

A PARADIGM FOR PROSPERITY

September 25, 2012



EXECUTIVE SUMMARY

A PARADIGM FOR PROSPERITY

The Role of Government: governments can create a climate that fosters the development of a dynamic private sector and encourages capital investment leading to employment creation – jobs are created by the private sector.

The Local Economy: The Auto Pact served as a governmental policy that created the climate for private investment and high paying employment that in turn financed government programs and services.

The estimated loss of payroll since 2007 in London is approximately \$1 billion.

Local Commitment to the Economy: an enormous amount of commitment exists in the community to support and reposition London's economy.

INITIAL RECOMMENDATIONS

1. London work collaboratively and proactively with the other two levels of government to ensure an equal playing field when it comes to economic infrastructure funding.
2. Service Business London should be established that would cut through red tape.
3. Increased employment and wealth depends on the ability to attract outside investment. Taking into consideration London's financial resources and size a 'scatter-gun' approach will not suffice. Priorities need to be established with definable objectives for economic development initiatives.

STRATEGY FOCUS

- a) **Industrial Land** - A supply of shovel ready prime land is integral in being able to attract the type of investment that will address the long term regional employment situation.
- b) **Vibrant Downtown** - There are assets in the downtown to leverage.
- c) **Community Economic Development** - All areas of a community must be given the opportunity to thrive. To maximize leverage projects need to be targeted and niches

selected; such funding should be viewed as a business investment not community economic development

- d) **Progressive Transportation Network (both intra and inter-city)** - the city needs to be visionary in its transportation outlook.

FUNDING

There is no “magic bullet” to the financing questions. Of course, the support of the Province and Federal government should be sought in the form of specific grant requests. However, any investment requires some “local” upfront cash or initial seed money to be committed, which can then be leveraged.

1. Increasing Taxes
2. Cutting Services
3. Debt Financing
4. Asset Sale/Disposal

THE GOOD NEWS...there is ample opportunity to work towards positioning the city for economic recovery by making it more competitive and attractive to investors.



THE ROLE OF GOVERNMENT

The global economy continues to emerge from the deepest and most widespread financial crisis since the Great Depression. Governments around the world have been forced to grapple with this new reality and find themselves in search of solutions for their communities. Yet while **governments can create a climate that fosters the development of a dynamic private sector and encourages capital investment leading to employment creation – jobs are created by the private sector.** The tools available to government are in the long term limited and dependent upon the level of government.

The City of London enjoyed a lengthy period of significant prosperity. Much of it was due to an agreement that created a climate for business investment. In 1965 Canada and the United States signed the Automotive Products Trade Agreement (commonly known as the Auto Pact). This agreement provided for two safeguards in Canada that served to stimulate investment and employment.¹

***Governments create the
climate...
...jobs are created in the
private sector***

For two decades these safeguards served to stimulate manufacturing in Southwestern Ontario in communities along the 401 and around the “Golden Horseshoe”. **The Auto Pact served as a governmental policy that created the climate for private investment and high paying employment that in turn financed government programs and services.** However, in the 1980s the share of the domestic market share gained by offshore producers began to force changes in how the automotive sector operated and a much more competitive environment eventually rendered the safeguards insignificant. Consequently, by the time the World Trade Organization declared the Auto-Pact safeguards illegal in the 2001 NAFTA, the competitive environment and globalization had changed the entire dynamics for manufacturing in Ontario. This was only exacerbated throughout the first decade of the 21st century, culminating with the 2008 recession and the concomitant collapse of North American demand.

The recession hit Southwestern Ontario especially hard. Unemployment rose and plants closed. Neighbouring jurisdictions such as Michigan and Indiana were similarly impacted. With the recession lasting longer than initially predicted governments have felt increasingly under pressure to act. However, because most national governments and, in the Canadian context, most levels of government began the recession severely indebted their ability to stimulate economies has been limited.

¹ The two safeguards were: for every car sold in Canada one was built in Canada and that the ratio of Canadian Value Added to Cost of sales in Canada = 60%

In London the need to be pro-active has been felt throughout the community. **The estimated loss of payroll since 2007 in London is approximately \$1 billion.** The Mayor's Economic Prosperity Council Report of June, 2011 provided goals and aspirations for the future. This was followed in 2012 by a public call for ideas to be presented to the Investment and Economic Prosperity Committee (IEPC).

Many Londoners as well as organizations based in London presented their ideas for the future (Appendix C). This outpouring of ideas demonstrates the **enormous amount of commitment that exists in the community.**

The newly formed Corporate Investments and Partnerships Division is in the process of staffing and will begin reviewing the proposals in October. The review will look, initially, at the economic impact and return on investment. Proposals will be subject to a due diligence checklist (Appendix A), the basic tenets of which were reviewed by the Chamber of Commerce (Appendix B). Should additional monies be available this criteria could be widened or worthy projects for the City of London not meeting economic development criteria could be forwarded to more relevant units of the civic administration for their review.

PRINCIPLES OF AN ECONOMIC DEVELOPMENT STRATEGY

There are many external factors that have affected London in recent years - a worldwide economic slump, the decline in American manufacturing output and demand, a concomitant push to enforce the 'buy America' provisions during a presidential election year, and industry concerns regarding provincial energy policy and deficits. Though extrinsic in nature, the City of London remains committed to creating a climate of economic growth and opportunity for current and future residents of our city.

HOW IS LONDON PERCEIVED

A successful economic development strategy has to be based on a realistic determination of the assets and liabilities of a community. The strategy should involve maximizing these assets and taking steps to mitigate perceived liabilities.

In 2010 the City of Halifax commissioned the non-profit Washington-based International Economic Development Council to assess its economic development strategy. One of the cities used as a comparable was London. The report states that London's economy was too "branch plant" dependent, grossly undercapitalized and had no consistent measurement of its success. It is interesting to note that this same report quotes from "London's Next Economy", which also stated that London's near term objectives should include: accelerating growth and global competitiveness, launching a capitalization program, increasing London's innovative capacity and becoming more regionally focused. A key element of the latter is to understand the competitive dynamics in the region for attracting investment.

It is important that the City of London recognize that it is in competition with neighbouring jurisdictions. As such, a thorough analysis of competing jurisdictions along the 401 corridor, as

well as relevant Interstates is necessary to best position London for economic growth. For example, the federal and provincial governments are spending in excess of \$2 billion to build a bridge from Windsor to Detroit as well as an interchange and road off the 401 directly to this new bridge. While some “spin off” benefits may accrue to London’s economy the net impact will be to strengthen Windsor’s economic competitive position vis a vis London. The

***Recommendation #1:
Work collaboratively
with other levels of
government.***

Kitchener-Waterloo region received roughly 8 times more funding under the stimulus and infrastructure programs available to municipalities, which has also had an adverse impact on London’s regional competitiveness. Therefore, **it is important that London work collaboratively with the other two levels of government to ensure an equal playing field when it comes to economic infrastructure funding.**

One of the claims of the City of London in attempting to attract employers/investors is that it is on the “NAFTA highway”. Two factors need to be considered on this point. First, if one drove

***Recommendation #2:
A Service Business
London should be
established that will
cut through red tape***

along the 401 from Toronto to the American border, London is the major community with the least presence along the “NAFTA highway”. Secondly, we need to really understand what that statements means. In essence we are telling investors that while the majority of your output is destined for the United States you can be competitive locating in London, Canada. This means being competitive with jurisdictions along Interstates in Indiana, Michigan and Ohio and goes beyond slogans to concrete actions and policies.

In order to achieve this, London must be **business friendly**. One of the issues raised by local business people is their frustration in dealing with municipal bureaucracy. Their perception is that it easier to do business in other communities and the United States. In order to change this perception, a **Service Business London should be established that would cut through red tape**. It would be staffed by employees of Planning, Engineering and Finance with minimal, if any, cost implications but would represent an opportunity to change the image of the city.

However, it is important to recognize that cosmetic changes will not significantly affect the current economic demographics. **Increased employment and wealth depends on the ability to attract outside investment.** This is a fundamental

***Recommendation #3:
Establish priorities and defined objectives for
economic development initiatives.***

tenet of a global economy. Historically, London, like much of Southwestern Ontario did not have to go out and compete for investment. High manufacturing tariffs, the largest domestic market and advantageous managed trade agreements contributed to a rising level of prosperity for the region. Unfortunately, those days are gone and we must now compete to maintain our standard of living. **Taking into consideration London’s financial resources and size a ‘scatter-gun’**

approach will not suffice. Priorities need to be established with definable objectives for economic development initiatives.

FOUR PILLARS OF GROWING PROSPERITY

A review of the proposals submitted finds that most fall within four broad categories (provided they meet the due diligence criteria noted in Appendix A).

1. Strategic Land Acquisition and Servicing

Companies do not invest in a city as much as a site from which to conduct business. If a favoured site in one locale is not readily available they are just as likely to move to another locale for the next favoured site as remain in the jurisdiction of the originally preferred site. LEDC officials have indicated that their efforts to attract industry and offset the job losses that have occurred have been hindered by the lack of serviced desired real estate. **A supply of shovel ready prime land is integral in being able to attract the type of investment that will address the long term regional employment situation.**

Presently, the City's Planning Department is working on an industrial land strategy. Additionally, an interdepartmental working group has been established to deal with the details of implementing the industrial land strategy as well as seeking financing partners. This is the highest priority activity of any program to achieve employment growth and wealth creation.

2. Vibrant Downtown

Many potential investors tend to judge a community by the cleanliness and vibrancy of its downtown. While downtown London has improved in recent years there is work to be done. While there is need in all parts of the city it must be recognized that downtown, especially to investors, represents a statement on the state of a city. **There are assets in the downtown to leverage.** For example, the recently renamed Budweiser Gardens can be used as the gathering point of the "Entertainment Live" concept in vogue in many North American and some European cities. Additionally, Council might wish to consider by-laws to help "clean up" the image of the downtown. Perhaps discussions should be entered into with the downtown BIA to determine improvements that would not cost the city money.

3. Community Economic Development by Leveraging Funds

All areas of a community must be given the opportunity to thrive. Given the scarcity of resources emphasis should be placed on projects/organizations that can obtain maximum leverage from any funding. This can be done through community BIAs or NGOs for specific projects with measureable deliverables as per the due diligence checklist. Organizations such as the TechAlliance and Employment Sector Council can provide useful contributions either by serving as business incubation centers or matching employers with employees or offering assistance to individuals who have been unfortunate victims of the most recent recession.

To maximize leverage projects need to be targeted and niches selected. Given the scarcity of resources, the role of municipal government must be clearly defined, particularly around the question of funding research. For instance, it is recommended that any decision to potentially fund pure research be based on either (1) if the funding leads to commercialization of a product that product will be manufactured in London or (2) the City would receive a licensing fee for any product commercialized as a result in whole or in part of funding it provided. Furthermore, **such funding should be viewed as a business investment not community economic development** (the setting up of such a fund was discussed in the aforementioned Report of the Mayor's Prosperity Taskforce).

4. World-Class Transportation Network

In contemporary times the concept of "world-class" has been overused. However, given that London's economic success is directly linked to accessing markets outside the city limits **the city needs to be visionary in its transportation outlook.**

At the first level a public transportation system needs to be in place that can get employees to their employers and shoppers to retail outlets while causing minimal inconvenience to communities.

Secondly, London needs to have access by air, road and rail to its markets. While the 401/402 corridors meet this criteria, recent cuts announced by Via Rail jeopardize rail links. Transportation links also represent a key element when companies make locational decisions. London's air service, like that for most communities of similar size represents a work in progress. The state and price of air transport has led some to propose the visionary concept of a high speed rail service between the London International Airport and Pearson International Airport and on to downtown Toronto.

FUNDING ECONOMIC DEVELOPMENT/GROWTH ACTIVITIES

There is no "magic bullet" to the financing questions. Of course, the support of the Province and Federal government should be sought in the form of specific grant requests. However, any investment requires some "local" upfront cash or initial seed money to be committed, which can then be levered. The options for London to raise seed money are limited. There are only four possible ways to fund the proposals submitted to IEPC or any other activities aimed at revitalizing London's regional economy:

1. Increasing Taxes

Given Council's desire to hold taxes at 0%, this will present some difficult choices for Council.

2. Cutting Services

With taxes being held at 0% and the cost of inflation at 1.5% cutting services to fund economic development/growth projects would result in significant service reductions.

3. Debt Financing

The option to borrow is always present. However, this can only be justified if the anticipated return is greater than the cost of borrowing. Presently, London enjoys a triple Aaa credit rating from Moody's. Increasing the debt could put this rating at risk raising the overall cost of capital for the city. There is also an increase in cost that must be offset by appropriate revenue (either taxes or other revenue sufficient to pay the debt obligations).

4. Asset Sale/Disposal

The final means of raising money is with an asset sale. The most obvious candidate is the \$70 million loan with London Hydro. It is currently paying an annual return of 6% (\$4.2 million) which is included in the operating budget; the loss of this revenue would result in a tax increase or reduction in services. London Hydro could probably, in today's market, refinance at half the rate. As the City of London is the sole shareholder the resulting savings minus the tax liability from increased profits would accrue to the City increasing its dividend. However, such is unlikely to fully compensate for the lost \$4.2 million in annual revenue. Council will need to instruct Administration to look at specific assets.

NEXT STEPS

The Corporate Investments and Partnerships Division will be staffed by the end of September. A review of the proposals generated from the Investment and Economic Prosperity Committee process will be undertaken. Many of the proponents will be contacted to provide details and they will be subject to the due diligence process.

The recent years have been tough for many Londoners. The municipal government has been hampered by limited resources and lack of policy tools inherent in the Municipal Act when compared to actions available to jurisdictions in the United States. However, **there is ample opportunity to work towards positioning the city for economic recovery by making it more competitive and attractive to investors.** This should set the tone for growth during the next decade.

APPENDIX A

DUE DILIGENCE CHECKLIST FOR SHORTLISTING PURPOSES

1. Initial Review

Detailed request of what city is being asked to contribute	
Economic spin offs summary	
Does it meet 25-75 funding criteria	
Does not require "bonusing"	
Proponent justifies investment risk of project	

Comments:

2. Financial Due Diligence

Receipt of bank reference letters for last 5 years	
Last 5 years of financial statements and management review letters	
Document support for how project to be financed	
Financial intermediation highly confident letters re: ability to finance	
Copies of letters patent (for private companies)	

Comments:

3. Managerial Due Diligence

Proponents organization chart and key person bios	
List of previous projects developed and managed	
Signed agreement for City to community with clients, suppliers and financial stakeholders	
Are proposed timelines reasonable?	
Review of proponents internal due diligence procedures	

Comments:

4. Evaluation of Economic Spinoffs

Evaluation of direct economic benefits of project	
Analysis of multiplier effects	
Is proponent funded "fairness report" required	
Preparation of terms of reference for "fairness report"	

Comments:

5. Legal Review and Conditions

Review of agreements by City Solicitor's Office	
Development of written agreement of times for proponent to complete project	
Is performance bond required?	

Comments:

APPENDIX B



July 12th 2012

Mayor J. Fontana, Members of City Council
City of London
300 Dufferin Avenue
London, Ontario
N6A 4L9

Re: Due Diligence Checklist for establishing priority list of projects

As a follow up to our earlier letter to you requesting more detail around several of the projects that had been announced (or suggested) for London, particularly in the core area, and - in response to our meeting with the Mayor and members of the City's Financial and Planning teams, we respectfully submit the following observations and recommendations.

It is our view that within the many and varied projects that have been recommended or suggested for London, there exists a real opportunity for some transformational changes for our City. And while the list of potential projects is a long one, we have to begin somewhere and with some guidelines that afford us the best opportunity for success while at the same time ensuring there is a strong business case on which to proceed.

The arguments for the changes are as many and varied as the projects themselves and we understand that some Londoners will be resistant to change. This is not a phenomenon that is exclusive to London but we believe that change is necessary for a number of reasons.

If a city does not change it does not grow and most experts will tell you that if you are not growing you are dying. The age and condition of some of the City's buildings will also dictate a need for change - sooner or later. There is also the intangible need for change, which in London's case can be predicated on our economic circumstances, our need to compete, and our need to continually strive to enhance our reputation both nationally and abroad. These types of changes are fundamental to the wellbeing of any City and in particular, London.

It is our belief that we are well guided by the expertise and skills of our Financial Administration at the City and that the addition of a Director of Corporate Investments and Partnerships is a wise and timely move. That being said, they will need the support of the Mayor and Council in ensuring that, as a City, we make the best and most prudent decisions on behalf of the taxpayer and the City's private sector partners.

As we had indicated to you, the Chamber is quite prepared to offer its expert technical advice on these projects which ultimately will include more in depth analysis on areas including the due diligence associated with the “Financial and Managerial” elements of these proposed projects. In addition we will certainly want to take into consideration a more rigorous evaluation of the “Economic Spinoffs” that may be forthcoming from these projects as well as any “Legal” considerations that need to be taken into account.

However, before we can begin to contemplate any of these considerations there is an overwhelming need to start at a place that allows you (the City) an initial review that could at least compartmentalize the largest of these suggested/recommended projects against a set criteria that would act as a “first cull” if you will - in other words a basic formula by which you can select a project(s) that makes the most sense as a starting point.

It’s the view of the Chamber that the Initial Review should be guided by the following recommendations:

- 1. All external requests for consideration of a project should specifically detail what the City is being asked to contribute, e.g. direct cash contributions, tax concessions, DC charges to be modified etc.**
- 2. Suggested Economic Spinoffs must be validated by qualified and quantified data and supported by third party, bona fide experts.**
- 3. A base line formula that establishes for argument sake, a maximum 25% contribution from City coffers against 75% to be contributed by the proponent(s) must be put in place. This may be adjusted under extraordinary circumstances if the case for Economic Spinoffs is exceptionally compelling.**
- 4. Any project that is proposed which has “Bonusing as a condition” should in our view, not be considered a priority project in the first go-around.**
- 5. Proponents of all projects must be able to justify the investment risks of any projects and be prepared to subject their proposals to expert analysis.**

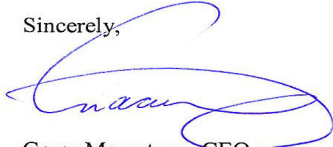
In summary, we believe that these recommendations/guidelines are in order and that they represent common, accepted practices that can and should be in place in both public and private sector settings.

We also want to be on the record in stating that while some of these projects may indeed be transformational for the City of London, their associated costs must be carefully measured against the need to ensure that our basic infrastructure is well managed, well maintained, and well funded now and into the future.

Similarly, we have long advocated for the security of an Industrial Land Strategy that enables us to respond to the needs of future development for London which matches the strategic objectives of the London Economic Development Commission and the City itself.

Transformational or not, none of the proposed projects that have been suggested/recommended should in any way jeopardize or threaten either of these two critical pieces in the current and future health of our community.

Sincerely,



Gerry Macartney, CEO
London Chamber of Commerce

Copies: The City Clerk's office c/o Ms. C. Saunders, The Executive Directors of the Chamber of Commerce, The Municipal Affairs Committee of the LCOG

APPENDIX C

Organization	Proposal / Idea
Western University	Downtown Campus
Fanshawe College	Fanshawe Activities
St. Joseph's Health Care	The Next Step in Healthcare Innovation
Pillar Nonprofit Network	Where Change Happens
BizInc.	Student Business Incubator
The Canadian Federation of Business & Professional Women	Women's Empowerment Principles
Museum London	The Past, The Future, The Forks
Fincore Canada	SoHo Wellington Centre
Grand Theatre	Grand Theatre Expansion
Small Business Centre	Micro Loans
Kilmer Brown	London Hydro Lands Remediation
The London Multicultural Community Association	Immigrant Entrepreneur Accelerator Centre
Western Fair	Ontario Gaming Zones
Jamie Q	Small Business Grants
Shawn Lewis	Getting People to Job Opportunities
Emilie Paraskevas	Bike Lanes
Lorraine Fay	Remove Buses from Dundas Street
Elizabeth Efthymiadis	Multiple Proposals
Shane Avdovich	Increased Police Presence Downtown
Jose Quezada	Improved Logistics
Ismail Khalil	Original Method to Produce Free Green Energy
Sonja Fernandes	Connecting Youth
Mohamed Soliman	Multiple Proposals
Somia Ditor	Host Festivals Year Round
Mira Katyal	Create a Unique USP for London
Tourism London	Tourism as an Economic Generator
London and District Labour Council	The Greening & Revitalization of the City
London Convention Centre	LCC Space Enhancement
Employment Sector Council London-Middlesex	ESCLM Proposal
London Middlesex Immigrant Employment Council	LMIEC Job Match Network
Old East Village BIA	Accelerating Economic Prosperity
German Solar	Economic Development Proposal
Auburn Developments	560 & 562 Wellington Street
Orchestra London	Orchestra London Music Hall
London Health Sciences Centre	CSTAR
My Sister's Place	My Sister's Place Accessibility
London Fuse	Thread Community