

Indigenous Centre for Innovation and Entrepreneurship (ICIE): Incubator Tenancy Program and Head Lease Terms

Date: June 17, 2022

To: General Government and Licensing Committee

From: Interim General Manager, Economic Development and Culture and Executive Director, Corporate Real Estate Management

Wards: All

SUMMARY

To support Indigenous entrepreneurship in Toronto, this report seeks City Council direction to create an Incubator Tenancy Program (the "Program") at the Indigenous Centre for Innovation and Entrepreneurship ("ICIE"), located in a City-owned section of a condominium building at 200 Dundas Street East, as well as authority to enter into a lease agreement (the "Lease") with an Indigenous-led organization or consortium selected as the operator (the "Operator") and head tenant (the "Head Tenant") of the ICIE.

Through the Program, the Head Tenant will be authorized to enter into sub-lease agreements with eligible Indigenous small businesses at less than fair market value for the use of space on the ground floor (4,789 square feet), second floor (10,933 square feet) or third floor (6,778 square feet) of the ICIE. In certain circumstances, outlined in this report, the Head Tenant may also enter into sub-lease agreements with Indigenous and non-Indigenous organizations at fair market value or charge permit fees, provided that they work with and support Indigenous entrepreneurs and innovators and/or provide social and/or commercial benefit to the ICIE and community.

As part of the City of Toronto's financial support for the ICIE and its Head Tenant, this report recommends that City Council allow the Head Tenant to retain as revenue the rental income from such agreements or permits, provided that these funds are fully reinvested in the on-site operations and programming of the ICIE.

RECOMMENDATIONS

The Interim General Manager, Economic Development and Culture, and the Executive Director, Corporate Real Estate Management, recommend that:

1. City Council authorize the creation of an Indigenous Incubator Tenancy Program at the Indigenous Centre for Innovation and Entrepreneurship, as described in Attachment A, to encourage the establishment and initial growth of Indigenous-owned businesses pursuant to section 84 of the City of Toronto Act, 2006.
2. City Council authorize the Executive Director, Corporate Real Estate Management, on behalf of the City, to enter into a five (5) year nominal lease agreement (the "Lease") with a Head Tenant for the use of the ICIE space, subject to the terms and conditions outlined in Attachment B, and other or amended terms and conditions that are acceptable to the Executive Director, Corporate Real Estate Management, or designate, and in a form satisfactory to the City Solicitor.
3. City Council direct, notwithstanding any applicable City policy to the contrary, that all rental revenues from any sublease or permit fees permitted under the Lease (the "Rental Revenues") be retained by the Head Tenant so long as such rental revenues are reinvested in on-site operations or programming at the ICIE and in accordance with any applicable Lease, Operating, Funding or Service agreement between the City and Head Tenant on such terms and conditions as may be deemed appropriate by the General Manager, Economic Development and Culture and if applicable the Executive Director, Corporate Real Estate Management, or each of their designates, and in form acceptable to the City Solicitor.
4. City Council authorize the City Solicitor to complete the agreements authorized herein on behalf of the City, including amending the commencement date of the agreements and other dates, and amending terms and conditions, on such terms as the City Solicitor deems advisable.

FINANCIAL IMPACT

The Lease will be provided to the Head Tenant for a nominal rent and the Head Tenant will be responsible for any operating costs, charges and taxes arising from its use of the site. The Lease agreement with the Head Tenant of the ICIE space is intended to be a completely care free net lease to the City.

The opportunity cost of the Lease, expressed in net present value terms, for the five year lease period is approximately \$5,863,200 (net of Harmonized Sales Tax).

If the Head Tenant enters into any sub-lease agreements with organizations at below market or fair market value, these funds will remain with the Head Tenant as long as the funds are reinvested in on-site ICIE operations and programming at the ICIE and in accordance with any applicable Lease, Operating, Funding or Service agreement between the City and Head Tenant.

Permanent funding of \$0.700 million gross and net for the ICIE is included in the 2022 Council Approved Operating Budget for Economic Development and Culture to fund start-up expenses from 2022 to the first quarter of 2024 and afterwards to provide for a reasonable share of the ICIE's annual operating expenses, including an operating grant to the Head Tenant and Operator of the ICIE space. Annual funding supports of \$0.700 million for the ICIE space will be part of Economic Development and Culture's base Operating budget submission in future years.

In summary, the City of Toronto's on-going financial support for the ICIE will be provided through (i) provision of the ICIE space to a Head Tenant / Operator for nominal rent; (ii) authorizing the ICIE Head Tenant to retain rental revenues or permit fees it charges to sub-tenants, event organizers and other facility users, provided such revenues are reinvested into programming and operations at the ICIE; and (iii) funding for the ICIE's operating costs valued at up to \$700,000 per annum.

Once the Operator is selected, staff may recommend designating the ICIE as a Municipal Capital Facility in order to exempt it from realty taxation for municipal and school purposes.

The Chief Financial Officer and Treasurer has reviewed this report and agrees with the financial implications as presented in the Financial Impact section.

RECONCILIATION AND EQUITY IMPACT

The ICIE has been analyzed for its anticipated impacts on Indigenous, Black and equity-deserving residents. The overall reconciliation and equity impact is highly positive. Through the ICIE, Indigenous Peoples' access to information, space and economic development opportunities, including training and self-employment, along with a sense of identity and belonging, will be positively impacted.

The ICIE will provide Indigenous residents and business owners a safe, supportive space and resources to further develop entrepreneurial skills, nurture and grow successful Indigenous-led business ventures, and celebrate Indigenous innovation, culture and community. Supporting the growth of Indigenous businesses in Toronto will help address Indigenous unemployment, under-employment and precarious employment.

Establishing the ICIE as an Indigenous-led and governed entity, and confirming the authorities required to enter into a lease with a Head Tenant / Operator and create an Indigenous Incubator Tenancy Program within the ICIE, advance the City's commitment to implementing the City of Toronto's Reconciliation Action Plan, bolstering Indigenous economic empowerment, and helping decolonize its relationship with Indigenous Peoples.

DECISION HISTORY

At its meeting on November 7, 8 and 9, 2017, City Council adopted the Community Space Tenancy Policy. The Community Space Tenancy Policy outlines a policy framework for the City to provide Community Space to not-for-profit community and cultural organizations at below-market rent, and came into effect on January 1, 2018.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2017.EX28.8>

At its meeting on March 26, 2018, City Council endorsed the creation of the Indigenous Centre for Innovation and Entrepreneurship and supported the Indigenous District application for the Smart Cities Challenge.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.EX32.11>

At its meeting on July 23, 2018, City Council adopted a Member Motion authorizing the release of Section 37 (Planning Act) funds from various developments to purchase additional space at the Indigenous Centre for Innovation and Entrepreneurship located at 200 Dundas Street East.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.MM44.116>

At its meeting on July 23, 2018, City Council adopted a Member Motion authorizing the release of Section 37 (Planning Act) funds from various developments for capital improvements to the future space for the Indigenous Centre for Innovation and Entrepreneurship located at 200 Dundas Street East.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2018.MM44.22>

At its meeting on July 16, 2019, City Council adopted a Member Motion approving the acceptance of federal funding for the Indigenous Centre for Innovation and Entrepreneurship located at 200 Dundas Street East.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2019.MM9.28>

At its meeting on December 16, 2020, City Council forwarded the report from the City of Toronto's Economic and Culture Recovery Advisory Group entitled "Building Back Stronger" to the City Manager for review and implementation as part of the City's COVID-19 recovery efforts. The report recommends the co-development of programs and initiatives with Indigenous partners to support Indigenous-led businesses and that the City pursue a program of specific community investments to promote the encouragement, scaling and sustainability of business and cultural enterprises led by Indigenous, Black and equity-deserving groups.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2020.EC18.15>

At its meeting on March 10, 2021, City Council authorized the release of Section 37 (Planning Act) funds from various developments for capital improvements to the future space of the Indigenous Centre for Innovation and Entrepreneurship located at 200 Dundas Street East.
<http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.MM30.3>

At its meeting on December 15, 2021, City Council authorized City officials to (a) select an Indigenous-led organization or consortium to operate the ICIE through an open competitive solicitation and (b) negotiate and execute operating, contribution/funding or any related ICIE program agreements on such terms deemed necessary and appropriate by the City and in a form satisfactory to the City Solicitor, with the

designated operator of the ICIE or other parties wishing to financially support the ICIE, provided that required City funding is approved through the City's budget process. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2021.EX28.16>

At its meeting on March 23, 2022, Toronto City Council adopted the "2022 – 2032 Reconciliation Action Plan". Among its key actions, the plan directs relevant City divisions to ensure the successful development and operation of the Indigenous Centre for Innovation and Entrepreneurship. <http://app.toronto.ca/tmmis/viewAgendaItemHistory.do?item=2022.EX31.1>

COMMENTS

Background

Over 70,000 First Nation, Inuit, and Métis peoples call Tkaronto home. Economic success is recognized as a key component of reconciliation, decolonization and self-determination for Indigenous Peoples in Toronto. Along with education, training, and the removal of systemic barriers to employment, a key contributor to Indigenous economic empowerment and prosperity is the development of an entrepreneurship ecosystem to support Indigenous-owned and operated businesses. The City of Toronto is working with local Indigenous communities to develop the Indigenous Centre for Innovation and Entrepreneurship to address this need.

A central pillar of the City of Toronto's 2010 Commitments to Indigenous Peoples as well as the City's Council-approved 2022-2032 Reconciliation Action Plan, the ICIE is designed to give Indigenous communities an opportunity to explore their entrepreneurial aspirations by providing space, business programming, advisory services, mentorship supports, a community event venue and connections to business networks.

By connecting First Nations, Inuit and Métis entrepreneurs across Toronto, Ontario, and Canada to critical business development resources and one another, the ICIE addresses the Truth and Reconciliation Commission's Call to Action 92 which states: "Ensure that Aboriginal peoples have equitable access to jobs, training, and education opportunities in the corporate sector, and that Aboriginal communities gain long-term sustainable benefits from economic development projects."

The ICIE Space, Head Tenant and Subtenants

Funding for the construction and fit out of the ICIE space situated at 200 Dundas Street East is being provided by the City primarily through Section 37 funds. A tender for the construction of the ICIE is expected to be awarded in Q3 or Q4 2022, positioning the ICIE to open for programming in early 2024.

The City's Community Space Tenancy Policy is prescriptive regarding the selection of tenants and the selection and quantity of permitted subtenants. Because City Council has expressly directed the ICIE to be operated by an Indigenous-led organization or consortium, the Lease with this entity falls outside the Community Space Tenancy Policy.

The ICIE Space will be leased to a Head Tenant / Operator selected through a competitive Request for Proposal process. The Head Tenant will then offer space to various subtenants for short and long-term subleases, along with boardrooms and meeting rooms, kitchen facilities for catering, a knowledge house, a lounge area and event space, among other amenities, for the use of the subtenants, according to the terms of their agreements.

The three main types of sub-tenants anticipated to occupy space within the ICIE include:

- i) Indigenous entrepreneurs and innovators operating a (new) small business, start-up, non-profit or social purpose enterprise, who would benefit from accessing space at the ICIE at less than fair market value.
- ii) Established Indigenous-led or non-Indigenous-led for profit firms or non-for-profit organizations which seek to work with and support Indigenous entrepreneurs and innovators, and are capable of paying fair market value for the use of ICIE office or event space. A consulting firm or financial institution, for example, might wish to establish a presence in the ICIE.
- iii) Established Indigenous-led or non-Indigenous-led for profit firms or non-for-profit organizations offering a service that, in the view of the Head Tenant, provides social and/or commercial benefit to the ICIE and community and can pay fair market value, but which may not necessarily work directly with ICIE entrepreneurs or innovators. A portion of the space on the ground floor, for example, could be subleased to an entity wishing to operate a restaurant or gallery.

Indigenous Incubator Tenancy Program at the ICIE

The creation and financing of a business venture can be daunting for new entrants. The failure rate for new entrepreneurs in the first three (3) years of operation is approximately 20 percent. Indigenous innovators and entrepreneurs wishing to start their own business generally face additional barriers, including racism and difficulty in accessing capital, training, business advisory services, personnel and mentorship.

The ICIE is designed to support Indigenous entrepreneurship by providing subsidized (office) space and access to various business formation and development supports, including programming, training, and mentorship.

The *City of Toronto Act, 2006* ("COTA") prohibits the City from assisting directly or indirectly any commercial enterprise through the granting of "bonuses", including the leasing of any property at below fair market value. This restriction, however, does not apply if the City creates a program under section 84 of COTA to encourage the establishment and initial growth of small businesses. If such a program is created, the City is allowed to lease land at less than fair market value to small businesses included in the program for up to three years. Accordingly, this report recommends that City Council create an Indigenous Incubator Tenancy Program at the ICIE to encourage the establishment and initial growth of Indigenous-owned businesses pursuant to section 84 of COTA.

Head Tenant and Lease Terms

In December 2021, City Council directed the General Manager, Economic Development and Culture and the Director, Indigenous Affairs Office to select an

Indigenous-led organization or consortium to operate the ICIE through an open competitive solicitation process in accordance with the provision of the Municipal Code Chapters 71 and 195, City policies and procedures. Council also authorized City officials to negotiate and enter into operating and funding agreements with the designated Operator of the ICIE for a period of up to 10 years.

A Request for Proposals for an Operator for the ICIE will be issued by the City in the third quarter of 2022. The Operator will be chosen by a selection committee comprised of City staff and members of the Indigenous community.

The successful proponent selected to serve as the Operator and Head Tenant of the ICIE will also enter into a Lease with the City for the ICIE space.

This report recommends that City Council authorize the City to enter into a Lease with a Head Tenant for the use of the ICIE. The Lease is for a term of five years, with one option to extend for an additional five years. The Head Tenant is responsible for all costs associated with the maintenance and operation of the ICIE including but not limited to security, utilities, property taxes and leasehold improvements. The City will maintain and be responsible for major structural components of the ICIE.

More specifically, the City will be responsible for the load bearing walls, structural columns, beams and other structural components of the ICIE space, while the Head Tenant will be responsible for any other state of good repair, construction, renovation or leasehold improvement costs required during the term of the Lease, subject to City of Toronto approval, although these are expected to be minimal as the ICIE space will have been recently built and fit out prior to its occupancy by the Head Tenant.

Please see Attachment B for all major terms and conditions of the Lease.

Reinvesting Rent Charged to Sub-Tenants and for Permit Fees into ICIE Programming and Operations

In certain circumstances and in select areas of the ICIE space, the Head Tenant may also wish or need to enter into sub-lease agreements with organizations at fair market value or charge a permit fee. For example established Indigenous-led or non-Indigenous-led firms (e.g. financial institution, consultancy, etc.) or not-for-profit organizations which seek to work with and support Indigenous entrepreneurs and innovators, might wish to establish a presence in the ICIE or rent space for events. Alternatively, a portion of the space on the ground floor or the ICIE could be subleased to an entity wishing to operate a restaurant or gallery.

As part of the City of Toronto's financial support for the ICIE and its Head Tenant, this report recommends that Council enable the Head Tenant to retain as revenue any rental income from such agreements or activities, provided that these funds are fully reinvested in the on-site operations and programming of the ICIE Space and in accordance with any applicable Lease, Operating, Funding or Service agreement between the City and Head Tenant.

Conclusion

Staff recommend City Council adopt the recommendations in this report to authorize the City to establish the ICIE as an Indigenous-led and governed entity, enter into the Lease with a Head Tenant / Operator and create an Indigenous Incubator Tenancy Program within the ICIE. These actions will advance the City's commitment to implementing its Reconciliation Action Plan, bolster Indigenous economic empowerment, and help decolonize Toronto's relationship with Indigenous Peoples.

CONTACT

Michele Baptiste, Project Manager, Economic Development and Culture, 416-392-1795, Michele.Baptiste@toronto.ca

Tobias Novogrodsky, Director, Business Growth Services, Economic Development and Culture, 416-392-6904, Tobias.Novogrodsky@toronto.ca

Alison Folosea, Director, Transaction Services, Corporate Real Estate Management, 416-338-2998, Alison.Folosea@toronto.ca

SIGNATURE

Cheryl Blackman
Interim General Manager, Economic Development and Culture

Patrick Matozzo
Executive Director, Corporate Real Estate Management

ATTACHMENTS

Attachment A – Indigenous Incubator Tenancy Program at the ICIE

Attachment B – Major Terms and Conditions of the ICIE Lease