empirical contribution that shows that this policy can have a significant effect on the viability of these projects. These calculations also show that such grants may have a more significant impact on locations that are less advantageous in their commercial

[1] The Toronto Board of Trade(1994) described Toronto as the hole in the doughnut during this period.
[2] These differences are also highlighted in recent work by Dachis and Robson (2015) that suggest that current development charge policy biases investment decisions and is creating unwarranted surpluses.

attractiveness. (North York contrasted to Markham). It is noted that IMIT grants may "tip the scale towards office developments outside of the core" and where competitiveness is weakers,

A short section also deals with municipal finance impacts, comparing grant impact to the overall tax levy. Again, it would likely be helpful to show these comparisons in terms of dollars per taxable assessment or an estimate of the percentage tax rate increase/decrease that may result. The actual tax subsidy is fairly significant given the current politics surrounding levy increases above inflation and the provincial rules governing tax levels and percentage increases on non-residential property.

Findings and Recommendations

Section V summarized the key findings and the recommendations.

The report's recommendations address the need to maintain stability and to encourage developments outside the core Financial District. Strengthening the eligibility criteria for transformative projects is also recommended. These criteria are important given the City's recent efforts to attract IT firms.

Section 6 comments on the interaction of heritage grants and brownfield remediation. This also appears to be a sensible recommendation, although there may be implications for the definition of the new property class being proposed by the City.

Further, in particular, Section 7 provides a useful recommendation on making the proposed TIF policy of the City workable with the IMIT program, given interaction in the tax increment as well as in the time framework.

Further, the proposed recommendation on the interaction of the CIP process with the IMIT process is also appropriate and sensible. Section 9 deals with the interaction of the IMIT program with a planning incentive program. This too is appropriate given the circumstances under consideration.

A recommendation to charge an appropriate administrative fee is valid given staffing needs and is consistent with general theory and legal justification for appropriate user fees.

On the whole, the recommendations of the review seem sensible and doable in the current economic climate and would enhance the competitiveness of the City of Toronto in this context.

Appendices

Appendix C provides an extremely useful comparison of the program features as established in the City and in other municipal jurisdictions. This comparison is important given the dearth of literature on the subject of Tax Increment Equivalent Grant programs and any academic evaluation in a Canadian context in the wider literature available. The report also provides a short literature review. For recent related work, see Murtaza and Donaldson (2016). A critical review of programs in the U.S, can be found in Greenbaum and Landers (2014).

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