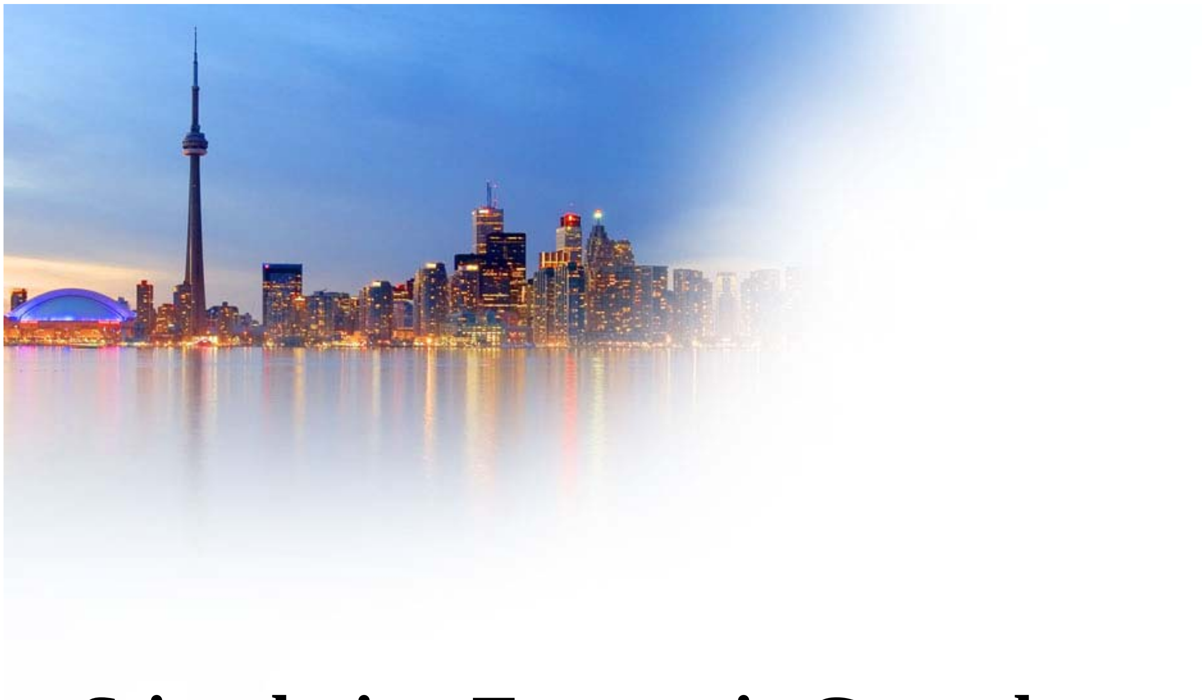


Stimulating Economic Growth:

Toronto's Approach to Financial Incentives

Consultation Paper

February 2008

TORONTO'S APPROACH TO FINANCIAL INCENTIVES CONSULTATION PAPER

Toronto is at a crossroads in its economy. It has managed to be a leader in the creation and attraction of talented people. It has done so through its high quality institutions, welcoming open culture and previous investment in infrastructure. Many of these elements are becoming stretched and some even threadbare and Toronto's situation is threatened.

A report commissioned by the Economic Development Culture and Tourism and City Planning Divisions in partnership with the Toronto Economic Development Corporation (TEDCO) stated the following.

"Given the challenge associated with accommodating significant additional development …accommodating future demand, attracting new investment and ensuring the city remains competitive in a global marketplace, Toronto must ensure that as much land supply in the districts as possible is retained for employment land purposes.…To encourage additional development, policies are required to increase the market attractiveness of existing buildings and land."

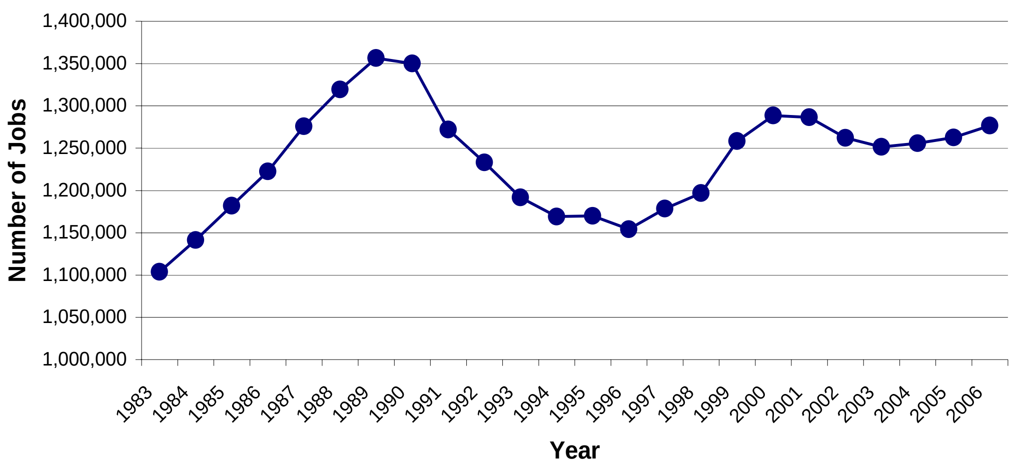
Council has approved in principle the development of incentives across the City for specific economic activities linked to key sectors of the City's economy, and for brownfield remediation related to public policy objectives. The targeted sectors will provide the future opportunities Toronto will require to provide value added jobs, assessment growth and additional access to corporate decision makers.

Developing additional incentives to support these sector development initiatives as well as employment growth, will jointly support multiple City objectives related to employment intensification, environmental leadership, export development, attraction of global mandates and economic and community development.

Why is the City Proposing Incentives?

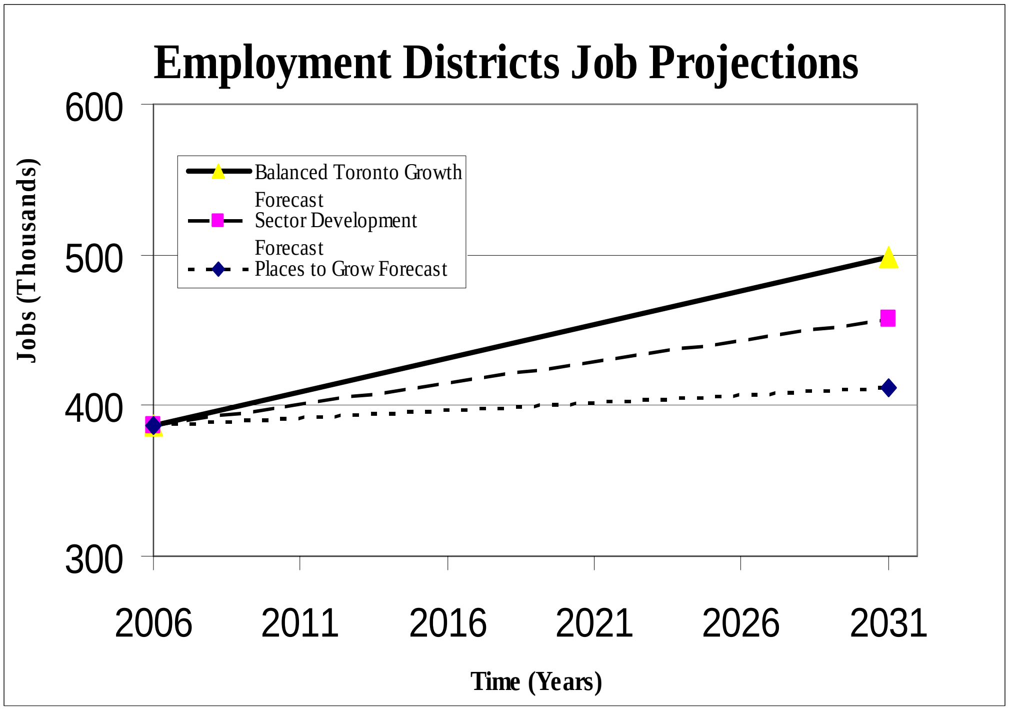
The City has established employment growth targets as part of the Official Plan. The City has targets to reach 1.835 million jobs as well as a population of 3 million by the year 2031. However, the City of Toronto is not capturing the employment growth required to achieve these targets. Currently the City's total employment figures stands at 1.276 million employees and is depicted in the chart below. We need to add over 500,000 new jobs in the city over the next 23 years. Stimulating new job growth now, will be crucial to moving forward to meet our targets.

Figure 1: Total Employment City of Toronto, 1983-2006



The City's Employment Districts provide a good example of what needs to be done. Council has approved a Long Term Employment Lands Retention Strategy which documents the need for incentives to create the supply of industrial/commercial space needed to meet these growth objectives. The analysis that fed into the strategy suggests that 112,000 new jobs can be achieved in the Employment Districts by 2031. However employment in the Districts decreased 1.5% between 2000 and 2006.

Stimulating growth will be accommodated by supporting the existing base level of activity and the future reuse and intensification of existing employment lands. These lands will need to accommodate 6.7 million sq. m. (72 million sq. ft.) of new space in order to meet the employment target.



Most if not all of Toronto's global competitors embrace financial incentives as an economic development tool designed to attract as well as retain investment. It is important for Toronto not to lag in this regard if the City is to sustain and support a diversified economic base, as well as being capable of capturing future growth opportunities.

Why financial incentives are required goes to Toronto's ability to compete in the global market. It is well known that Toronto has difficulty competing with our surrounding 905 neighbours due to lower cost structures primarily regarding the tax environment. Consequently Toronto has lagged behind the 905 in terms of job creation.

Toronto has taken bold steps in this regard and has a 12 year plan to significantly reduce business tax ratios to bring the City more in line with these competitors. However Toronto must also compete with 120 million square feet of new state of the art industrial space also being constructed in these areas. This compares to an older, less efficient building stock currently existing in Toronto.

Toronto and more precisely the companies operating within its jurisdiction are also competing globally with competitors and its own branch plants, aggressively fighting for the same contracts. Many times these other locations have well funded financial advantages offered to them by the local municipality or higher levels of government.

But for the availability of incentives and or assistance from the City, the likelihood of employment investment in areas across the City is difficult at best. Please note in Appendix 1. listing Canadian and foreign jurisdictions participating in financial incentives and some of the programs they utilize.

The Use of Incentives is Aligned with City Policy Objectives

- The City's new "Prosperity Agenda" has noted the need for the city to make catalytic investments in order to stimulate growth. The city must adopt a perspective that an up-front incentive is seen as an investment that will increase the tax base, albeit at a slower rate in the short term.

- Mayor Miller has included in his platform the use of financial incentives to "strengthen key economic clusters through the creation of tax incremental funding districts in areas such as Toronto's Discovery District, East Bayfront and the Portlands".

- The Strategic Plan for the Screen-based Industries concluded that to return the industry to health, "Toronto must use its planning tools and incentives to develop infrastructure…".

- Waterfront Studies note the need to provide incentives to level the playing field with competing residential development and attract the pioneer companies to the area.

- Council approved "Business Climate" report approved lower tax rates for new office and industrial construction and supported the further use of incentive programs.

- The Provincial Growth Plan for the Greater Golden Horseshoe has designated underdeveloped office centres as Urban Growth Centres in Etobicoke, Scarborough, North York and Yonge-Eglinton. They are also Centres for Office development in the City's Official Plan.

What is Being Proposed?

Financial Incentives are a relatively new form of municipal economic development in Ontario. However globally financial incentives have been embraced and widely used for a very long time as a tool for city building.

Three areas of financial assistance are being examined:

1. Grants for building improvements and new development,
2. Assistance for Brownfield's remediation,
3. Targeted incentives for environmental improvements.

Grants for Building Improvements and New Development

These grants are often referred to as Tax Increment Equivalent Grants, or TIEGs. The grant is given to a property owner who retrofits or expands an existing building or develops a new building. The improvement or new development will increase the value of the property. The grant is based on the increase in the property taxes that result from the increased value. After the taxes have been paid each year, the City then gives back a percentage of the increment in the property tax for that year.

In order to be equitable, the incentives will be available to any property in the City that meets the necessary criteria for receiving assistance. It is anticipated that most of these properties will be in the Employment Districts shown on the map. Developments in Downtown and in some of the Avenues may also qualify. The same criteria will be used to assess applications in all areas of the City.

The grant program will specify:

- The number of years over which grants will be payable (10 years plus an additional 2 if Brownfield remediation occurs)
- The current recommendation is for a 60% grant over the 10 year period.
- The percentage of the increment that is given back as a grant each year, will decrease over time.

For example, a new industrial development might create the following scenario:

City property taxes before improvement or development:	$20,000
City property taxes after improvement or development:	$120,000
Tax Increment:	$100,000

Then at the 60% grant level, the municipal taxes over the ten years would total $1,200,000 ($120,000 p.a. x 10) of which $1,000,000 is the total tax increment. The property owner would receive a total of $600,000 from the City, or 60% of the total tax increment. The City would keep the remaining $400,000.

The South Etobicoke Program Example:

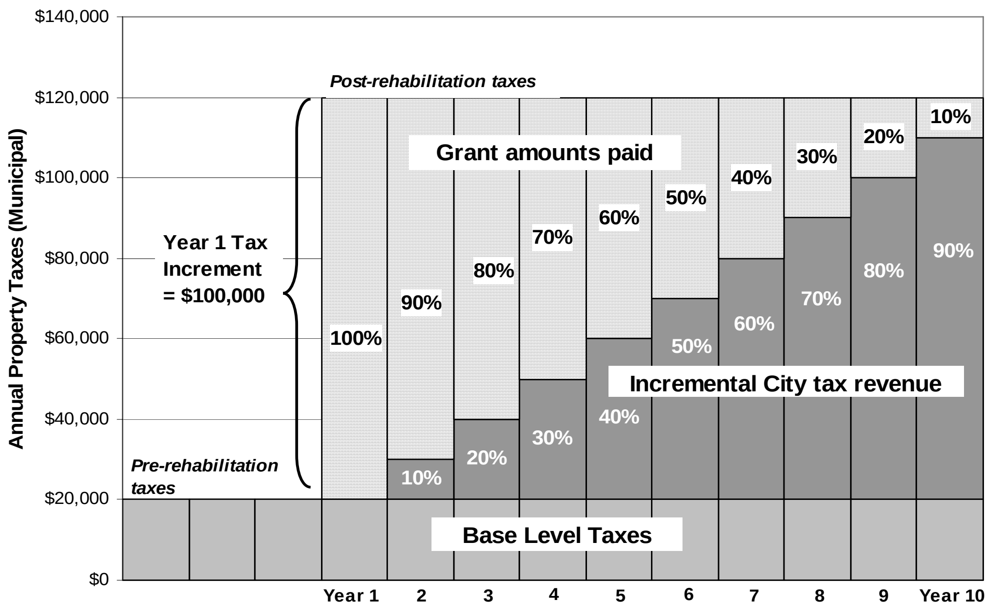
A small pilot TIEG program in South Etobicoke has already met with general success. It has aided the redevelopment and rehabilitation of an underutilized industrial area. Eight projects have been completed or started. They will result in:

- **almost $80 million in building permit fees;**
- **over 1,100 new jobs; and**
- **a tax increment of $1.5 million per year.**

Using the South Etobicoke Pilot Project as an illustrative example, the following chart depict the grant period of ten years:

Year	Tax Increment	Grant Percentage	Grant given
1	$100,000	100	$100,000
2	$100,000	90	$90,000
3	$100,000	80	$80,000
4	$100,000	70	$70,000
5	$100,000	60	$60,000
6	$100,000	50	$50,000
7	$100,000	40	$40,000
8	$100,000	30	$30,000
9	$100,000	20	$20,000
10	$100,000	10	$10,000
Total	**$1,000,000**		**$550,000**

The South Etobicoke Pilot Project can also be illustrated in the following graph.



Brownfield Remediation Grants

Cleaning up contaminated industrial land is sometimes an obstacle to new development in locations where the city would like to see job growth. To address this:

- the City can cancel some or all of the property taxes on a property to help the owner pay to clean it up, or ‘remediate’ it.
- If the City cancels some or all of its taxes, the Province may also agree to cancel some of the school taxes on the property.
- The amount of assistance given to the property owner can’t be greater than the cost of cleaning up the property.
- This assistance would be in addition to the grants for building improvement or new development.
- This tax relief would only be available to properties that are developed for employment uses after they are cleaned up.

At this stage, City staff are suggesting that the amount of taxes cancelled would equal all of the tax increment for two years after the property has been redeveloped after it has been cleaned up. In the example above this would be worth $200,000 in City property taxes and that could be matched by another $200,000 of school taxes (though it's up to the Province to decide how much it would contribute).

Other Incentives

Most municipalities which were studied in Canada, the US and the UK during this process have identified industrial retention and/or attraction as an important issue and have in place or are formulating initiatives (please see Appendix I for a listing of Canadian, US and UK incentive examples). In fact:

- Most urban areas studied have initiatives and programs aimed not at only industrial businesses, but also office businesses;
- Most urban areas especially those with limited amounts of vacant industrial land, are more focussed on retaining and expanding existing businesses, rather than attracting new businesses;
- US cities have considerable financial incentive tools available. Most are comprised of either favourable loan, tax exemptions or credits, or outright funding
- Most US cities studied have large amounts of Brownfield's, that are the focus of numerous financial incentives;
- A range of other initiatives include; assistance in marketing, training and recruiting, and infrastructure improvements.

The major and perhaps only challenge to the adoption of these incentives is the cash flow during the first few years. For example in New York City this issue would be dealt with through the issuance of a special municipal bond.

Staff are attempting to determine whether the City should actively investigate these other forms of incentives as a "second generation" to be developed and implemented sometime in the future.

Other Community Improvement Plans (CIPs) to Support Economic Development

The City is also developing other CIPs that will provide financial incentives to support the City's economic growth. These CIPs are tailored to local areas in the City, and they will complement the city-wide CIP. The intention is that they will be approved by City Council at the same time as the city-wide CIP. They include:

1. CIPs to assist new office buildings in the 'Centres' in Etobicoke (Kipling Islington), North York, Scarborough and Yonge-Eglinton.
2. CIPs to support a wide range of new development for employment uses in the Waterfront, specifically the East Bayfront, the West Don Lands, the Portlands, and the South of Eastern area.
3. A CIP to support employment activities in the Wallace-Junction area.

Who Will Be Eligible for the Incentive?

Toronto's future prosperity will be dependent on the growth of its key economic sectors and the expansion of our existing head office base. Fortunately, the city does have a clear public policy sector growth strategy. The city has a diverse economy composed of significant concentrations of business activity in well-defined sectors.

Making strategic municipal investments in specific sectors will generate long term benefits with respect to maintaining the diversity of the economy and:

- Supporting the further development of goods and services that can be traded regionally and internationally.
- Creating opportunities to link community development activities to growing sectors of the economy.

Developing a framework with clear eligibility criteria is fundamental to a transparent and equitable process. Some possible sector criteria and then conditions to be met might be as follows.

Eligible Uses and Application Criteria

The City has invested significant time and effort in sector development activities. This work will form the basis of a financial incentive program that will address, among others, the needs of the following sectors:

- **Screen based industries (film studios, broadcasting, production and support services),**
- **Aerospace, pharmaceutical, electronic equipment manufacturing,**
- **Food and Beverage manufacturing,**
- **Environmental product production and research,**
- **Information Technology/New Media industries,**
- **Tourism,**
- **Bio-medical industries and research.**

The following activities are currently not being contemplated due to the non-traded characteristics of these activities. They are:

- Retail uses,
- Institutional uses,
- Warehouse uses

There may be other areas of the economy which should be included in this list of eligible sectors. As part of the consultation process staff will be looking to the public for input on the program design. Some of the possible selection criteria might include the following.

Sector Selection Criteria (possible)	Eligibility Conditions (possible)
• Sector concentration	• Number of Jobs created/retained
• Sector Size	• Value of Investment
• Economic Impact (GDP)	• Size of Construction
• International Position/Leadership	• Green Standards
• High Facility Development Costs	• Employment Density
• Sector Development Strategic Priorities	• Linkage to Priority Neighbourhoods
• Relevance to Available Incentives	• Tax standing
• Economic need/opportunity	• Level of Innovation
• Other?	• Other?

Currently the South Etobicoke Pilot Project has a requirement that a minimum of $500,000 as per the building permit value must be achieved as well as the other criteria before an application will be considered. Discussion has been given to increasing this limit to $1 million building permit value. In addition it has been suggested that the level of the grant over the lifetime of the project should be raised from 55% savings currently in place in South Etobicoke project to 60%.

Current Administrative Practice

An administrative procedure is currently in place developed by staff for the South Etobicoke Pilot Project. Modifying this procedure can be an option to be explored at future date.

Next Steps

Staff will be taking the findings of these public sessions forward in concert with the Community Improvement Plan to the April 10th meeting of Planning and Growth Management Committee for the statutory Public Hearing. Once the report is adopted by Planning & Growth Management Committee the report would go to April 28th meeting of City Council for final approval.

Staff will be working on the implementation of a communications and marketing strategy to make the local and international investment community aware of this new investment tool, as well as other business friendly policies.