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INFORMATION REGARDING CITY OF TORONTO INCENTIVE PROGRAM FOR NEW DEVELOPMENT

The Finance and Administration Committee recommends the adoption of the recommendation contained in the following report, April 7, 2008, from the Commissioner of Finance:

1. RECOMMENDATION

It is recommended that this report be received for information.

2. PURPOSE

This report provides information regarding the proposed City of Toronto tax increment equivalent grant (TIEG) program which is designed to attract development to the City of Toronto.

3. BACKGROUND

During the review of the 2008 budget at the March 6th meeting of Finance and Administration Committee, the Committee requested that staff provide a report to its next meeting reviewing the Region's position on the City of Toronto's approach to financial incentives for new non-residential development. The concern that was raised was whether the proposed policy change would create financial incentives and how they would compare to the existing tax structure within York Region.

4. ANALYSIS AND OPTIONS

The City of Toronto, at its meeting of November 13, 2007, approved in principle the creation of a City-wide tax increment incentive program to stimulate economic growth based on the following:

- The utilization of a tax increment equivalent grant (TIEG) program through the creation of a City-wide Community Improvement Project Area and the preparation of a City-wide Community Improvement Plan (CIP).

- The TIEG be linked to the development of key economic sectors, such as:
    - screen-based industries (film studios, broadcasting, production and support services);

- manufacturing (Aerospace, pharmaceutical, electronic equipment, food and beverage);
- environmental product research, development and production;
- information technology/media industries;
- tourism; and
- life science/biotech industries and research.

- In addition to linking the TIEG to the development of key economic sectors, an investigation be conducted and recommendations prepared related to the inclusion in the CIP of projects which achieve stated City policy objectives such as:
  - business incubators and creative convergence centres; and
  - transformative development projects, nodal and new head office development that achieve multiple City goals.

Toronto City Council has endorsed the creation of a financial incentive program to support the growth and expansion of industrial, technological, research and creative-oriented businesses.

The incentive program as proposed applies to specific economic activities linked to key sectors of the City's economy, and to Brownfield remediation related to public policy objectives.

The proposed Tax Increment Equivalent Growth program (TIEG) is anticipated to attract investment in such industries as life sciences - biotechnology, information technology, environmentally friendly products, tourism, film and other screen-based industries, and manufacturing.

Under the proposed program, new development in the eligible sectors would receive a rebate of 60 per cent of the incremental property tax over a 10-year period. Additional grants would be available for Brownfield remediation.

The Economic Development, Culture & Tourism Division is in the process of consulting with the business community on the incentive program. The program will be reported to Planning and Growth Management Committee on April 10th and to City Council at its April 28 meeting. The consultation process included a consultation paper entitled "Stimulating Economic growth: Toronto's Approach to Financial Incentives" a copy of which is attached as Appendix 1.

The Consultation paper provides the following rationale for implementing financial incentives.

> *"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."

What is being Proposed?

Three areas of financial assistance are being examined: (1) Grants for building improvements and new development, (2) Assistance for Brownfield's remediation, and (3) Targeted incentives for environmental improvements.

Our analysis will focus on grants for new building improvements and new development. Key features of the program are:

- The grants are referred to as Tax Increment Equivalent Grants,.
- 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.

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 City used the following example in their consultation paper.

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

TABLE 1

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**

Using the above example, the comparison of taxes between Toronto and an average York Region industrial property (based on the average industrial tax rates for Richmond Hill, Vaughan and Markham) is illustrated in table 2.

TABLE 2

Year	Toronto Normal Taxes	Grant	Toronto Net taxes	Average York Taxes	York Advantage/ (Disadvantage)
1	100,000	100,000	-	58,751	(58,751)
2	100,000	90,000	10,000	58,751	(48,751)
3	100,000	80,000	20,000	58,751	(38,751)
4	100,000	70,000	30,000	58,751	(28,751)
5	100,000	60,000	40,000	58,751	(18,751)
6	100,000	50,000	50,000	58,751	(8,751)
7	100,000	40,000	60,000	58,751	1,249
8	100,000	30,000	70,000	58,751	11,249
9	100,000	20,000	80,000	58,751	21,249
10	100,000	10,000	90,000	58,751	31,249
Total 10 years			450,000	587,514	(137,514)
Total 20 years			1,450,000	1,175,027	412,486

As evidenced above, the Tax Increment Equivalent Grants provide a financial advantage in the early years, however longer term the existing York Region taxes provide a significantly lower cost.

5. FINANCIAL IMPLICATIONS

The introduction of a Tax Increment Equivalent Grant program will change the existing property tax benefit that is currently in favour of York Region's municipalities in the short term. Over the longer term York Region will continue to have a property tax advantage as the proposed program provides grants over only the first ten year period.

Since the program is rebating the incremental taxes received from the new development there would be no budgetary impact other than the loss of the incremental development as assessment growth in the early years.

6. LOCAL MUNICIPAL IMPACT

The change in competitiveness of the tax rates for non-residential development would be experienced by all municipalities in the Region and could impact on future growth levels.

7. CONCLUSION

The introduction of a Tax Increment Equivalent Grant program by the City of Toronto will change the existing property tax benefit that currently favours York Region's municipalities in the short term. Over the longer term York Region will continue to have a property tax advantage as the proposed program provides grants over only the first ten year period.

For more information on this report, please contact Lloyd Russell, Commissioner of Finance at Ext. 1600.

The Senior Management Group has reviewed this report.

(The attachment referred to in this clause was included in the agenda for the April 17, 2008 Committee meeting.)