EX30.6.1

SUBMISSION TO THE CITY OF TORONTO

Program Review – Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive

June 30, 2017

The Toronto & York Region Labour Council represents 205,000 women and men who work in every sector of Toronto's economy. Our Council and its affiliates have been deeply involved in the issues of economic development and employment lands for many decades. In the past, we helped initiate the Green Economic Development Strategy, were engaged in the Task Force on Economic Competitiveness (the Prosperity Agenda) and have been involved in city-wide consultations and local efforts around employment lands in the Portlands, Weston-Mount Dennis, the Studio District, South Etobicoke and Rexdale.

Labour has been keenly interested in the development of the IMIT Program since it was initially presented to the City's Economic Development Committee a decade ago. At that time, the driver for the program was the desire to increase job growth in the city: Toronto's objective was to reach 1,835,000 jobs by 2031. The City's strategy was to enhance opportunities for job growth by promoting the development of industrial/commercial spaces (I/C) where people could work, at a time when it was easier and more profitable to build residential developments or small buildings in the suburbs. The chosen tactic was to provide tax incentives to foster I/C development where it would otherwise not have occurred (the "but for" concept). Labour Council indicated that we were more than willing to actively participate in that important new development in Toronto's economic policy, but on the basis of a foundational benchmark which was the creation of good, stable jobs that pay living wages and allow Torontonians to prosper.

Today, building cranes are visible all over downtown Toronto. Some may want to credit the IMIT Program for much of the I/C development, yet analysts agree that cause and effect on that front are very unclear. At the same time, the sectors that were originally conceived of as being the most appropriate beneficiaries of the program (manufacturing, film and TV, green enterprises, Information Technology) receive only a small percentage of the tax incentives. And, although the driver for the program was going to be jobs, very little is known about the jobs that are established in those businesses that are owner or tenant users of the newly-developed spaces. Further, jobs appear to be an afterthought, with much attention focused on the total value of construction, square footage, tax revenues, etc.

In terms of whether the subsidized developments would have occurred in the absence of tax incentives, there is no clear answer. A 2012 City report indicated that "the program has proven to be effective and should be continued… It is an invaluable tool in attracting new and significant developments to the City." It went on to say that the program "continues to provide for stringent eligibility criteria to ensure, to the extent possible, that the "but for" principle is followed".

We have, however, seen no evidence that "but for" is measured, evaluated or achieved. This was apparent during recent in-person consultations, when the consulting company explicitly indicated that

“determining IMIT’s degree of influence on project decisions is a challenge,” and its representative asked the consultation participants if they had ideas for evaluating “but for.”

As of June 2017, 31 projects have been approved to receive IMIT grants totalling $377 million. In the absence of evidence, there is no reason to conclude that these tax incentives have encouraged development in Toronto that would otherwise have gone elsewhere or never have happened at all. So while the City’s recent analysis talks about the total new taxes contributed to the City (base tax minus grants = net retained taxes of $217M), a different analysis could point to the net tax loss due to paying grants to companies that would otherwise have paid the whole cost (grants = $377M).

As the City’s August 20, 2012 report indicated regarding development that occurred prior to IMIT, “…it should be noted that several office towers were built without the benefit of incentives just prior to the implementation of this incentive program.” The most likely scenario is that IMIT was a factor in some development, and that other development would have gone ahead regardless. Recently, an Ivanhoe Cambridge “transformation project” amounting to $1 billion in construction value was given IMIT approval. This will cost the City approximately $100M in grants. One of the elements of the project is a new GO bus terminal. The current GO terminal is aging and at capacity. Presumably, a new GO bus terminal would need to be built, and it would be constructed in downtown Toronto, whether or not IMIT grants are provided. This is only the most obvious example of development that would have proceeded without tax incentives.

At least half of the investment value of IMIT applications approved as of April 2017 (and therefore approximately half of the tax grants provided) are for downtown/waterfront office development. Toronto’s office vacancy rate has been very low in recent years; why should the City pay out rewards for new office developments when the market will provide them? The waterfront area is booming; why should more waterfront office buildings be subsidized by Toronto taxpayers? Office vacancy rates go through boom and bust cycles.

Oxford Properties, a currently approved project at 100 Adelaide St. W., is scheduled to receive $20.5 million in grants over ten years. In 2005 and continuing until 2012, Oxford was a key part of a group of downtown bank tower owners that fought the City to reduce their property taxes. While Oxford lost the case on appeal in 2012, the City ended up having to participate in a confidential settlement to determine how much tax Oxford et al would be required to pay; otherwise the Assessment Review Board which had previously sided with Oxford on its demanded tax reduction was going to shape the decision. Corporate tax lawyers will take whatever steps they can to reduce the taxes paid by their corporations, including looking for tax incentives. There is no cap and no review for another four years. That means the sky is the limit in terms of how many grants could be committed to between now and 2021. While we would not roll back the grants that have been approved for existing projects, we strongly recommend that no new office projects be funded.

We are unconvinced that much of the approved development has resulted in net new revenue for Toronto. Instead, we see lost revenues that could be used to provide services for Torontonians. If the developments that would have been built anyway paid their fair share of property taxes, there could be hundreds of millions of dollars available to allocate over the next several years to services for disadvantaged communities or for families that live in condominiums, to Toronto Community Housing repairs, and to Transform TO initiatives. Putting the numbers in perspective, City Council focuses immense attention on the question of raising property taxes, where a 1% increase results in approximately $25 million – the scale of the IMIT grants will dwarf that amount.

Office projects also reduce the job-based focus that was part of the original conception. In large part, unlike a manufacturing, green, IT, film and TV or other similar enterprise that builds or renovates a building for its own use, companies that build offices have little control over the jobs that will be established there in the future. We recommend that the IMIT program return its focus to those sectors and uses which were originally conceived of as core to the program.

There need to be clearly defined deliverables for the local community when a company is rewarded for building. Those should include a commitment to local hiring and training, full time jobs paying at least the average industrial wage, and respecting the rights of employees to have union representation. In addition, perhaps the employment record of companies should be evaluated when they apply for a grant. Why did Coca Cola get rewarded with tax grants for building office headquarter space, when not long ago it moved its production facilities out of Toronto?

Further, Council approval is not required for most grants; only those with a total construction value over $150 million go before Council. This process is in contrast to the type of accountability and transparency required of other very small grants, such as those funded under the reconfigured Community Projects & Events Grant Program (some as little as $5,000) which are sent to Council for approval.

Finally, the level of tax grants provided by Toronto is higher than other nearby comparators. The City of Vaughan has a similar incentive program, but at a level of approximately 38.5 % of the incremental tax increase over a ten year period. Hamilton's program is shorter – grants total 60% over five years, but 100% of taxes are payable after that, resulting in a ten-year average of 30%.

To address these concerns, we call on the City of Toronto to:

- Return to the core sectors, promoting development for manufacturing, green enterprise, screen-based industry, IT
- Consider incubator projects on a case by case basis
- Remove eligibility for offices, corporate headquarters, financial services, transformative projects, amusement projects and call centres for tax incentives
- Avoid expansion of sectors and uses at this time
- Improve accountability and transparency by requiring that all grants go before City Council for approval as do many other grant programs, including small community grants
- Return to the emphasis on jobs – in addition to the minimal work that is done between grant recipients and Toronto Employment and Social Services around training and jobs for Torontonians, expectations for grant recipients should include a greater commitment to the creation of full-time jobs paying at least the average wage, and respecting the rights of employees to have union representation, as well as a program of "local hiring"
- Change the grant formula so a lower rate of TIEG is paid out over 10 years – 30% overall: 50% in year 1, 50% in year 2, 40% in year 3, and so on for the remaining years: 40, 30, 30, 20, 20, 10, 10, 0 (with prorated parallel for Employment Centres and brownfields).

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