ADOPTED by Council at its meeting held August 29, 2011 **[M208/2011]**
/KS
Windsor, Ontario August 29 2011

REPORT NO. 6 of the
ECONOMIC DEVELOPMENT
STANDING COMMITTEE
of its meeting held July 6, 2011

Present:

Councillor Dilkens, Chair
Councillor Sleiman
Councillor Valentinis
Councillor Marra
Councillor Payne

That the following recommendation of the Economic Development Standing Committee **BE APPROVED** as follows:

Moved by Councillor Sleiman, seconded by Councillor Payne

That the request by Tessonics Holding Corp. under the Small Business Investment Grant Program **BE APPROVED** for 100% of the municipal portion of the tax increment for up to ten years pursuant to the City of Windsor Economic Revitalization Community Improvement Plan;

II. THAT the City staff **BE AUTHORIZED** to account for the vacancy tax rebate in the calculation of the base municipal taxes;

III. THAT the City Planner **BE AUTHORIZED** to approve any proposed building facade work at 597 Ouellette Avenue as a condition of the Small Business Investment Grant approval;

IV. THAT staff **BE DIRECTED** to prepare an agreement to implement the Small Business Investment Grant Program in accordance with all applicable policies, requirements, and provisions contained within the Economic Revitalization Community Improvement Plan to the satisfaction of the City Planner as to content, the City Solicitor as to legal form, and the CFO/City Treasurer as to financial implications;

V. THAT the CAO and City Clerk **BE AUTHORIZED** to sign the Small Business Investment Grant Agreement;

VI. THAT the request by Tessonics Holding Corp. for the provision of 25 off-site parking spaces within a municipal parking facility or lot in the vicinity of 597 Ouellette Avenue **BE APPROVED** for up to 10 years under the Small Business Investment Grant Program. Specifically, that 15 parking spaces be provided at the commencement of the approved Small Business Investment Grant Program and 10 additional spaces be provided upon demonstration by Tessonics Holding Corp., satisfactory to the City Planner and City Engineer, that future business expansion warrants the additional spaces; and

VII. THAT the CAO and City Clerk **BE AUTHORIZED** to sign the a lease agreement to provide up to 25 City-owned parking spaces at no cost to Tessonics Holding Corp., which is satisfactory to the Director of Operations as to content, the City Solicitor as to legal form, and the CFO/City Treasurer as to financial implications.

Carried.

Livelink 15377 SPL/10759

Councillor Valentinis voting nay.

Councillor Marra discloses an interest and abstains from voting on Item 2 as his son is working with the research department at the University of Windsor.

Clerk's Note: The Report from the City Planner entitled "Application by Tessonics Holding Corp for Financial Incentives Under the Economic Revitalization Community Improvement plan" dated June 30, 2011 is ***attached*** for information.

CHAIRPERSON

DEPUTY CITY CLERK

Item No. 2

THE CORPORATION OF THE CITY OF WINDSOR
Economic Development Standing Committee- Administrative Report

MISSION STATEMENT:
"The City of Windsor, with the involvement of its citizens, will deliver effective and responsive municipal services, and will mobilize innovative community partnerships"

LiveLink REPORT #: 15377 SPL/10759	**Report Date: June 30, 2011**
Author's Name: Greg Atkinson	**Date to Standing Committee: July 6, 2011**
Author's Phone: 519-255-6543 ext. 6582	**Classification #: Admin**
Author's E-mail: gatkinson@city.windsor.on.ca	

To: **Economic Development Standing Committee**

Subject: **Application by Tessonics Holding Corp for Financial Incentives Under the Economic Revitalization Community Improvement Plan**

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1. RECOMMENDATION:

City Wide: _____ Ward(s): 3

I. THAT the request by Tessonics Holding Corp. under the Small Business Investment Grant Program **BE APPROVED** for 100% of the municipal portion of the tax increment for up to ten years pursuant to the City of Windsor Economic Revitalization Community Improvement Plan;

II. THAT the City staff **BE AUTHORIZED** to account for the vacancy tax rebate in the calculation of the base municipal taxes;

III. THAT the City Planner **BE AUTHORIZED** to approve any proposed building facade work at 597 Ouellette Avenue as a condition of the Small Business Investment Grant approval;

IV. THAT staff **BE DIRECTED** to prepare an agreement to implement the Small Business Investment Grant Program in accordance with all applicable policies, requirements, and provisions contained within the Economic Revitalization Community Improvement Plan to the satisfaction of the City Planner as to content, the City Solicitor as to legal form, and the CFO/City Treasurer as to financial implications;

V. THAT the CAO and City Clerk **BE AUTHORIZED** to sign the Small Business Investment Grant Agreement;

VI. THAT the request by Tessonics Holding Corp. for the provision of 25 off-site parking spaces within a municipal parking facility or lot in the vicinity of 597 Ouellette Avenue **BE APPROVED** for up to 10 years under the Small Business Investment Grant Program. Specifically, that 15 parking spaces be provided at the commencement of the approved

Small Business Investment Grant Program and 10 additional spaces be provided upon demonstration by Tessonics Holding Corp., satisfactory to the City Planner and City Engineer, that future business expansion warrants the additional spaces; and

VII. THAT the CAO and City Clerk **BE AUTHORIZED** to sign the a lease agreement to provide up to 25 City-owned parking spaces at no cost to Tessonics Holding Corp., which is satisfactory to the Director of Operations as to content, the City Solicitor as to legal form, and the CFO/City Treasurer as to financial implications.

EXECUTIVE SUMMARY:

N/A

2. BACKGROUND:

City Council approved the Economic Revitalization Community Improvement Plan (CIP) at its January 31, 2011 meeting via CR 50/2011. The adopting By-law 30-2011 was passed by Council at its February 14, 2011 meeting. Following the expiry of the statutory appeal period, the CIP came into effect on March 15, 2011.

The Economic Revitalization CIP provides financial incentives to encourage new investment in targeted economic sectors for the purposes diversifying the local economy and creating/retaining jobs. The CIP allows the City to take a variety of measures to further the objectives of the Economic Revitalization CIP that would otherwise be prohibited by Ontario's *Municipal Act*. This includes the acquisition and preparation of land; construction, repair, rehabilitation or improvement of buildings; the sale, lease or disposal of land and buildings; and the provision of grants to owners or tenants of land—all of which must conform with the objectives and policies contained within the CIP.

There have been several inquiries from new and existing businesses regarding participation in the CIP grant programs and one formal application, which was approved by Council at its May 16, 2011 meeting.

Tessonics Holding Corp. has submitted the City's second formal application for financial incentives under the Economic Revitalization CIP. Tessonics specializes in producing diagnostic systems for the automotive, aerospace, and health care industries based on its own research and development. Tessonics was established in 2005 and has 23 employees at its current location on Ambassador Drive in Windsor.

Tessonics is proposing to relocate its office to the long-standing vacant building at 597 Ouellette Ave (Appendix A). The site is designated 'Mixed Use' in the City's Official Plan and is zoned CD 3.1 (Commercial District)—both of which permit the proposed use.

3. DISCUSSION:

Tessonics Holding Corp. has applied for financial Incentives under the Small Business Investment Business Investment Grant Program (Appendix B). The program is intended to provide financial incentive to stimulate new investment in small businesses within targeted economic sectors for the purposes of expanding and diversifying the local economy. New or existing businesses that are expanding are eligible to receive an annual grant for up to 100% of the municipal property tax increase created by an investment in development or redevelopment

of the building or property—provided it is in conformity with the Economic Revitalization CIP. The annual grants may continue for up to 10 years or until 100% of the eligible costs are repaid.

Tessonics Holding Corp. is proposing to relocate its office to a 743 square metre (8000 square foot) vacant commercial office building located at 597 Ouellette Ave. The building requires a new roof as well as exterior and interior renovations to accommodate Tessonics staff. Potential for rooftop renewable energy generation is also being investigated as part of the building rehabilitation and retrofit work. The total cost is estimated at $350,000.

Tessonics falls within more than one eligible economic sector as defined within the CIP (e.g. Health and Life Sciences, Management of Companies and Enterprises, and Professional Services). Tessonics currently employs 23 people and plans to add 2 to 4 new positions annually to accommodate anticipated introduction of new products. Tessonics long-term plans include a potential expansion of the building to accommodate other high tech companies, creating a downtown innovation hub. For clarification, Tessonics would not be undertaking any type manufacturing at its new location.

The CIP authorizes '*contextually sensitive facade improvements that are approved by the City Planner*', under the eligible costs provisions of the Small Business Investment Grant Program. Accordingly, any facade improvements undertaken as part of the program must be approved by the City Planner.

City staff are supportive of the Tessonics application as it meets all of the eligibility requirements specified within the Economic Revitalization CIP. The proposed development also meets the following CIP objectives:

- Encourage investment that results in the productive use of lands and/or buildings for the purposes of establishing or maintaining a business enterprise, or the expansion of existing businesses to realize more effective use of the land's potential;
- Encourage capital investments that create new and/or maintain existing permanent jobs, as well as short-term construction jobs that contribute to the reduction of the unemployment rate;
- Support investments in specified high potential economic sectors that contribute to the diversification of the local economy;
- Facilitate the development of the City's vacant employment lands and other areas that have the potential to be new employment areas;
- Support the establishment and on-going development of sector clusters and encourage businesses to take advantage of cluster-related synergies; and,
- Support investment and development that results in an increase in property assessment and grows the non-residential municipal tax base over the long-term.

Tessonics has also requested that the City provide up to 25 off-site parking spaces within a municipal parking facility or lot in the immediate vicinity of 597 Ouellette Ave at no cost. While not part of the Small Business Investment Grant Program, the Economic Revitalization CIP indicates that the City may lease land or buildings held by it for the purposes of carrying out the CIP. City Operations staff have indicated that spaces are available within the parking structure located at Park and Pelissier Streets and the surface parking lot on the west side of Pelissier Street south of Wyandotte Street. The regular monthly permit costs for the garage is $67.80 and monthly costs of the surface lot is $33.90. The CIP permits Council to provide the requested parking at no costs to Tessonics. Should Council agree to lease the parking spaces for less than

the above stated costs, the difference would be included as a deduction from the total costs eligible (i.e. $350,000) under the Small Business Investment Grant Program (i.e. treated in the same manner as other grants provided under the program). The effect would be to accelerate the timing upon which Tessonics would recoup their investment costs.

City staff understand that Tessonics may not require all 25 parking spaces in the short term and that there may be some flexibility on behalf of the City to provide parking as the business grows (e.g. provide 15 spaces now and 10 additional spaces in conjunction with future expansion).

4. FINANCIAL MATTERS:

The tax increment portion of the Small Business Investment Grant is not calculated or paid out until all eligible work is completed and the property has been reassessed by the Municipal Property and Assessment Corporation (MPAC). Once the tax increment (i.e. difference between the pre and post-development municipal tax levy) is determined, Tessonics Holding Corp. will receive an annual grant equivalent of up to 100% of the municipal tax increment for up to 10 years or until all 100% of the eligible costs are repaid. The grant amount is recalculated annually based on the actual assessed property value, tax class, and municipal tax rate.

The property is currently vacant and received a vacancy tax rebate in the amount of 30% for 2010. That is, the current owner is charged a fully occupied amount in year and then is provided with a credit of 30% as a result of the building being vacant. For the purpose of calculating the tax increment, Tessonics has requested that Administration set the base municipal taxes for purposes of the grant calculation at this lower vacant rate. City Council is being asked to advise Administration if this request is acceptable. Currently, the City does not receive the full amount of property taxes with regard to the property and will not receive the full amount of taxes until the building was fully occupied. Again, the effect of using the lower amount of municipal property tax as the base upon which the grant is to be calculated would be to (a) increase the amount of incentive than otherwise be provided and (b) accelerate the timing upon which Tessonics can recoup their investment costs. In making this decision, Council must weigh the long-term benefits that this investment in the Downtown will have (which may not be fully quantified at this time) against the potential additional grant value being requested.

Recognizing the building is currently vacant in the calculation of the base municipal tax rate is supportive of the CIP objectives, which support the effective and productive use of land and buildings, encourage redevelopment of the City's vacant employment lands, and support investment that results in an increase in property assessment and grows the non-residential municipal tax base over the long-term.

Based on pro-forma calculations prepared by City staff, which use the occupied commercial tax rate for the purpose of establishing the base municipal taxes, it is estimated the applicant would be eligible to receive annual grants in the amount of $3,036 for up to ten years, which would total $30,362 or 9% of the estimated eligible building retrofit and redevelopment costs over the lifespan of the program. However, should Council prefer to recognize the lower property tax base (i.e. after the vacancy tax rebate that has been issued), it is estimated that the applicant would be eligible to receive annual grants in the amount of $8,957 for up to ten years, which would total $89,568 or 26% of the estimated eligible building retrofit and redevelopment costs over the lifespan of the program.

Because the Small Business Investment Grant Program does not cancel taxes, the applicant must pay the full amount of property taxes annually and will subsequently receive a grant for the difference between pre and post-development municipal taxes. The City would retain the amount of pre-development (base) municipal taxes throughout the grant program. Accordingly, there is no negative impact on the current tax base for the City of Windsor.

The provision of parking 25 parking spaces within a municipal facility or lot over the lifespan of the grant program (i.e. 10 years) would represent a maximum offset in the order of approx. $200,000 within the Park and Pellisier parking structure or approx. $100,000 for the Pellisier surface lot. Again, there is no cost at present in providing these spaces to Tessonics as these spaces are currently available and therefore not generating revenue for the City.

Total potential grants under the program are summarized as follows:

	Annual Tax Increment Grant	Annual Parking Grant	Total Annual Grant	Total Grant over 10 years
Option 1 – higher base municipal tax rate, parking on surface lot (max 25 spaces*)	$3,036	$10,170	$13,206	$132,060
Option 2 – lower base municipal tax rate, parking on surface lot (max 25 spaces*)	$8,957	$10,170	$19,127	$191,270
Option 3 (Recommended) – lower base municipal tax rate, parking at both surface lot (10 spaces) and Pelissier garage (15 spaces) (max 25 spaces*)	**$8,957**	**$16,272**	**$25,229**	**$252,290**
Option 4 – higher base municipal tax rate, parking at Pelissier St. garage (max 25 spaces*)	$3,036	$20,340	$23,376	$233,760
Option 5 – lower base municipal tax rate, parking at Pelissier St. garage (max 25, spaces*)	$8,957	$20,340	$29,297	$292,970

*parking grant would be lower in the years that only 10 spaces were provided increasing to the maximum amount as more are approved.

As indicated in the chart, under Option 3, the maximum total eligible grant would be $252,290 which is still below the total investment of $350,000 being proposed by Tessonics.

5. CONSULTATIONS:

The Economic Revitalization CIP was subject to extensive stakeholder and public consultation as part of the approval process, including two public open houses, a statutory public meeting of Council, and circulation among internal City staff and to the Province.

Planning staff has consulted with the applicant prior to accepting the application for the Small Business Investment Grant Program. Staff from Planning, Finance, Operations, and Legal departments were consulted in the preparation of this report.

6. CONCLUSION:

City staff recommend that Council approve the request from Tessonics Holding Corp. to participate in the Small Business Investment Grant Program under the Economic Revitalization CIP. Specifically, staff recommend approval of annual grants equivalent to 100% of the increase in municipal taxes as a result of the proposed reuse of 597 Ouellette Ave. It is also recommended that Council authorize staff to account for the vacancy tax rebate in the calculation of the base municipal taxes.

In accordance with the CIP, it is recommended that Council authorize the City Planner to approve any facade improvements undertaken as part of the Small Business Investment Grant Program.

City staff also recommend that Council approve the request to lease up to 25 parking spaces within a municipal facility or lot in the immediate vicinity of 597 Ouellette Ave at no costs to Tessonics Holding Corp. for the duration of the Small Business Investment Grant Program. To strike a balance between accommodating Tessonics' business needs and the City's ability to generate parking revenue, it is recommended that 15 spaces be provided at the commencement of the grant program and 10 additional spaces be provided upon demonstration by Tessonics, satisfactory to the City Planner and City Engineer, that future business expansion warrants the additional spaces.

The proposed relocation and expansion of Tessonics within Downtown Windsor conforms with the Economic Revitalization CIP, assists the City in the achievement of a number the CIP objectives, and exemplifies the intent of the Small Business Investment Grant Program.

Greg Atkinson
Planner III – Economic Development

Thom Hunt
City Planner / Executive Director

George Wilkki
City Solicitor and Corporate Leader
Economic Development and Public Safety

Onorio Colucci
Chief Financial Officer/City Treasurer and
Corporate Leader Finance and Technology

Michael Palanacki
Executive Director Operations

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APPENDICES:

Appendix A: Location Map

Appendix B: Tessonics Inc. Overview and Summary of Business Plan

Appendix C: Estimated Grant Calculation

DEPARTMENTS/OTHERS CONSULTED:

Name: Janice Guthrie, Deputy Treasurer – Taxation and Financial Projects
Phone #: 519-255-6100 ext. 6271

Name: Wira Vendrasco, Senior Legal Counsel
Phone #: 519-255-6100 ext. 6375

Name: Michael Cooke, Manager or Planning Policy
Phone #: 519-255-6543 ext. 6102

Name: Neil Robertson, Manager of Urban Design
Phone #: 519-255-6543 ext. 6461

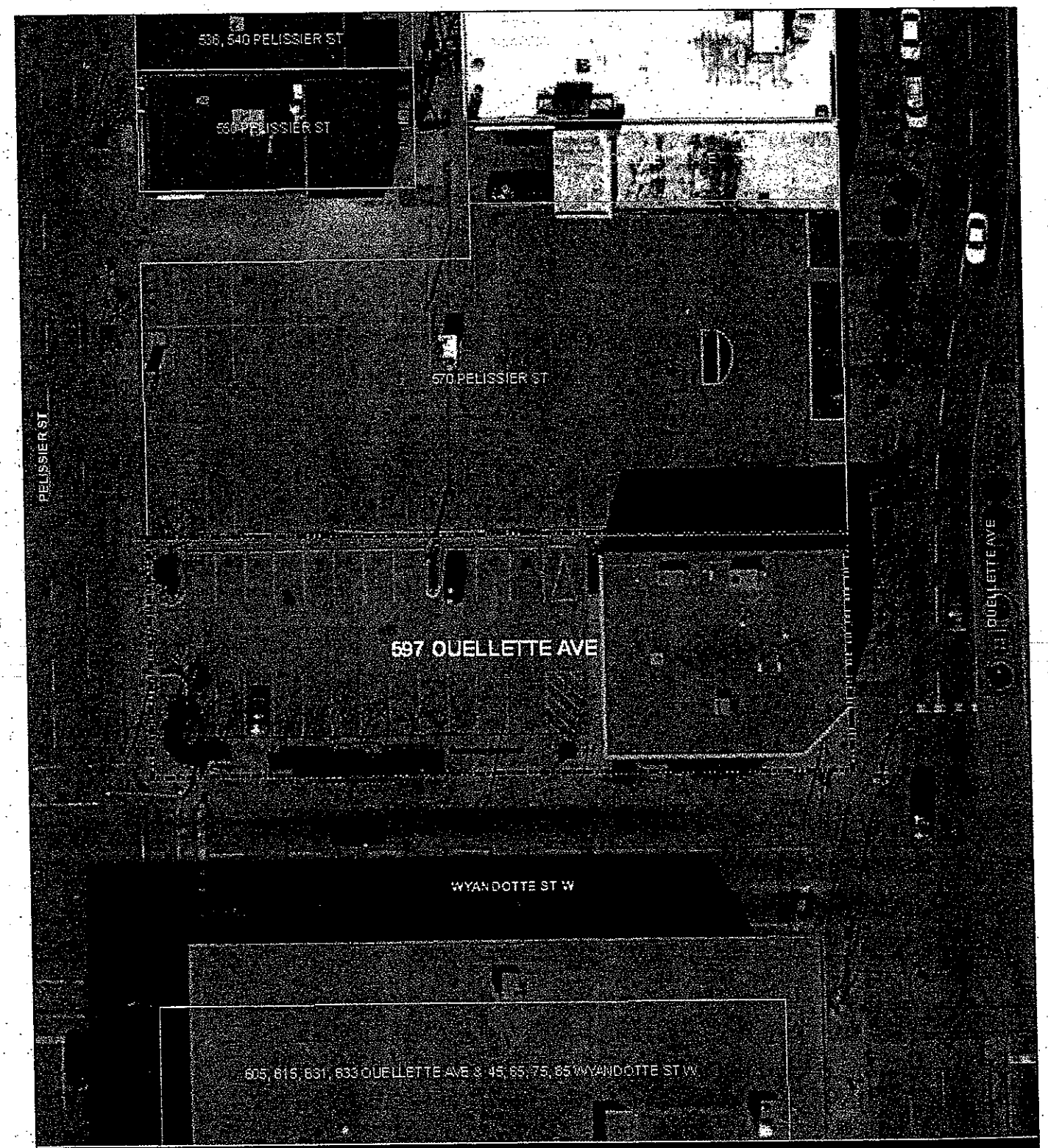
Name: Paula Ghiloni, Parking Permit Co-ordinator
Phone #: 519-255-6252

Name: John Wolf, Manager Traffic Operations
Phone #: 519 519-255-6247 x6791

NOTIFICATION :

Name	Address	Email Address	Telephone	FAX
Joe Udzbinac	1983 Ambassador Dr Windsor, ON N9C 3R5	JU@tessonics.com	519-250-4455 ext. 24	519-250-5747
Avril A. Farlam	510-251 Goyeau St Windsor, ON N9A 6V2	aafarlam@bfmlaw.ca	519-258-2424	519-258-2451

Appendix A: Location Map



LOCATION MAP - 597 OUELLETTE AVENUE

SUBJECT LANDS

0 5 10 20
Meters

TESSONICS BUSINESS PLAN - INNOVATION HUB

Company History/Background

Tessonics Inc. specializes in producing diagnostic equipment for industry using unique high-resolution imaging and non-destructive technologies. These products are mainly developed for the automotive, aerospace and aircraft industries. Incorporated in January 2005 as an Ontario corporation, Tessonics is located in Windsor, Ontario and has 23 employees.

Tessonics designs and produces products based on its own innovative R&D and is able to design unique technical solutions to meet specific customer requests. In a short amount of time, Tessonics has established a presence in the automotive and aircraft industries. The technology will also be used to create innovative tools for biomedical diagnostics.

Dr. Roman Maev is the founding scientist of Tessonics. With over 300 peer-reviewed publications, 23 patents and numerous conference proceedings, Dr. Maev's research has brought about worldwide adoption of his methodologies. His 30 years of research experience is instrumental in defining the imaging science, material characterization and medical biophysics involved in the company's products.

Current industrial products

- Resistance Spot Weld Analyzer
- Real-time Integrated Weld Analyzer
- Acoustic Microscope
- Adhesive Bond Inspection System

Global Presence

Tessonics has unique experience in the development and commercialization of devices for testing new production methods. Tessonics' original advanced acoustic imaging devices have had a major impact on the manufacturing industry in Ontario and world-wide.

- North America - Canada, USA, Mexico
- Europe - Germany, Poland, Czech Republic, Italy, France
- United Kingdom
- Japan, China, Korea
- South America - Brazil, Venezuela, Argentina
- Looking to expand - India, Australia

Customer Base

Chrysler, Ford, GM, Magna, BMW, Mercedes, Gestamp, Kuka, Martinrea

Tessonics

Medical Innovations

Tessonics currently has several medical based development projects which will ensure the viability of the company in the future. Some of these developments include:

- Pulmonary Injury Diagnostic Device
- Brain Injury Diagnostic Device
- Dental Diagnostic Device

Innovation Hub Concept

- Tessonics intends to relocate its business operations to the Windsor downtown location at 597 Ouellette Avenue (formerly CIBC building)
- Tessonics initiator/anchor of Hub
- Tessonics will relocate all of its current Windsor based employees to the Ouellette facility
- Tessonics anticipates to hire an additional 2 to 4 employees annually to accommodate growth expectations
- Provide opportunity for other High-Tech companies to congregate in Windsor Core
- 3 or 4 new companies to open within 2 years
- Provide expansion room for new and existing businesses to relocate to Windsor Core
- Tessonics' history and track record makes them a good candidate to lead this initiative

Employment

Tessonics has created 23 new jobs since 2005 and will add 2 to 4 new positions annually for the anticipated expansion of new products. Tessonics provides undergraduate, graduate, and post-doctoral employment opportunities. Tessonics currently has 23 employees, with a high percentage of employees who are at Ph.D. level in electronics and acoustics, engineers, technicians, and masters level.

City of Windsor Benefits

- Tessonics is currently planning to relocate its business operations to the downtown core
- The move will provide an immediate increase of 23 new workers in the downtown core
- Immediate occupation of a downtown building that was vacant for many years
- Internal and external renovations to the building to improve the overall appearance of the building
- Potential building expansion to accommodate future High Tech companies in the downtown core
- Potential for future employment expansion for Windsor

TESSONICS

Assistance Required

- Grant equivalent to the increase in municipal tax generated from redevelopment of the property
- Establish the pre-development tax rate at its current rate which is based on the property being "vacant" (approximately $20,000.00)
- Allocation of 20 to 25 parking spaces in a nearby parking structure to accommodate visitors etc.

Appendix C: Estimated Grant Calculation

Estimated Grant Calculation - (597 Ouellette Avenue)			
Year of Grant	Pre-Development Municipal Taxes	Post-Development Municipal Taxes	Value of Grant (Tax Increment)
1*	$19,735	$22,772	$3,036
2	$19,735	$22,772	$3,036
3	$19,735	$22,772	$3,036
4	$19,735	$22,772	$3,036
5	$19,735	$22,772	$3,036
6	$19,735	$22,772	$3,036
7	$19,735	$22,772	$3,036
8	$19,735	$22,772	$3,036
9	$19,735	$22,772	$3,036
10	$19,735	$22,772	$3,036
Total	**$197,353**	**$227,716**	**$30,362**

* Year 1 commences after development is completed and the property has been reassessed by MPAC

Estimated Grant Calculation Accounting for Vacancy Rebate - (597 Ouellette Avenue)			
Year of Grant	Pre-Development Municipal Taxes	Post-Development Municipal Taxes	Value of Grant (Tax Increment)
1*	$13,815	$22,772	$8,957
2	$13,815	$22,772	$8,957
3	$13,815	$22,772	$8,957
4	$13,815	$22,772	$8,957
5	$13,815	$22,772	$8,957
6	$13,815	$22,772	$8,957
7	$13,815	$22,772	$8,957
8	$13,815	$22,772	$8,957
9	$13,815	$22,772	$8,957
10	$13,815	$22,772	$8,957
Total	**$138,147**	**$227,716**	**$89,568**

* Year 1 commences after development is completed and the property has been reassessed by MPAC

Assumptions

Current Property Value Assessment	$650,000
Current Municipal Taxes	$19,735
Municipal Portion of Vacancy Tax Rebate (30%)	$5,921
Investment (Estimated Eligible Costs)	$350,000
Estimated Post-Redevelopment Assessment (based on approximately 30% of investment)	$750,000
Estimated Post-Redevelopment Municipal Taxes	$22,772
2011 City Commercial Tax Rate (full)	3.036207%

Property assessment values are assumed to remain constant throughout the period of the grant program for purposes of pro-forma calculations. Actual grant amounts will be calculated on an annual basis throughout the lifespan of the program and will be retroactive to date of completion, prorated for part year(s)