



Community Improvement Plan to Implement Changes to the IMIT Program

Date: June 12, 2018

To: Planning and Growth Management Committee

From: Chief Planner and Executive Director, City Planning and General Manager, Economic Development and Culture

Wards: All

SUMMARY

This report brings forward a new City-Wide Community Improvement Plan (CIP) that enables the Imagination, Manufacturing, Innovation and Technology (IMIT) incentive Program. This new CIP replaces the three existing CIPs that were adopted in 2008 and amended in 2012, including the City-Wide CIP, the South of Eastern CIP, and the Waterfront CIP. The new City-Wide CIP reflects recommendations approved by City Council on April 24-27, 2018.

The new CIP will continue the IMIT Program, improve administration and overall efficiency and ensure the City provides support for critical new investment in targeted economic sectors.

The most notable changes are the elimination of IMIT eligibility for office buildings within the Financial District and the phasing out of Development Grants at the Liberty (King-Liberty SmartTrack Station) and Queen/Carlaw (East Harbour SmartTrack Station) Tax Increment Financing Zones. In addition, the enhanced grants available in Employment Areas will be eliminated and replaced by a sector-based enhanced grant for Manufacturing, Food and Beverage Wholesaling, Creative Industries, Film Studio Complexes, Convergence Centres and Incubators.

RECOMMENDATIONS

The Chief Planner and Executive Director, City Planning and the General Manager, Economic Development and Culture recommend that:

1. City Council adopt the City-Wide Community Improvement Plan in accordance with the community improvement plan attached as Attachment 1.

2. City Council authorize the City Solicitor to bring forward bills to repeal the following community improvement plans upon the new community improvement plan coming into full force and effect:
 - a. the City-Wide Community Improvement Plan (By-law No. 516-2008, as amended);
 - b. the South of Eastern Community Improvement Plan (By-law No. 517-2008, as amended);
 - c. the Waterfront Community Improvement Plan (By-law 518-2008, as amended);
3. City Council authorize staff to introduce an IMIT administration fee commencing in 2019, of 30 cents per square metre based on eligible gross floor area and that Municipal Code Chapter 441, Fees and Charges, be amended to reflect the new fee.
4. City Council authorize the City Solicitor to introduce the necessary bills to implement the foregoing.

FINANCIAL IMPACT

Since the initiation of the IMIT Program, 15 approved developments have completed construction, are partially or fully occupied and are receiving IMIT grants. Another 27 projects have been approved but construction is not yet completed. Based on all these applications, the City is committed to making over \$618 million in grant payments to these developments, equivalent to about 60% of the incremental taxes (about \$1 b) from these developments over the respective grant periods. The City's 2018 Operating Budget includes an estimate of \$34 million for IMIT payments in 2018, offset by the incremental new property taxes. Once the approved and pending projects are on the assessment role, the grant figure is estimated to increase to about \$63 million. The annual amounts thereafter will change depending upon future applications as will the incremental tax payments.

The take up of the Program in the future is dependent on the prevailing market conditions including the accumulation of investment funds, demand for new space, interest rates and technological changes. It is not possible to accurately predict these factors and thus the overall financial impact of future IMIT payments and the associated incremental taxes cannot be forecasted reliably nor can the impacts of the recommended changes to the Program. Given that the eligibility in certain areas is being limited or reduced, it can be expected that the total amounts granted will be significantly less than they otherwise would have been if the Program stayed in place with the current criteria.

At its meeting of April 24, 25, 26 and 27, 2018, City Council approved a financing and funding strategy for the SmartTrack Stations Program. This strategy relied on an anticipated allocation of funding from tax increment revenues, development charges and the City Building Fund. Estimates of funding from tax increment revenues were premised on proposed changes to the IMIT Program set out in the Review of the Imagination, Manufacturing, Innovation and Technology Property Tax Incentive Program (EX30.6), and the Implementation of the SmartTrack Stations Program and the

Metrolinx Regional Express Rail Program (EX33.1). In addition, the estimates were based on the proposed elimination of office eligibility from IMIT grants in the expanded TOcore Financial District (EX30.6) and proposed phasing out of IMIT grants in the Liberty (King-Liberty SmartTrack Station) and Queen/Carlaw (East Harbour SmartTrack Station) Tax Increment Financing Zones (EX33.1). If Council approves changes to the IMIT Program that enhance IMIT grants or does not approve the proposed elimination and phase outs of IMIT grants as referenced above, any of which having the effect of reducing the tax increment revenues estimated and assumed to be available for funding SmartTrack, Council would be required to identify an alternative funding source for the SmartTrack Project and incorporate the change in future budgetary plans.

If authorized by Council, the administration fee will generate approximately \$237,000 in 2019 and will reach an estimated \$450,000 per year by 2023 once all current applications and pending applications have begun receiving grants.

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

DECISION HISTORY

At its meeting on April 24, 25, 26 and 27, 2018, City Council directed staff to bring forward a new City-Wide CIP in order to implement a series of changes to the IMIT Program. 2018 EX30.6-Review of the Imagination, Manufacturing, Innovation and Technology Property Tax Incentive Program
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX30.6>

In addition, at the same meeting City Council directed staff to include in the proposed amendments to the new Community Improvement Plan By-law the phase out of IMIT Grants in the Liberty (King-Liberty SmartTrack Station) and Queen/Carlaw (East Harbour SmartTrack Station) Tax Increment Financing Zones. 2018 EX33.1- Implementation of the SmartTrack Stations Program and the Metrolinx Regional Express Rail Program
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX33.1>

The IMIT CIPs call for a regular review of the Program at four-year intervals. This review was initiated in 2016 and is the second review of the Program since its adoption in 2008. 2016 ED12.14-Review of the Imagination, Manufacturing, Innovation, Technology (IMIT) Financial Incentive Program
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2016.ED12.14>

COMMENTS

The IMIT Program

The City's IMIT Program, adopted by Council in 2008, is enabled by three CIPs (City-Wide, South of Eastern and Waterfront). The proposed City-wide CIP combines these CIPs into a new, single, City-Wide CIP.

The IMIT Program provides tax incentives to encourage the renovation or construction of buildings in targeted sectors and brownfield remediation for targeted non-retail employment uses by way of development grants or property tax cancellation. The Program supports the policy objectives of intensifying new development, encouraging the adaptive reuse of the existing building stock, and promoting the remediation of contaminated employment lands, regeneration areas and mixed use areas throughout the City.

Section 82 of the City of Toronto Act, 2006 (COTA) prohibits the City from assisting any industrial or commercial enterprise financially. However, COTA provides an exception to this when financial incentives are provided pursuant to an approved CIP. In addition, Section 333 of COTA in conjunction with an approved CIP provides for financial incentives to support the remediation of contaminated properties and an opportunity to apply for matching Provincial incentives. In accordance with the Planning Act, the IMIT Program requires development, redevelopment or remediation for community improvement purposes.

IMIT Program Review

The IMIT Program guidelines call for the City to initiate a review every four years. In 2017, the City engaged an independent consultant, Hemson Consulting Ltd, ("Hemson"). As requested by Council, the Hemson Study was peer reviewed by a qualified academic expert in municipal tax policy. In addition, an advisory panel was convened to provide input on potential amendments to the CIPs. Feedback was also solicited from public consultation and phone interviews of a sample of IMIT applicants.

The outcomes of this review were reflected in the recommendations adopted by Council on April 24, 25, 26 and 27, 2018. (2018 EX30.6 Review of the Imagination, Manufacturing, Innovation and Technology Property Tax Incentive Program <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX30.6>)

This new IMIT CIP implements the Council recommendations to effect changes to the Program.

Changes to the IMIT Program

At its meeting on April 24, 25, 26 and 27, 2018, City Council approved the renewal of the IMIT Program and endorsed proposed changes including:

- repeal the three Community Improvement Plans (CIPs) that currently define the IMIT Program and enact a new single CIP By-law;

- eliminate office eligibility from the IMIT Program within the City's Financial District boundaries;
- simplify office eligibility outside of the Financial District boundaries;
- replace the current enhanced grants for Employment Areas with a sector-based enhanced grant for Manufacturing, Food and Beverage Wholesaling, Creative Industries, Film Studio Complexes, and Convergence Centres;
- amend the Transformative Project criteria;
- include environmental testing and costs incurred for remediation within 12 months prior to the submission of an application for the Brownfield Remediation Tax Assistance (BRTA) Program as eligible for assistance;
- refine the administrative processes for Commercial and Industrial Condominium applications by eliminating any restrictions on size of condominium units and require approved applicants to engage a third party facilitator to assist in administration and tracking;
- increase the minimum eligible construction value from \$1 million to \$5 million;
- require all eligible office developments to meet Tier 2 of the Toronto Green Standard;
- place a financial incentive cap of \$30 million total on individual incentive approvals excluding Transformative Projects and the BRTA portion;
- implement an annual Program Administration Fee of thirty cents per square metre based on the eligible Gross Floor Area of each approved development for all existing and new projects, beginning in 2019; and
- phase out IMIT Development Grants in the Liberty (King-Liberty SmartTrack Station) and Queen/Carlaw (East Harbour SmartTrack Station) Tax Increment Financing Zones.

These changes, along with minor technical amendments, are discussed in greater detail below.

Single City-Wide By-law

Currently, the IMIT Program consists of three separate CIPs with differing qualifying rules, including a Waterfront CIP, South of Eastern CIP and a City-Wide CIP. The new City-Wide CIP will replace the three existing CIPs with one harmonized set of qualifying rules to simplify the Program and provide greater clarity for potential applicants. The former CIPs will be repealed upon the new CIP coming into full force and effect so as to avoid a gap in Program availability.

Eliminate Office Eligibility in the Financial District

Office buildings within the Financial District are currently not eligible for IMIT, with the exception of the GFA occupied by national and international corporate headquarters with a minimum GFA of 10,000 square metres. The new CIP removes this eligibility for corporate headquarters within the Financial District. The Financial District boundaries, as identified on Map 6 of the City's Official Plan, have recently been expanded through TOcore: Downtown Plan.

Since its inception, the IMIT Program has played an important role in a number of office projects within the area encompassed by the expanded Financial District boundaries. Due to continuing demand for centrally located office space and the financial viability of new construction, the Program is no longer considered necessary within this area.

Phase Out IMIT in Liberty (King-Liberty SmartTrack Station) and Queen/Carlaw (East Harbour SmartTrack Station) Tax Increment Financing Zones

At its meeting on April 24, 25, 26 and 27, 2018, City Council adopted a recommendation (2018 EX33.1 Implementation of the SmartTrack Stations Program and the Metrolinx Regional Express Rail Program) to phase out IMIT Development Grants for two specific geographies – Liberty (King-Liberty SmartTrack Station) and Queen/Carlaw (East Harbour SmartTrack Station) Tax Increment Financing Zones. These two areas are referenced as Focus Area A and B respectively in the maps attached to the proposed City-Wide CIP By-law.

This change was recommended due to the implications of IMIT grants on available funding for SmartTrack which is being funded, in part, through Tax Increment Financing. In these two areas, it was determined that the combined inducement from both IMIT grants and major transit investment may not be required to achieve the planned non-residential development over the medium to longer term.

Simplify Office Eligibility

Outside of the Financial District, this CIP simplifies eligibility for office buildings by removing requirements related to employment sectors and rapid transit proximity. Office buildings with over 5,000 square meters of contiguous gross floor area that meet other applicable conditions will be considered eligible. Office component of developments subject to any office replacement policy, as may be set out in the Official Plan, will also be eligible if replaced at the same location. These changes will help clarify eligibility to potential applicants and encourage a broader geographic diversification of office space construction, supporting the objective of locating employment opportunities in areas across the city.

Sector Based Enhanced Grants

This CIP replaces the geographically based Employment Area enhanced grants with one based on targeted employment sectors which face particular barriers to locating in Toronto. Under the revised policy, City-Wide applications for Manufacturing, Food and Beverage Wholesaling, Creative Industries, Film Studio Complexes, Convergence Centres and Incubators will be eligible for a grant equal to 70% of the municipal tax increment over a ten year period, or 77% if a combined brownfield incentive is eligible.

The background review of the IMIT Program concluded that enhanced grants would be more effective if applied directly to key employment sectors. These identified sectors commonly locate within designated Employment Areas.

Amend Criteria for Transformative Projects

The new CIP increases the threshold for developments to be deemed a Transformative Project. The current CIP sets the minimum investment amount at \$250 million, the minimum gross floor area at 75,000 square metres (over 5 years), and requires the creation of over 2,500 jobs. The new CIP raises the minimum investment amount to \$1.5 billion, the minimum gross floor area to 200,000 square metres (over 7 years), and requires the creation of over 3,000 jobs. The land area requirement condition is eliminated in the new CIP.

Transformative Projects are developments of such significant scale and investment magnitude that they act as an anchor within the district, stimulate collateral new investment, have a regional impact and create new wealth in the community. Since the adoption of the IMIT Program in 2008, the scale and investment magnitude of typical developments have substantially increased. The increased eligibility requirements contained within the new CIP ensure that only the most significant developments meet the threshold to be considered as a Transformative Project.

Additional Costs Eligible for the Brownfield Remediation Tax Assistance Program

In addition to environmental testing, costs incurred for remediation within 12 months prior to the submission of an application for the BRTA Program are eligible costs in the new CIP. The review of the IMIT Program found that site remediation often occurs on a different schedule than IMIT application and planning approvals.

Refine the Administrative Processes for Commercial and Industrial Condominium Applications

The new CIP simplifies the eligibility for condominium applications by removing the minimum size requirement for individual units and requiring approved applicants to engage a third party facilitator to assist in administration and tracking. The original prohibition was related to the onerous administrative burden of managing multiple condominium units. A proposal has been developed to allow the administration to be handled predominately through a third party contract paid for by the developer and/or condominium owners.

Amended Eligibility Requirements and Conditions

IMIT eligible projects will be required to have a minimum construction value of \$5 million and office developments will be required to meet Tier 2 of the Toronto Green Standard. In addition, projects awarded an IMIT Development Grant will be subject to a maximum financial incentive cap of \$30 million (exclusive of the BRTA portion). Transformative Projects will not be subject to this cap.

Program Administration Fee

The new CIP includes a Program Administration Fee of thirty cents per square metre, based on the eligible GFA of each approved development project. This fee will be applied in each year of the grant period for all existing and new projects, beginning in 2019. This fee is applicable to projects receiving a Development Grant, or a Community Improvement Plan to Implement Changes to IMIT

Development Grant in combination with Brownfield Remediation Tax Assistance. Projects receiving only Brownfield Remediation Tax Assistance will not be subject to a fee. The introduction of this fee will require an amendment to the City's Fee By-law, Municipal Code Chapter 441, Fees and Charges.

Minor Technical Amendments

Minor technical amendments are incorporated in the new CIP to clarify the Program. In addition, the new CIP provides more detailed information regarding eligible and ineligible uses, specifically retail, ancillary retail, warehouses, and hotels.

Local Employment Requirement

As a condition of IMIT approval, applicants currently must agree to collaborate with the City to promote local employment. Staff will report back to the Economic Development Committee in the first quarter of 2019 with further analysis, consultation and recommendations to improve and enhance the Local Employment Requirement of the IMIT Program.

Provincial Land-Use Policies: Provincial Policy Statement and Provincial Plans

The Community Improvement Plan which provides for the IMIT Program has been reviewed for consistency with the Provincial Policy Statement (2014) (the "PPS") and The Growth Plan for the Greater Golden Horseshoe (2017) (the "Growth Plan").

The PPS provides policy direction province-wide on land use planning and development to promote strong communities, a strong economy, and a clean and healthy environment. The PPS includes specific policies that align with the IMIT Program, including those related to brownfield redevelopment (Section 1.1.3.3) and economic development and competitiveness (Section 1.3.1).

The Growth Plan for the Greater Golden Horseshoe (2017) (the "Growth Plan") provides a strategic framework for managing growth and environmental protection in the Greater Golden Horseshoe region, of which the City forms an integral part. The Growth Plan contains policies related to economic development and competitiveness that align with the IMIT Program, including ensuring the efficient use of existing employment areas (Section 2.2.5.1). Policies in this section also refer to attracting investment and employment by aligning land use planning and economic development objectives.

Provincial Plans are intended to be read in their entirety and relevant policies are to be applied to each situation. The policies of the Plans represent minimum standards. Council may go beyond these minimum standards to address matters of local importance, unless doing so would conflict with any policies of the Plans.

Consultation with the Province

The Planning Act requires that the City consult with the Province on the proposed amendments to the CIPs. City staff communicated the changes to the Ministry of Municipal Affairs on May 3, 2018, after City Council adopted the IMIT Program Review Community Improvement Plan to Implement Changes to IMIT

recommendations at its meeting on April 24, 25, 26 and 27, 2018. The Ministry of Municipal Affairs provided comments on June 6, 2018 which were reflected as appropriate in the CIP By-law.

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ATTACHMENTS

Attachment 1: Proposed City-Wide Community Improvement Plan