
REPORT TITLE: Regional Major Office Incentives Program

**FROM: Kealy Dedman, Commissioner of Public Works
Julie Pittini, Acting Commissioner of Finance and Chief Financial Officer**

RECOMMENDATION

That a community improvement strategy known as the Regional Major Office Incentives Program as outlined in the joint report of the Commissioner of Public Works and Acting Commissioner of Finance and Chief Financial Officer, listed on the April 22, 2021 Regional Council agenda, titled “Regional Major Office Incentives Program”, be adopted in accordance with Section 28(7.2) of the *Planning Act*;

And further, that a new reserve titled “Major Office Incentives Program Reserve” to track and facilitate grants to support the Region of Peel’s participation in local municipal Community Improvement Plans as permitted under the Council endorsed Regional Major Office Incentives Program, be established;

And further, that a one-time transfer from the Tax Rate Stabilization to the Major Office Incentives Reserve in the amount of \$100,000 to provide seed funding for the Region’s Major Office Incentives Program, be approved;

And further, that a by-law be presented for enactment to delegate approval authority for the Regional Major Office Incentives Program administration, execution of agreements and granting of payments to the Local Municipalities to support Local Municipal Community Improvement Plans, in accordance with Section 28(7.2) of the *Planning Act*;

And further, that the Commissioner of Public Works and the Chief Planner be authorized to prepare and execute agreements on business terms satisfactory to the Chief Financial Officer and on legal terms satisfactory to the Regional Solicitor as appropriate to administer the Regional Major Office Incentives Program;

And further, that the Chief Financial Officer and the Regional Treasurer, each be authorized, pursuant to Section 28(7.2) of the *Planning Act*, to make grant payment(s) from the Major Office Incentives Program Reserve to a local municipality, in accordance with the subject by-law;

And further, that a copy of the subject report be forwarded to the City of Brampton, Town of Caledon, and City of Mississauga.

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REPORT HIGHLIGHTS

- In 2020, Regional Council directed staff to explore the feasibility of establishing a Regional community improvement plan (CIP) for major office development, and ultimately it was recommended that the Region of Peel support local municipal major office employment CIPs by contributing Tax Increment Equivalent Grants (TIEG).
- Regional Council directed staff to develop detailed recommendations for establishing an office incentives program that uses TIEG, including a framework and project criteria for enabling Regional participation in local CIPs.
- Staff worked with a consultant to prepare a Major Office Incentives Program and enabling by-law with local municipal input, the key findings of which are provided within this report.
- Based on *Planning Act* legislation, the Region's incentive will function as a grant to the local municipalities who are also providing TIEG CIPs, who then provide both Regional and local grants to developments approved for the program.
- The incentive offered is a TIEG structured to provide a reimbursement of the difference between the pre- and post- development Regional property taxes, or a portion of it. This is calculated from a pre-determined percentage and declines every year for a defined period.
- In principle, the Region's grant will be a TIEG that matches the local municipal TIEG by structure.
- The proposed major office incentives program is planned to be open to receive applications for a period of five years, subject to a cap on the total gross floor area eligible for the Major Office Incentives (MOI) Program.
- The proposed Regional MOI Program By-law provides a delegated authority of grants for up to 92,903 square metres (1,000,000 square feet) of major office gross floor area and up to a grant level of approximately \$10 million over a 10-year period; this estimate is calculated based on a host of assumptions.
- A new reserve titled the "Major Office Incentives Program Reserve" will be established to track and facilitate grants with a proposed one-time transfer of \$100,000 made from the existing Tax Rate Stabilization Reserve to provide seed funding for the MOI program.
- The impacts of the COVID-19 pandemic have increased uncertainties of the viability of incentives for major office development but have also made providing incentives an even more important part of Peel's employment strategy to be responsive to community needs and provide jobs.
- Regional staff will continue to work with local municipal staff to develop detailed administrative processes, agreements, and budgeting requirements to implement the MOI Program.

DISCUSSION

1. Background

The 2017 Region of Peel Employment Strategy Discussion Paper identified strategies and recommendations to achieve Peel's employment growth projections to 2041. One of the potential strategies to be explored included consideration of incentives through a regional community improvement plan for major office employment.

On February 27, 2020, an Employment Policies and Trends Overview report was presented to Regional Council, which reaffirmed that a lack of office development has been a contributing factor in Peel not meeting employment forecasts in recent years. Regional

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Council passed Resolution 2020-158, requesting that staff report on the feasibility of a Community Improvement Plan (CIP) for major office uses (that considers a fair distribution of financial incentives between the Region and local municipalities), consult with local municipal staff on the scope and implications of a potential CIP, and report back in the second quarter of 2020.

Since then, a state of emergency was declared in Ontario on March 17, 2020 due to the spread of the COVID-19 pandemic. The economic impact of the COVID-19 response has added to the pre-existing trends which resulted in lower-than-forecasted office development. The risks that these short- and long-term trends pose are discussed in greater detail in the Employment Trends section of this report.

Regional staff engaged N. Barry Lyon Consultants (the “Consultant”) to complete a Feasibility Assessment for a potential Regional major office CIP, and local municipal staff were consulted on the scope of work for the analysis and the report findings.

Under Subsection 28 (7.2) of the *Planning Act* Regional municipalities are permitted to allocate funds to major office projects that contribute to the incentives already offered by local municipalities, if and where local CIPs already exist. This subsection authorizes upper-tier municipalities to make grants, loans, and other incentives to lower-tier municipalities for the purposes of carrying out a local municipal community improvement plan without enactment of a Regional-level CIP. The Peel Regional Official Plan currently contains policies that would allow for a community improvement strategy to be adopted and guide the Region’s participation and support of local CIPs (Regional Official Plan policy 7.7.2.26 and 7.7.2.27).

Based on contextual and financial considerations which informed how incentives may or may not be effective for the Region, it was recommended that, rather than a Regional CIP be established or implemented, that the Region instead support and contribute to the local municipal CIPs. A number of incentive types were considered during the Feasibility Assessment, and a tax increment equivalent grant (TIEG) was determined to be the most appropriate tool.

In the report titled, “Feasibility Assessment of a Regional Major Office Employment Community Improvement Plan”, which was presented to Regional Council at its meeting on July 23, 2020, staff recommended that the Region move forward to develop an incentive program to contribute to the local municipal CIPs via TIEGs. Regional Council passed Resolution 2020-633 directing staff to report back to Council to provide detailed recommendations for establishing an office incentive program that uses TIEGs, including the framework and project criteria for enabling Regional participation in local CIPs.

Regional staff have worked with the local municipalities and the Consultant to prepare an appropriate framework for administration of the program that reflects the local context. This report is in response to Council’s direction and presents the Region’s Major Office Incentives (MOI) Program.

2. Major Office Incentives Program

Subsection 28 of the *Planning Act* provides a number of policies which guide how Regional municipalities may provide incentives for development and guide the structure of the Region’s MOI Program. The Consultant prepared a report titled, “Phase 2 Regional Office Incentives Implementation Considerations.” The report provides an overview of the function

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and benefits of TIEGs, a jurisdictional scan of other municipalities' CIPs and incentives and best practices, CIPs in Peel Region, and key considerations for the Region's TIEG which informed the MOI Program. The Consultant's reports can be found on the Region's Growth Management webpage here: <https://www.peelregion.ca/officialplan/review/focus-areas/growth-management.asp>.

In order to provide incentives for office development, the Region may provide a grant (structured as a TIEG) through the local municipality which also offers a TIEG through its CIP, who will then provide both of the regional and local grants to the landowner.

The MOI Program in Appendix I has been prepared to provide an overview of the program, eligibility criteria for development applications, and the Region's review process as summarized below.

a) Key Project Eligibility Criteria

- The Region's MOI Program is proposed to be applicable where there is a local municipal CIP for office development in the form of a TIEG. The following is the current status of relevant CIP's in Peel:
 - Mississauga's existing office CIP applies to a specified area of the Downtown Core.
 - Brampton's existing CIP applies to the Central Area, but the City is preparing an office CIP which would apply across the entire municipality.
 - Caledon does not currently have a CIP to incentivize office development, however the Region will participate in the CIP program in line with its established parameters if a CIP is established. While Caledon has not seen major office development activity recently, with significant growth allocated to 2051, major office development interest may arise.
- The development must conform to the Regional Official Plan.
- The development must meet the Region's definition of Major Office: a major office employment land use of 20,000 sq. ft. (1,858 m²) or above (up to 10 per cent less will be considered as well).
- Where the office land use is part of a larger mixed-use development, only the new office component will be incentivized through this program.
- Only new major office construction or the adaptive reuse of non-office buildings to major office uses where increased property taxes would apply, are eligible.

b) Tax Increment Equivalent Grant Structure

- When a local municipality provides a TIEG for an eligible office development, the Region will contribute office incentives via a TIEG that matches the reimbursement percentage and the duration of the local TIEG provided that it satisfies the Regional Office Incentives Program framework.
- The MOI Program provides key details, including the structure of the TIEG being offered and the process for how TIEGs are calculated. TIEGs are a commonly used incentive which allow the increase in municipal property tax (i.e. the incremental difference from a vacant site to an office building) to be refunded in full or partially over a period of time. The TIEG is calculated from a pre-determined percentage of the incremental difference and declines every year for a defined period.
- The Region's grant will be a TIEG that matches the local municipal TIEG by structure, within the following thresholds:

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- The TIEG starting percentage must be no higher than 100 per cent.
- The TIEG must decline by no less than 7 per cent each year.
- The TIEG will be in place for up to 10 years.
- Post-construction, the landowner will pay property taxes in full based on the new post-development current assessed value and total tax rate to the local municipality, with the Region's portion of property taxes then provided to the Region.
- In each eligible year, the Region will reimburse a certain agreed upon value of the difference in pre- and post-development Regional property taxes as a grant back to the local municipality's CIP. The TIEG structure and reimbursements are set and agreed upon in year one of the TIEG, therefore the Region's refund is locked in.
- As the taxes payable change each year (as applicable), the landowner will pay the updated property taxes, but the Region's reimbursement will remain as the value set in the incentive agreements.
- The local municipality provides the registered owner a grant on behalf of the Region and local municipality equal to the agreed upon TIEG following receipt of payment.
- No reimbursement will be made after the final year of the TIEG (i.e. in year eleven of a ten-year TIEG).

Please refer to the MOI Program Outline in Appendix I for further details, the application review process, and required agreements.

c) Major Office Incentives Program By-law

A by-law has been proposed to delegate approval authority to staff for the MOI Program administration, execution of agreements and granting of payments the local municipalities to support local municipal CIPs. To manage the amount of grants provided, there are limitations to the program's proposed application period and delegated authority to staff to administer the program, as detailed in the proposed Regional MOI Program By-law presented for enactment:

- The Region's MOI program is proposed to be open to receive applications for a period of 5 years from Council Approval, subject to a cap in the total gross floor area that may be approved through the program. For greater clarity, applicants who already have a building permit issued shall not be eligible for the program.
- Staff would have delegated authority to approve applications to the MOI program up to a total of 92,903 square metres (1,000,000 square feet) of eligible major office gross floor area
- Staff would have delegated authority to make grant payments up to a total level of approximately \$10 million over a 10-year period (see Financial Implications section of this report for further details).

3. Case Studies

To demonstrate how the Regional MOI can affect applications for office development, three case studies have been prepared. These include recently built office developments or potential developments in Brampton and Mississauga. It should be noted that all case studies are presented for illustrative purpose only; calculations herein are based on the following assumptions:

- Each development meets the proposed Regional MOI Program criteria and framework.

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- Calculations were made assuming 2020 tax rates for post-development tax level.
- The grants were calculated assuming the refund is 100 per cent of the tax increment in the first year after the property assessment value is updated by the Municipal Property Assessment Corporation (MPAC) post-development.
- The Brampton case study TIEGs decline by 10 per cent each year, while the Mississauga case study TIEGs decline by 7 per cent each year.

a) Case Study I – Existing Office Building on a Transit Corridor, Brampton

CASE STUDY I	
This site is a seven-storey standalone office building in an office employment area and transit corridor.	
Location	Office Employment Area & Transit Corridor
Pre-development Details	
Land Use	Vacant (Commercial vacant / Excess Land)
MPAC Assessment Value	\$ 1,482,781
Regional Property Tax Rate	0.41%
Regional Property Taxes	\$ 6,010
Post-Development Details	
Land Use	Office (Commercial)
Structure and Storeys	1 tower of 7 storeys
Eligible Office Component	73,500 ft ² (6,828 m ²)
MPAC Assessment Value	\$ 11,503,000
Regional Property Tax Rate	0.48 %
Regional Property Taxes	\$ 54,853
Tax Incremental Difference	\$ 48,843

- The total taxes the developer/tenants will benefit from being reimbursed over the 10-year period of the TIEG is \$268,635.
- Had this development not occurred the Region may have received \$60,100 in property taxes over 10 years. With the office development occurring and receiving the TIEG incentive, the Region would receive and retain \$279,894 in property taxes over the 10-year period of the TIEG (estimate based on the 2020 assessment value and tax rate).
- In the 11th year and beyond the Region would no longer provide a grant and would receive the full \$54,853 post- development property taxes each year (to change based on applicable assessment values and tax rates at that time).

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b) Case Study II – Existing Office Building on a Transit Corridor, Mississauga

CASE STUDY II	
This site is a three-storey standalone office building in a corporate centre and employment area, in close proximity to transit. Please note that this location is outside the bounds of the current Mississauga Downtown CIP area but is included to demonstrate another realistic major office development.	
Location	Gateway Corporate Centre & Transit Corridor
Pre-development Details	
Land Use	Vacant (Commercial vacant / Excess Land)
MPAC Assessment Value	\$ 3,793,972
Regional Property Tax Rate	0.41 %
Regional Property Taxes	\$ 15,409
Post-Development Details	
Land Use	Office (Commercial)
Structure and Storeys	1 building of 3 storeys
Eligible Office Component	51,764 ft ² (4,809 m ²)
MPAC Assessment Value	\$ 11,106,000
Regional Property Tax Rate	0.53 %
Regional Property Taxes	\$ 59,237
Tax Incremental Difference	\$ 43,828

- The total taxes the developer/tenants will benefit from being reimbursed over the 10-year period of the TIEG is \$300,220.
- Had this development not occurred the Region may have received \$154,093 in property taxes over 10 years. With the office development occurring and receiving the TIEG incentive, the Region would receive and retain \$292,150 in property taxes over the 10-year period of the TIEG (estimate based on the 2020 assessment value and tax rate).
- In the 11th year and beyond the Region would no longer provide a grant and would receive the full \$59,237 post- development property taxes each year (to change based on applicable assessment values and tax rates at that time).

c) Case Study III – Potential Office Building, Mississauga

CASE STUDY III	
This site is a 19 storey office building with ground floor retail in a mixed use area and transit corridor in the downtown core.	
Location	Downtown Core & Transit Corridor
Pre-development Details (2020)	
Land Use	Retail
MPAC Assessment Value	\$ 5,500,000

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Regional Property Tax Rate	0.53 %
Regional Property Taxes	\$ 29,336
Post-Development Details	
Land Use	Office Tower with ground floor retail (Commercial)
Structure and Storeys	1 tower of 19 storeys: 413,000 ft ² (38,000 m ²) of office and 14,000 ft ² (1,300 m ²) of retail space
Eligible Office Component	413,000 ft ² (38,000 m ²)
MPAC Assessment Value	\$ 145,000,000
Regional Property Tax Rate	0.53 %
Regional Property Taxes	\$ 773,400
Tax Incremental Difference	\$ 744,064

- The total taxes the developer/tenants will benefit from being reimbursed over the 10-year period of the TIEG is \$5,096,836.
- Had this development not occurred the Region may have received \$293,358 in property taxes over 10 years. With the office development occurring and receiving the TIEG incentive, the Region would receive and retain \$2,637,159 in property taxes over the 10-year period of the TIEG (estimate based on the 2020 assessment value and tax rate).
- In the 11th year and beyond the Region would no longer provide a grant and would receive the full \$773,400 post- development property taxes each year (to change based on applicable assessment values and tax rates at that time).

Overall, the case studies show that the grants provided to incentivize development can vary widely, depending on the change in land use, location of the property, TIEG structure, and other factors. This uncertainty is managed through limitations set out in the MOI Program by-law and in the staging of the application process to only confirm grant levels and finalize agreements post construction. Please refer to Appendix II to review the detailed tables and explanatory notes on these case studies and impacts to taxes collected and reimbursed over the TIEG period and beyond.

4. Employment Trends and COVID-19 Impacts on the Office Market

As part of the Region's planning for growth between 2021 and 2051 approximately 110,000 new major office jobs are forecasted. Growth in each local municipality will contribute to the new office jobs forecasted to be added over this thirty-year period.

Major Office Employment – Draft Job Growth Forecasts to 2051			
	2021	2051	Increase between 2021 and 2051
Mississauga	116,500	163,000	46,500
Brampton	20,500	71,250	50,750
Caledon	250	13,000	12,750
Peel Total	137,250	247,250	110,000

Note: Values are rounded to the nearest 250 jobs

Prior to the onset of the COVID-19 pandemic and response, various factors impacted employment conditions such as the changing nature of work (e.g. work from home

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arrangements), and other economic changes which reduce the demand for office space. COVID-19 public health response measures have created additional uncertainty due to job losses, remote work, and business challenges.

In May 2020 the Region, in collaboration with the external consultants, prepared low and high impact scenarios to predict possible pandemic effects on development activity (high impact indicating a significant reduction in activity). The monitoring of non-residential building permits issued in 2020 indicates that the Region is experiencing COVID-19 pandemic impacts on office and retail developments near a high impact scenario forecast, with little activity. As a result, shorter-term demand for office space across the Region may stall, resulting in higher vacancies, and reduced office investment interest.

It is still too early to determine the exact effects of COVID-19 on the office sector, as there is also discussion of possible reduction in office space needs due to long-term remote work arrangements. Regional staff will continue to monitor the impacts of COVID-19 on changes to the landscape of office development interest and market activity and determine if any beneficial changes arise for suburban municipalities like Peel.

In the medium and long term as businesses refocus on recovery from the pandemic they may reconsider how and where they locate. This introduces some level of uncertainty in meeting future office employment growth. There may be more desire to locate workplaces closer to residential areas, instead of funneling people into one place (i.e. Downtown Toronto). This may present new opportunities for office development in the suburban market in which incentives could assist with this restart of the economy. However, it is also recognized that increased digitization and remote working have increased the risk to the expansion of traditional onsite office employment.

Notwithstanding, incentivizing major office is a key step in offsetting some of the financial barrier to development at this time and can result in some success in achieving office growth outcomes. Since the February 2020 direction to examine major office incentives, the impacts of the COVID-19 pandemic have increased uncertainties, but this have also elevated the need to enhance the attractiveness of Peel as a future location for offices looking to locate in areas where a young and highly educated pool of workers reside. The pandemic has also made providing incentives an even more important part of Peel's employment strategy to respond to community needs and provide jobs.

RISK CONSIDERATIONS

- Brampton and Caledon have not yet established CIPs for office development. This presents some difficulty in determining how the Region's MOI Program may interact with potential future CIPs of the local municipalities. The MOI Program and proposed by-law have been structured to be flexible and applicable to any local CIP for office investment that may arise in the future and meets Regional parameters.
- It will be difficult to predict office development activity (and therefore prepare MOI Program budget lines) in the coming years, as COVID-19 impacts have increased uncertainty around future working arrangements and short-term development industry interest, while the timeline of economic recovery is also uncertain.
- If this Major Office Incentives Program is not implemented, and major office development activity is not otherwise increased, there are longer-term risks related to the Region not meeting its employment targets to 2051.

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FINANCIAL IMPLICATIONS

Due to the changing nature of employment, the Region's major office development activities have not been able to meet the its growth forecasts in the last decade; Peel remains at risk of not meeting the office development growth target to the next planning horizons to 2051. The proposed Regional MOI Program By-law provides a delegated authority of grants for up to 92,903 square metres (1,000,000 square feet) of major office gross floor area. This could equate to an estimated grant level of approximately \$10 million over a 10-year period; this estimate is calculated based on a host of assumptions which are subject to variables such as uptake of the program, land characteristics, and the location of future office developments. It is intended that the cost to fund the MOI grant program would be offset by the revenue from the property taxes payable by the new offices built supported by the program.

Tax revenues from new development normally would be added to the Region's tax base to fund operating budget needs for various Regional services. A grant contribution in the form of a TIEG essentially would require the Region to allocate a portion of the tax revenues to earmark funding for a grant payment commitment. The financial implications of the proposed MOI Program are dependent on variables such as uptake of the incentives, market conditions, the employment landscape in the Region, the economic benefit and the effectiveness of the financial incentives, and other drivers of office investment. There is currently no empirical evidence showing that TIEG is a sole driver that will result in major office investments.

Although it is too soon to determine the extent to which the COVID-19 pandemic will affect the Region's office sector, anecdotal analyses suggest that office demand will be further challenged. The Region's MOI Program is intended to improve the Region's competitive position to entice and expedite major office development into designated local CIP areas. The Region's participation in local CIPs via TIEGs should help strengthen the impact and effectiveness of local municipalities' economic development initiatives.

Staff recommend that a new reserve titled "Major Office Incentive Program Reserve" be established. This reserve will be used to track and facilitate grants to support the Region's participation in a local municipal CIP. It is further recommended that a one-time transfer be made from the existing Tax Rate Stabilization Reserve to the Major Office Incentive Reserve in the amount of \$100,000 to provide seed funding for the MOI program.

Staff will review grant application(s) from local municipalities and include appropriate budget proposals for Council consideration during future annual budget processes to ensure an adequate funding level is maintained in this new reserve while considering the long-term financial sustainability.

NEXT STEPS

Next steps include drafting and entering into agreements with the local municipalities to establish the detailed process to administer the MOI program. Template agreements will also be prepared for use between the Region and landowners that have applied to the program. The Region will continue to work with the local municipalities to determine an appropriate framework for administration of the program that reflects the local context.

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CONCLUSION

In July 2020 Regional Council endorsed staff's recommendations that the Region of Peel support local municipal major office employment Community Improvement Plans by contributing Tax Increment Equivalent Grants. Staff have worked with an external consultant in developing the implementation framework outlined in this report. This carries out recommendations of the Region's 2017 Employment Strategy and is consistent with Peel's Long-Term Financial Planning Strategy which includes the financial principle of "work with local municipalities to manage growth and support economic viability of the community." Appendix III, the Regional MOI Program Background and Summary provides a visual overview of this report and other appendices for reference.

It is recommended that in accordance with Section 28(7.2) of the *Planning Act*, the Major Office Incentives Program and proposed by-law be adopted to implement incentives for major office development in the Region and delegate authority to staff to administer the program.

Regional staff will continue to work with local municipal staff to develop detailed administrative processes, agreements, and budgeting requirements to implement the Major Office Incentives Program.

APPENDICES

Appendix I – Regional Major Office Incentives Program

Appendix II - Case Study Details - Tax Increment Equivalent Grants Incentive Structure Tables

Appendix III – Regional Major Office Incentives Program Background and Summary

For further information regarding this report, please contact Adrian Smith, Chief Planner & Director, Regional Planning and Growth Management, Ext. 4047, adrian.smith@peelregion.ca.

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