PG31.5.2

From:	Susan McMurray
To:	Planning and Growth Management Committee
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Subject:	My comments for 2018.PG31.5 on July 5, 2018 Planning and Growth Management Committee
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Attachments:	IMIT Submission by TYRLC July 2018 - PG31-5.pdf

To the City Clerk:

Please add my comments to the agenda for the July 5, 2018 Planning and Growth Management Committee meeting on item 2018.PG31.5, Community Improvement Plan to Implement Changes to the Imagination, Manufacturing, Innovation and Technology (IMIT) Program

I understand that my comments and the personal information in this email will form part of the public record and that my name will be listed as a correspondent on agendas and minutes of City Council or its committees. Also, I understand that agendas and minutes are posted online and my name may be indexed by search engines like Google.

Comments are included in the attached submission.

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SUBMISSION TO THE CITY OF TORONTO

PG31.5: Community Improvement Plan to Implement Changes to the Imagination, Manufacturing, Innovation and Technology (IMIT) Property Tax Incentive

July 3, 2018

The Toronto & York Region Labour Council represents 208,000 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 Council has been keenly interested in the development of the IMIT Program since it was initially presented to the City's Economic Development Committee over a decade ago. In the last year, we have made submissions and deputations to Committees and have discussed the program with staff in multiple City divisions. The crux of the matter for Labour Council is always fourfold: the program should be focused on key sectors that need development support (i.e. sectors that are important to the City but which struggle in the current economic environment), the emphasis should be on the creation of good jobs, the process and decisions should be transparent and accountable, and the amount of grants paid out should be curtailed to leave revenue room to fund other essential City programs and services.

While some positive changes are included in the City's proposals for consideration at the public meeting on July 5, 2018, there are still significant changes needed to address the challenges that Labour Council and others have identified.

When the IMIT program was established, the driver 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) 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".

In large part, "but for" is not measured, evaluated or achieved. This was apparent during 2017's 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 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. An example of money given to reward development to office construction downtown, that most likely would have occurred anyway and which results in vague job outcomes, is First Gulf, whose anchor tenant at 351 King Street East is the Globe and Mail. First Gulf, will receive more than $12 million in grants for development there. Initially, the Globe had planned to build its own tower at Front west of Spadina. Rewarding development at King and Parliament when it would have occurred at Front and Spadina seems to violate the "but for" principle.

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.

As of April 2017, at least half of the investment value of approved IMIT applications (and therefore approximately half of the tax grants provided) was 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.

As of June 2018, approximately 44 projects have been approved to receive IMIT grants totalling $618 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. We have not yet seen the detailed information in the report, so we cannot do the up-to-date calculations, but in 2017 the City's analysis talked about the total new taxes contributed to the City (base tax minus grants = net retained taxes of $217M). However, 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).

In the year since the review was underway, City staff have approved another $241 million in grants to be paid out mostly to downtown office developers. City staff estimate that $34 million will be paid out in grants in 2018. Once approved and pending projects are included, that increases to $63 million a year. That is a lot of foregone revenue, which the City's Finance Division should have concerns about.

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%.

On July 9th, the Economic Development Committee will be considering 8 TIEGs projects with a development value of $150 million or higher, some substantially higher (City Council reviews any projects above this level; below it, the projects are reviewed by staff alone). We have not yet been told the TIEGs grant value for these projects, but it will be a lot – a very rough guesstimate would be another $600 million. Please rein in the eligibility and grant formula before we risk losing several hundred million dollars more.

To address these concerns, and building on the City's proposals, our basic recommendation to the Planning and Growth Management Committees is to return to the original focus of the TIEGS program and reduce the level of grants that are paid out. As part of that, we call on you to enhance the proposal as follows:

- We appreciate removal of offices in expanded financial district and that office developments will need to meet Tier 2 of Toronto Green Standard but we recommend that no offices be eligible for TIEGS
- We also call for the removal of call centres and tourism attractions as eligible developments
- We appreciate focus on key sectors of manufacturing, food and beverage wholesaling, and film studio complexes and to align with goals in the Transform TO initiative we recommend adding green enterprises as a key sector
- We appreciate a ceiling for TIEGs but would first recommend that the grants rates be reduced to align more with Toronto's nearby comparators. Then the ceiling should be lowered further, e.g., to $18 million.
- We appreciate that a floor may be necessary because of the administrative burden and low return to the applicants but we would like to see the floor adjusted lower to allow for smaller manufacturing, either through an exemption or by dropping the floor to a lower level.
- We appreciate that a more rigorous "but for" justification is recommended for transformative projects, but we recommend a more robust "but for" justification be required of smaller projects as well.
- We recommend changing the grant formula so a lower rate of TIEG is paid out over 10 years – 30% overall: e.g., 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).

We look forward to participating in the consultation process that City staff will lead to enhance employment criteria for the program. We hope that these criteria will include that job creation is a fundamental aspect of the program not just development and property value growth, the applicant will actually include job data/estimates instead of leaving it to staff to make these speculative calculations, job data will be reported by grant recipients, and a commitment to good jobs will be rewarded, among others (i.e. 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".)

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